BWC Board of Directors

Board Meeting

Thursday, March 24, 2011, 8:15 a.m.
William Green Building
30 West Spring Street, 2nd Floor (Mezzanine)
Columbus, Ohio 43215

Members Present:	Nicholas Zuk, Chair David Caldwell (arrived 8:10 AM) Kenneth Haffey James Hummel Steven Lehecka James Matesich Mark Palmer Thomas Pitts Larry Price Robert Smith Dewey Stokes
Members Absent:	None
Counsel Present:	Janyce Katz, Assistant Attorney General
Staff Present:	Ann Shannon, Legal Counsel Donald Berno, Board Liaison
Scribe:	Jill Whitworth

CALL TO ORDER
Mr. Zuk called the meeting to order at 8:05 AM.

ROLL CALL
Roll call was taken by the scribe. All members were present except for Director Caldwell.

REVIEW OF FEBRUARY 24, 2011 MINUTES
Mr. Smith proposed three changes to the February 24, 2011 minutes as follows:

Page 3, paragraph 2, the first sentence should contain the phrase "her Ph.D" instead of "his Ph.D".

Page 3, paragraph 6 (last full paragraph), the second sentence should read "Because BWC uses passive managers, the results track the benchmarks" rather than "meet the benchmarks".

Page 8, the first complete sentence at the top of the page is changed to "Mr. Smith emphasized that discussion is necessary so BWC can act strategically, or they may find that they waited too long."

Motion was made by Mr. Smith, seconded by Mr. Matesich, to approve the minutes as amended. Roll call was taken and the motion to approve the minutes passed 10-0.

REVIEW MEETING AGENDA

The meeting agenda was reviewed by Mr. Zuk. He called on Mr. Price for the Governance Committee report.

COMMITTEE REPORTS:

GOVERNANCE COMMITTEE

Mr. Price presented the Governance Committee report. The committee met earlier today and approved a recommendation to the Board Chair of new Committee assignments as contained in the proposed motion. Mr. Price also noted no recommendation would be made for the position of Board Vice-Chair.

CHAIR RECOMMENDATIONS FOR COMMITTEE ASSIGNMENTS

Mr. Zuk temporarily relinquished the Board Chair to Mr. Caldwell, who accepted, then recognized Mr. Zuk to make the motion approving the recommendation of the Governance Committee.

Mr. Zuk moved that after consideration of the recommendations of the Governance Committee, the BWC Board of Directors approve the recommendations of the Governance Committee for the following new Committee Member assignments:

For the ACTUARIAL COMMITTEE: Add Director Lehecka as Committee Chair

For the AUDIT COMMITTEE: Add Director Lehecka
Add Chairman Zuk
Remove Director Matesich

For the INVESTMENT COMMITTEE: Add Director Palmer as Committee Vice Chair

For the GOVERNANCE COMMITTEE: Add Director Price as Chair
Add Director Pitts as Vice-Chair

For the MEDICAL SERVICES COMMITTEE: Add Director Hummel as Chair
Add Director Matesich as Vice-Chair
Add Director Palmer
Add Director Stokes

In all other respects, the Committee assignments as previously approved by the Board will remain the same.

The motion was seconded by Mr. Hummel and approved by 11-0 unanimous roll call vote. Mr. Caldwell then returned the Board Chair to Mr. Zuk.

ADJOURN

Motion was made by Mr. Matesich, seconded by Mr. Pitts, to adjourn the meeting at 8:15 AM. Roll call was taken and the motion passed 11-0.

BWC BOARD OF DIRECTORS

BOARD MEETING

THURSDAY, February 24, 2011, 8:00 A.M.
WILLIAM GREEN BUILDING
30 WEST SPRING ST.2ND FLOOR (MEZZANINE)
COLUMBUS, Ohio 43215

MEMBERS PRESENT:	Nicholas Zuk, Chair David Caldwell Ken Haffey James Hummel Steve Lehecka Jim Matesich Mark Palmer Thomas Pitts Larry Price Robert Smith Dewey Stokes
Members Absent:	None
Counsel Present:	Janyce Katz, Assistant Attorney General Jason Rafeld, BWC Chief Counsel
Staff present:	Steve Buehrer, Administrator Tracy Valentino, Chief Fiscal & Planning Officer Shadya Yazback, Legal Counsel
Scribe:	Larry Rhodebeck, Staff Counsel

CALL TO ORDER

Mr. Zuk called the meeting to order at 8:00 a.m. and the roll call was taken. All directors were present.

