BWC Board of Directors

Audit Committee Agenda

William Green Building
Thursday, July 30th, 2009
Level 2, Room 2
2:30 p.m. – 4:30 p.m.

Call to Order
Ken Haffey, Committee Chair

Roll Call
Jill Whitworth, Scribe

Approve Minutes of June 18, 2009 meeting
Ken Haffey, Committee Chair

Review and Approve Agenda**
Ken Haffey, Committee Chair

New Business/ Action Items

1. Open Discussion with Internal Auditor
   Caren Murdock, Chief of Internal Audit
2. Introduce re-insurance intermediary
   Tracy Valentino, Chief Fiscal & Planning Officer
3. FY 2010 Financial Projections (1st Reading)
   Tracy Valentino, Chief Fiscal & Planning Officer
4. Net Asset Discussion (Possible Vote)
   Tracy Valentino, Chief Fiscal & Planning Officer
   Don Berno, Board Liaison

Discussion Items*

1. Office of Budget and Management, Office of Internal Audit Update
   Joe Bell, OBM Chief Audit Executive
2. Committee Calendar
   Ken Haffey, Committee Chair
3. External Audit Update (Executive Session)
   Joseph J. Patrick, Jr., CPA Partner, Schneider Downs & Company
4. Litigation Update (if necessary), Executive Session.
   James Barnes, Chief Legal Officer

Adjourn
Ken Haffey, Committee Chair

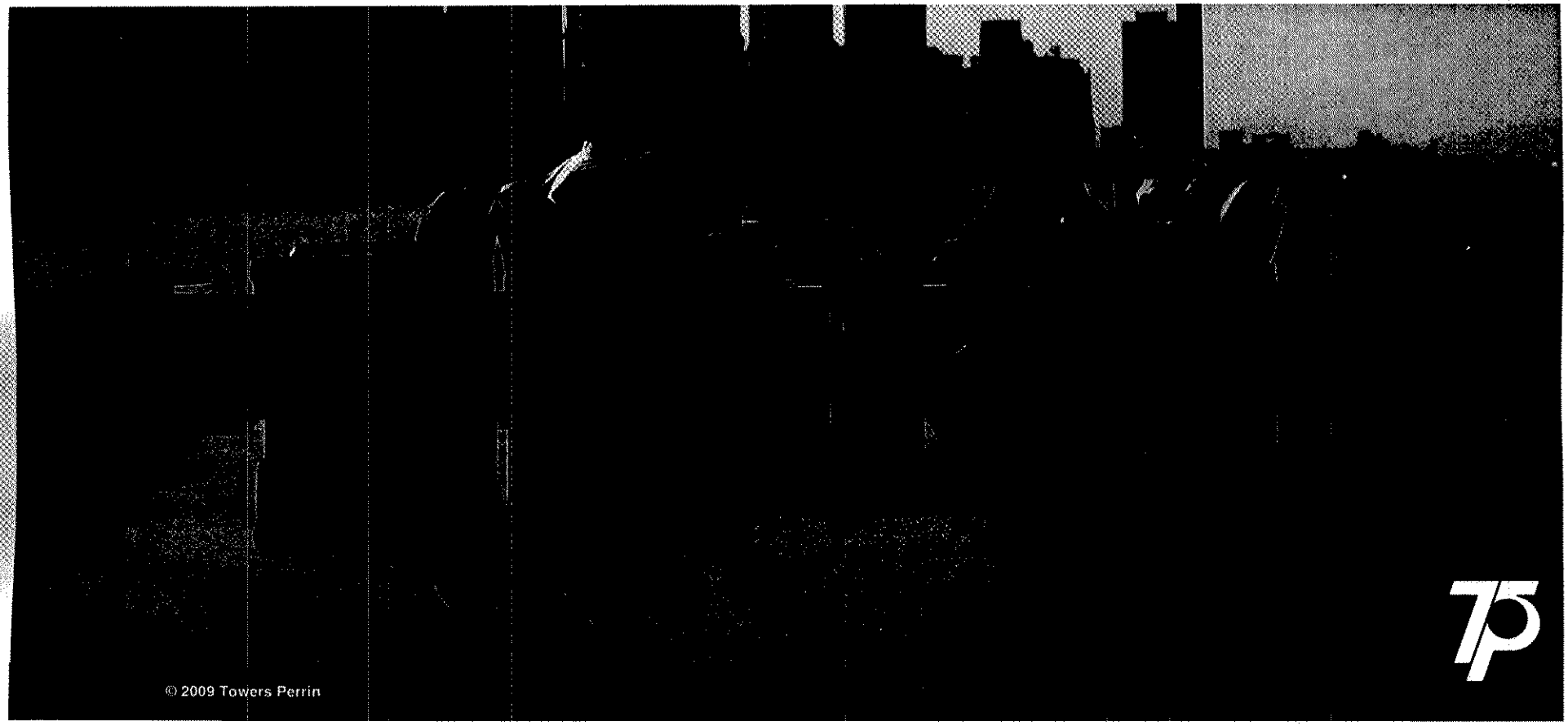
<u>Next Meeting: Thursday, August 27, 2009</u>

* Not all agenda items have material.
** Agenda subject to change.

