

**William E. Sopko**, Chairman  
 President,  
 STAMCO Industries  
*representing state-fund employers*

**Thomas H. Bainbridge, Jr.**  
 Partner,  
 Ward, Kaps, Bainbridge,  
 Maurer & Melvin  
*representing injured workers*

**William A. Burga**  
 President,  
 Ohio AFL-CIO  
*representing organized labor*

**Mary Beth Carroll**  
 Vice President,  
 FirstEnergy  
*representing self-insured employers*

**Michael C. Koettters**  
 Retired Chief Investment Officer,  
 Wellpoint, Inc.  
*representing the public*

**Denise M. Farkas, CFA**  
 Senior Vice President,  
 Spero Smith Investment Advisers  
*representing investments*

**Edwin McCausland, CFA**  
 President,  
 Investment Perspectives, LLC  
*representing investments*

- Approval of previous meeting minutes..... William Sopko
- Chairman's comments ..... William Sopko
- Administrator's comments ..... Bill Mabe
- CFO financial statement review ..... Tracy Valentino
- Audit committee update ..... Denise Farkas
- Investment committee update ..... Mike Koettters
  - 1. Wilshire portfolio performance review.....  
 ..... Mike Koettters and Mark Brubaker
  - 2. Private equity RFP update ..... Mike Koettters and Lee Damsel
  - 3. DRAFT Investment Policy, second consideration, possible  
 vote...Mike Koettters and Mark Brubaker
  - 4. DRAFT Investment Committee Charter, second consideration,  
 possible vote ..... Mike Koettters and Mark Brubaker

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**Rules**

- 1. Policy Initiation (4123-17-13 OAC), second consideration,  
 possible vote...Mary Yorde and Todd Spence
- 2. Successorship Liability (4123-17-02 OAC), second  
 consideration, possible vote...Mary Yorde and Todd Spence
- 3. Minimum and Maximum Reportable Payroll for Corporate  
 Offices and Elective Coverage (4123-17-07 and 4123-17-30  
 OAC), second consideration, possible vote  
 ..... Mary Yorde and Todd Spence
- 4. Minimum Annual Administrative Charge (4123-17-26 OAC),  
 second consideration, possible vote  
 ..... Mary Yorde and Todd Spence
- 5. Auditing and Adjustment of Payroll Reports (4123-17-17 OAC),  
 first consideration, possible vote ..... Michael Glass

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**The next WCOC meeting is scheduled for:**  
 May 25, 2006  
 William Green Building, Level 2, Room 3  
 11:00 A.M.

**Agenda**  
April 27, 2006  
William Green Building, Level 2, Room 3  
11 a.m.

**William E. Sopko**, Chairman  
President,  
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President,  
Investment Perspectives, LLC  
*representing investments*

Continued

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**Rates**

Private employer retrospective rating plan minimum

1. premium percentages, first consideration...Tracy  
Valentino and Liz Bravender

**Old Business**

Agenda 06 update ..... Bill Mabe

**New Business**

Adjourn ..... William Sopko

**The next WCOG meeting is scheduled for:**  
May 25, 2006  
William Green Building, Level 2, Room 3  
11:00 A.M.

**WORKERS' COMPENSATION OVERSIGHT COMMISSION**

**THURSDAY, MARCH 30, 2006, 11:00 A.M.  
WILLIAM GREEN BUILDING  
THE NEIL SCHULTZ CONFERENCE CENTER  
30 WEST SPRING ST., 2<sup>nd</sup> FLOOR (MEZZANINE)  
COLUMBUS, OHIO 43215**

Members Present: Bill Sopko, Chairman  
Michael Koetters  
Mary Beth Carroll  
Thomas Bainbridge, Jr.  
Denise Farkas  
Edwin McCausland  
Senator Steve Stivers  
Senator Eric Fingerhut  
Representative Tim Schaffer  
Representative George Distel

Members Absent: William Burga

**ROLL CALL**

Mr. Sopko called the meeting to order at 10:00 a.m. and the roll call was taken.

**MINUTES OF JANUARY 19, 2006**

Ms. Carroll moved that the minutes of January 19, 2006, be approved. Mr. Bainbridge seconded and the minutes were approved by a unanimous roll call vote.

**CHAIRMAN'S COMMENTS**

Mr. Sopko announced that the Ohio Safety Congress and Expo was currently running at the Columbus Convention Center. His employees from Stamco Industries report that the sessions are excellent. He thanked members of the Investment Committee for the work they have done since the January meeting.

## **ADMINISTRATOR'S COMMENTS**

William Mabe, BWC Administrator, reported that there had been a recent increase in the assets of the State Insurance Fund because of slower growth of medical expense and reserves, no payment of dividends, investment income gains, and lower management fees. There will be a challenge to continue this performance.

## **CFO FINANCIAL STATEMENT REVIEW**

Tracy Valentino, Chief Financial Officer, presented the Financial and Operational Report for February 2006, which covers eight months. The report is a fluid document which can be changed in accordance with requests from the Oversight Commission. The report includes projections for the entire first quarter of 2006. Among the highlights is that the increase in assets is driven by decreases in operational expenses

Mr. Koetters requested that future reports include additional details such as capital gains and insurance ratios.

Ms. Farkas asked if financial statements are prepared in accordance with the generally accepted accounting principles of the Governmental Accounting Standards Board and Ms. Valentino confirmed that they are.

Mr. Sopko thanked Ms. Valentino for the January 2006 report, which was delivered to him and others on March 21.

Senator Stivers thanked BWC for details on uncollectible debt and requested additional information on collections in future reports.

Mr. Bainbridge asked what was the line-item "Other Expenses" in the statement of operations. Ms. Valentino replied it included the Self-Insuring Employers' Guaranty Fund expense, operational expenses, and dividends, but not investment fees.

Mr. McCausland requested the inclusion of ratios on the balance sheets and comparisons with industry standards.

Senator Fingerhut asked what will future management fees look like. Ms. Valentino reported there will be a rise in fees from the transition of investment to a passive fixed-income fund. In the future, the fees will decline.

## **AUDIT COMMITTEE REPORT**

Ms. Farkas reported that the Audit Committee had met earlier in the morning. The committee conferred with representatives from the Auditor of State on status of the fiscal year 2005 external audit. The Audit Committee also met with Auditor of State on the Request for Proposal (RFP) for the contract for the fiscal year 2006 audit. The Audit Committee heard a

report from the Internal Audit Division management team following restructuring of BWC. Ms. Farkas reported that the Audit Committee has no recommendations or motions at this time.

### **INVESTMENT COMMITTEE REPORT—PORTFOLIO PERFORMANCE REVIEW**

Mr. Koetters introduced Mark Brubaker of Wilshire Consulting, who provided a report on the investment portfolio performance. Mr. Brubaker reported that as of the end of the first quarter BWC will complete transition to a fixed-income fund. The State Insurance Fund portfolio has increased to \$14.8 billion because of a 3.3 % increase in investments. Total investments have out-performed the indices because of the outstanding performance of equities. Performance of the private equity investments was calculated through September 30, 2005. The report also includes transition dates projected to March 31 for complete liquidation and transfer to a Lehman Index fixed income account operated by State Street Global Advisors. There remain \$100 million in equity investments to liquidate.

Mr. Mabe asked how has the Lehman Aggregate Index performed. Mr. Brubaker replied that it will be 5% per year going forward. If interest rates increase, then performance will be less than expected, and vice versa. Wilshire plans to construct a custom index for BWC investments.

Senator Stivers remarked that the Lehman Index investment removed the investment risk, but added an interest rate risk and does not match assets with liabilities. He asked what are earnings prospects in light of the Federal Reserve policy. Mr. Brubaker replied that the Federal Reserve is raising short-term rates, but not long-term rates. This creates a flat yield curve.

Ms. Farkas stated the Lehman Index fund is a short-duration investment which will be used on an interim basis and the Oversight Commission intends to change investment policy in the future.

### **INVESTMENT COMMITTEE REPORT—PRIVATE EQUITY ASSET RECOMMENDATION, FIRST CONSIDERATION**

Mr. Brubaker reported on the private equity asset recommendation. The report is derived from the Ennis Knupp Report. There are sixty-eight partnerships, comprising less than 3% of the State Insurance Fund. The report also provides percentages for types of investment.

Wilshire has three recommendations. First, BWC may grow the private equity sector so it comprises at least 5% of the portfolio. However, management is labor intensive and BWC does not have enough personnel for this strategy. Second, BWC may engage in a wind-down by keeping existing private equities and permit all of them to expire. This still requires the same resources and oversight as the growth option, which BWC does not have. Third, BWC could pursue liquidation by sale in the secondary market. Wilshire recommends the third. Mr. Brubaker reviewed the methods of divestment, including a private sale in the secondary market.

Mr. McCausland asked for a review of the memorandum from Wilshire on the effect declaratory judgment action. Mr. Brubaker reported that the Ennis Knupp report contains confidential trade secrets. Disclosure would not be a positive factor on the valuation of the

private equities. Also, sale of the private equity sector before the declaratory judgment would be a negative factor.

Senator Fingerhut asked if sale of the private equity would make the public records issue moot. John Williams, Assistant Attorney General, stated that BWC cannot keep the information confidential by selling the assets to a private entity. Mr. Mabe stated that selection of the recommendation from Wilshire seems simple.

Mr. McCausland moved that the Oversight Commission adopt resolution 06-03 authorizing the Administrator and the Chief Investment Officer to issue an RFP to retain an investment bank or investment agent to sell the private equity investments of the State Insurance Fund. Ms. Farkas seconded.

Senator Fingerhut stated that as a legislator (and not a fiduciary) he would urge that one purpose of BWC is to encourage economic growth in Ohio. Divesting the private equities frustrates that goal. Mr. McCausland replied that a new owner would be bound to the same commitments in Ohio as BWC is now. Mr. Mabe stated that BWC is not foreclosed from investing in private equities. However, it should be done by another state agency or BWC must outsource the management. Senator Stivers stated he will try to legislate on the public records aspect.

The resolution was approved by unanimous roll call vote.

#### **INVESTMENT COMMITTEE—INVESTMENT POLICY, FIRST CONSIDERATION**

Mr. Koettters reported that the Investment Policy would not be presented today for a vote.

Mr. Brubaker reported on the changes from the previous policy, which are based on reports from Ennis Knupp and Callahan Associates. The chief problem with the old policy was that it was not followed by BWC in not providing proper reports to the Oversight Commission. The new Investment Policy recommends diversification with a match of duration of assets and liabilities. The new policy still encourages using managers who are Ohio-based, minority-owned, and women-owned, but concentrates these provisions in one section. The policy changes the recommendation of the asset mix from 59% to 97% in fixed income assets and from 41% to 3% in equities. The 3% consists of the private equity investments. Mr. Brubaker also highlighted the recommendations of the Clark Schaefer report.

Mr. Sopko stated there was no vote today because of today's disclosures. The Oversight Commission plans to vote at the April 27 meeting.

Mr. Bainbridge asked how Senate Bill 7 affects the policy on contributions. Mr. Brubaker reported the policy as drafted bars contributions. Provisions on contributions were pulled from the draft because Senate Bill 7 will override Oversight Commission policy. Mr. Sopko stated the Oversight Commission has been advised it must follow the Ohio Revised Code. The Attorney General and BWC attorneys have not finished their review and recommendation for revision of the Investment Policy.

## **INVESTMENT COMMITTEE—INVESTMENT COMMITTEE CHARTER**

Mr. Brubaker reported on the Investment Committee Charter. Its provisions track with the Investment Policy.

Senator Fingerhut asked for confirmation that the asset allocation will be reviewed once annually by June. Mr. Koetters responded that it was the duty of BWC to review its policies on an ongoing basis in response to changes in markets and other factors.

Mr. Mabe urged the Oversight Commission and BWC to examine the policy carefully prior to approval. This policy has significant implications for the organization. The Oversight Commission should not go from a rubber stamp to micro-management. Additionally, asset allocation will determine whether we succeed or fail in our efforts to build surplus. In going from the total return approach to investing totally in fixed income, we are giving up yield to help build surplus. The current Lehman Aggregate Index fund is falling short of our required 5% return in the short run and may well lead to an erosion of surplus.

Mr. McCausland replied that the Oversight Commission is committed to improving performance because the current balance sheet cannot support the reserves. There is a need to work on operational performance. Mr. Mabe replied that a 5 to 10 % difference in investment returns determines whether the increase of premiums is 3.9% or 5% or higher.

## **RULES/RESOLUTION FOR FIRST CONSIDERATION: SELF-INSURING EMPLOYERS GUARANTY FUND ASSESSMENT RULE, OHIO ADMINISTRATIVE CODE RULES 4123-17-32**

Mr. Sopko stated that the vote on the self-insured rules will be deferred to the May meeting at the request of Ms. Carroll in order to address concerns of the self-insured community on some of the revisions.

David Boyd, Director, Self-Insured Department, recommended approval of amendments to Ohio Administrative Code Rule 4123-17-32 on the assessments to the Self-Insuring Employers Guaranty Fund. Since 2001, costs have increased and BWC has tried to keep the Guaranty Fund at 125% of one year's payments. Recent collections and expenditures have fluctuated, leading to unpredictable assessments. The change will affect new employers and base assessments on their State Insurance Fund claims. This will lead to higher assessments, but the goal will be to reduce assessments to all employers.

Mr. Sopko stated that in 2001 the concern was bankruptcy cases filed by LTV Steel and Big Bear Stores. Mr. Sopko asked what is the status of Delphi Corporation, Dana Corporation, and other cases. Mr. Boyd replied that 2005 was better with only six defaults due to bankruptcy. Delphi and Dana have first-day orders which permit them to pay their self-insured claims. Upon annual renewal, the self-Insured Department requests additional security.

Ms. Carroll stated that the biggest concern of self-insurers is that the acquisition of a new subdivision by a self-insuring employer will lead to new assessments. She thanked the Oversight Commission for additional time to review the rule on this issue.

Mr. Bainbridge asked if existing self-insurers still be required to contribute to the Guaranty Fund. Mr. Boyd replied the amendment will not relieve current self-insurers of obligations, but the change will smooth-out annual contributions.

**RULES/RESOLUTION FOR FIRST CONSIDERATION: SELF-INSURED FIVE-YEAR RULE REVIEW, OHIO ADMINISTRATIVE CODE CHAPTER 4123-19**

Mr. Boyd recommended approval to amendments to rules governing self-insuring employers under the five-year rule review. There are few changes, most of which correct typographical errors. The biggest substantive change relates to the 2001 change requiring electronic filing by new self-insurers. Now, the rule merely requires all employers to file electronically. There is also a clarification on procedures on revocation.

**RULES/RESOLUTION FOR FIRST CONSIDERATION: POLICY INITIATION RULE, OHIO ADMINISTRATIVE CODE RULE 4123-17-13**

Mary Yorde, Director, Policy Processing, and Todd Spence, Director, Employer Consulting, recommended amending the policy application rule, Ohio Administrative Code Rule 4123-17-13. Mr. Spence stated that the goal is address the problems that result when the same or similar owners of a business apply for new coverage and the issuance of new coverage would result in the owner avoiding an outstanding liability under the prior coverage. The stakeholders have reviewed the amendments and do not have major concerns. Ohio Administrative Code Rule 4123-17-13 governs new applications. The question is whether a new employer has applied or it an old employer. If it is an old employer, then the experience and liability should be transferred. This prevents shifting of claims costs to all other employers in the State Insurance Fund.

**RULES/RESOLUTION FOR FIRST CONSIDERATION: SUCCESSORSHIP LIABILITY RULE, OHIO ADMINISTRATIVE CODE RULES 4123-17-02**

Ms. Yorde and Mr. Spence also recommended amendment of Ohio Administrative Code Rule 4123-17-02 regarding successor liability. The amendment prevents transfer of a business without being able to collect unpaid premiums. The principal is used by the Ohio Department of Taxation and the Ohio Department of Jobs and Family Services (ODJFS). In the event the transfer is the result of a bankruptcy case, then bankruptcy law would supersede the rule. Prior to submission for a final vote, BWC will broaden the number of stakeholders to receive information to include bar associations and banking associations.

Senator Fingerhut stated that he had had many questions from constituents on the transfer of businesses. He asked if there was a change in other rules. Ms. Yorde replied that the same rules would apply for transfer of business.

Mr. Koettters asked what is the loss experience under the existing rules. Ms. Yorde replied that BWC lost \$714,000 in 2005. Mr. Koettters also asked what is the existing rule. Ms. Yorde replied that currently only the seller is currently liable for unpaid premiums. The change allows BWC to charge the purchaser.

**RULES/RESOLUTION FOR FIRST CONSIDERATION: MINIMUM & MAXIMUM REPORTABLE PAYROLL FOR CORPORATE OFFICERS AND ELECTIVE COVERAGE, OHIO ADMINISTRATIVE CODE RULES 4123-17-07 AND 30**

Ms. Yorde and Mr. Spence also recommended amendments to Ohio Administrative Code Rule Rules 4123-17-07 and 4123-17-30 on the minimum and maximum reportable payroll for corporate officers and employers electing coverage. There has been no change in more than thirty years. The rule derives from the statewide average weekly wage (SAWW) calculated by the ODJFS. The minimum will be 50% of the SAWW and the maximum will be 100%. At current rates, this will lead to \$352 as the lowest minimum and to \$1,056 as the highest maximum. The change also applies to corporate officers. Currently, there is no minimum to report for corporate officers. For elective coverage, there is no change to the rule.

**RULES/RESOLUTION FOR FIRST CONSIDERATION: MINIMUM ANNUAL ADMINISTRATIVE CHARGE, OHIO ADMINISTRATIVE CODE RULES 4123-17-23**

Ms. Yorde and Mr. Spence recommended amendment to Ohio Administrative Code Rule 4123-17-26 to raise the minimum payable Administrative Cost Fund (ACF) assessment from \$10 per payroll period to \$50 per payroll. Currently, it costs more to maintain a policy than is currently being charged.

Senator Fingerhut asked if report of zero payroll should lead to cancellation of coverage. Mr. Spence replied that some businesses need coverage to meet government contracting rules or the requirements of construction contracts, even if they do not have employees.

**RULES/RESOLUTION FOR FIRST CONSIDERATION: PRIVATE EMPLOYER RATE INDICATION**

Ms. Valentino recommended the rate indication for private employers for the reporting period from July 1, 2006, to June 30, 2007. The rate is based on recommendations from Mercer Oliver Wyman, the BWC actuarial consultant. BWC must file the rating rules ten days before July 1 in order for them to take effect. Mercer made three recommendations, and the Administrator has chosen to raise premiums by 3.9% over the current year's rates. The rates will yield \$1.5 billion in premiums from employers. A separate assessment recommendation for the ACF will be brought to the Oversight Commission in May.