MINUTES OF FEBRUARY 23, 2011

Mr. Haffey moved to approve the minutes of February 23, 2011. Mr. Hummel seconded and the motion was approved by a roll call vote of eleven ayes and no nays.

AGENDA

Mr. Zuk rescheduled the economic forecast report presentation to follow the *Enterprise Report*.

Mr. Pitts moved to approve the amended agenda. Mr. Matesich seconded and the amended agenda was approved by a roll call vote of eleven ayes and no nays.

CHAIRMAN'S COMMENTS

Mr. Zuk reported that he was very impressed with the committee meetings held on February 23. He was unaware of the many details involving workers' compensation and was enlightened on many issues. He was also impressed with the commitment of directors, whose attendance was 100% at the meetings.

COMMITTEE REPORTS

ACTUARIAL COMMITTEE

Mr. Matesich reported that the Actuarial Committee had no items for second reading and action. For first readings, the Actuarial Committee heard a report on adopting the changes in the National Council on Compensation Insurance (NCCI) classification codes presented by Tom Prunte, Executive Director, Employer Management Services, and Michael Glass, Director of Underwriting and Premium Audit. This presentation included a discussion on rate changes. Joy Bush, Program Development Director, reported on an amendment to the deductible program rule.

Dave Heppen, Bob Miccolis, and Jan Lommele, Deloitte Consulting, LLP, delivered part of their report on base-rate methodology. Deloitte has made short term and long term recommendations. The Actuarial Committee will consider their recommendations during forthcoming discussions on rate changes. Elizabeth Bravender, Actuarial Operations Director, delivered a reported on the state of Ohio workers' compensation and including comparisons with a countrywide report prepared by NCCI. John Pedrick delivered his Chief Actuarial Officer Report.

AUDIT COMMITTEE

Mr. Haffey reported that the Audit Committee met on February 23. It first conducted an overview of the Annual Internal Audit Risk Assessment Process conducted by Keith Elliott, Audit Manager, and Karl Zarins, Internal Audit Director. Tom Sico, Assistant General Counsel, led a first reading of the Electronic Submission of Documents Rule, Ohio Administrative Code Rule 4125-1-02. This is part of the five-year rule review and no changes are proposed. Don Berno, Board Liaison, led a discussion on an article from KPMG entitled "Ten To-do's for Audit Committees in 2011." The article was obtained as part of regular research in periodicals conducted by Don Berno, Caren Murdoch, Chief of Internal Audit, and Mr. Haffey.

Ms. Murdock then conducted an open discussion on current projects. In the planning phase are three audits on the large deductible program, new claims audits, and Sysco reimbursements. Seven audits are in the fieldwork phase and the final phase, but were not discussed. Three completed audits on Investment Requests for Proposal (RFP) Compliance Review, FY11 MCO audits, and Special Claims Audit will be presented with the March Quarterly Executive Summary. Forthcoming discussions will be held on the Annual Risk Assessment, Audit Validation, and the Office of Budget and Management audit of the Cambridge System. The Audit Committee went into executive session for a litigation update and discussion with the Inspector General. The committee adjourned after the executive session with no further discussion or action.

INVESTMENT COMMITTEE

Mr. Smith reported that as of February 22, the unaudited invested assets of BWC stood at $20.446 billion and consisted of 66.3% in bonds, 32.8% in equities, and 1% cash. Returns for the fiscal year to date were 7.9% through January, representing $1.5 billion of net investment income. The market value increase of bonds and stocks owned month-to-date through February 22 was $183 million, providing a 0.9% return month to date.

Mr. Smith opened his report with comments on the characteristics of high performing Investment Committees researched by a colleague from his firm's office who was working towards his Ph.D. Those elements included: a strong rigor for investment decision-making, a commitment to learning, a focus on the mission of the organization, open mindedness, reflective of prior decisions, the support of complementary investment experts and consistent reviews of investment returns expectations. Mr. Smith indicated that the Bureau's Investment Committee incorporated all seven elements into its work.