7/21/2009 2:59 PM

TOWERS PERRIN

Ohio Bureau of Workers' Compensation



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Agenda

- Towers Perrin Today
- Towers Perrin in the Future
- Our Reinsurance Business
- Reinsurance – A Source of Capital
- The Towers Perrin – Ohio BWC Team
- Where We Go From Here

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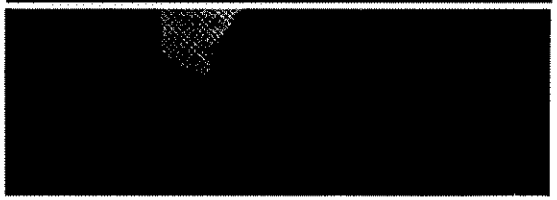
Towers Perrin is a global professional services firm that helps organizations improve their performance through innovative human capital and risk & financial services solutions.

Towers Perrin

Human Capital Group

Towers Perrin helps organizations develop and implement workforce strategies that align with business needs, address critical talent issues, drive higher performance and ensure the right return on their investment in people.

Risk & Financial Services



Towers Perrin provides solutions in risk and capital management, reinsurance intermediary services and actuarial consulting.

The Tillinghast business of Towers Perrin provides consulting to the insurance industry.

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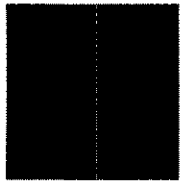
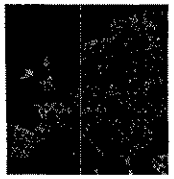
We are Truly a Global Firm



Global
6,200 employees
in 25 countries; since 1934



Europe
1,679 employees covering
20 countries; since 1965

UK
Since 1969

Incorporated in 1934, with company roots tracing back to 1871

Canada

North America & Bermuda
Over 36 offices across United States

Europe
Austria*, Belgium, Denmark**, Finland**, France, Germany, Greece**, Hungary**, Ireland, Italy, Netherlands, Norway**, Poland*, Portugal**, Serbia**, Spain, Sweden, Switzerland, Turkey and UK

Dubai

India*

Asia
China, Japan, Hong Kong, Malaysia, Singapore, South Korea and Thailand**

South Africa*

Australia & New Zealand*

South America
Argentina*, Brazil, Chile** and Mexico

* Geographic alliances
** Affiliate

- Fourth largest reinsurance broker worldwide
- World's largest actuarial practice focused on insurance, serving over 75% of the world's leading insurers

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Towers Perrin offers our clients an unmatched combination of world-class insurance consulting, risk transfer and software solutions

At the heart of risk management are key questions about capital

Does your firm have:

- the right amount of capital
- of the right type
- in the right place
- covering the right risks?

RiskCapital Solutions℠

- Capital adequacy
- Capital allocation
- Capital efficiency
- Capital management
- Capital and income protection

Consulting

Enterprise Risk Management

- Economic capital modeling
- Financial risk management
- Operational risk management
- Rating agency advisory services
- (Re)insurance portfolio optimization
- Risk financing and transfer
- Risk strategy and organization

Reinsurance Brokerage

- Reinsurance analytics and modeling
- Catastrophe risk management and modeling
- Global reinsurance placement
- Specialty lines expertise
- Contracting, claims, accounting
- Web-based technology

Software

- RiskAgility™ financial modeling software to manage volatility and measure capital requirements and value creation

Capital markets

- Capital markets consultation and placement capabilities

Towers Perrin is the insurance industry's leading risk specialist

- We have a heritage of innovation and 75 years of experience
- With more actuaries serving the insurance industry than any other professional services firm, Towers Perrin consults to over 75% of the world's leading insurers
- Towers Perrin is the world's fourth largest reinsurance broker, with market leadership in workers compensation and, in particular, state funds
- We are known for premium client service with many relationships spanning decades
- We are a leading expert on economic capital (EC) with extensive experience around the globe assisting clients with EC design and implementation
- We are a global leader in risk technology for the insurance industry with 25 years of experience in the software business and over 400 clients using our software globally