Liz Bravender, Actuarial Director, explained that the rate recommended is based upon the 2005 actuarial audit. It includes current costs trends, BWC initiatives, and investment income, but does not include past years' short-falls in premiums. Mercer recommended a range that includes baseline, optimistic, and conservative overall rate changes. The optimistic assumes that

the payment trends will have a 5% improvement and the conservative assumes a 5% worsening of payment trends for the policy year beginning July 1, 2006. The premium includes a loading factor for the funding of Managed Care Organizations (MCOs), the Premium Payment Security Deposit, and the Safety and Hygiene Fund.

Mr. Sopko asked what the ranges of recommendations from Mercer were. Ms. Bravender reported the range was from a 1.8% decrease to an 8.8% increase, with a baseline of a 3.9% increase. Ms. Valentino added that the recommendation uses a 5% discount rate, reduced from the previous rate of 5.25%.

Mr. Sopko asked how BWC arrived at 3.9%. Ms. Valentino replied that 3.9% is the Mercer base-line recommendation if all things remain the same. Mr. Mabe added that the rate assumes there are no further operational savings.

Ms. Farkas asked what is the cost of the MCOs. Ms. Bravender replied that it constitutes 9.25% of the pure premium.

Ms. Carroll asked why there was a change in the discount rate. Ms. Valentino replied that it is based on comparing the BWC investment returns with a rolling rate of United States Treasury notes. BWC was unable to reach a 5.25 % rate, so it was reduced. Mr. Mabe added that if the rate had been 5.25%, then the rate increase might have been 39%.

Mr. Koettters why is that the premiums paid will be only \$1.5 billion when operational expenses will be much higher. Ms. Valentino replied that premiums are only one part of the total operating expense.

Mr. Koettters stated that there was inadequate time to consider the rate change. Ms. Valentino stated that the rate indication was proposed now to give early direction to employers. Because group rating and retrospective rating programs, BWC will calculate individual employer rates at the end of May. The extra time also provides early employer notification and raises quality control.

Ms. Farkas asked how early could the rate indication be brought. Ms. Valentino replied that January or February would be too early because of the need to capture claims cost information.

Mr. Koettters asked why BWC uses expected losses and does not adjust for past years. Ms. Bravender replied that it is the industry standard to use five-years' experience to calculate premiums, but not to cover losses from prior years. This is in fairness to new employers paying premiums for the first time.

Mr. Koettters asked what was the comparison with prior Mercer recommendations. Ms. Bravender reviewed the table included in the executive summary and updated the table to include this year's recommendation.

Mr. Koettters asked what is the ACF rate. Ms. Valentino stated it was calculated on a percentage of premiums. Rates have remained flat for several years. The ACF is bench-marked to the industry and is similar to those of the industry.

Mr. Koettters moved that the Oversight Commission adopt resolution 06-06 regarding the rate indication for the payroll period July 1, 2006, to June 30, 2007. The Oversight Commission consents to raising private employer premium rates by a 3.9% increase over total premiums collected for the previous year and consents to revised rating rules. Ms. Carroll seconded and the motion was approved by unanimous roll call vote.

### **RULES/RESOLUTION FOR FIRST CONSIDERATION: PUBLIC EMPLOYER STATE AGENCY RATE INDICATION**

Ms. Valentino recommended new rates for state agency employers. This recommendation contains actual rate changes for each agency. The claims of state agencies are terminally funded and have no reserves. The goal is to raise no more in premiums than paid in claims. BWC collects these premiums every two weeks from the Department of Administrative Services. BWC is recommending no change overall and expects to collect \$67.5 million in premiums.

Ms. Bravender added that BWC uses a five-year rolling average to calculate the premium and captures overcharges and undercharges. The premiums from state agencies are not invested. The minimum premium per employer is \$0.05 per \$100 of payroll; the average agency rate is \$1.03. The amendments to Ohio Administrative Code Rule 4123-17-35 changes the rates and strikes expired programs.

Mr. Sopko asked why there was no change in the overall rate. Ms. Valentino replied that BWC began capping rates for individual employers in 2002 and stopped doing so in 2005.

Senator Fingerhut requested a comparison of old rates of employers with new ones. He also asked why some employers would have any claims given that office work is widespread in state government. Ms. Valentino replied that, for example, the Ohio Department of Insurance has the greatest increase because its employees drive cars and lift boxes.

Ms. Farkas asked if there was any discrepancy between public employers and private. Ms. Bravender stated the biggest difference was between public employer taxing districts and private employers, but that she had no data at this time on state agencies.

Mr. Bainbridge moved that the Oversight Commission adopt resolution 06-05 regarding Ohio Administrative Code Rule 4123-17-35. The Oversight Commission consents to changing state agency premiums rates as indicated. Mr. Koettters seconded and the motion was approved by unanimous roll call vote.

### **OLD BUSINESS—AGENDA 06 UPDATE**

Mr. Mabe reported that BWC is getting better on performance measures. Reports are now available on a monthly basis. BWC is showing \$45 million in success in reducing operational expense. A project officer monitors the changes and has recorded progress in claims settlements, subrogation, and ethics training.

Ms. Damsel reported on progress on the five goals of the Investment Division, which include increasing cash yields, hiring new employees, and producing new reports. Concerning performance reports, the reports produced by Wilshire now go directly to the Oversight Commission. This recommendation came from the Ennis Knupp report. The Chief Investment Officer (CIO) now also has a monthly report. Ms. Damsel pleased to announce that performance results in the Wilshire report equal those in the CIO reports. Concerning, cash yields, BWC has incurred more than \$27 million for the first two months of 2006.

Ms. Kielmeyer reported on several successes of BWC. There has an increase in certifications to the Attorney General for collections. BWC is targeting premium audits of employers beginning in April. BWC has experienced \$20 million in savings in hospital costs and prescriptions. For the settlement of claims, BWC has started pilot projects in three district service offices. In case management, there are several initiatives. For safety, BWC has initiated another year with premium incentives and is collecting data on frequency of types of injury. The auto-adjudication program now addresses about 33% of medical-only claims. BWC now has more performance reports.

#### **NEW BUSINESS—LEGISLATIVE UPDATE**

Mr. Sopko reviewed Oversight Commission procedural rules for discussion of legislation, which states that meetings for the Oversight Commission are not to be used for airing disputes about pending legislation. Nevertheless, he invited Senator Fingerhut to speak on legislation he has introduced.

Senator Fingerhut stated that he was making his report as a courtesy to the Oversight Commission and welcomed comments. Senator Stivers has offered to hold hearings in the future. The legislation redresses the imbalance between the Oversight Commission and BWC. For example, the Oversight Commission will be able to hire its own staff and will make the Oversight Commission a more independent body.

#### **ADJOURNMENT**

Mr. Sopko announced that the Oversight Commission will meet next on April 27.

It was moved and seconded that the meeting be adjourned and the meeting was adjourned by Mr. Sopko.

Prepared by: Larry Rhodebeck, BWC Attorney  
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April 12, 2006

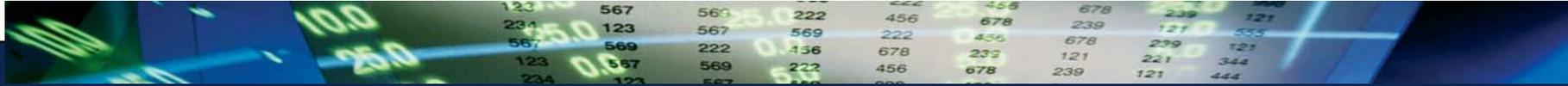
**EXECUTIVE SUMMARY**  
**Modification of 4123-17-17 of the Ohio Administrative Code**  
Auditing and adjustment of payroll reports

**Overview of Issue**

BWC is requesting the removal of one sentence in Section E where two or more classifications have been assigned for an employer's operations. The employer is expected to keep appropriate records showing a correct and verifiable segregation of all reported payroll into these assigned classifications. The following sentence states that "The employer shall prorate all indirect labor payroll and report same under the operating classification (Manual 8810, Clerical Office, and Manual 8747, Traveling Salesmen, are not operating classifications) assigned."

However, this is incorrect and needs to be removed. Pursuant to guidance from the National Council on Compensation Insurance (NCCI), BWC does not ask employers to prorate indirect labor payroll and to report this under the assigned operating classifications. Only for farming classifications are employers allowed to report based on "proration," and this is based on acreage. In addition, manual 8747 is from the old BWC system, and no longer exists.

This deletion of the errant sentence does not change current BWC practice or policy.



# Ohio Bureau of Workers Compensation Securities Lending

April 27, 2006

John Kirby  
Suzanne Lee  
James E. Thorsen, CFA

# Why Securities Lending?

- Widely accepted practice

As of 3/31/06, State Street Global Advisors (BWC Securities Lending Agent) manages \$40.7 billion of passive fixed income funds; of which 95% is lent and 5% is non-lent.

- Low-risk when properly managed
- Effective investment strategy to earn additional revenue on existing portfolios

## SSGA PASSIVE FIXED INCOME

*CTF Inception Date:* December 2000

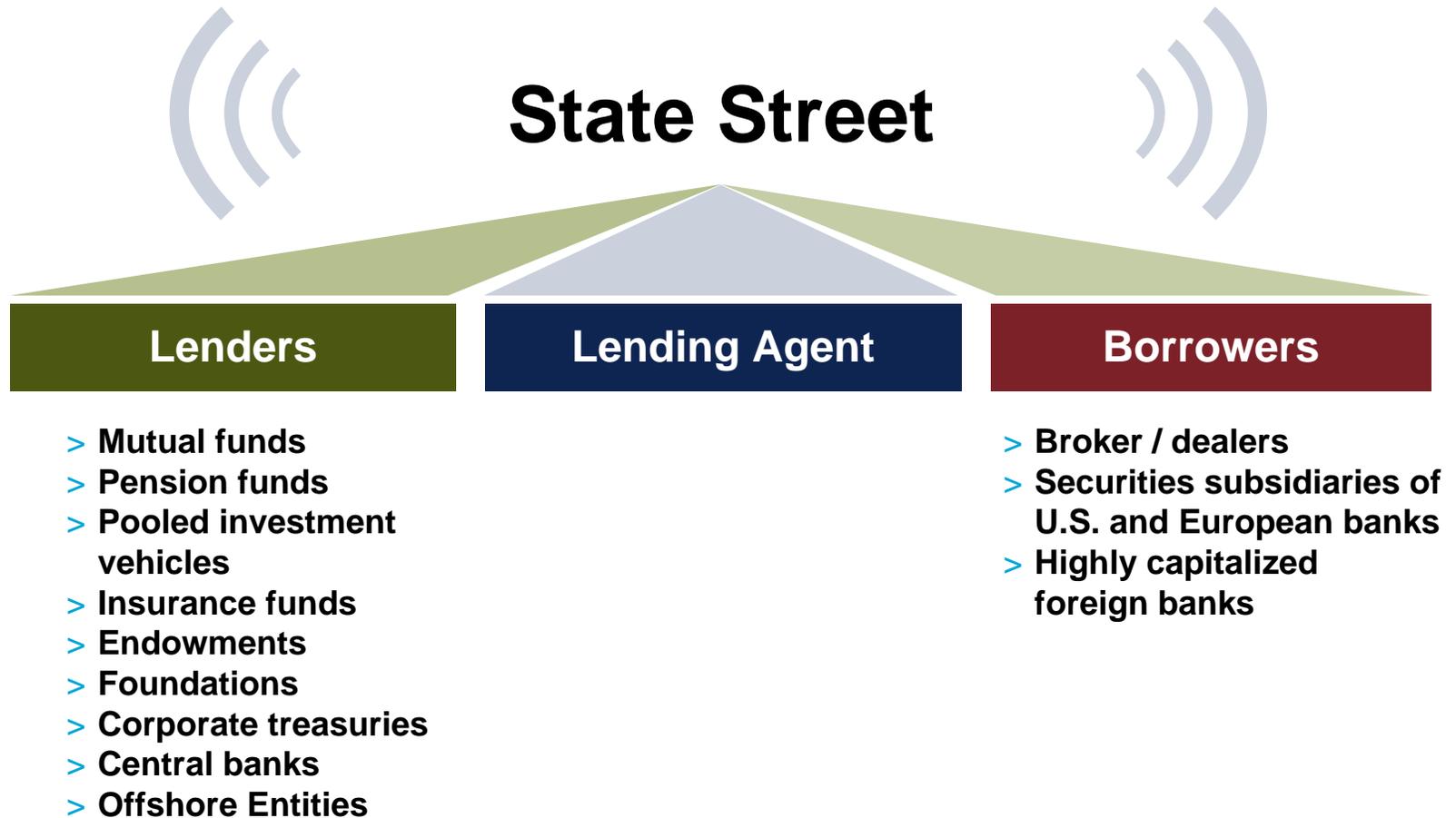
*CTF Revenue (bps):* 1-year = 5.8 3-year = 6.2 5-year = 7.2

*BWC/SSgA Lending Split:* 80/20

**Lending of Treasury, US Agency and Credit accounts for approximately 60% of Portfolio.**

| Lending of BWC % of Position on Loan | Actual US Treasury | Actual US Agency | Estimated Credit | Total          |
|--------------------------------------|--------------------|------------------|------------------|----------------|
| <b>ACTUAL</b>                        | \$3,992            | \$373            | \$785            | \$5,150        |
| <b>Potential Lending Amount</b>      | <b>\$4,000</b>     | <b>\$1,800</b>   | <b>\$3,750</b>   | <b>\$9,550</b> |

# Market Participants



# Risk Management

- Operational Procedures

  - Collateralization with daily mark-to market / income collection

  - Indemnification vs. Operational loss

- Counterparty Credit Risk Management

  - Counterparty selection and review

  - Collateral maintenance

  - Indemnification vs. counterparty default

- Collateral Reinvestment

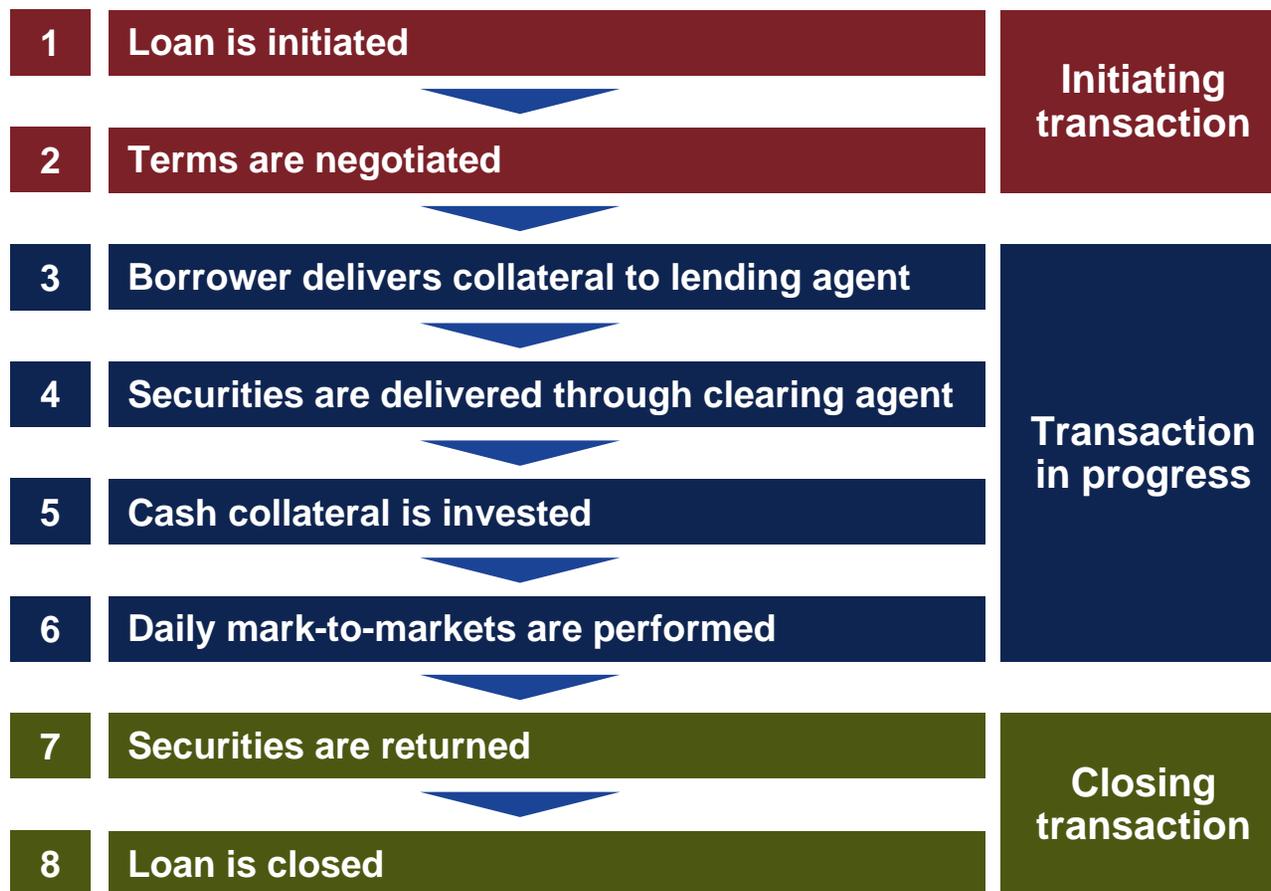
  - Conservative investment guidelines

  - Approved issuers tracked by dedicated team of analysts

- Asset / Liability Management

  - Management of interest rate risk, liquidity of collateral portfolios

# Typical Securities Lending Transaction Overview



# Typical Lending Transaction

## Initiating Transaction

### 1. Loan is initiated

Typically, a borrower contacts the trading desk or an on-line lending platform

### 2. Terms are negotiated

#### Collateral type

Cash

Non-Cash

#### Rebate or Premium rate

Rebate rate is the percentage used to determine the amount of interest paid back to the borrower and is based on the prevailing overnight rate. The more in-demand a security is, the lower the rebate rate will be.