The committee had one action item on the manager of manager services of minority owned and/or women-owned business enterprise investment management firms. Mr. Smith moved that the Workers' Compensation Board of Directors adopt the recommendation of the Investment Committee to authorize the Administrator to issue a request for proposals ("RFP") pursuant to section VII of the Investment Policy and Guidelines for the services of one or more experienced and qualified manager-of-managers of minority-owned and/or women-owned business enterprise (MWBE) investment management firms to implement and manage the specific minority-owned and/or women-owned business enterprise investment managers investment strategy and further to adopt the recommendation that the Board direct the Administrator to consult with the Chief Investment Officer regarding the scope of services to be defined in the RFP as outlined in the February 16, 2011, memorandum of the Chief Investment Officer. Mr. Price seconded the motion.

Mr. Price acknowledged the work by staff over the past nine months in moving this initiative forward. The proposal provided detailed examination and discussion. Mercer Consulting gave perspectives on the initiative to help ensure the program's success. Mr. Caldwell affirmed the points of Mr. Price.

The motion was approved by a roll call vote of eleven ayes and no nays.

Mr. Smith further reported that the Investment Committee received the quarterly performance update from Mercer. Because BWC uses passive managers, the results meet the benchmarks. Mr. Dunn updated the Investment Committee on the investment consultant RFP search. He also reviewed his CIO report. The Investment Committee conducted a first reading on the long duration credit active management investment policy recommendation. The second reading and motion to approve is scheduled for the March meeting.

MEDICAL SERVICES AND SAFETY COMMITTEE

Mr. Hummel reported that the Medical Services and Safety Committee met on February 23 and had one action item, the second reading conducted by Michael Rea, Industrial Safety Administrator, on the OSHA/PERRP cranes and derricks rule (last updated 1971).

Upon the recommendation of the Medical Services and Safety Committee, Mr. Hummel moved that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendation to amend Public Employment Risk Reduction Program Rule 4167-3-04.2 of the Administrative Code, "Amending of Standards." The motion consents to the Administrator amending Rule 4167-3-04.2 as presented at the Medical Services and Safety Committee. Mr. Pitts seconded and motion was approved by a roll call vote of eleven ayes and no nays.

Mr. Hummel reported that the Medical Services and Safety Committee reviewed the pharmacy program. A number of rules to improve the program will be considered over the next several months. BWC pays for 149 million prescriptions per year in 68,000 claims at a cost of $130 million and receives $4.5 million in rebates. Most prescriptions are pain relievers and muscle relaxants.

The Medical Services and Safety Committee held a first reading on Ohio Administrative Code Rule 4123-6-26 on claimant reimbursement. The current rule provides that if medical expense is paid before allowance, BWC will reimburse the payer only to the extent allowed under HPP rules. The change will permit reimbursement to workers for all out-of-pocket expense, including co-pays.

There was also a review led by Freddie Johnson, Interim Chief, Medical Services, and Karen Fitzsimmons, Rehab Policy Unit Director, on the relationship between BWC and the Ohio Rehabilitation Services Commission (RSC). The two agencies have had a Cooperative Agreement since 1945. Because of staff reductions at RSC, it is accepting only the most serious BWC cases. Mr. Johnson also led a discussion on the Medical Services Division and the 2011—2012 MCO contract. The MCOs will be paid $166 million in 2011, which is the same as 2010, and receive 2% more in 2012. There will be performance awards for the timelier filing of First Reports of Injury (FROI). There was also a report on the Health services Quality Improvement Unit.

QUARTERLY UPDATE ON HB100 COMPREHENSIVE REPORT RECOMMENDATIONS

Shadya Yazback, Legal Counsel, delivered the "Quarterly Implementation Progress Report, January 2011" on the HB100 Comprehensive report recommendations. Deloitte Consulting issued its report in April 2009, and provided 146 recommendations. For this report, the most significant change is that 13 items previously reported as "No Action" items are now classified as "Alternative Solution" items. This reflects BWC undertaking careful review, but deciding ultimately to take an action different from what was recommended by Deloitte. "No Action" still remains a category for those recommendations where the cost of a proposed solution outweighs the risk it is meant to address.