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Towers Perrin in the Future – Towers Watson

- On June 28, 2009, Towers Perrin and Watson Wyatt Worldwide Inc announced that their respective boards approved a definitive merger agreement to form a new publicly traded company called Towers Watson & Co
- The result will be a company of approximately $3.5 billion in equity value creating one of the world's leading professional services firms providing an enhanced portfolio of offerings across a range of financial, risk, and people management
  - Benefits
  - Talent and Rewards
  - Risk and Financial Services
- Planned execution by year-end 2009

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Towers Perrin's Reinsurance business — since 1934

- 400+ reinsurance personnel throughout North America, Bermuda, London and Paris
  - Offices in 13 cities
- Majority of executive staff have been with the firm for over 25 years
- Diversified base of over 450 clients globally
- Licensed at Lloyd's and holds a resident broker status in applicable states as well as Canada and Bermuda
- Trading relationships with over 70 reinsurers and the Underwriters at Lloyd's with respect to traditional and non-traditional treaty and facultative reinsurance products
- Recognized industry leaders in workers compensation, professional liability, marine and energy, life, accident & health and property/casualty
- Specialty insurance client base consisting of risk and occurrence, excess of loss covers and proportional contracts, placed on both a facultative and treaty basis

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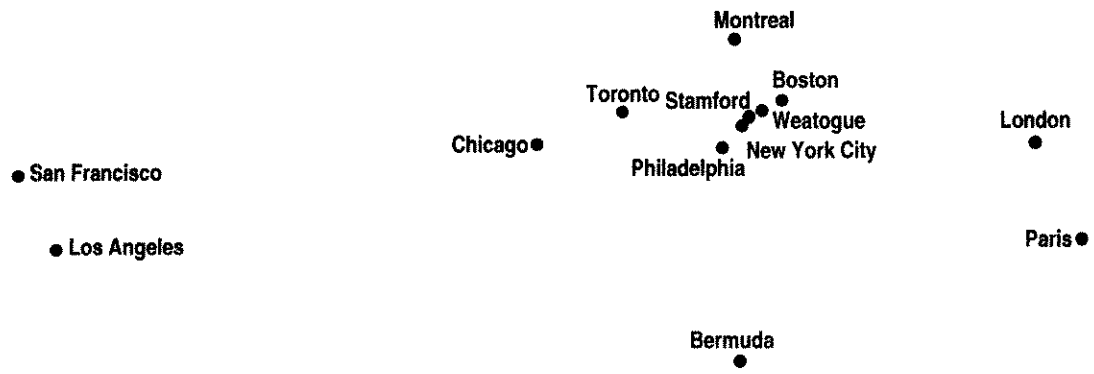
Reinsurance is our oldest business, with offices throughout the world



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Why Buy Reinsurance?

Reinsurance:

The transfer of risk; in its purest sense, reinsurance is another source of capital

- Given its position within the state and its substantial capital position, BWC can withstand some levels of volatility in its underwriting results
- BWC can also withstand some levels of net asset depletion

There is a benefit to establish access to efficient and sufficient sources of capital, if and when needed

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Reinsurance as a Proxy for Capital Provides for Various Utilization

- Catastrophe Excess of Loss reinsurance is just one example of how reinsurance - the transfer of BWC's risk to reinsurers for a cost – can be utilized

Risk	Reinsurance Response
Capital Limitations	Quota Share – Reinsurer shares in your profit and loss
Underwriting Volatility - Severity	Excess of Loss – Limiting BWC exposure on a per claim basis
Capital Depletion - Large Loss	Catastrophe Excess of Loss – Large limits – Multi-person loss
Earnings Volatility – Multiple Sources	Aggregate Excess of Loss
Earnings Volatility – Adverse Development	Aggregate Adverse Development Cover
Reserve Leverage	Loss Portfolio Transfer