Premium rate is the “fee” charged to the borrower for pledging non-cash collateral

#### Duration (if applicable)

Most loans are open, with no fixed period for the loan

Some loans are term loans, where the borrower agrees to a fixed time frame and fixed rebate rate

Some loans are matched term, where SSgA purchases a fixed rate security with a maturity date the same as the termination date for the loan

#### Dividend / Reclaim rate

These are not negotiated, per se, but are verified at the beginning of the loan

# Typical Lending Transaction

## Transaction in Progress

### 3. Borrower delivers collateral to lending agent

102% for U.S. corporate and government securities and for non-U.S. fixed income

### 4. Securities delivered through clearing agent

Fed, DTC, Euroclear, and other sub-custodians

Title and voting rights are transferred to the borrower

Borrower can sell or re-lend the borrowed securities during the life of the loan

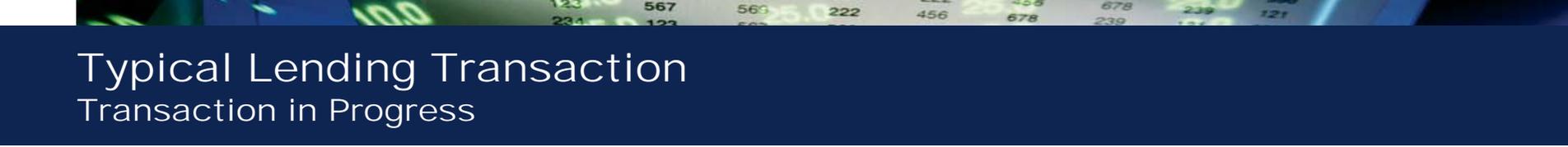
Borrower agrees to:

Return the loaned securities,

Secure the loan with collateral,

Pay any user fees, and

Remit to the lender any dividends, coupon interest or other distributions that occur during the time the securities are on loan



# Typical Lending Transaction Transaction in Progress

5. Cash collateral is invested

SSgA's Global Collateral Management unit utilizes investment pools to generate returns

6. Daily mark-to-markets are performed

Maintaining collateral at appropriate levels with each borrower

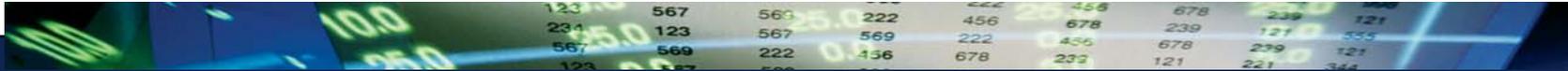
# Typical Lending Transaction

## Closing Transaction

### 7. Securities are returned

Borrower delivers securities back to securities finance, and collateral is then returned to borrower

### 8. Loan is closed



## Appendix A: Biographies

# Biographies



John Kirby

John is a Principal of State Street Global Advisors. He is head of the firm's Fixed Income Index team. He has managed the product since 1999 and portfolios within the group since 1997. In addition to portfolio management, John's responsibilities include risk management and product development. He has been working in the investment management field since 1983 and has more than 15 years of experience in the fixed income markets.

Prior to joining SSgA in 1995, John was with Lowell Blake & Associates in Boston, where he was a Portfolio Manager, responsible for client relations and the firm's fixed income investments. Before this he was a portfolio manager/fixed income analyst with Shawmut Bank and asset/liability risk specialist at CambridgePort Savings.

John holds a Bachelors Degree from Boston College and an MBA from the Sawyer School of Management at Suffolk University. He served as a member of a municipal retirement board for ten years and currently serves on the SSgA Fiduciary Advisory Committee and is a member of the Lehman Brothers Index Advisory Council.



James E. Thorsen, CFA

Jim is a Principal of State Street Global Advisors and Team Leader for SSgA's Public Funds Client Service. Prior to joining SSgA, Jim was Deputy General Treasurer of Finance for the State of Rhode Island. In this position, he was responsible for the state's cash and debt management, as well as pension fund investment operations. He subsequently served for six years as a governor-appointed Trustee member of the Rhode Island State Investment Commission, the seven member state board that oversees all state investments. Jim currently serves as Vice Chair of the Tobacco Settlement Financing Corporation.

Jim was previously a Public Finance Investment Banker with Alex. Brown & Sons and First Union Securities from 1987 to 1995.

Jim graduated from Boston College with a BA in Economics and Political Science. He received his MBA in Finance from the Kenan-Flagler Business School at the University of North Carolina at Chapel Hill.

He earned the Chartered Financial Analyst designation and is a member of the Boston Security Analysts Society.



# Ohio Bureau of Workers' Compensation

## Private Equity RFP Update

April 27, 2006

# Private Equity RFP Update

## Proposed Timeline

### RFP ACTION ITEM

#### OVERSIGHT COMMISSION MEETING

Send RFP Advertisement to Newspapers/Journal

Issue RFP

Open period for respondent's questions via email

WCOC responds to questions via website

#### OVERSIGHT COMMISSION MEETING

#### **DEADLINE FOR RFP PROPOSALS (2:00 PM)**

BWC staff initial review of proposals

#### OVERSIGHT COMMISSION MEETING

Evaluation Committee review / finalists identified

Finalist Interviews

Regrade finalists / Notify final candidate

On-Site visit of finalist

WCOC MEETING PACKET DEADLINE

#### OVERSIGHT COMMISSION MEETING – WCOC Approval of Finalist

### TIMELINE

#### APRIL 27

APRIL 27

MAY 16

MAY 16 – 19

MAY 22 – 26

#### MAY 25

**JUNE 15**

JUNE 16 – 26

#### JUNE 22

*JUNE 27–JULY 10*

*JULY 13*

*JULY 17*

JULY 25

AUGUST 15

#### AUGUST 24

# Private Equity RFP Evaluation Committee

## Composition:

### Four member Evaluation Committee

2 WCOC Investment Committee Members - ?, ?

BWC CIO - Lee Damsel

Wilshire Consultant - Marc Friedberg

## Critical Dates:

WCOC Investment Committee members required availability

dates to finalize RFP timeline

Scoring June 27 – July 10, 2006

Interview Finalists July 13, 2006

Regrade Finalists July 17, 2006



# Ohio Bureau of Workers' Compensation Management Review Team Action Report

# Ohio Bureau of Workers' Compensation Governor Appointed MRT

*Team Members:*

*Tom Hayes : Team Leader*

*Laurie Fiori Hacking*

*James Nichols*

## TIMETABLE

- |   |                                 |
|---|---------------------------------|
| <b>1. MRT Assessment Time Period</b>  | <b>June, 2005–October, 2005</b> |
| <b>2. MRT Final Report Presented to WCOC</b>  | <b>September 22, 2005</b>       |
| <b>3. MRT Final Written Action Report 10/31/05</b>                                  | <b>November 7, 2005</b>         |
| <b>4. BWC executes recommendations</b>  | <b>June 2005 - present</b>      |
| <b>5. BWC Administrator to issue Final Response<br/>Report to WCOC and Governor</b> | <b>Anticipated June, 2006</b>   |

# Management Review Team Recommendations

## INVESTMENT COMMITTEE

|         |  |                 |
|---------|--|-----------------|
| MRT 15b | BWC should amend its Investment Policy to include clean delineation of investment rules and responsibilities of key parties  | 4/27/06         |
| MRT 15c | WCOC should review and amend their investment policy after the review of the prior / current consultants asset liability study   | 4/27/06;6/30/06 |
| MRT 22b | Create an independent Investment Board (HB376 and SB 282)  | TBD             |
| MRT 24  | BWC to hire additional investment experts  | 5/30/06         |
| MRT 25  | BWC to meet with Treasurer of State to determine the protocol for custodial bank selection   | TBD             |
| MRT 26  | Modify the BWC Investment Policy to require WCOC review and approval of all investment funds   | 4/27/06         |
| MRT 34  | WCOC Investment Committee to review and implement private equity reporting requirements  | 4/27/06         |
| MRT 35  | WCOC, WCOC Investment Committee, and BWC Investment Division will update Investment Policy to include verification of manager qualifications   | 4/27/06         |
| MRT 36  | WCOC and WCOC Investment Committee will incorporate private equity recommendations into the new Investment Policy  | 4/27/06         |
| MRT 37  | WCOC will update all policies in Investment Policy to include fiduciary training   | 4/27/06         |
| MRT 38  | WCOC & BWC Administration will require periodic fiduciary performance audits   | 12/31/06        |
| MRT 39  | WCOC will conduct joint briefings with BWC Actuary Department, BWC Actuary Consultant, BWC Administration / WCOC Investment Division and WCOC Investment Consultant to review liabilities and adequacy of the financial reserves | 6/30/06         |

# Management Review Team Recommendations

## AUDIT COMMITTEE (COMPLETED)

|        |   |         |
|--------|---|---------|
| MRT 7e | Audit practices should reflect basic SARBANES OXLEY requirements  | 3/30/06 |
| MRT 8  | WCOC establishes procedures with external auditor (Assigned by Auditor of State) for Investment Division audits in compliance with industry standard best practice procedures | 3/30/06 |
| MRT 40 | WCOC to require direct Auditor of State Investment related audit reports  | 3/30/06 |

# Management Review Team Recommendations

## **WORKERS' COMPENSATION OVERSIGHT COMMITTEE**

- |         |   |         |
|---------|---|---------|
| MRT 32c | WCOC to set up a committee structure to include an Actuary Committee                | 6/30/06 |
| MRT 39  | WCOC will form an Actuary Committee to report regularly to the Investment Committee | 6/30/06 |



STATE STREET GLOBAL MARKETS.

# Ohio Bureau of Workers Compensation

April 27, 2006

Ross McLellan – Managing Director

# Summary of Ohio Portfolio Transition

- > Ohio Bureau of Workers Compensation (“BWC”) transitioned \$15.5 billion in assets from US equities, International equities and Active Fixed Income to the passive SSgA Lehman Aggregate Index Fund
- > Transition was completed in six different tranches from January to March of 2006
- > Assets were moved into the Index fund on two major funding dates (March 3<sup>rd</sup> and March 27<sup>th</sup>) with residual cash balances moving in throughout the month
- > Each tranche was traded separately based on timeline that was agreed to by all parties prior to the start of the transition

| Tranche | Termination Date | Funding Date |
|---------|------------------|--------------|
| T1      | 28-Dec-06        | 03-Mar-06    |
| T2      | 30-Dec-06        | 03-Mar-06    |
| T3      | 28-Dec-06        | 03-Mar-06    |
| T4      | 18-Jan-06        | 03-Mar-06    |
| T5      | 31-Jan-06        | 27-Mar-06    |
| T6      | 13-Feb-06        | 27-Mar-06    |

- > Performance and cost was calculated separately for each tranche

# Summary of Ohio Portfolio Transition (continued)

- > Costs were calculated by using the “T-Standard” – All securities were valued at the closing price prior to the start of the transition and compared to the value that eventually went into the Lehman Aggregate Index Fund. The return from each tranche was compared to the Lehman Aggregate Index during that tranche

# Scope of Ohio BWC Performance Transition

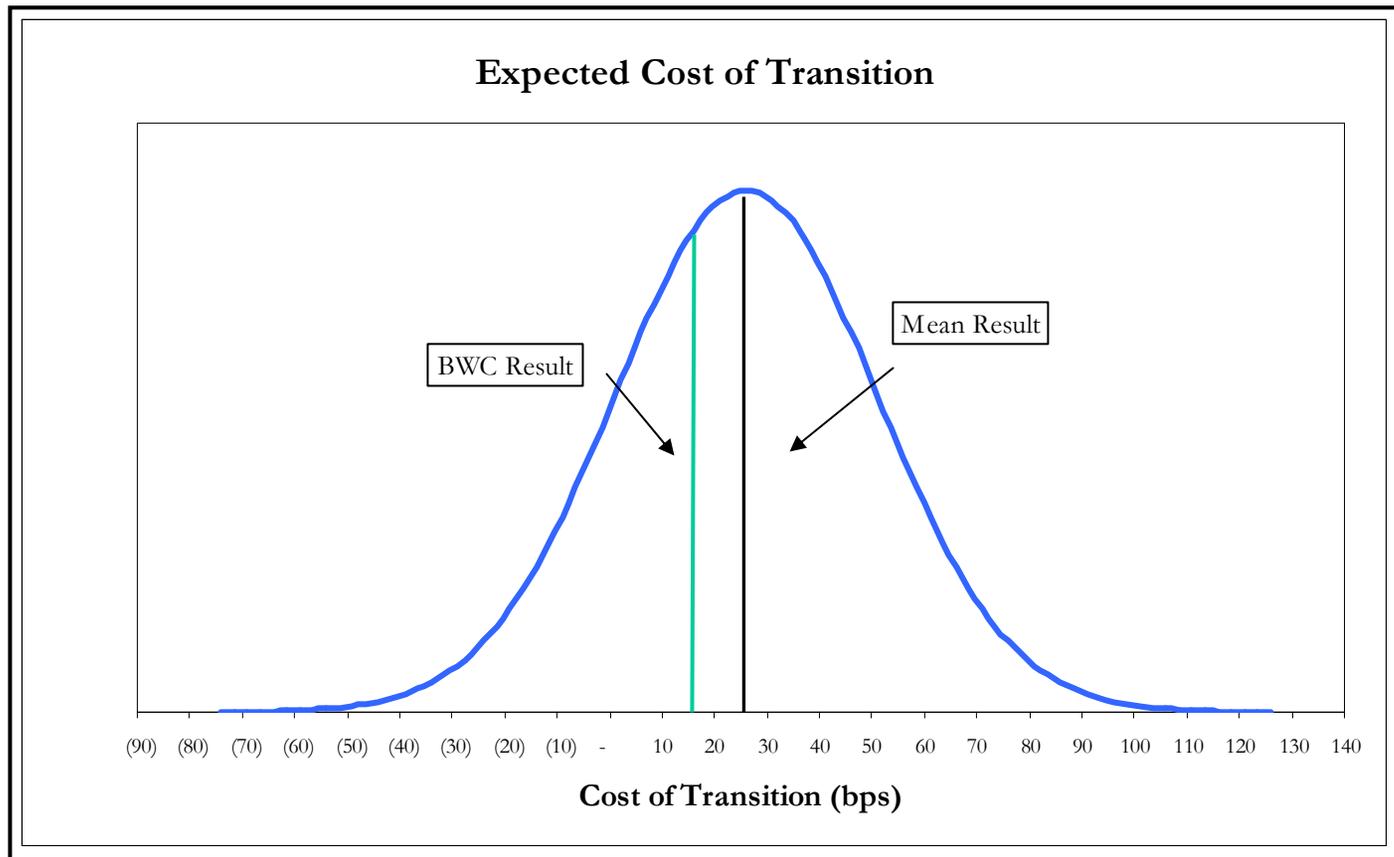
- > \$15 billion transition would have ranked Ohio BWC as State Street's third largest transition in 2005 and eight largest all time
- > An average transition for State Street has the following characteristics:

|                         | Average           | Ohio BWC          |
|-------------------------|-------------------|-------------------|
| Size                    | \$462 Million     | \$15 Billion      |
| Turnover Ex<br>In-kinds | \$674 Million     | \$27.2 Billion    |
| Costs*                  | 24.2 basis points | 17.3 basis points |
| Timeframe               | 3 Days            | 3 Months          |

\* Transition Costs defined on Page 9

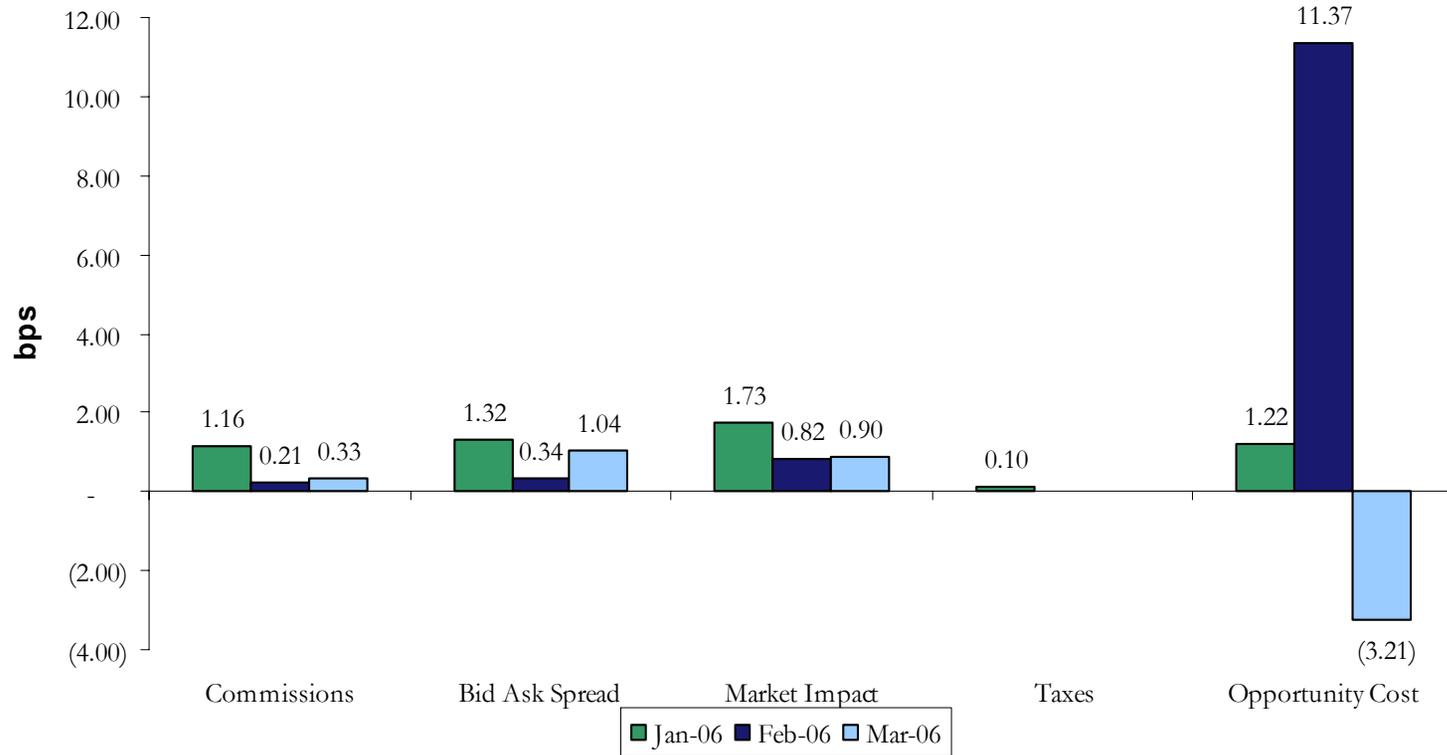
# Result of SSGM Transition

> Distribution of expected Results are below



> Expected cost prior to the start of the transition was 26 basis points +/- 44 basis points for opportunity cost