Implementation has slowed because those recommendations that remain require longer duration of implementation. The recommendations are divided into three tables: Recommendations in Process, November 2010—January 2011; Appendix A: Recommendations in Place; and Appendix B: Alternative Solution and No Action Items. Pages 12 to 16 of the report provide a table including stages of implementation for all recommendations.

Ms. Yazback indicated that the report format may no longer be the best way to communicate future progress. Moreover, because of the nature of the recommendations that remain in process, reports the initiatives and projects still outstanding should be shifted to division chiefs and appropriate Board committees.

Mr. Pitts requested an example where BWC will not be implementing a Deloitte recommendation, but instead an alternative solution. Ms. Yazback replied that Deloitte recommended amending the statute requiring ninety-day independent medical exams, but BWC was able to address the problem noted by a rule change.

Mr. Pitts asked what the alternative solution was for the recommendations to terminate the Salary Continuation Program and $15,000 medical-only program. Ms. Yazback replied that BWC has developed alternative programs which make salary continuation and medical only claim payments less attractive to employers.

Mr. Matesich stated that he was concerned about shifting oversight of Comprehensive Study implementation from the Workers' Compensation Board to BWC staff. He requested an annual report or semi-annual to the Board, not just committees, to allow the Board to fulfill its oversight responsibilities.

Mr. Zuk advised the report could be made easier to read and requested semi-annual updates.

FEBRUARY ENTERPRISE REPORT

Ms. Valentino distributed two additional handouts: a glossary of terms and a description of the funds that BWC administers. All funds are described in the *Enterprise Report* and are administered in accordance with legislative mandate.

Ms. Valentino further reported that the February report includes results for January. BWC uses accrual reporting in accordance with the Government Accounting Standards Board. Premium collections are in arrears and BWC is currently collecting premiums for the July 1, 2010, to December 31, 2010, reporting period. BWC accrues the income and payments. The *Enterprise Report* was begun in 2006 and has evolved overtime in response to requests by directors for more information, or information provided in a different manner.

BWC's net assets decreased by $9 million in January resulting in net assets of $5.01 billion at January 31, 2011 compared to $5.02 billion at December 31, 2010. This is $1.1 billion more than in 2010. Premium and assessment income net of the provision for uncollectible accounts receivable and ceded reinsurance premiums resulted in operating revenues of $150 million in January. The accrual of ceded reinsurance premiums is netted against earned premiums in the Statement of Operations. The reinsurance contract is up for renewal in April. Benefits and compensation adjustment expenses of $194 million along with other expenses of $9 million resulted in operating expenses of $203 million. An increase of $6 million in medical benefits contributed to increased net benefit payments in January while net benefits in December were reduced by $2 million in pharmacy rebates and $6 million billed in a medical provider fraud case.

A $6 million decrease in the fair value of the investment portfolio in January along with interest and dividend income of $51 million for the month, resulted in net investment income of $45 million for the month after investment expenses of $0.5 million. The decrease in the fair value of the portfolio is comprised of $3 million in net realized gains and $9 million in net unrealized losses. Cash and cash equivalents include $150 million in money market holdings in the outside investment manager accounts. These funds are committed to covering a $98 million net investment trade payable for transactions that will settle in February. Premium and assessment receipts of $171 million were collected in January. Additionally, $17 million was redeemed from the investment portfolio to meet operating cash needs during January prior to significant premium collections occurring at the end of January. BWC receipts are very cyclical, with collections made mostly in January, February, July, and August.

BWC's total net assets have increased by $1.2 billion for fiscal year-to-date 2011 resulting in net assets of $5.0 billion at January 31, 2011 compared to $3.9 billion at January 31, 2010. BWC's premium and assessment income for fiscal year-to-date 2011 is $1.1 billion compared to $1.2 billion for fiscal year-to-date 2010 reflecting decreased payroll and premium rates for private and state agency employers effective July 1, 2010 and January 1, 2010 for public employer taxing districts. Benefit and compensation adjustment expenses increased by $47 million for fiscal year-to-date 2011 compared to prior fiscal year-to-date expenses.