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Ohio BWC Client Team

Team Member	Role	Years of Experience
Bruce Hockman Executive Vice President, Principal, and Workers Compensation Practice Group Leader	Bruce is the Workers Compensation Practice leader for the firm and will be the Client Relationship Manager responsible for our relationship with BWC. Bruce will act as your primary contact and represent your interests internally as well as in the marketplace, and coordinate/oversee the efforts of the entire team, including the analysis, program design and reinsurance negotiations.	38
Joshua Porter, CPCU, ARe, WCP Assistant Vice President	Josh is a member of the Workers Compensation Practice Group. During the marketing of your reinsurance program, Josh will lead the preparation and distribution of the marketing proposal, be in constant contact with the reinsurance markets and regularly communicate with you on placement status. Throughout the year, he will act as an extension of your internal reinsurance team, providing support and assistance with contract terms and conditions and claims and accounting issues.	16
Imelda Powers, Ph.D. Senior Vice President and Principal	Imelda works with clients in evaluating their exposure to natural and man-made hazards such as earthquakes, hurricanes, tornado/hail storms and terrorist acts. These projects include exposure profiling and mapping, portfolio risk analyses, reinsurance risk transfer analyses and strategic capital allocation studies. BWC will enjoy direct access to Imelda's expertise and services.	18
Eric Simpson, CPA, AICPA Senior Vice President	Eric and his team analyze the financial stability of reinsurance markets, provide valuable industry advice and research to clients and provide ratings and ERM advisory services to clients. BWC will enjoy direct access to Eric's unique risk/capital management expertise.	27
Olivia Nigh, CPCU, ARe Consultant	Olivia is a member of the Workers Compensation Practice Group. She will assist Bruce and Josh in the day-to-day servicing of the BWC account.	5
Zachary Schmiesing Consultant	Zach is a member of the Catastrophe Risk Management Team. He will assist Imelda in analyzing BWC's portfolio and its inherent level of catastrophe risk exposure.	4

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Ohio BWC Client Team Continued

Team Member	Role	Years of Experience
Hou-wen Jeng, FCAS, CPCU, ARe Vice President	Hou-wen, of our Analytical Services Group, is a member of the Workers Compensation Practice Group, and will coordinate all of your actuarial service needs, including risk assessment, experience and exposure rating, Dynamic Reinsurance Management, Dynamic Financial Analysis, structural modeling, sensitivity analysis and cash flow testing for risk transfer support.	21
Jennifer Johnson, FCAS, MAAA Senior Vice President and Principal	Along with Hou-wen, Jen will assist with the delivery of all of our actuarial services. Jen will also coordinate the delivery of our RiskAgility™ product.	22
Keith Harrison Principal and Managing Director	Keith is a member of the Workers Compensation Practice Group and will act as the lead broker in the London marketplace. With support from his Towers Perrin Claytons team and as coordinated by Josh Porter, Keith will market the BWC program to London reinsurers.	19
Guy Hengesbaugh Managing Principal	Guy will assist Josh Porter with the marketing of the BWC program to Bermuda reinsurers.	24
Richard M. Shaw, Esq. Senior Vice President and Principal	Rick heads our contract wordings department. Rick also serves as our Professional Services Officer, and in that role provides a legal review of all transactions to ensure legislative compliance.	40
Nicole Blanche-Guerin, Esq. Vice President	Nicole oversees claims administration and technical support on all claims matters. This includes coordination of claims management, collections and Claims Plus delivery.	15
Patricia Yearick Vice President and Principal	Pat oversees our accounting staff to ensure proper and timely billings of premiums, collections of any necessary premium adjustments, and detailed record-keeping of all financial transactions.	40

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Work Plan – Next Steps

- Over the next several months, we will learn more of BWC's risk tolerance, business plans, current results, and identify available data
- Work with BWC to generate an Underwriting Data Portfolio to evaluate breadth of risk
- Perform actuarial and modeling analysis of data to evaluate alternative reinsurance structures
- Present Underwriting Submission to Reinsurers and obtain quotes
- Meet with BWC to discuss quotes, evaluate value and benefits of various reinsurance options to BWC, market and place desired protections

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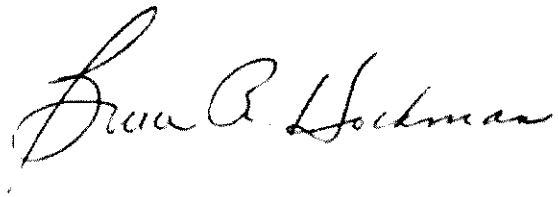
Thank You

On behalf of the Towers Perrin organization, we want to thank you for the opportunity to work with you and your management team in bringing valued analysis and solutions to BWC, and for the honor of representing BWC in the worldwide reinsurance marketplace



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Fiscal Year 2010 Financial Projections

The fiscal year 2010 financial projections used the following information and assumptions:

- Approved rates and collectible premium prepared by BWC's Actuarial Department in conjunction with rate indication information.
    - Private employer estimated premium of $1.4 billion
    - Public employer state agency premium of $67.6 million
    - Public employer taxing district premium of $353 million (based on January 1, 2009 rates)
- The most recent fiscal year payment trends for medical, indemnity, and MCO expenses.
- Projected reserve development patterns using data and assumptions from the recently completed actuarial audit as prepared by BWC's external actuarial consultant.
- Administrative expenses are based on the fiscal year 2010 budget as approved by the Board of Directors.
- Investment projections prepared by BWC Investment Division.