# Total Costs Breakdown by Month



# Total Transition Results

| Transition Tranche | Starting Value    | Transition Return | Lehman Agg Return | T-Standard Costs |
|--------------------|-------------------|-------------------|-------------------|------------------|
| Tranche 1          | \$ 1,258,039,781  | -0.19%            | -0.53%            | -0.34%           |
| Tranche 2          | \$ 2,915,354,040  | -1.17%            | -0.50%            | 0.67%            |
| Tranche 3          | \$ 1,581,504,440  | -0.72%            | -0.95%            | -0.23%           |
| Tranche 4          | \$ 1,375,417,466  | 0.31%             | -0.23%            | -0.54%           |
| Tranche 5          | \$ 6,921,464,572  | -0.35%            | -0.04%            | 0.31%            |
| Tranche 6          | \$ 1,317,239,711  | 0.47%             | 0.54%             | 0.07%            |
| Totals             | \$ 15,369,020,010 | -0.40%            | -0.23%            | 0.17%            |

# Trading by Execution Method

| Execution Method           | Market Values - Buys | Market Values - Sells | %      |
|----------------------------|----------------------|-----------------------|--------|
| Fixed Income In-Kinds      | \$ 4,053,267,518     | \$ 4,053,267,518      | 23.0%  |
| Internal Cross Trades      | \$ -                 | \$ 2,798,167,381      | 7.9%   |
| External Cross Trades      | \$ 591,606,266       | \$ 2,355,673,857      | 8.4%   |
| Equity Market Trades       | \$ -                 | \$ 1,980,665,299      | 5.6%   |
| Fixed Income Market Trades | \$ 12,985,718,616    | \$ 6,444,031,465      | 55.1%  |
| Total Trading              | \$ 17,630,592,400    | \$ 17,631,805,520     | 100.0% |

# Fixed Income Trading by Broker

| Broker                     | Tranche 1        | Tranche 2        | Tranche 3        | Tranche 4        | Tranche 5        | Tranche 6        | Totals            |
|----------------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|
| Bank of America            | \$ 3,774,101     | \$ 40,278,359    | \$ 15,480,923    | \$ 234,347,769   | \$ 130,331,428   | \$ 5,729,617     | \$ 429,942,197    |
| Bear Stearns               | \$ -             | \$ -             | \$ -             | \$ -             | \$ 910,795       | \$ -             | \$ 910,795        |
| Citigroup                  | \$ 24,080,455    | \$ 357,251,924   | \$ 66,298,904    | \$ 230,078,556   | \$ 908,826,955   | \$ 14,686,348    | \$ 1,601,223,141  |
| Countrywide                | \$ -             | \$ -             | \$ -             | \$ 11,876,171    | \$ 46,724,039    | \$ -             | \$ 58,600,210     |
| Credit Suisse First Boston | \$ -             | \$ -             | \$ -             | \$ -             | \$ 2,038,573     | \$ -             | \$ 2,038,573      |
| Cross Trades               | \$ -             | \$ 285,859,630   | \$ -             | \$ 217,219,897   | \$ 88,526,739    | \$ -             | \$ 591,606,266    |
| Deutsche Bank              | \$ 75,796,068    | \$ 39,173,862    | \$ 18,932,850    | \$ 42,298,799    | \$ 166,310,014   | \$ 116,212,429   | \$ 458,724,022    |
| Eastern Bank               | \$ -             | \$ -             | \$ -             | \$ -             | \$ 63,049,740    | \$ -             | \$ 63,049,740     |
| First Albany               | \$ -             | \$ -             | \$ -             | \$ -             | \$ 87,713,623    | \$ 2,515,623     | \$ 90,229,246     |
| FTN                        | \$ 443,329,221   | \$ 430,196,347   | \$ 193,756,130   | \$ 352,952,535   | \$ 530,485,588   | \$ 304,235,830   | \$ 2,254,955,651  |
| Goldman Sachs              | \$ 18,527,488    | \$ 10,545,319    | \$ 13,767,567    | \$ 66,803,679    | \$ 441,559,733   | \$ 29,802,093    | \$ 581,005,880    |
| HSBC                       | \$ -             | \$ -             | \$ 731,246       | \$ 8,081,451     | \$ 16,028,996    | \$ -             | \$ 24,841,693     |
| Jefferies                  | \$ 35,117,505    | \$ 145,031,043   | \$ 66,754,468    | \$ 19,754,725    | \$ 227,553,117   | \$ 14,692,702    | \$ 508,903,559    |
| JPM                        | \$ 631,405       | \$ -             | \$ -             | \$ -             | \$ 334,242,210   | \$ 13,141,986    | \$ 348,015,601    |
| KBW                        | \$ 5,222,000     | \$ 35,966,528    | \$ 28,812,433    | \$ 11,531,130    | \$ 217,930,679   | \$ 120,464,267   | \$ 419,927,037    |
| Lehman                     | \$ 1,160,466,735 | \$ 1,192,619,905 | \$ 499,567,177   | \$ 814,514,364   | \$ 700,033,143   | \$ 273,757,770   | \$ 4,640,959,095  |
| Merrill Lynch              | \$ 831,696,378   | \$ 1,214,177,473 | \$ 763,702,880   | \$ 1,067,975,207 | \$ 1,336,511,283 | \$ 187,300,759   | \$ 5,401,363,980  |
| Morgan Keegan              | \$ -             | \$ -             | \$ -             | \$ -             | \$ 557,643       | \$ 7,850,716     | \$ 8,408,359      |
| Morgan Stanley             | \$ 84,947,619    | \$ 39,739,585    | \$ -             | \$ -             | \$ -             | \$ -             | \$ 124,687,205    |
| PRS Group                  | \$ -             | \$ -             | \$ -             | \$ -             | \$ 2,827,588     | \$ -             | \$ 2,827,588      |
| Raymond James              | \$ -             | \$ -             | \$ -             | \$ -             | \$ 313,593       | \$ -             | \$ 313,593        |
| Royal Bank of Canada       | \$ 26,231,844    | \$ 123,695,679   | \$ 26,440,488    | \$ 31,905,579    | \$ 46,320,183    | \$ -             | \$ 254,593,774    |
| UBS                        | \$ 165,769,937   | \$ 510,981,257   | \$ 374,866,438   | \$ 129,831,450   | \$ 776,960,109   | \$ 171,983,866   | \$ 2,130,393,057  |
| Vining Sparks              | \$ -             | \$ -             | \$ -             | \$ -             | \$ 6,107,929     | \$ 17,728,156    | \$ 23,836,084     |
| Totals                     | \$ 2,875,590,757 | \$ 4,425,516,912 | \$ 2,069,111,504 | \$ 3,239,171,312 | \$ 6,131,863,700 | \$ 1,280,102,162 | \$ 20,021,356,347 |

\* Includes External Cross Trades – Buys and Fixed Income Market Trades – Buys and Sells

# Transition Costs – T Standard

- > Cost of a transition is measured by comparing the actual performance of the transition portfolio versus the target portfolio (Lehman Aggregate Index). Cost calculation is known as implementation shortfall or the T-Standard
- > Costs are attributed to the following categories:
  - > Commissions – The explicit charges by the transition manager for managing the event and accessing the security markets
  - > Bid Ask Spread – the difference between the bid and offer for a security
  - > Market Impact – The cost of demanding/supplying liquidity over a small timeframe
  - > Taxes – Certain countries impose stamp taxes on buy and/or sell transactions
  - > Opportunity Costs – The timing costs associated with executing over a long timeframe. Timing costs measure the difference between the actual portfolio and the target portfolio.

# Total Transaction Costs Breakdown

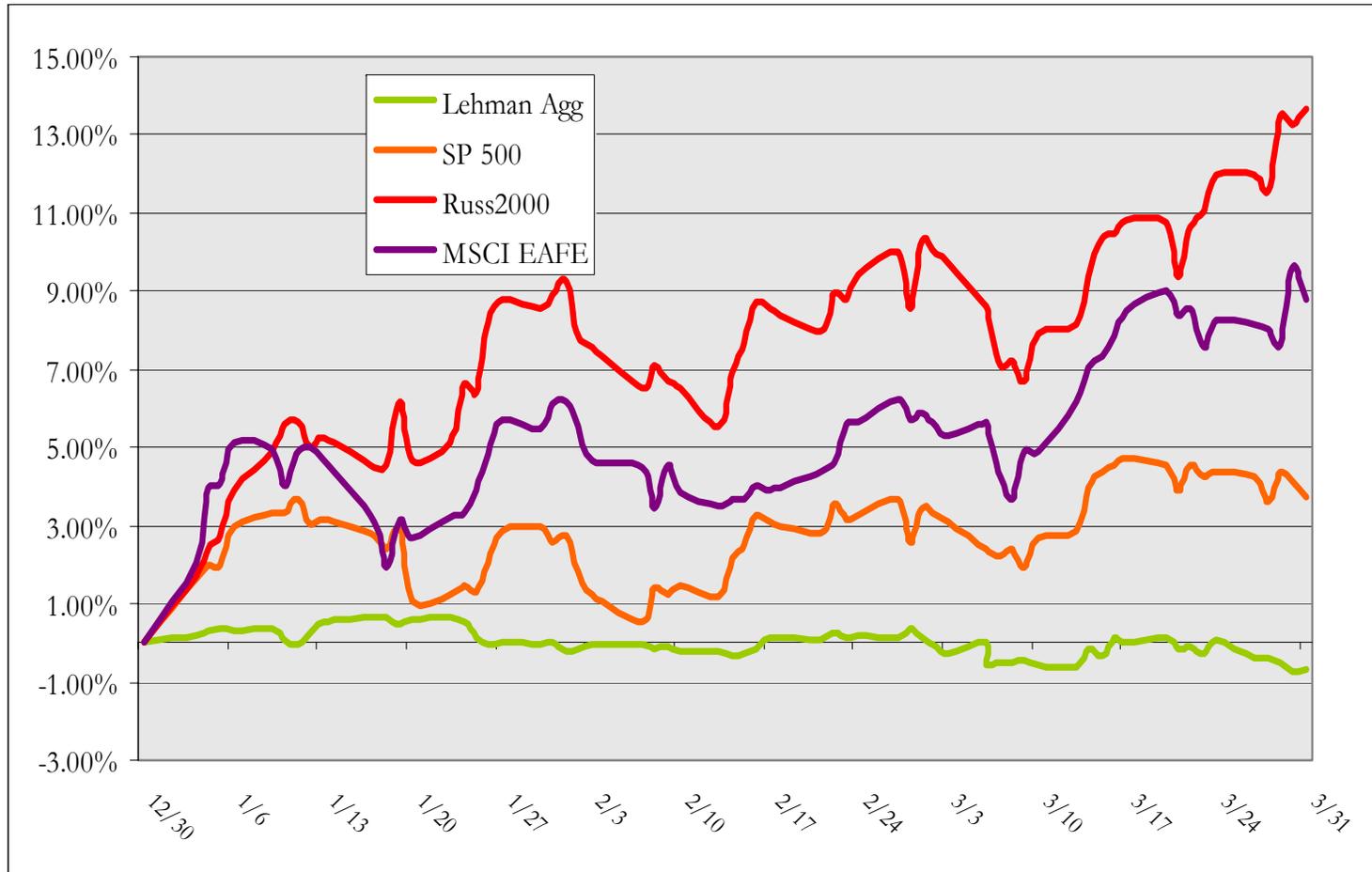
- > Of these commissions costs, \$1,400,993 are from the equity trades, and the remainder, \$1,223,028 are from the bonds that were traded

| Source of Cost     | Cost                 | bps          |
|--------------------|----------------------|--------------|
| Commissions        | \$ 2,624,021         | 1.71         |
| Bid Ask Spread     | \$ 4,141,548         | 2.70         |
| Market Impact      | \$ 5,297,567         | 3.45         |
| Taxes              | \$ 151,449           | 0.10         |
| Opportunity Costs  | \$ 14,399,433        | 9.38         |
| <b>Total Costs</b> | <b>\$ 26,614,018</b> | <b>17.33</b> |

# Execution Methods

- > Fixed Income In kinds – The securities that were taken directly from the Active Fixed Income managers into the Passive Lehman Aggregate Index Fund
- > Internal Cross Trades – Equity trades that were crossed with other SSgA Commingled funds. These trades are done at Zero Commissions
- > External Cross Trades – Trades that were crossed on Electronic Crossing Networks (ECNs) or with other transition clients. These trades were done at 2cps for US equities, 4bps for Non-US equities, and 0.75bps for all Bonds
- > Equity Market Trades – Trades that were executed with State Street Global Markets as the broker. These trades were done at 2cps for US equities, 4bps for Non-US equities
- > Fixed Income Market Trades – Trades that were executed with the various brokers on the breakdown by broker report. These trades were done at 0.75bps for all Bonds

# Overall Market Performance over Transition Period



# Greenwich Associates - Transition Industry Rankings

## All Transition Rankings

| Transition Manager | Market Share |
|--------------------|--------------|
| State Street       | 30%          |
| Northern Trust     | 11%          |
| BGI                | 8%           |
| Mellon             | 8%           |
| BNY                | 7%           |
| Russell            | 7%           |
| JP Morgan          | 3%           |
| Deutsche Bank      | 2%           |

## Transitions greater than \$100 million

| Transition Manager | Market Share |
|--------------------|--------------|
| State Street       | 33%          |
| BGI                | 12%          |
| Northern Trust     | 11%          |
| Russell            | 9%           |
| BNY                | 5%           |
| Russell            | 7%           |
| Mellon             | 4%           |

# State Street Transition Management Experience

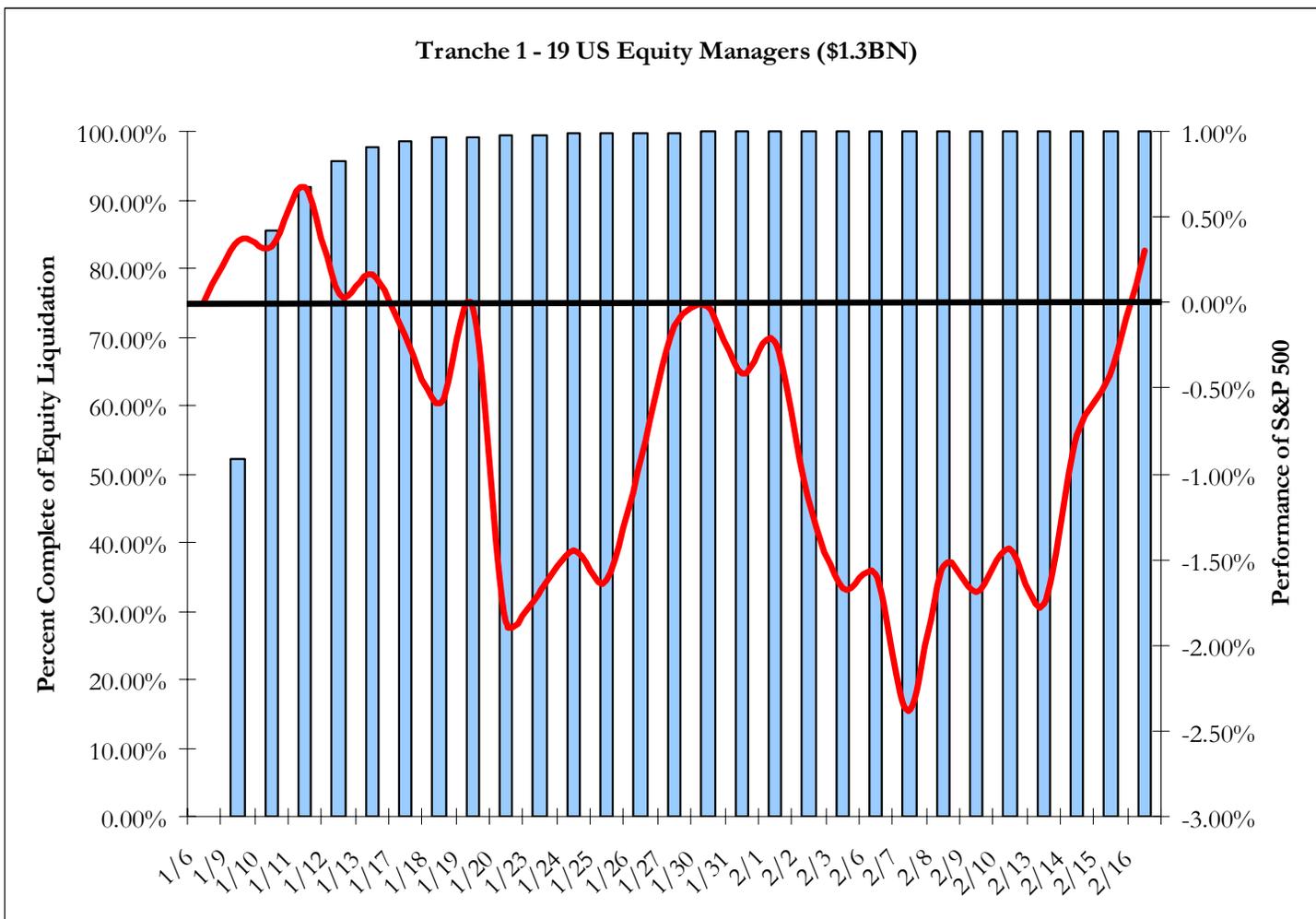
- > Managed 837 portfolio transitions in 2005, Over \$387 billion in transition assignments
- > Offering Transition Management services since 1978
- > 31% growth in transition assets over five years
- > 81 dedicated professionals to global transition management
- > Transitioned assets for 42 of P&I Top 100 pension plans in 2005
- > Global operation – transition desks in Europe, North America and Asia
- > 30% global transition market share – next closest competitor was 11%