BWC's net investment income for fiscal year-to-date 2011 totaled $1.515 billion comprised primarily of $914 million in net unrealized gains and $206 million in net realized gains, along with $399 million of interest and dividend income, net of $4 million in investment expenses. This compares to last year's fiscal year-to-date net investment income of $1,548 million.

Declines in private employer payroll and premium rates have contributed to premium collections being $74 million less than prior fiscal year-to-date collections. Through February 10th, approximately 125,000 or 50% of the private employers have filed their payroll report for the July through December 2010 policy period. This is consistent with the filing pattern for the same period last year. Premium collections from January 1 through February 10, 2011 total $273 million and are approximately $5.5 million higher compared to collections for this same time frame in 2010. The amount of payment is consistent with 2010, although rates were reduced by 3.9% effective July 1, 2010. The table at the bottom of page 4 shows the level of net assets over the previous twelve months. This number can fluctuate greatly with changes in the markets.

For the Statement of Operations, the tables at the bottom of page 5 set forth operating revenue and operating expense trends. Revenues are in decline, while expenses are holding steady over recent fiscal years. It is not unusual for BWC to operate at a loss because it depends on investment income for payment of expenses. The combining schedule for the statement of operations shows net assets of $5 billion, consisting of $4.4 billion in the State Insurance Fund and the balance made of all other funds. The Administrative Cost Fund (ACF) shows a deficit in net assets of $768 million because its enabling legislation is a pay-as-you-go statute. The Disabled Workers' Relief Fund and

Self-Insuring Employer’s Guaranty Fund are also pay-as-you-go. Page 7 contained the Statement of Investment Income, covered at the Investment Committee meeting.

Ms. Valentino reported that the BWC Administrative Cost Fund report beginning on page 8 is the agency budget. ACF expenses through fiscal year to date (FYTD) January 2011 are approximately $10 million (6.5%) less than budgeted and approximately the same as last fiscal year to date. BWC’s current fiscal year 2011 budget is approximately $63 million (19%) less than appropriated by the General Assembly.

Mr. Pitts added that the ACF is funded through premium assessments, not from the state’s general revenue funds.

Ms. Valentino next reported that decreases in payroll through FYTD January 2011 are a result of decreases in staffing due to retirements and hiring controls. As of January 2011, there were approximately 175 fewer full time equivalent positions compared to the same time last year. Thirty-five employees retired in December 2010, with an additional 15 employees retiring in January 2011. Through January 2011 journal entries BWC staff have taken 144,500 (85%) of the available 170,000 hours for a savings of approximately $4.3 million, which is about the same as last fiscal year. The timing of the receipt of invoices for payment in fiscal year 2011 contributed to actual expenditures being less than the amount budgeted through January. Identification of additional costs savings and reevaluation of approved projects resulted in a $19 million reduction in the fiscal year 2011 budget.

Four types of administrative expense are paid from the State Insurance Fund: investment administration, actuarial expenses, reinsurance, and the Ohio Rehabilitation Services Commission. Operating transfers include the Workers' Compensation Council, the Ohio Department of Natural Resources (ODNR) Mine Safety Fund, the ODNR Strip Mining Administration Fund, and the Ohio Inspector General.

Mr. Hummel asked if the Strip Mining Fund payment is an installment or for the total amount. Ms. Valentino replied that it is a one-time payment of $2,280,000.

Ms. Valentino further reported the Statement of Cash Flows on page 11 contains a table on Premium and Assessment Receipts for the past year. February and August are the peak months because the semi-annual premium receipts are due. In the Statement of Net Assets on page twelve, the two biggest items are the asset of Total Cash and Investments of $20.2 billion and the liability for Reserve for Compensation and Compensation Adjustment Expense of $19.957 billion. Liabilities are calculated at a 4% discount. Total undiscounted reserves for compensation and compensation adjustment expense are $32.4 billion. The table breaking out the undiscounted amount by fund appears on the bottom of page 13.

Mr. Palmer asked if the same discount rate is used for each fund and Ms. Valentino confirmed BWC uses a uniform rate.

Mr. Smith asked if there is a discussion on how to address the reserves. Ms. Valentino replied that is a topic for Workers' Compensation Board policy, but BWC is also looking at the surplus in terms of rate impact. Mr. Smith emphasized that discussion is necessary so BWC does not have to act too quickly, or find that it waited too long.