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Projected Statement of Operations
Fiscal year ending June 30, 2010

(in millions)

	Fiscal Year Projected June 30, 2010	Fiscal Year Actual June 30, 2009	FY 10 to FY 09 Increase (Decrease)	Fiscal Year Audited June 30, 2008	FY 10 to FY 08 Increase (Decrease)
Operating Revenues					
Premium & Assessment Income	$ 2,230	$ 2,454	$ (224)	$ 2,235	$ (5)
Provision for Uncollectibles	(98)	(108)	10	(96)	(2)
Other Income	16	17	(1)	22	(6)
Total Operating Revenues	2,148	2,363	(215)	2,161	(13)
Operating Expenses					
Workers' Compensation Benefits	2,246	1,696	550	2,181	65
Compensation Adjustment Expenses	488	423	65	407	81
Other Expenses	96	94	2	94	2
Total Operating Expenses	2,830	2,213	617	2,682	148
Net Operating Gain (Loss)	(682)	150	(832)	(521)	(161)
Operating Transfer	(4)	(5)	1	-	(4)
Investment Income					
Interest and Dividend Income	717	738	(21)	877	(160)
Change in Fair Value of Investment Portfolio	127	(925)	1,052	(144)	271
Investment Expenses	(6)	(5)	(1)	(14)	8
Net Investment Income	838	(192)	1,030	719	119
Increase (Decrease) in Net Assets	152	(47)	199	198	(46)
Net Assets Beginning of Period	2,456	2,503	(47)	2,305	151
Net Assets End of Period	**$ 2,608**	**$ 2,456**	**$ 152**	**$ 2,503**	**$ 105**

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Projected Statement of Cash Flows
Fiscal Year Ending June 30, 2010

in millions

	Fiscal Year Projected June 30, 2010	Fiscal Year Actual June 30, 2009	Increase (Decrease)	Fiscal Year Audited June 30, 2008	Increase (Decrease)
Cash Flows from operating activities:					
Cash receipts from premiums	$ 2,200	$ 2,510	$ (310)	$ 2,538	$ (338)
Cash receipts - other	35	36	(1)	33	2
Cash disbursements for claims	(2,072)	(2,128)	56	(2,238)	166
Cash disbursements for other	(450)	(428)	(22)	(455)	5
Net cash provided (used) by operating activities	(287)	(10)	(277)	(122)	(165)
Net cash flows from capital and related financing activities	(20)	(23)	3	(30)	10
Operating transfer out	(4)	(5)	1	-	(4)
Net cash provided (used) by investing activities	(1)	(22)	21	47	(48)
Cash redemptions from investment managers	213	185	28	155	58
Net increase (decrease) in cash and cash equivalents	(99)	125	(224)	50	(149)
Cash and cash equivalents, beginning of period	503	378	125	328	175
Cash and cash equivalents, end of period	$ 404	$ 503	$ (99)	$ 378	$ 26

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Projected Insurance Ratios

	Fiscal Year Projected June 30, 2010	Fiscal Year Actual June 30, 2009	Fiscal Year Audited June 30, 2008
Loss Ratio	100.7%	69.1%	97.6%
LAE Ratio - MCO	8.0%	6.9%	5.7%
LAE Ratio - MCO	13.9%	10.4%	12.5%
Net Loss Ratio	122.6%	86.4%	115.8%
Expense Ratio	4.3%	3.8%	4.2%
Combined Ratio	126.9%	90.2%	120.0%
Net Investment Income Ratio	31.8%	29.9%	38.6%
Operating Ratio	95.1%	60.3%	81.4%
SIF Funding Ratio	1.16	1.14	1.15
SIF Net Leverage Ratio	7.85	8.22	7.93

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Net Asset Policy Summary and Recommendation
BWC Board of Directors
Discussion Draft
July 30, 2009

Net assets are necessary to protect the State Insurance Fund and its ancillary funds against financial and operational risks that may threaten the ability to meet future obligations.

Since September, 2008, the BWC Board and management have had a number of discussions about the appropriate level of net assets. As a result of these discussions agreement was reached to use a funding ratio, as recommended in the 2008/2009 Deloitte study, and a Net Leverage Ratio, which is a standard insurance industry measure of solvency to measure the appropriate amount of our net assets.

A " funding ratio" is defined as funded assets divided by funded liabilities (funded assets = cash, investments, and current receivables less deposits and current payables; funded liabilities = reserves for unpaid claims and funded claim expenses, excluding any risk margin, discounted at a rate as approved by the Board).