# Tranche 1 – Tranche 6 Detail

# Equity Transitions Tranche 1 – Tranche 4

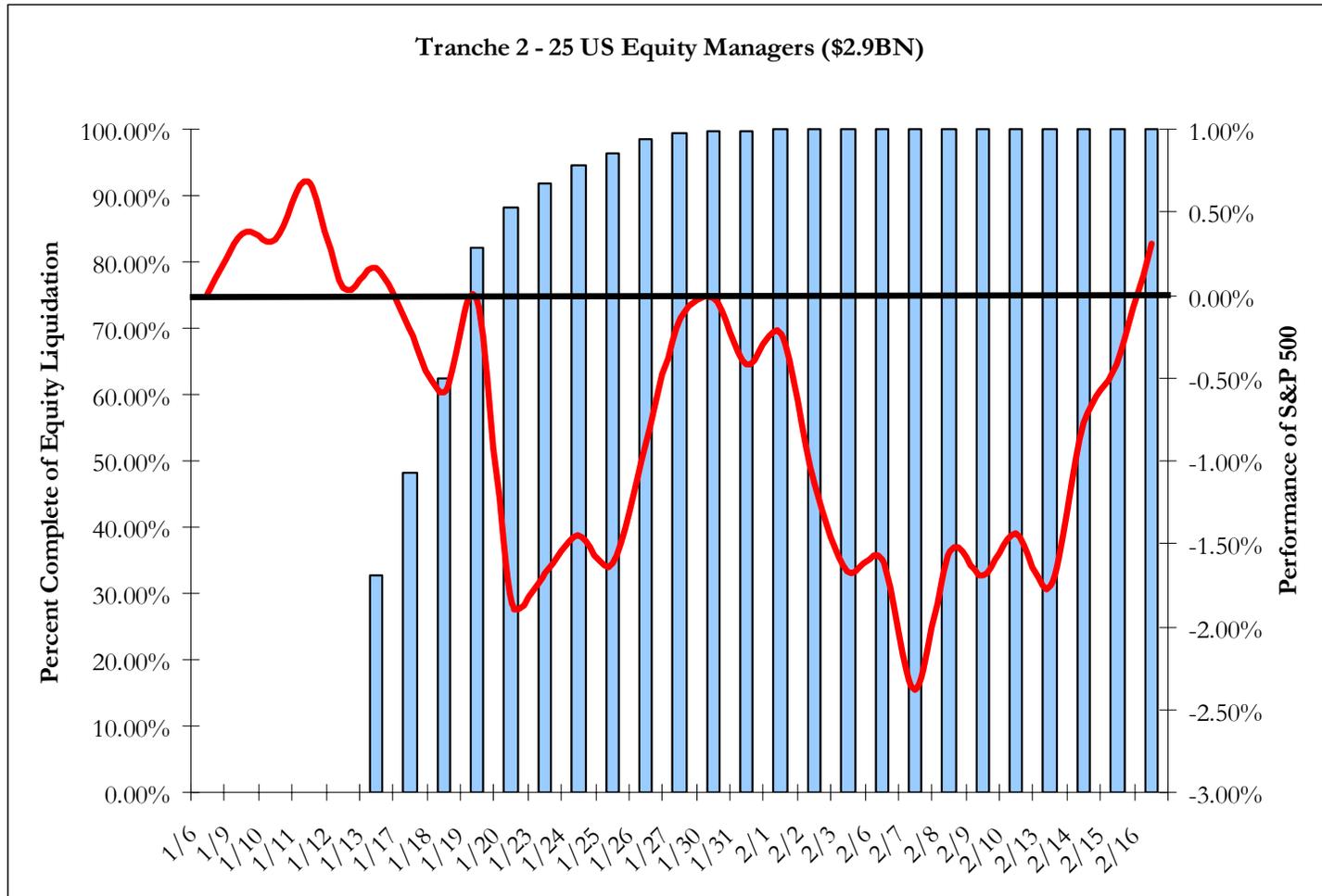
- > State Street began selling equities on the first trading day and began buying very liquid fixed income products (US Treasuries and Agencies)
- > As the equities were much more liquid than the bonds, State Street bought more US Treasuries and Agencies than were needed in the Lehman Aggregate Index to stay exposed to the fixed income market
- > State Street then sold these US Treasuries and Agencies as they purchased corporate bonds, mortgages, and other constituents of the Lehman Aggregate Index
- > Positive performance of the equity market during the selling phase of equities translated into out-performance in Tranche 1 (MV of \$1.3Bn) total savings of 34bps, Tranche 3 (MV of \$1.6Bn) total savings of 22bps, and Tranche 4 (MV of \$1.4Bn) total savings of 53bps
- > Negative equity market performance during Tranche 2 (MV of \$2.9Bn) led to costs of 68bps

# Market Performance During Equity Selling

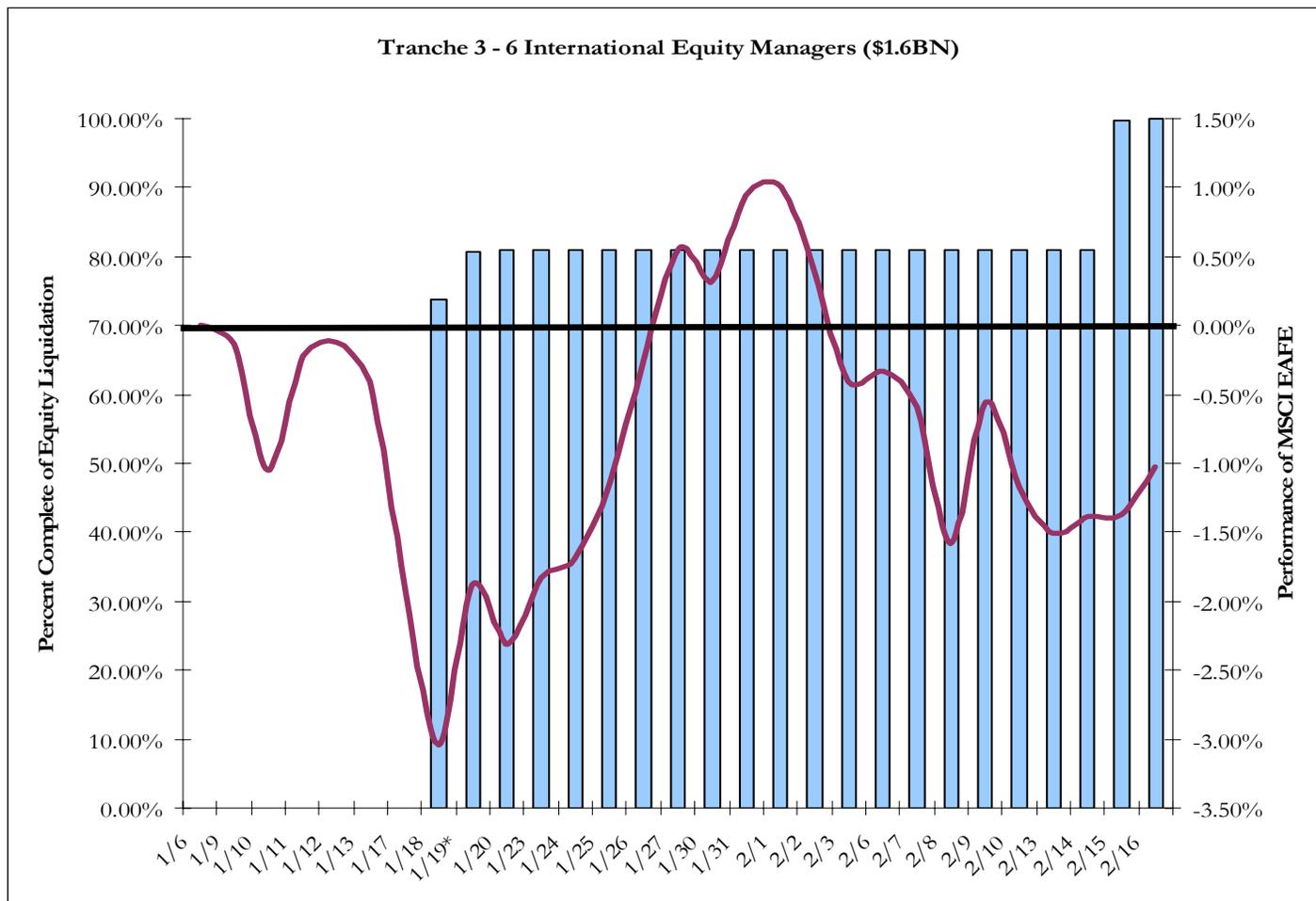


\*Blue Bars = Bond Exposure, not completion of total transition

# Market Performance During Equity Selling

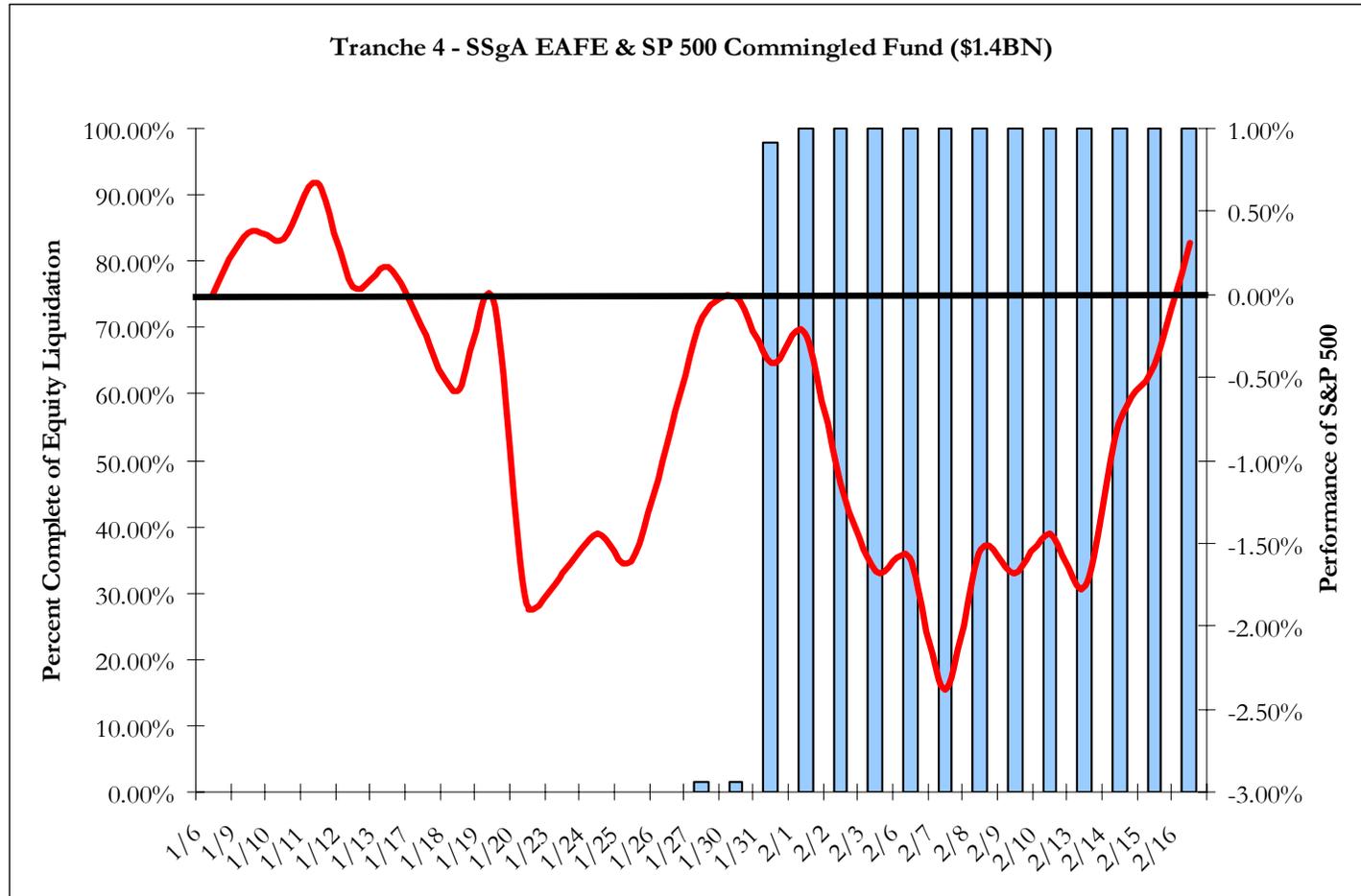


# Market Performance During Equity Selling



\* Jan 18<sup>th</sup> – Tokyo Stock Exchange halts trading due to overwhelming market sell-off

# Market Performance During Equity Selling



# Fixed Income Transition Tranches 5 & 6

- > Maximize the in-kind transfers from the 19 active fixed income portfolios to the passive State Street Lehman Aggregate Index Fund
- > Since there are over 6500 bonds in the Lehman Aggregate Index fund, an optimized list of bonds to be purchased after in-kinds was developed to complete exposures
- > Eliminated duration and curve risk at the start of the transition by purchasing Lehman Aggregate duration matched US Treasuries
- > Slowly worked out of overweight sectors and into underweight sectors

**4123-17-02 Basic or manual rate.**

(A) The “basic or manual rate” is hereby expressed as the unit of premium per one hundred dollars of payroll for accident and disease coverage.

(B) Succeeding employers -- experience.

(1) Where one legal entity, not having coverage in the most recent experience period, wholly succeeds another legal entity in the operation of a business, his or its rate shall be based on the predecessor’s experience within the most recent experience period.

(2) Where a legal entity having an established coverage or having had experience in the most recent experience period wholly succeeds one or more legal entities having established coverage or having had experience in the most recent experience period and at least one of the entities involved has a merit rating experience, the experience of all the involved entities shall be combined to establish the rate of the successor.

(3) Where a legal entity succeeds in the operation of a portion of a business of one or more legal entities having an established coverage or having had experience in the most recent experience period, the successor’s rate shall be based on the predecessor’s experience within the most recent experience period, pertaining to the portion of the business acquired by the successor.

Pursuant to this rule, the bureau shall provide to the parties to the transfer of experience the necessary forms and instructions to complete the transfer of the appropriate payrolls and claims. Each party to the transfer of experience shall sign the completed forms. The bureau shall review the completed forms and if any questions arise, the bureau may conduct a premium audit on each party’s risk account.

(4) When any combination or transfer of experience is indicated under any of the provisions of this rule, the effective date of such combination or transfer shall be the beginning date of the next following payroll reporting period. In cases where an entity not having coverage wholly succeeds another entity or in cases where the date of succession is determined to be January 1 or July 1, the experience of the predecessor shall be transferred to the successor-employer effective as of the actual date of succession.

(5) For an out of state employer purchasing an existing Ohio operation, the bureau may use the out of state experience of the employer as a factor in determining the employer’s experience.

(C) Succeeding employers -- risk coverage transfer.

(1) Transfer of active risk coverage shall be effective only when an agreement between the predecessor and the successor to transfer is filed with the bureau. Whenever one employer succeeds another employer in the operation of a business in whole or in part, the successor shall notify the bureau of the succession. Where one employer wholly

succeeds another in the operation of a business, the bureau shall transfer the predecessor's rights and obligations under the workers' compensation law. The successor shall be credited with any **existing** credits of the predecessor, including the advance premium security deposit of the predecessor. **This paragraph shall apply where an employer wholly succeeds another employer in the operation of a business on or after September 1, 2006.**

~~(2) When an active risk coverage is transferred, the successor shall assume the predecessor's obligations under the workers' compensation law and shall be credited with any existing premium credits including advance premium security deposit of the predecessor.~~

~~(3) Transfer of an active risk coverage may be retroactive to the date of succession.~~

~~(4)~~(3) The successor to an active risk must preserve the predecessor's payroll records for at least the five years prior to preceding the date of ~~transfer~~ succession.

~~(5)~~(4) A legal entity may be assigned only one risk. Where a legal entity succeeds one or more risks, he or it shall be assigned a single risk designation.

**4123-17-17 Auditing and adjustment of payroll reports.**

(A) Every employer amenable to the workers' compensation law shall keep, preserve and maintain complete records showing in detail all expenditures for payroll and the division of such expenditures in the various divisions and classifications of the employer's business. Such records shall be preserved for at least five years after the respective time of the transaction upon which such records are based.

(B) All books, records, papers, and documents reflecting upon the amount and the classifications of the payroll expenditures of an employer shall be kept available for inspection at any time by the bureau of workers' compensation or any of its assistants, agents, representatives or employees. If any private fund, county, or public employer taxing district employer fails to keep, preserve and maintain such records and other information reflecting upon payroll expenditures, or fails to make such records and information available for inspection, or fails to furnish the bureau or any of its assistants, agents, representatives or employees, full and complete information in reference to expenditures for payroll when such information is requested, the bureau may determine upon such information as is available to it the amount of premium due from the employer and its findings shall constitute prima facie evidence of the amount of premium due from the employer.

(C) The bureau shall have the right at all times by its members, deputies, referees, traveling auditors, inspectors or assistants to inspect, examine or audit any or all books, records, papers, documents and payroll of private fund, county, or public employer taxing district employers for the purpose of verifying the correctness of reports made by employers of wage expenditures as required by law and rule 4123-17-14 of the Administrative Code. The bureau shall also have the right to make adjustments as to classifications, allocation of wage expenditures to classifications, amount of wage expenditures, premium rates or amount of premium. No adjustments, however, shall be made in an employer's account which result in reducing any amount of premium below the amount of contributions made by the employer to the fund for the periods involved, except in reference to adjustments for the semi-annual or adjustment periods ending within twenty-four months immediately prior to the beginning of the current payroll reporting period. Except as provided in rule 4123-17-28 of the Administrative Code, no adjustments shall be made in an employer's account which result in increasing any amount of premium above the amount of contributions made by the employer to the fund for the periods involved, except in reference to adjustments for the semi-annual or adjustment periods ending within twenty-four months immediately prior to the beginning of the current payroll reporting period. The twenty-four month period shall be determined by the date when such errors affecting the reports and the premium are brought to the attention of the bureau by an employer through written application for adjustment or from the date that the bureau provides written notice to the employer of the bureau's intent to inspect, examine, or audit the employer's records.

(D) Experience will not be recalculated unless there is an adjustment of an employer's account due to a reclassification of operations. In such event the experience will be recalculated for the same period as the adjustment of the employer's account.

(E) Where the bureau has assigned two or more classifications for an employer's operations, the employer shall keep an appropriate record showing a correct and verifiable segregation of all payroll into such classifications. ~~The employer shall prorate all indirect labor payroll and report same under the operating classifications (manual 8810, clerical office, and manual 8747, traveling salesman, are not operating classifications) assigned.~~ If it is found that the employer has failed to keep such record, the part of the payroll which cannot be reasonably determined by the bureau as belonging to any other classification shall be placed by the bureau under the assigned classification having the highest rate, and the employer will be assessed premium accordingly. To such payroll as is expended after the employer has been notified of these requirements and which is not segregated as herein provided, the highest rate of the employer's assigned classifications shall be applied.