Ms. Valentino reported that the Financial Performance Metrics are reported on page 14. Both the Funding Ratio and the Net Leverage Ratio are within the guidelines set by the Workers' Compensation Board. The Funding Ratio moves less, while the Net Leverage Ratio is subject to movement in accordance with market changes. The Combined Ratio measures overall underwriting capability. The Operating Ratio measures overall profitability from underwriting and investing activities. If one compares the two, the Operating Ratio is the more important.

Mr. Price stated that in prior meetings there was a discussion of excess assets. He urged the Workers' Compensation Board to renew commitment to discussion of the impact of the excess and to make if of the highest priority. Ms. Valentino reported that the discussion of the reserve audit in March will encompass that.

Mr. Pitts noted that the setting of the discount rate was a topic of great discussion over the past two years. Mr. Smith added that the discount rate reflects United States Treasury Markets. Ms. Valentino added that other impacts from finance are considered and the outside audit. BWC has been reducing the discount rate since 1995, when it was 7%.

Ms. Valentino reported that pages 15 to 18 contain tables on operational performance metrics requested by the Workers' Compensation Board and staff. These include Claim Filing Lag and Severity. The table on increases in severity is subject of discussion because of the decline of frequency.

Mr. Caldwell thanked staff for handouts on definitions.

RECESS

Mr. Zuk recessed the meeting at 9:08 a.m.

2011 ECONOMIC FORECAST

Mr. Zuk reconvened the meeting at 9:18 a.m.

Mr. Smith introduced Dr. Mark E. Schweitzer, who delivered an economic forecast for 2011. Dr. Schweitzer is senior vice president and director of research at the Federal Reserve Bank of Cleveland. He has a degree in economics from the University of Chicago. He also holds a master's degree and Ph.D. in economics from the University of California at Los Angeles.

Dr. Schweitzer reported that with respect to strength of the recovery, versus the depth of recession, he could confirm the impression of many that the Great Recession is not over. It is the hardest recovery since World War II and is exceeded only by the Great Depression. Other, deeper recessions have had steeper recoveries. In terms of real Gross Domestic Product, the recovery does not reach the average of previous recoveries and is not parallel to the average. What is holding the economy back is that housing markets continue to struggle and labor markets are only slowly recovering. Single-family housing starts and permits are only about 400,000 for this year. Residential investment as a percentage of GDP has fallen to below 3%. The House Price Index is of more concern because housing price is important as part of the family balance sheet. Housing markets and labor markets will continue to hold back growth.

In looking at Payroll Employment, the current jobless recovery is better than the past ones, such as 1979—82. But the recession cost 800,000 jobs per month and the recovery is not keeping pace. Payroll employment is well-below Household Employment. Also, the Employment-Population ratio has fallen below the Labor Force Participation rate. This shows a drop in the percentage of workers looking for work. As for the measure of those "Not in the Labor Force" (NILF), the number of workers over 65 is not declining. Many younger workers are going to schools. Those NILF by age show a bump in ages 25 to 54.

Productivity is good because closed plants have gone back into production. The outlook for U.S. is moderate growth rates, while the housing markets continue to struggle and labor markets will recover slowly.

The bank's outlook for Ohio is also for moderate growth. Manufacturers reported improvement in demand. Retail and auto dealers' information was generally positive.

Federal Housing Finance Administration data shows house home prices are tracking with the nation. The dip in prices was not as large as most states. The Ohio unemployment rate is not as high as other states. If there were a smaller population, the monthly payroll pattern would show more variation. Ohio's payroll employment for the past 36 months is similar to the nation. There was a sharp decrease similar to 1979 to 1982, except that in Ohio, the 1979 to 82 Ohio had 22% of the losses. Ohio's portion for the most recent recession is 5%. Thus, if the cause of a recession is in one state, it lives with the causes longer. Payroll employment from manufacturing fell 20% in Ohio. For Real Income per capita, Ohio was in top quartile in the 1970s; it is now ranks in the middle and could fall to the bottom quartile. The cause is education levels, which are low in Ohio.