A " net leverage ratio" as defined by AM BEST is the sum of (a) a company's net premium written to policyholder surplus and (b) net liabilities to policyholder surplus. This ratio measures the combination of a company's net exposure to pricing errors in its current book of business and errors of estimation in its net liabilities after reinsurance, in relation to policyholder surplus.

Based on nine months of discussions with the Directors, and analysis of the funding ratios and net leverage ratios for comparable private and public sector insurers, management recommends the following guidelines for these two measurements of net assets:

Recommendation

Funding ratio: The funding ratio guidelines should be between1.02 and 1.35. This would place Ohio in a comparable position with other state funds (Latest available data shows Washington at 1.18, California 1.28 and New York 1.44.) Seven of the 10 private sector carriers we examined are in the 1.5 to 2.0 range. This guideline would mean that we have between 2% and 35% more in defined assets than defined liabilities.
Net Leverage ratio: The net leverage ratio should be between 3:1 and 8:1. This would place Ohio in a comparable position with other state funds (Washington 8.6:1, California 3.9:1 and New York 4.5:1. Eight of the ten private sector carriers are 4.0:1 or below. This ratio shows that a 1% increase in risk due to higher liabilities for existing claims or higher premium for future claims will have a 3% to 8% impact to net assets.

Peer Comparisons

The following is a summary of comparisons:

Funding ratio (BWC management recommendation 1.02 to 1.35):
•The funding ratio for 7 of the 10 private companies is between 1.5 and 2.0;
•Three private carriers maintain funding ratios over 2.0 and state funds maintain ratios from 1.0 to 1.5;
•State funds range from 1.18 to 1.44 (latest available data)

Net leverage ratio (BWC management recommendation 3:1 to 8:1):
•Eight of the ten private carriers had a net leverage ratio of 4.0:1 or less;
•State funds maintain net leverage ratios between 4:1 and 8.6:1 (latest available data).

Historical Information for State Insurance Fund*

FY Ended June 30	*Net Assets (in millions)*	*Funding Ratio*	*Net Leverage Ratio*
1998	$4,327,923	1.339	3.4567
1999	$5,411,808	1.440	2.7226
2000	$6,644,827	1.552	2.1555
2001	$4,643,351	1.373	3.1594
2002	$1,886,585	1.148	8.3538
2003	$417,937	1.029	39.8767
2004	$644,444	1.044	26.4196
2005	$507,491	1.038	34.4908
2006	$1,278,845	1.091	13.5202
2007	$2,080,045	1.144	8.2621
2008	$2,206,923	1.152	7.9323
2009			

*Net asset policy with guidelines adopted by the BWC Board of Directors in July, 2009. Data previous to 2009 is for historical purposes only.

<u>Discussion Draft</u>
Net Asset Policy
Audit Committee Discussion
July 31, 2009

BWC requires a prudent level of net assets to protect the fund against financial and operational risks that may threaten the ability to meet future obligations. These financial and operational risks include, but are not limited to, the following:

- Uncertainty in the ultimate amount and timing of future payments on known claims;
- Legislative and court actions that may affect future operations;
- Substantial catastrophic events, either through acts of nature or acts of man;
- Significant market fluctuations resulting in material changes in the valuation of the investment portfolio; and
- Economic factors impacting BWC's ability to collect premiums.

In an effort to maintain a solvent and stable state fund, BWC should maintain a sufficient level of net assets to handle these risks.

Business Rationale

- Adoption of a net asset policy will enable the organization to maintain prudent funded net assets to support the financial strength of the State Insurance Fund and maintain stability in premium costs.
- Adoption of a net asset policy will enable the organization to fulfill the statutory requirements of maintaining a solvent state fund while keeping premiums as low as possible.
- Adoption of a net asset policy with guidelines provides flexibility in decision-making with respect to options such as premium credits or surcharges.

Methodology

- Should use methodology supported by customized metrics to calculate key results used in measuring funding adequacy.
  - Funding Ratio is defined as funded assets divided by funded liabilities (funded assets= cash, investments, and current receivables less deposits and current payables, funded liabilities=reserves for unpaid claims and

funded claim expenses, excluding any risk margin, discounted at a rate as approved by the Board of Directors).

- Net Leverage Ratio is the sum of (a) a company's net premium written to policyholder surplus and (b) net liabilities to policyholder surplus. This ratio measures the combination of a company's net exposure to pricing errors in its current book of business and errors of estimation in its net liabilities after reinsurance, in relation to policyholder surplus.