History: Prior Effective Dates: 7/1/62, 12/14/76, 12/11/92, 1/1/02; 10/01/05  
Promulgated Under: 111.15  
Statutory Authority: 4121.12, 4121.121, 4121.30  
Rule Amplifies: 4123.24, 4123.26, 4123.29, 4123.34, 4123.41

**4123-17-26 Minimum annual administrative charge.**

The administrator of workers' compensation, with the advice and consent of the workers' compensation oversight commission, has authority to calculate contributions to the administrative cost fund by employers pursuant to sections 4121.121, 4123.341, and 4123.342 of the Revised Code. The administrator hereby establishes that in cases where an employer reports no payroll or calculates total premium due of less than ~~ten dollars~~ the minimum administrative charge for a payroll reporting period the employer shall pay a minimum annual administrative charge at a rate of ~~ten~~ fifty dollars each six months or - ~~twenty~~ one hundred dollars annually.

**4123-17-30 Payroll limitations for corporate officers, sole proprietors, an individual incorporated as a corporation with no employees, members of partnerships, and family farm corporations.**

The administrator of workers' compensation, with the advice and consent of the workers' compensation oversight commission, has authority to establish the total payroll reportable by employers pursuant to sections 4121.12 and 4123.29 of the Revised Code. The administrator hereby sets the total payroll limitations for executive officers of corporations, sole proprietors, members of partnerships, an individual incorporated as a corporation with no employees, and officers of family farm corporations as provided in this rule.

(A) For executive officers of corporations, the payroll reportable shall be the actual payroll received by the executive officers of the corporation, but not less than an average weekly wage equal to fifty per cent of the statewide average weekly wage as defined in division (C) of section 4123.62 of the Revised Code, but shall not exceed an average of eight hundred dollars (\$800.00) per week, or twenty thousand, eight hundred dollars (\$20,800.00) semiannually, or an aggregate of forty one thousand, six hundred dollars (\$41,600.00) annually weekly wage equal to one hundred fifty per cent of the statewide average weekly wage as defined in division (C) of section 4123.62 of the Revised Code.

(B) For sole proprietors, members of partnerships, an individual incorporated as a corporation with no employees, and officers of family farm corporations who elect to include themselves as ~~employers~~ employees under the workers' compensation act and comply with rule 4123-17-07 of the Administrative Code, the payroll reportable shall be the actual payroll received by the sole proprietor, member of partnership, an individual incorporated as a corporation, and officer of a family farm corporation, but not less than an average of one hundred dollars (\$100.00) per week, or two thousand, six hundred dollars (\$2,600.00) semiannually weekly wage equal to fifty per cent of the statewide average weekly wage as defined in division (C) of section 4123.62 of the Revised Code, nor more than an average of eight hundred dollars (\$800.00) per week, or twenty thousand, eight hundred dollars (\$20,800.00) semiannually, or an aggregate of forty one thousand, six hundred dollars (\$41,600.00) annually weekly wage equal to one hundred fifty per cent of the statewide average weekly wage as defined in division (C) of section 4123.62 of the Revised Code.

(C) This rule shall be effective for all payroll reportable on or after ~~December 31, 2004~~ July 1, 2006.

**4123-17-30 Payroll limitations for corporate officers, sole proprietors, an individual incorporated as a corporation with no employees, members of partnerships, and family farm corporations.**

The administrator of workers' compensation, with the advice and consent of the workers' compensation oversight commission, has authority to establish the total payroll reportable by employers pursuant to sections 4121.12 and 4123.29 of the Revised Code. The administrator hereby sets the total payroll limitations for executive officers of corporations, sole proprietors, members of partnerships, an individual incorporated as a corporation with no employees, and officers of family farm corporations as provided in this rule.

(A) For executive officers of corporations, the payroll reportable shall be the actual payroll received by the executive officers of the corporation, but not less than an average weekly wage equal to fifty per cent of the statewide average weekly wage as defined in division (C) of section 4123.62 of the Revised Code, but shall not exceed an average of eight hundred dollars (\$800.00) per week, or twenty thousand, eight hundred dollars (\$20,800.00) semiannually, or an aggregate of forty one thousand, six hundred dollars (\$41,600.00) annually weekly wage equal to one hundred fifty per cent of the statewide average weekly wage as defined in division (C) of section 4123.62 of the Revised Code. **The minimum reportable payroll for executive officers of corporations shall apply only to active executive officers of corporations. As used in this rule, "active executive officer" means an officer engaged in the decision making and day to day operations of the corporation.**

(B) For sole proprietors, members of partnerships, an individual incorporated as a corporation with no employees, and officers of family farm corporations who elect to include themselves as ~~employers~~ employees under the workers' compensation act and comply with rule 4123-17-07 of the Administrative Code, the payroll reportable shall be the actual payroll received by the sole proprietor, member of partnership, an individual incorporated as a corporation, and officer of a family farm corporation, but not less than an average of one hundred dollars (\$100.00) per week, or two thousand, six hundred dollars (\$2,600.00) semiannually weekly wage equal to fifty per cent of the statewide average weekly wage as defined in division (C) of section 4123.62 of the Revised Code, nor more than an average of eight hundred dollars (\$800.00) per week, or twenty thousand, eight hundred dollars (\$20,800.00) semiannually, or an aggregate of forty one thousand, six hundred dollars (\$41,600.00) annually weekly wage equal to one hundred fifty per cent of the statewide average weekly wage as defined in division (C) of section 4123.62 of the Revised Code.

(C) This rule shall be effective for all payroll reportable on or after December 31, 2004 July 1, 2006.

**Appendix A**  
**Table B**  
**Tier I**

Retrospective Rating  
Minimum Premium Percentages  
Private Employer - Hazard Group B

| Premium Range           | \$100,000<br>Claim Limit |      | \$200,000<br>Claim Limit |      | \$300,000<br>Claim Limit |      | \$400,000<br>Claim Limit |      | No<br>Claim Limit |      |
|-------------------------|--------------------------|------|--------------------------|------|--------------------------|------|--------------------------|------|-------------------|------|
|                         | 150%                     | 200% | 150%                     | 200% | 150%                     | 200% | 150%                     | 200% | 150%              | 200% |
| 25,000 - 29,999         | 0.91                     | 0.79 | 0.91                     | 0.79 | 0.91                     | 0.79 | 0.91                     | 0.79 | 0.91              | 0.79 |
| 30,000 - 34,999         | 0.88                     | 0.76 | 0.88                     | 0.76 | 0.88                     | 0.76 | 0.88                     | 0.76 | 0.88              | 0.76 |
| 35,000 - 39,999         | 0.86                     | 0.74 | 0.86                     | 0.74 | 0.86                     | 0.74 | 0.86                     | 0.74 | 0.86              | 0.74 |
| 40,000 - 44,999         | 0.84                     | 0.71 | 0.84                     | 0.71 | 0.84                     | 0.71 | 0.84                     | 0.71 | 0.84              | 0.71 |
| 45,000 - 49,999         | 0.82                     | 0.69 | 0.82                     | 0.69 | 0.82                     | 0.69 | 0.82                     | 0.69 | 0.82              | 0.69 |
| 50,000 - 54,999         | 0.80                     | 0.67 | 0.80                     | 0.67 | 0.80                     | 0.67 | 0.80                     | 0.67 | 0.80              | 0.67 |
| 55,000 - 59,999         | 0.79                     | 0.66 | 0.79                     | 0.66 | 0.79                     | 0.66 | 0.79                     | 0.66 | 0.79              | 0.66 |
| 60,000 - 64,999         | 0.78                     | 0.64 | 0.78                     | 0.64 | 0.78                     | 0.64 | 0.78                     | 0.64 | 0.78              | 0.64 |
| 65,000 - 69,999         | 0.76                     | 0.62 | 0.76                     | 0.62 | 0.76                     | 0.62 | 0.76                     | 0.62 | 0.76              | 0.62 |
| 70,000 - 74,999         | 0.75                     | 0.61 | 0.75                     | 0.61 | 0.75                     | 0.61 | 0.75                     | 0.61 | 0.75              | 0.61 |
| 75,000 - 79,999         | 0.74                     | 0.60 | 0.74                     | 0.60 | 0.74                     | 0.60 | 0.74                     | 0.60 | 0.74              | 0.60 |
| 80,000 - 84,999         | 0.73                     | 0.60 | 0.73                     | 0.59 | 0.73                     | 0.59 | 0.73                     | 0.59 | 0.73              | 0.59 |
| 85,000 - 89,999         | 0.71                     | 0.59 | 0.71                     | 0.57 | 0.71                     | 0.57 | 0.71                     | 0.57 | 0.71              | 0.57 |
| 90,000 - 94,999         | 0.71                     | 0.59 | 0.71                     | 0.57 | 0.71                     | 0.57 | 0.71                     | 0.57 | 0.71              | 0.57 |
| 95,000 - 99,999         | 0.69                     | 0.58 | 0.69                     | 0.55 | 0.69                     | 0.55 | 0.69                     | 0.55 | 0.69              | 0.55 |
| 100,000 - 112,499       | 0.68                     | 0.58 | 0.68                     | 0.54 | 0.68                     | 0.54 | 0.68                     | 0.54 | 0.68              | 0.54 |
| 112,500 - 124,999       | 0.66                     | 0.57 | 0.66                     | 0.52 | 0.66                     | 0.52 | 0.66                     | 0.52 | 0.66              | 0.52 |
| 125,000 - 137,499       | 0.64                     | 0.56 | 0.64                     | 0.50 | 0.64                     | 0.50 | 0.64                     | 0.50 | 0.64              | 0.50 |
| 137,500 - 149,999       | 0.63                     | 0.56 | 0.62                     | 0.49 | 0.62                     | 0.49 | 0.62                     | 0.49 | 0.62              | 0.49 |
| 150,000 - 162,499       | 0.62                     | 0.55 | 0.61                     | 0.48 | 0.61                     | 0.47 | 0.61                     | 0.47 | 0.61              | 0.47 |
| 162,500 - 174,999       | 0.62                     | 0.55 | 0.60                     | 0.47 | 0.60                     | 0.46 | 0.60                     | 0.46 | 0.60              | 0.46 |
| 175,000 - 187,499       | 0.61                     | 0.55 | 0.58                     | 0.46 | 0.58                     | 0.45 | 0.58                     | 0.45 | 0.58              | 0.45 |
| 187,500 - 199,999       | 0.60                     | 0.55 | 0.57                     | 0.46 | 0.57                     | 0.44 | 0.57                     | 0.44 | 0.57              | 0.44 |
| 200,000 - 224,999       | 0.60                     | 0.54 | 0.56                     | 0.46 | 0.56                     | 0.43 | 0.56                     | 0.43 | 0.56              | 0.43 |
| 225,000 - 249,999       | 0.59                     | 0.54 | 0.54                     | 0.44 | 0.54                     | 0.41 | 0.54                     | 0.41 | 0.54              | 0.41 |
| 250,000 - 299,999       | 0.58                     | 0.54 | 0.52                     | 0.44 | 0.52                     | 0.41 | 0.52                     | 0.39 | 0.52              | 0.39 |
| 300,000 - 349,999       | 0.57                     | 0.54 | 0.50                     | 0.43 | 0.49                     | 0.39 | 0.49                     | 0.38 | 0.49              | 0.37 |
| 350,000 - 399,999       | 0.56                     | 0.53 | 0.49                     | 0.42 | 0.47                     | 0.38 | 0.47                     | 0.36 | 0.47              | 0.35 |
| 400,000 - 499,999       | 0.55                     | 0.53 | 0.47                     | 0.42 | 0.45                     | 0.37 | 0.44                     | 0.35 | 0.44              | 0.33 |
| 500,000 - 999,999       | 0.54                     | 0.53 | 0.44                     | 0.41 | 0.40                     | 0.36 | 0.39                     | 0.33 | 0.38              | 0.29 |
| 1,000,000 - 1,999,999   | 0.53                     | 0.53 | 0.42                     | 0.41 | 0.37                     | 0.35 | 0.34                     | 0.32 | 0.32              | 0.25 |
| 2,000,000 - 2,999,999   | 0.53                     | 0.53 | 0.41                     | 0.41 | 0.36                     | 0.35 | 0.33                     | 0.32 | 0.28              | 0.24 |
| 3,000,000 - 3,999,999   | 0.53                     | 0.53 | 0.41                     | 0.41 | 0.36                     | 0.35 | 0.33                     | 0.32 | 0.27              | 0.23 |
| 4,000,000 - 4,999,999   | 0.53                     | 0.53 | 0.41                     | 0.41 | 0.35                     | 0.35 | 0.32                     | 0.32 | 0.26              | 0.23 |
| 5,000,000 - 5,999,999   | 0.53                     | 0.53 | 0.41                     | 0.41 | 0.35                     | 0.35 | 0.32                     | 0.32 | 0.25              | 0.23 |
| 6,000,000 - 6,999,999   | 0.53                     | 0.53 | 0.41                     | 0.41 | 0.35                     | 0.35 | 0.32                     | 0.32 | 0.25              | 0.22 |
| 7,000,000 - 7,999,999   | 0.53                     | 0.53 | 0.41                     | 0.41 | 0.35                     | 0.35 | 0.32                     | 0.32 | 0.25              | 0.22 |
| 8,000,000 - 8,999,999   | 0.53                     | 0.53 | 0.41                     | 0.41 | 0.35                     | 0.35 | 0.32                     | 0.32 | 0.24              | 0.22 |
| 9,000,000 - 9,999,999   | 0.53                     | 0.53 | 0.41                     | 0.41 | 0.35                     | 0.35 | 0.32                     | 0.32 | 0.24              | 0.22 |
| 10,000,000 - 10,999,999 | 0.53                     | 0.53 | 0.41                     | 0.41 | 0.35                     | 0.35 | 0.32                     | 0.32 | 0.24              | 0.22 |
| 11,000,000 - 11,999,999 | 0.53                     | 0.53 | 0.41                     | 0.41 | 0.35                     | 0.35 | 0.32                     | 0.32 | 0.24              | 0.22 |
| 12,000,000 - 12,999,999 | 0.53                     | 0.53 | 0.41                     | 0.41 | 0.35                     | 0.35 | 0.32                     | 0.32 | 0.23              | 0.22 |

**Appendix A**  
**Table C**  
**Tier I**

Retrospective Rating  
Minimum Premium Percentages  
Private Employer - Hazard Group C