The bank is concerned with core inflation—excluding food and energy, which are more volatile. In 2009, core inflation was less than 1%. Price Indices are below 2%, which is the Federal Open Market Committee Objective. Commodity prices, such as gasoline, drive headline inflation. Unit labor costs are an issue since 70% of a business's costs are labor. Currently, this growth is negative. For the Inflation Yield Curve, it may exceed the FOMC objective of 2% in the short term, but the bank sees little concern for the next ten years. Inflation is critical in the policy outlook because of critical uncertainty and output growth and unemployment are still well below the economy's potential, but the potential is uncertain.

The summary view is that currency levels have remained steady; reserves increased during the recession; however, there has been little lending.

Mr. Smith asked what the impact of federal deficits is. Dr. Schweitzer replied that the deficits were unsustainable. Nevertheless, the financial markets are optimistic and the thirty-year securities are not deeply discounted. While it is true that high debt can lead to hyperinflation, high debt, e.g. Japan, does not necessarily lead to inflation.

Mr. Matesich asked about the affect of the high levels of cash held on corporate balance sheets. Dr. Schweitzer replied this is characteristic of early part of recovery. Much of it is held outside of the United States and movement is likely to happen later.

Mr. Pitts asked if labor costs are too high. Dr. Schweitzer replied that historically, German labor was priced the highest, while Spain and others were lower. Over time, Spanish costs rose, while German labor costs fell, leading to more competitiveness.

Mr. Stokes asked if there is a global movement in labor costs. Dr. Schweitzer replied that this was a production debate. The greater the productivity, the lower the labor costs. For 1979-to 1982, Ohio had the greatest shock, but over a decade it recovered.

Mr. Stokes added that in Ohio and Central Ohio, he has seen a lot of job export, but he also sees a recovery. Dr. Schweitzer replied that Ohio has historically low educational levels. Changes in Ohio will see a raise in education.

Mr. Caldwell stated that the genius of Henry Ford was not in creating the assembly line, but in producing a vehicle that had a price to sell to the people and to pay his workers.

Mr. Zuk commented that many young people in Ohio are leaving. Dr. Schweitzer replied young educated workers are mobile and some move. However, Massachusetts, with the highest education level, also has the highest emigration of educated workers. Many educated people live where they were born, or move back.

ADMINISTRATOR'S REPORT

Mr. Buehrer reported that today was his 46th day at BWC. He reflected that God created the earth in seven days, but that timeframe did not include this agency and the complexity of the Ohio workers' compensation system.

The year 2011 marks the centennial of workers' compensation in the United States. In Ohio, it will be marked in 2013.

Mr. Buehrer thanked directors of the Workers' Compensation Board who attended his swearing in. He appreciated the work they had done in the past. He welcomed new members to the challenge. There are a host of perceptions and realities at BWC to address. BWC needs to be a party to the economic development in Ohio.

His goals include visiting all BWC district service offices. So far, he has visited Toledo and Governor's Hill. His goals also include walking through every floor of the William Green Building and the Ohio Center for Occupational Safety and Hygiene. The scheduled town hall meeting of February 23 has been postponed to March 1 because of weather. One-half of the attendees were selected by labor, one-third by management; and thirty to forty are volunteers.

Mr. Buehrer has spoken to the Allied Construction Industry in Cincinnati and Landscape Gardeners association. He has also met with the Ohio Manufacturer's Association, Ohio

Chamber of Commerce, Ohio Association for Justice, Ohio Self-Insurers Association, the AFL-CIO, and other stakeholder groups. He has also met with all incumbent directors.

Mr. Buehrer reported that the Ohio Safety Congress will be held in Columbus on March 29, 30, and 31. Dr. John Howard, Director of the National Institute for Occupational Safety and Health, will be the key note speaker. The Congress offers 150 training sessions. All Workers' Compensation Board directors have been pre-registered. Mr. Buehrer concluded by saying he is looking forward to working with all the directors.

ADJOURNMENT
Mr. Zuk asked if there were any other comments from the directors and none were made. He announced that the committees would next meet on March 24 and the Workers' Compensation Board will meet on March 25.

Mr. Caldwell moved to adjourn. Mr. Haffey seconded and the motion was approved by a roll call vote of eleven ayes and no nays.

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