Guiding Principles

- Sound fiscal principles would dictate the need to maintain sufficient assets to meet current and future obligations. Therefore, as a matter of policy, the minimum guideline for a funding ratio should never be below 1.00.
- Should reflect the unique characteristics of the Ohio system. We have less stress on premiums and have more flexibility on the level of liabilities than a private carrier. The guidelines also reflect the statutory obligation to maintain a solvent fund with the lowest possible premiums.

The Net Asset policy:

- Should incorporate the concept of ranges to be responsive to changes and to maintain a degree of stability in operating results over time.
- Should incorporate appropriate options for premium credits or surcharges, if metrics indicate excessive or inadequate financial reserves.
- Should enable BWC to make limited peer comparisons.
- Should be tailored to each fund where a material amount of a fund's obligations are funded, as opposed to pay-as-you-go (Pay-as-you-go funds include the DWRF I and II, SIEGF and ACF).
- Should include consideration of risks associated with estimates inherent in financial reporting including, but not limited, to medical inflation, discount rate, and portfolio market valuation.

The following steps should be taken when establishing guidelines for the funding ratio and net leverage ratio:

1. The Administrator, with approval from the BWC Board of Directors, should establish guidelines for a Funding Ratio and a Net Leverage Ratio.
2. The guidelines for a Funding Ratio and a Net Leverage Ratio should be monitored as a component of the monthly Enterprise Report (or comparable financial report).

3. Deviations from the established guidelines should be evaluated at least annually. The Administrator, in conjunction with the appropriate senior executives, should prepare a recommendation to address variations from the guidelines.
4. The Administrator shall present these recommendations to the Board of Directors for review and approval.
5. The Board of Directors shall review guidelines for the Funding Ratio and Net Leverage Ratio on an annual basis.

On July 31, 2009, the Board of Directors considered the Administrator's recommendation for a funding ratio guideline between1.02-1.35 and a net leverage ratio guideline between 3.0:1 and 8.0:1.

Policy Guidelines

Review Date	Funding Ratio Guideline	Net Leverage Ratio Guideline
July 31, 2009		

Historical State Insurance Fund Information*

FY Ended June 30	Net Assets (in millions)	Funding Ratio	Net Leverage Ratio
2000	$6,644,827	1.552	2.1555
2001	$4,643,351	1.373	3.1594
2002	$1,886,585	1.148	8.3538
2003	$417,937	1.029	39.8767
2004	$644,444	1.044	26.4196
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2006	$1,278,845	1.091	13.5202
2007	$2,080,045	1.144	8.2621
2008	$2,206,923	1.152	7.9323
Policy Guidelines			
2009			

*Net asset policy with Guidelines adopted by the Board of Directors in 2009. Data previous to 2009 is for historical purposes only.

Discussion Goals
Policy Purpose
Policy Components
Metrics
Policy Steps
Establishing Guidelines
Peer Comparisons
Strategy Implications
Recommendation
Next Steps

Funding Policy
Discussion Outline
July 30, 2009

Ohio Bureau of Workers' Compensation
Tracy Valentino, Chief Fiscal & Planning Officer
Don Berno, Board Liaison

Discussion Goals
Policy Purpose
Policy Components
Metrics
Policy Steps
Establishing Guidelines
Peer Comparisons
Strategy Implications
Recommendation
Next Steps

Discussion Goals

- *Establish a Funding Policy consistent with recommendations outlined by Deloitte*
- *Define guidelines for key metrics*
- *Correlate strategies to achieve target ranges*

Discussion Goals
Policy Purpose
Policy Components
Metrics
Policy Steps
Establishing Guidelines
Peer Comparisons
Strategy Implications
Recommendation
Next Steps

Purpose of a Funding Policy

1. *Enables the organization to maintain prudent funded net assets to support the financial strength of the State Insurance Fund and maintain stability in premium costs*

2. *Enables the organization to fulfill the statutory requirements of maintaining a solvent state fund while keeping premiums as low as possible.*

3. *Provides guidance in decision-making with respect to options such as premium credits or surcharges.*

Discussion Goals
Policy Purpose
Policy Components
Metrics
Policy Steps
Establishing Guidelines
Peer Comparisons
Strategy Implications
Recommendation
Next Steps

Policy Components

Funding Policy should:

1. *Include customized metrics to calculate key results used in measuring funding adequacy*
2. *Include the concept of ranges to be responsive to changes and to maintain a degree of stability in operating results over time*
3. *Include options for premium credits or surcharges, if metrics indicate excessive or inadequate financial reserves*
4. *Enable BWC to make limited peer comparisons*
5. *Be tailored to each fund where a material amount of a fund's obligations are funded, as opposed to pay-as-you-go*

Discussion Goals
Policy Purpose
Policy Components
Metrics
Policy Steps
Establishing Guidelines
Peer Comparisons
Strategy Implications
Recommendation
Next Steps