| Premium Range           | \$100,000<br>Claim Limit |      | \$200,000<br>Claim Limit |      | \$300,000<br>Claim Limit |      | \$400,000<br>Claim Limit |      | No<br>Claim Limit |      |
|-------------------------|--------------------------|------|--------------------------|------|--------------------------|------|--------------------------|------|-------------------|------|
|                         | 150%                     | 200% | 150%                     | 200% | 150%                     | 200% | 150%                     | 200% | 150%              | 200% |
| 25,000 - 29,999         | 0.87                     | 0.75 | 0.87                     | 0.75 | 0.87                     | 0.75 | 0.87                     | 0.75 | 0.87              | 0.75 |
| 30,000 - 34,999         | 0.85                     | 0.72 | 0.85                     | 0.72 | 0.85                     | 0.72 | 0.85                     | 0.72 | 0.85              | 0.72 |
| 35,000 - 39,999         | 0.83                     | 0.69 | 0.83                     | 0.69 | 0.83                     | 0.69 | 0.83                     | 0.69 | 0.83              | 0.69 |
| 40,000 - 44,999         | 0.80                     | 0.67 | 0.80                     | 0.67 | 0.80                     | 0.67 | 0.80                     | 0.67 | 0.80              | 0.67 |
| 45,000 - 49,999         | 0.78                     | 0.65 | 0.78                     | 0.65 | 0.78                     | 0.65 | 0.78                     | 0.65 | 0.78              | 0.65 |
| 50,000 - 54,999         | 0.77                     | 0.63 | 0.77                     | 0.63 | 0.77                     | 0.63 | 0.77                     | 0.63 | 0.77              | 0.63 |
| 55,000 - 59,999         | 0.75                     | 0.61 | 0.75                     | 0.61 | 0.75                     | 0.61 | 0.75                     | 0.61 | 0.75              | 0.61 |
| 60,000 - 64,999         | 0.73                     | 0.59 | 0.73                     | 0.59 | 0.73                     | 0.59 | 0.73                     | 0.59 | 0.73              | 0.59 |
| 65,000 - 69,999         | 0.72                     | 0.58 | 0.72                     | 0.58 | 0.72                     | 0.58 | 0.72                     | 0.58 | 0.72              | 0.58 |
| 70,000 - 74,999         | 0.71                     | 0.57 | 0.71                     | 0.57 | 0.71                     | 0.57 | 0.71                     | 0.57 | 0.71              | 0.57 |
| 75,000 - 79,999         | 0.70                     | 0.56 | 0.70                     | 0.56 | 0.70                     | 0.56 | 0.70                     | 0.56 | 0.70              | 0.56 |
| 80,000 - 84,999         | 0.69                     | 0.56 | 0.69                     | 0.55 | 0.69                     | 0.55 | 0.69                     | 0.55 | 0.69              | 0.55 |
| 85,000 - 89,999         | 0.67                     | 0.55 | 0.67                     | 0.54 | 0.67                     | 0.54 | 0.67                     | 0.54 | 0.67              | 0.54 |
| 90,000 - 94,999         | 0.66                     | 0.54 | 0.66                     | 0.52 | 0.66                     | 0.52 | 0.66                     | 0.52 | 0.66              | 0.52 |
| 95,000 - 99,999         | 0.65                     | 0.54 | 0.65                     | 0.51 | 0.65                     | 0.51 | 0.65                     | 0.51 | 0.65              | 0.51 |
| 100,000 - 112,499       | 0.64                     | 0.53 | 0.64                     | 0.50 | 0.64                     | 0.50 | 0.64                     | 0.50 | 0.64              | 0.50 |
| 112,500 - 124,999       | 0.62                     | 0.53 | 0.62                     | 0.48 | 0.62                     | 0.48 | 0.62                     | 0.48 | 0.62              | 0.48 |
| 125,000 - 137,499       | 0.61                     | 0.52 | 0.60                     | 0.47 | 0.60                     | 0.47 | 0.60                     | 0.47 | 0.60              | 0.47 |
| 137,500 - 149,999       | 0.59                     | 0.52 | 0.58                     | 0.45 | 0.58                     | 0.45 | 0.58                     | 0.45 | 0.58              | 0.45 |
| 150,000 - 162,499       | 0.59                     | 0.51 | 0.57                     | 0.44 | 0.57                     | 0.44 | 0.57                     | 0.44 | 0.57              | 0.44 |
| 162,500 - 174,999       | 0.58                     | 0.51 | 0.56                     | 0.44 | 0.56                     | 0.43 | 0.56                     | 0.43 | 0.56              | 0.43 |
| 175,000 - 187,499       | 0.57                     | 0.51 | 0.55                     | 0.43 | 0.55                     | 0.42 | 0.55                     | 0.42 | 0.55              | 0.42 |
| 187,500 - 199,999       | 0.56                     | 0.50 | 0.53                     | 0.42 | 0.53                     | 0.40 | 0.53                     | 0.40 | 0.53              | 0.40 |
| 200,000 - 224,999       | 0.56                     | 0.50 | 0.52                     | 0.42 | 0.52                     | 0.40 | 0.52                     | 0.40 | 0.52              | 0.40 |
| 225,000 - 249,999       | 0.55                     | 0.50 | 0.50                     | 0.41 | 0.50                     | 0.38 | 0.50                     | 0.38 | 0.50              | 0.38 |
| 250,000 - 299,999       | 0.54                     | 0.50 | 0.48                     | 0.40 | 0.48                     | 0.37 | 0.48                     | 0.36 | 0.48              | 0.36 |
| 300,000 - 349,999       | 0.53                     | 0.49 | 0.47                     | 0.40 | 0.46                     | 0.36 | 0.46                     | 0.35 | 0.46              | 0.35 |
| 350,000 - 399,999       | 0.52                     | 0.49 | 0.45                     | 0.39 | 0.44                     | 0.35 | 0.44                     | 0.34 | 0.44              | 0.33 |
| 400,000 - 499,999       | 0.51                     | 0.49 | 0.44                     | 0.39 | 0.42                     | 0.35 | 0.41                     | 0.33 | 0.41              | 0.31 |
| 500,000 - 999,999       | 0.50                     | 0.49 | 0.41                     | 0.38 | 0.38                     | 0.33 | 0.36                     | 0.31 | 0.36              | 0.28 |
| 1,000,000 - 1,999,999   | 0.49                     | 0.49 | 0.39                     | 0.38 | 0.34                     | 0.33 | 0.32                     | 0.30 | 0.30              | 0.25 |
| 2,000,000 - 2,999,999   | 0.49                     | 0.49 | 0.38                     | 0.38 | 0.33                     | 0.33 | 0.31                     | 0.30 | 0.27              | 0.23 |
| 3,000,000 - 3,999,999   | 0.49                     | 0.49 | 0.38                     | 0.38 | 0.33                     | 0.33 | 0.30                     | 0.30 | 0.26              | 0.23 |
| 4,000,000 - 4,999,999   | 0.49                     | 0.49 | 0.38                     | 0.38 | 0.33                     | 0.33 | 0.30                     | 0.30 | 0.25              | 0.22 |
| 5,000,000 - 5,999,999   | 0.49                     | 0.49 | 0.38                     | 0.38 | 0.33                     | 0.33 | 0.30                     | 0.30 | 0.25              | 0.22 |
| 6,000,000 - 6,999,999   | 0.49                     | 0.49 | 0.38                     | 0.38 | 0.33                     | 0.33 | 0.30                     | 0.30 | 0.24              | 0.22 |
| 7,000,000 - 7,999,999   | 0.49                     | 0.49 | 0.38                     | 0.38 | 0.33                     | 0.33 | 0.30                     | 0.30 | 0.24              | 0.22 |
| 8,000,000 - 8,999,999   | 0.49                     | 0.49 | 0.38                     | 0.38 | 0.33                     | 0.33 | 0.30                     | 0.30 | 0.24              | 0.22 |
| 9,000,000 - 9,999,999   | 0.49                     | 0.49 | 0.38                     | 0.38 | 0.33                     | 0.33 | 0.30                     | 0.30 | 0.24              | 0.22 |
| 10,000,000 - 10,999,999 | 0.49                     | 0.49 | 0.38                     | 0.38 | 0.33                     | 0.33 | 0.30                     | 0.30 | 0.23              | 0.22 |
| 11,000,000 - 11,999,999 | 0.49                     | 0.49 | 0.38                     | 0.38 | 0.33                     | 0.33 | 0.30                     | 0.30 | 0.23              | 0.22 |
| 12,000,000 - 12,999,999 | 0.49                     | 0.49 | 0.38                     | 0.38 | 0.33                     | 0.33 | 0.30                     | 0.30 | 0.23              | 0.22 |

**Appendix B**  
**Table D**  
**Tier II**

Retrospective Rating  
Minimum Premium Percentages  
Private Employer - Hazard Group D

| Premium Range           | \$100,000<br>Claim Limit | \$125,000<br>Claim Limit |
|-------------------------|--------------------------|--------------------------|
|                         | 150%                     | 150%                     |
| 25,000 - 29,999         | 0.88                     | 0.88                     |
| 30,000 - 34,999         | 0.86                     | 0.86                     |
| 35,000 - 39,999         | 0.83                     | 0.83                     |
| 40,000 - 44,999         | 0.81                     | 0.81                     |
| 45,000 - 49,999         | 0.79                     | 0.79                     |
| 50,000 - 54,999         | 0.78                     | 0.78                     |
| 55,000 - 59,999         | 0.76                     | 0.76                     |
| 60,000 - 64,999         | 0.74                     | 0.74                     |
| 65,000 - 69,999         | 0.73                     | 0.73                     |
| 70,000 - 74,999         | 0.72                     | 0.72                     |
| 75,000 - 79,999         | 0.71                     | 0.71                     |
| 80,000 - 84,999         | 0.70                     | 0.70                     |
| 85,000 - 89,999         | 0.68                     | 0.68                     |
| 90,000 - 94,999         | 0.67                     | 0.67                     |
| 95,000 - 99,999         | 0.67                     | 0.67                     |
| 100,000 - 112,499       | 0.65                     | 0.65                     |
| 112,500 - 124,999       | 0.63                     | 0.63                     |
| 125,000 - 137,499       | 0.61                     | 0.61                     |
| 137,500 - 149,999       | 0.60                     | 0.60                     |
| 150,000 - 162,499       | 0.60                     | 0.58                     |
| 162,500 - 174,999       | 0.58                     | 0.57                     |
| 175,000 - 187,499       | 0.58                     | 0.57                     |
| 187,500 - 199,999       | 0.57                     | 0.56                     |
| 200,000 - 224,999       | 0.56                     | 0.54                     |
| 225,000 - 249,999       | 0.56                     | 0.54                     |
| 250,000 - 299,999       | 0.54                     | 0.52                     |
| 300,000 - 349,999       | 0.53                     | 0.51                     |
| 350,000 - 399,999       | 0.53                     | 0.50                     |
| 400,000 - 499,999       | 0.52                     | 0.49                     |
| 500,000 - 999,999       | 0.51                     | 0.47                     |
| 1,000,000 - 1,999,999   | 0.50                     | 0.46                     |
| 2,000,000 - 2,999,999   | 0.50                     | 0.46                     |
| 3,000,000 - 3,999,999   | 0.50                     | 0.46                     |
| 4,000,000 - 4,999,999   | 0.50                     | 0.46                     |
| 5,000,000 - 5,999,999   | 0.50                     | 0.46                     |
| 6,000,000 - 6,999,999   | 0.50                     | 0.46                     |
| 7,000,000 - 7,999,999   | 0.50                     | 0.46                     |
| 8,000,000 - 8,999,999   | 0.50                     | 0.46                     |
| 9,000,000 - 9,999,999   | 0.50                     | 0.46                     |
| 10,000,000 - 10,999,999 | 0.50                     | 0.46                     |
| 11,000,000 - 11,999,999 | 0.50                     | 0.46                     |
| 12,000,000 - 12,999,999 | 0.50                     | 0.46                     |

**Appendix A**  
**Table D**  
**Tier I**

Retrospective Rating  
Minimum Premium Percentages  
Private Employer - Hazard Group D

| Premium Range           | \$100,000<br>Claim Limit |      | \$200,000<br>Claim Limit |      | \$300,000<br>Claim Limit |      | \$400,000<br>Claim Limit |      | No<br>Claim Limit |      |
|-------------------------|--------------------------|------|--------------------------|------|--------------------------|------|--------------------------|------|-------------------|------|
|                         | 150%                     | 200% | 150%                     | 200% | 150%                     | 200% | 150%                     | 200% | 150%              | 200% |
| 25,000 - 29,999         | 0.88                     | 0.76 | 0.88                     | 0.76 | 0.88                     | 0.76 | 0.88                     | 0.76 | 0.88              | 0.76 |
| 30,000 - 34,999         | 0.86                     | 0.73 | 0.86                     | 0.73 | 0.86                     | 0.73 | 0.86                     | 0.73 | 0.86              | 0.73 |
| 35,000 - 39,999         | 0.83                     | 0.70 | 0.83                     | 0.70 | 0.83                     | 0.70 | 0.83                     | 0.70 | 0.83              | 0.70 |
| 40,000 - 44,999         | 0.81                     | 0.68 | 0.81                     | 0.68 | 0.81                     | 0.68 | 0.81                     | 0.68 | 0.81              | 0.68 |
| 45,000 - 49,999         | 0.79                     | 0.66 | 0.79                     | 0.66 | 0.79                     | 0.66 | 0.79                     | 0.66 | 0.79              | 0.66 |
| 50,000 - 54,999         | 0.78                     | 0.64 | 0.78                     | 0.64 | 0.78                     | 0.64 | 0.78                     | 0.64 | 0.78              | 0.64 |
| 55,000 - 59,999         | 0.76                     | 0.62 | 0.76                     | 0.62 | 0.76                     | 0.62 | 0.76                     | 0.62 | 0.76              | 0.62 |
| 60,000 - 64,999         | 0.74                     | 0.60 | 0.74                     | 0.60 | 0.74                     | 0.60 | 0.74                     | 0.60 | 0.74              | 0.60 |
| 65,000 - 69,999         | 0.73                     | 0.59 | 0.73                     | 0.59 | 0.73                     | 0.59 | 0.73                     | 0.59 | 0.73              | 0.59 |
| 70,000 - 74,999         | 0.72                     | 0.58 | 0.72                     | 0.58 | 0.72                     | 0.58 | 0.72                     | 0.58 | 0.72              | 0.58 |
| 75,000 - 79,999         | 0.71                     | 0.57 | 0.71                     | 0.57 | 0.71                     | 0.57 | 0.71                     | 0.57 | 0.71              | 0.57 |
| 80,000 - 84,999         | 0.70                     | 0.57 | 0.70                     | 0.56 | 0.70                     | 0.56 | 0.70                     | 0.56 | 0.70              | 0.56 |
| 85,000 - 89,999         | 0.68                     | 0.56 | 0.68                     | 0.55 | 0.68                     | 0.55 | 0.68                     | 0.55 | 0.68              | 0.55 |
| 90,000 - 94,999         | 0.67                     | 0.55 | 0.67                     | 0.53 | 0.67                     | 0.53 | 0.67                     | 0.53 | 0.67              | 0.53 |
| 95,000 - 99,999         | 0.67                     | 0.55 | 0.67                     | 0.53 | 0.67                     | 0.53 | 0.67                     | 0.53 | 0.67              | 0.53 |
| 100,000 - 112,499       | 0.65                     | 0.54 | 0.65                     | 0.51 | 0.65                     | 0.51 | 0.65                     | 0.51 | 0.65              | 0.51 |
| 112,500 - 124,999       | 0.63                     | 0.54 | 0.63                     | 0.49 | 0.63                     | 0.49 | 0.63                     | 0.49 | 0.63              | 0.49 |
| 125,000 - 137,499       | 0.61                     | 0.53 | 0.61                     | 0.47 | 0.61                     | 0.47 | 0.61                     | 0.47 | 0.61              | 0.47 |
| 137,500 - 149,999       | 0.60                     | 0.53 | 0.60                     | 0.46 | 0.60                     | 0.46 | 0.60                     | 0.46 | 0.60              | 0.46 |
| 150,000 - 162,499       | 0.60                     | 0.52 | 0.58                     | 0.45 | 0.58                     | 0.45 | 0.58                     | 0.45 | 0.58              | 0.45 |
| 162,500 - 174,999       | 0.58                     | 0.52 | 0.56                     | 0.44 | 0.56                     | 0.43 | 0.56                     | 0.43 | 0.56              | 0.43 |
| 175,000 - 187,499       | 0.58                     | 0.52 | 0.56                     | 0.44 | 0.56                     | 0.43 | 0.56                     | 0.43 | 0.56              | 0.43 |
| 187,500 - 199,999       | 0.57                     | 0.51 | 0.54                     | 0.43 | 0.54                     | 0.42 | 0.54                     | 0.42 | 0.54              | 0.42 |
| 200,000 - 224,999       | 0.56                     | 0.51 | 0.53                     | 0.42 | 0.53                     | 0.40 | 0.53                     | 0.40 | 0.53              | 0.40 |
| 225,000 - 249,999       | 0.56                     | 0.51 | 0.51                     | 0.42 | 0.51                     | 0.39 | 0.51                     | 0.39 | 0.51              | 0.39 |
| 250,000 - 299,999       | 0.54                     | 0.50 | 0.49                     | 0.41 | 0.49                     | 0.38 | 0.49                     | 0.37 | 0.49              | 0.37 |
| 300,000 - 349,999       | 0.53                     | 0.50 | 0.47                     | 0.40 | 0.46                     | 0.37 | 0.46                     | 0.35 | 0.46              | 0.35 |
| 350,000 - 399,999       | 0.53                     | 0.50 | 0.46                     | 0.40 | 0.44                     | 0.36 | 0.44                     | 0.34 | 0.44              | 0.34 |
| 400,000 - 499,999       | 0.52                     | 0.50 | 0.45                     | 0.39 | 0.42                     | 0.35 | 0.42                     | 0.33 | 0.42              | 0.32 |
| 500,000 - 999,999       | 0.51                     | 0.50 | 0.41                     | 0.39 | 0.38                     | 0.34 | 0.37                     | 0.31 | 0.36              | 0.28 |
| 1,000,000 - 1,999,999   | 0.50                     | 0.50 | 0.39                     | 0.38 | 0.35                     | 0.33 | 0.33                     | 0.30 | 0.30              | 0.25 |
| 2,000,000 - 2,999,999   | 0.50                     | 0.50 | 0.39                     | 0.38 | 0.34                     | 0.33 | 0.31                     | 0.30 | 0.27              | 0.23 |
| 3,000,000 - 3,999,999   | 0.50                     | 0.50 | 0.39                     | 0.38 | 0.34                     | 0.33 | 0.31                     | 0.30 | 0.26              | 0.23 |
| 4,000,000 - 4,999,999   | 0.50                     | 0.50 | 0.38                     | 0.38 | 0.33                     | 0.33 | 0.31                     | 0.30 | 0.25              | 0.22 |
| 5,000,000 - 5,999,999   | 0.50                     | 0.50 | 0.38                     | 0.38 | 0.33                     | 0.33 | 0.30                     | 0.30 | 0.25              | 0.22 |
| 6,000,000 - 6,999,999   | 0.50                     | 0.50 | 0.38                     | 0.38 | 0.33                     | 0.33 | 0.30                     | 0.30 | 0.24              | 0.22 |
| 7,000,000 - 7,999,999   | 0.50                     | 0.50 | 0.38                     | 0.38 | 0.33                     | 0.33 | 0.30                     | 0.30 | 0.24              | 0.22 |
| 8,000,000 - 8,999,999   | 0.50                     | 0.50 | 0.38                     | 0.38 | 0.33                     | 0.33 | 0.30                     | 0.30 | 0.24              | 0.22 |
| 9,000,000 - 9,999,999   | 0.50                     | 0.50 | 0.38                     | 0.38 | 0.33                     | 0.33 | 0.30                     | 0.30 | 0.24              | 0.22 |
| 10,000,000 - 10,999,999 | 0.50                     | 0.50 | 0.38                     | 0.38 | 0.33                     | 0.33 | 0.30                     | 0.30 | 0.23              | 0.22 |
| 11,000,000 - 11,999,999 | 0.50                     | 0.50 | 0.38                     | 0.38 | 0.33                     | 0.33 | 0.30                     | 0.30 | 0.23              | 0.22 |
| 12,000,000 - 12,999,999 | 0.50                     | 0.50 | 0.38                     | 0.38 | 0.33                     | 0.33 | 0.30                     | 0.30 | 0.23              | 0.22 |

**Appendix B**  
**Table C**  
**Tier II**

Retrospective Rating  
Minimum Premium Percentages  
Private Employer - Hazard Group C

| Premium Range |   |            | \$100,000<br>Claim Limit | \$125,000<br>Claim Limit |
|---------------|---|------------|--------------------------|--------------------------|
|               |   |            | 150%                     | 150%                     |
| 25,000        | - | 29,999     | 0.87                     | 0.87                     |
| 30,000        | - | 34,999     | 0.85                     | 0.85                     |
| 35,000        | - | 39,999     | 0.83                     | 0.83                     |
| 40,000        | - | 44,999     | 0.80                     | 0.80                     |
| 45,000        | - | 49,999     | 0.78                     | 0.78                     |
| 50,000        | - | 54,999     | 0.77                     | 0.77                     |
| 55,000        | - | 59,999     | 0.75                     | 0.75                     |
| 60,000        | - | 64,999     | 0.73                     | 0.73                     |
| 65,000        | - | 69,999     | 0.72                     | 0.72                     |
| 70,000        | - | 74,999     | 0.71                     | 0.71                     |
| 75,000        | - | 79,999     | 0.70                     | 0.70                     |
| 80,000        | - | 84,999     | 0.69                     | 0.69                     |
| 85,000        | - | 89,999     | 0.67                     | 0.67                     |
| 90,000        | - | 94,999     | 0.66                     | 0.66                     |
| 95,000        | - | 99,999     | 0.65                     | 0.65                     |
| 100,000       | - | 112,499    | 0.64                     | 0.64                     |
| 112,500       | - | 124,999    | 0.62                     | 0.62                     |
| 125,000       | - | 137,499    | 0.61                     | 0.60                     |
| 137,500       | - | 149,999    | 0.59                     | 0.59                     |
| 150,000       | - | 162,499    | 0.59                     | 0.57                     |
| 162,500       | - | 174,999    | 0.58                     | 0.56                     |
| 175,000       | - | 187,499    | 0.57                     | 0.55                     |
| 187,500       | - | 199,999    | 0.56                     | 0.54                     |
| 200,000       | - | 224,999    | 0.56                     | 0.54                     |
| 225,000       | - | 249,999    | 0.55                     | 0.53                     |
| 250,000       | - | 299,999    | 0.54                     | 0.51                     |
| 300,000       | - | 349,999    | 0.53                     | 0.50                     |
| 350,000       | - | 399,999    | 0.52                     | 0.49                     |
| 400,000       | - | 499,999    | 0.51                     | 0.48                     |
| 500,000       | - | 999,999    | 0.50                     | 0.46                     |
| 1,000,000     | - | 1,999,999  | 0.49                     | 0.45                     |
| 2,000,000     | - | 2,999,999  | 0.49                     | 0.45                     |
| 3,000,000     | - | 3,999,999  | 0.49                     | 0.45                     |
| 4,000,000     | - | 4,999,999  | 0.49                     | 0.45                     |
| 5,000,000     | - | 5,999,999  | 0.49                     | 0.45                     |
| 6,000,000     | - | 6,999,999  | 0.49                     | 0.45                     |
| 7,000,000     | - | 7,999,999  | 0.49                     | 0.45                     |
| 8,000,000     | - | 8,999,999  | 0.49                     | 0.45                     |
| 9,000,000     | - | 9,999,999  | 0.49                     | 0.45                     |
| 10,000,000    | - | 10,999,999 | 0.49                     | 0.45                     |
| 11,000,000    | - | 11,999,999 | 0.49                     | 0.45                     |
| 12,000,000    | - | 12,999,999 | 0.49                     | 0.45                     |