Customized Metrics

1. Funding Ratio

$$\textbf{Funding Ratio} = \frac{\textbf{Funded Assets}}{\textbf{Funded Liabilities}}$$

Funded Assets *= cash, investments and current receivables less deposits and current payables*

Funded Liabilities *= Reserves for funded unpaid claims and funded claim expenses (HPP on PA/PEC), excluding any risk margin, discounted at a risk free discount rate.*

2. Net Leverage Ratio

$$\textbf{Net Leverage Ratio} = \frac{\textbf{Premiums + Reserves}}{\textbf{Net Assets}}$$

Discussion Goals
Policy Purpose
Policy Components
Metrics
Policy Steps
Establishing Guidelines
Peer Comparisons
Strategy Implications
Recommendation
Next Steps

Policy Steps

1. *Establish guidelines for a Funding Ratio and a Net Leverage Ratio.*

2. *Monitor metrics as a component of the monthly Enterprise Report (or comparable financial report).*

3. *Deviations from the established guidelines should be evaluated at least annually. Recommendation to address variations from the guidelines should be prepared by the Administrator.*

4. *Review and approval by the Board of Directors .*

5. *Review guidelines of the Funding Ratio and Net Leverage Ratio on an annual basis.*

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Establishing Guidelines

For consideration:

1. *Two statutory mandates: maintain a solvent fund and lowest possible premiums.*

2. *Net Assets can be increased in three ways– expense reduction, investment returns and premiums.*

3. *Net asset guidelines should be developed with a consideration to all underlying risks.*

4. *Minimum guideline for a funding ratio "target" should never be below 1.00.*

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Peer Comparisons

The following is a summary of peer comparisons:

- *The funding ratio for 7 of the 10 private companies is between 1.5 and 2.0;*
- *Three private carriers maintain funding ratios over 2.0 and state funds maintain ratios from 1.0 to 1.5;*
- *Eight of the ten private carriers had a net leverage ratio of 4.0 or less;*
- *State funds maintain net leverage ratios between 4 and 8.6.*

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Strategy Implications – What do the numbers look like?

June 30, 2008

Net Assets: $2,206,922,732
Funded Assets: $17,001,443,324
Funding Liabilities: $14,761,301,000
Funding Ratio: 1.152
Net Leverage Ratio: 7.93:1

October 31, 2008

Net Assets: $91,421,236
Funded Assets: $14,879,141,916
Funding Liabilities: $14,757,609,000
Funding Ratio: 1.008
Net Leverage Ratio: 177.35:1

December 31, 2008

Net Asset: $2,002,691,464
Funded Assets: $16,766,579,958
Funded Liabilities: $14,755,763,000
Funding Ratio: 1.136
Net Leverage Ratio: 8.26:1

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Recommendation

1. *The Administrator's recommendation is to establish funding ratio guidelines of 1.02 and 1.35.*

2. *The Administrator's recommendation is to establish net leverage ratio guidelines of 3.0:1 to 8.0:1.*

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Next Steps

1. *Approval of the Administrator's recommendation.*

2. *Monthly monitoring and reporting.*

3. *Develop short-term and long-term plan for increasing the level of net assets over the next 3 to 5 years.*

12-Month Audit Committee Calendar

Date	July 2009	Notes
7/30/2009	1. External Audit Update	
	2. FY2010 Financial Projections (2nd reading)	
	3. Enterprise Report Review	
	4. Quarterly Litigation Update	
Date	**August 2009**	
8/27/2009	1. Enterprise Report Review	
Date	**September 2009**	
9/24/2009	1. External Audit Update	
	2. Internal Audit QES Review	
	2. IG Semi-Annual Update	
	3. Enterprise Report Review	
Date	**October 2009**	
10/29/2009	1. Operation Review Report	
	2. Charter Review	
	3. Enterprise Report Review	
	4. Quarterly Litigation Update	
Date	**November 2009**	
11/19/2009	1. External Auditor Retention Letter	
	2. Annual Financials MD&A Review	
	3. Comprehensive Report	
	4. Approve Committee Charter Changes	
	5. Enterprise Report Review	
Date	**December 2009**	
12/16/2009	1. Enterprise Report Review	
	2. Internal Audit QES Review	
Date	**January 2010**	
1/21/2010	1. Enterprise Report Review	
Date	**February 2010**	
2/25/2010	1. Internal Audit QES Review	
Date	**March 2010**	
3/25/2010		

12-Month Audit Committee Calendar

Date	April 2010	Notes
4/29/2010		
	May 2010	
5/27/2010		
	June 2010	
6/17/2010		