**Appendix A  
Table A  
Tier I**

Retrospective Rating  
Minimum Premium Percentages  
Private Employer - Hazard Group A

| Premium Range           | \$100,000<br>Claim Limit |      | \$200,000<br>Claim Limit |      | \$300,000<br>Claim Limit |      | \$400,000<br>Claim Limit |      | No<br>Claim Limit |      |
|-------------------------|--------------------------|------|--------------------------|------|--------------------------|------|--------------------------|------|-------------------|------|
|                         | 150%                     | 200% | 150%                     | 200% | 150%                     | 200% | 150%                     | 200% | 150%              | 200% |
| 25,000 - 29,999         | 0.96                     | 0.86 | 0.96                     | 0.86 | 0.96                     | 0.86 | 0.96                     | 0.86 | 0.96              | 0.86 |
| 30,000 - 34,999         | 0.94                     | 0.83 | 0.94                     | 0.83 | 0.94                     | 0.83 | 0.94                     | 0.83 | 0.94              | 0.83 |
| 35,000 - 39,999         | 0.92                     | 0.81 | 0.92                     | 0.81 | 0.92                     | 0.81 | 0.92                     | 0.81 | 0.92              | 0.81 |
| 40,000 - 44,999         | 0.90                     | 0.78 | 0.90                     | 0.78 | 0.90                     | 0.78 | 0.90                     | 0.78 | 0.90              | 0.78 |
| 45,000 - 49,999         | 0.89                     | 0.77 | 0.89                     | 0.77 | 0.89                     | 0.77 | 0.89                     | 0.77 | 0.89              | 0.77 |
| 50,000 - 54,999         | 0.87                     | 0.75 | 0.87                     | 0.75 | 0.87                     | 0.75 | 0.87                     | 0.75 | 0.87              | 0.75 |
| 55,000 - 59,999         | 0.86                     | 0.73 | 0.86                     | 0.73 | 0.86                     | 0.73 | 0.86                     | 0.73 | 0.86              | 0.73 |
| 60,000 - 64,999         | 0.85                     | 0.72 | 0.85                     | 0.72 | 0.85                     | 0.72 | 0.85                     | 0.72 | 0.85              | 0.72 |
| 65,000 - 69,999         | 0.84                     | 0.71 | 0.84                     | 0.71 | 0.84                     | 0.71 | 0.84                     | 0.71 | 0.84              | 0.71 |
| 70,000 - 74,999         | 0.82                     | 0.69 | 0.82                     | 0.69 | 0.82                     | 0.69 | 0.82                     | 0.69 | 0.82              | 0.69 |
| 75,000 - 79,999         | 0.81                     | 0.68 | 0.81                     | 0.67 | 0.81                     | 0.67 | 0.81                     | 0.67 | 0.81              | 0.67 |
| 80,000 - 84,999         | 0.80                     | 0.67 | 0.80                     | 0.66 | 0.80                     | 0.66 | 0.80                     | 0.66 | 0.80              | 0.66 |
| 85,000 - 89,999         | 0.79                     | 0.66 | 0.79                     | 0.65 | 0.79                     | 0.65 | 0.79                     | 0.65 | 0.79              | 0.65 |
| 90,000 - 94,999         | 0.78                     | 0.66 | 0.78                     | 0.64 | 0.78                     | 0.64 | 0.78                     | 0.64 | 0.78              | 0.64 |
| 95,000 - 99,999         | 0.77                     | 0.66 | 0.77                     | 0.63 | 0.77                     | 0.63 | 0.77                     | 0.63 | 0.77              | 0.63 |
| 100,000 - 112,499       | 0.76                     | 0.65 | 0.76                     | 0.62 | 0.76                     | 0.62 | 0.76                     | 0.62 | 0.76              | 0.62 |
| 112,500 - 124,999       | 0.74                     | 0.65 | 0.74                     | 0.60 | 0.74                     | 0.60 | 0.74                     | 0.60 | 0.74              | 0.60 |
| 125,000 - 137,499       | 0.72                     | 0.64 | 0.72                     | 0.58 | 0.72                     | 0.58 | 0.72                     | 0.58 | 0.72              | 0.58 |
| 137,500 - 149,999       | 0.71                     | 0.63 | 0.70                     | 0.56 | 0.70                     | 0.56 | 0.70                     | 0.56 | 0.70              | 0.56 |
| 150,000 - 162,499       | 0.70                     | 0.63 | 0.69                     | 0.55 | 0.69                     | 0.54 | 0.69                     | 0.54 | 0.69              | 0.54 |
| 162,500 - 174,999       | 0.69                     | 0.63 | 0.67                     | 0.54 | 0.67                     | 0.53 | 0.67                     | 0.53 | 0.67              | 0.53 |
| 175,000 - 187,499       | 0.68                     | 0.62 | 0.66                     | 0.53 | 0.66                     | 0.52 | 0.66                     | 0.52 | 0.66              | 0.52 |
| 187,500 - 199,999       | 0.68                     | 0.62 | 0.64                     | 0.53 | 0.64                     | 0.51 | 0.64                     | 0.51 | 0.64              | 0.51 |
| 200,000 - 224,999       | 0.67                     | 0.62 | 0.63                     | 0.52 | 0.63                     | 0.49 | 0.63                     | 0.49 | 0.63              | 0.49 |
| 225,000 - 249,999       | 0.66                     | 0.62 | 0.61                     | 0.51 | 0.61                     | 0.48 | 0.61                     | 0.47 | 0.61              | 0.47 |
| 250,000 - 299,999       | 0.65                     | 0.62 | 0.59                     | 0.50 | 0.58                     | 0.46 | 0.58                     | 0.45 | 0.58              | 0.45 |
| 300,000 - 349,999       | 0.64                     | 0.61 | 0.57                     | 0.50 | 0.55                     | 0.45 | 0.55                     | 0.43 | 0.55              | 0.42 |
| 350,000 - 399,999       | 0.64                     | 0.61 | 0.56                     | 0.49 | 0.53                     | 0.44 | 0.53                     | 0.42 | 0.53              | 0.40 |
| 400,000 - 499,999       | 0.63                     | 0.61 | 0.54                     | 0.49 | 0.51                     | 0.43 | 0.50                     | 0.40 | 0.50              | 0.38 |
| 500,000 - 999,999       | 0.62                     | 0.61 | 0.51                     | 0.48 | 0.47                     | 0.42 | 0.45                     | 0.38 | 0.43              | 0.33 |
| 1,000,000 - 1,999,999   | 0.61                     | 0.61 | 0.49                     | 0.48 | 0.43                     | 0.41 | 0.40                     | 0.37 | 0.36              | 0.28 |
| 2,000,000 - 2,999,999   | 0.61                     | 0.61 | 0.48                     | 0.48 | 0.42                     | 0.41 | 0.38                     | 0.37 | 0.31              | 0.25 |
| 3,000,000 - 3,999,999   | 0.61                     | 0.61 | 0.48                     | 0.48 | 0.41                     | 0.41 | 0.37                     | 0.37 | 0.29              | 0.24 |
| 4,000,000 - 4,999,999   | 0.61                     | 0.61 | 0.48                     | 0.48 | 0.41                     | 0.41 | 0.37                     | 0.37 | 0.28              | 0.24 |
| 5,000,000 - 5,999,999   | 0.61                     | 0.61 | 0.48                     | 0.48 | 0.41                     | 0.41 | 0.37                     | 0.37 | 0.27              | 0.23 |
| 6,000,000 - 6,999,999   | 0.61                     | 0.61 | 0.48                     | 0.48 | 0.41                     | 0.41 | 0.37                     | 0.37 | 0.27              | 0.23 |
| 7,000,000 - 7,999,999   | 0.61                     | 0.61 | 0.48                     | 0.48 | 0.41                     | 0.41 | 0.37                     | 0.37 | 0.26              | 0.23 |
| 8,000,000 - 8,999,999   | 0.61                     | 0.61 | 0.48                     | 0.48 | 0.41                     | 0.41 | 0.37                     | 0.37 | 0.26              | 0.23 |
| 9,000,000 - 9,999,999   | 0.61                     | 0.61 | 0.48                     | 0.48 | 0.41                     | 0.41 | 0.37                     | 0.37 | 0.25              | 0.22 |
| 10,000,000 - 10,999,999 | 0.61                     | 0.61 | 0.48                     | 0.48 | 0.41                     | 0.41 | 0.37                     | 0.37 | 0.25              | 0.22 |
| 11,000,000 - 11,999,999 | 0.61                     | 0.61 | 0.48                     | 0.48 | 0.41                     | 0.41 | 0.37                     | 0.37 | 0.25              | 0.22 |
| 12,000,000 - 12,999,999 | 0.61                     | 0.61 | 0.48                     | 0.48 | 0.41                     | 0.41 | 0.37                     | 0.37 | 0.24              | 0.22 |

**Appendix B**  
**Table A**  
**Tier II**

Retrospective Rating  
Minimum Premium Percentages  
Private Employer - Hazard Group A

| Premium Range           | \$100,000<br>Claim Limit | \$125,000<br>Claim Limit |
|-------------------------|--------------------------|--------------------------|
|                         | 150%                     | 150%                     |
| 25,000 - 29,999         | 0.96                     | 0.96                     |
| 30,000 - 34,999         | 0.94                     | 0.94                     |
| 35,000 - 39,999         | 0.92                     | 0.92                     |
| 40,000 - 44,999         | 0.90                     | 0.90                     |
| 45,000 - 49,999         | 0.89                     | 0.89                     |
| 50,000 - 54,999         | 0.87                     | 0.87                     |
| 55,000 - 59,999         | 0.86                     | 0.86                     |
| 60,000 - 64,999         | 0.85                     | 0.85                     |
| 65,000 - 69,999         | 0.84                     | 0.84                     |
| 70,000 - 74,999         | 0.82                     | 0.82                     |
| 75,000 - 79,999         | 0.81                     | 0.81                     |
| 80,000 - 84,999         | 0.80                     | 0.80                     |
| 85,000 - 89,999         | 0.79                     | 0.79                     |
| 90,000 - 94,999         | 0.78                     | 0.78                     |
| 95,000 - 99,999         | 0.77                     | 0.77                     |
| 100,000 - 112,499       | 0.76                     | 0.76                     |
| 112,500 - 124,999       | 0.74                     | 0.74                     |
| 125,000 - 137,499       | 0.72                     | 0.72                     |
| 137,500 - 149,999       | 0.71                     | 0.70                     |
| 150,000 - 162,499       | 0.70                     | 0.69                     |
| 162,500 - 174,999       | 0.69                     | 0.68                     |
| 175,000 - 187,499       | 0.68                     | 0.67                     |
| 187,500 - 199,999       | 0.68                     | 0.66                     |
| 200,000 - 224,999       | 0.67                     | 0.65                     |
| 225,000 - 249,999       | 0.66                     | 0.64                     |
| 250,000 - 299,999       | 0.65                     | 0.63                     |
| 300,000 - 349,999       | 0.64                     | 0.61                     |
| 350,000 - 399,999       | 0.64                     | 0.61                     |
| 400,000 - 499,999       | 0.63                     | 0.60                     |
| 500,000 - 999,999       | 0.62                     | 0.58                     |
| 1,000,000 - 1,999,999   | 0.61                     | 0.57                     |
| 2,000,000 - 2,999,999   | 0.61                     | 0.57                     |
| 3,000,000 - 3,999,999   | 0.61                     | 0.57                     |
| 4,000,000 - 4,999,999   | 0.61                     | 0.57                     |
| 5,000,000 - 5,999,999   | 0.61                     | 0.57                     |
| 6,000,000 - 6,999,999   | 0.61                     | 0.57                     |
| 7,000,000 - 7,999,999   | 0.61                     | 0.57                     |
| 8,000,000 - 8,999,999   | 0.61                     | 0.57                     |
| 9,000,000 - 9,999,999   | 0.61                     | 0.57                     |
| 10,000,000 - 10,999,999 | 0.61                     | 0.57                     |
| 11,000,000 - 11,999,999 | 0.61                     | 0.57                     |
| 12,000,000 - 12,999,999 | 0.61                     | 0.57                     |

**Appendix B**  
**Table B**  
**Tier II**

Retrospective Rating  
Minimum Premium Percentages  
Private Employer - Hazard Group B

| Premium Range           | \$100,000<br>Claim Limit | \$125,000<br>Claim Limit |
|-------------------------|--------------------------|--------------------------|
|                         | 150%                     | 150%                     |
| 25,000 - 29,999         | 0.91                     | 0.91                     |
| 30,000 - 34,999         | 0.88                     | 0.88                     |
| 35,000 - 39,999         | 0.86                     | 0.86                     |
| 40,000 - 44,999         | 0.84                     | 0.84                     |
| 45,000 - 49,999         | 0.82                     | 0.82                     |
| 50,000 - 54,999         | 0.80                     | 0.80                     |
| 55,000 - 59,999         | 0.79                     | 0.79                     |
| 60,000 - 64,999         | 0.78                     | 0.78                     |
| 65,000 - 69,999         | 0.76                     | 0.76                     |
| 70,000 - 74,999         | 0.75                     | 0.75                     |
| 75,000 - 79,999         | 0.74                     | 0.74                     |
| 80,000 - 84,999         | 0.73                     | 0.73                     |
| 85,000 - 89,999         | 0.71                     | 0.71                     |
| 90,000 - 94,999         | 0.71                     | 0.71                     |
| 95,000 - 99,999         | 0.69                     | 0.69                     |
| 100,000 - 112,499       | 0.68                     | 0.68                     |
| 112,500 - 124,999       | 0.66                     | 0.66                     |
| 125,000 - 137,499       | 0.64                     | 0.64                     |
| 137,500 - 149,999       | 0.63                     | 0.62                     |
| 150,000 - 162,499       | 0.62                     | 0.61                     |
| 162,500 - 174,999       | 0.62                     | 0.60                     |
| 175,000 - 187,499       | 0.61                     | 0.59                     |
| 187,500 - 199,999       | 0.60                     | 0.59                     |
| 200,000 - 224,999       | 0.60                     | 0.58                     |
| 225,000 - 249,999       | 0.59                     | 0.56                     |
| 250,000 - 299,999       | 0.58                     | 0.55                     |
| 300,000 - 349,999       | 0.57                     | 0.54                     |
| 350,000 - 399,999       | 0.56                     | 0.53                     |
| 400,000 - 499,999       | 0.55                     | 0.52                     |
| 500,000 - 999,999       | 0.54                     | 0.50                     |
| 1,000,000 - 1,999,999   | 0.53                     | 0.49                     |
| 2,000,000 - 2,999,999   | 0.53                     | 0.49                     |
| 3,000,000 - 3,999,999   | 0.53                     | 0.49                     |
| 4,000,000 - 4,999,999   | 0.53                     | 0.49                     |
| 5,000,000 - 5,999,999   | 0.53                     | 0.49                     |
| 6,000,000 - 6,999,999   | 0.53                     | 0.49                     |
| 7,000,000 - 7,999,999   | 0.53                     | 0.49                     |
| 8,000,000 - 8,999,999   | 0.53                     | 0.49                     |
| 9,000,000 - 9,999,999   | 0.53                     | 0.49                     |
| 10,000,000 - 10,999,999 | 0.53                     | 0.49                     |
| 11,000,000 - 11,999,999 | 0.53                     | 0.49                     |
| 12,000,000 - 12,999,999 | 0.53                     | 0.49                     |

# OHIO BUREAU OF WORKERS' COMPENSATION OVERSIGHT COMMISSION

## INVESTMENT COMMITTEE CHARTER

### PURPOSE

The Investment Committee has been established by the Ohio Bureau of Workers' Compensation Oversight Commission ("WCOC") for the express purpose of assisting the WCOC to carry out its responsibilities in matters regarding the investment of the assets of the State Insurance Fund and each Ancillary Fund (collectively, the Funds) assets. The Committee members will carry out their duties with the care, skill, prudence, and diligence of a prudent person acting in a similar institutional investment Board member capacity, and will strive to follow sound policies and procedures that enhance good, fair, and open decision making.

The Committee's core objective is to advise and assist the WCOC in maximizing investment returns within acceptable risk parameters, in accordance with the WCOC's overall objective of promoting the best interests for the Ohio Bureau of Workers' Compensation, its members, and beneficiaries.

*The WCOC is required to establish objectives, policies, and criteria for the administration of the investment program that include asset allocation targets and ranges, risk factors, asset class benchmarks, time horizons, total return objectives, and performance evaluation guidelines, and monitor the administrator's progress in implementing the objectives, policies, and criteria on a quarterly basis. (O.R.C. 4121.12(G))*

### AUTHORITY

The Investment Committee has the authority to consider and make recommendations to the WCOC on all matters relating to the Ohio Bureau of Workers' Compensation investment portfolios in accordance with the WCOC Investment Policy Statement and other applicable legal requirements. In executing its duties, the Committee will not consider any proposed investment that has not gone through the Funds' due diligence process and been reviewed by Ohio Bureau of Workers' Compensation staff.

### COMPOSITION

The Committee shall be composed of a minimum of four (4) members, appointed by the Chairperson of the WCOC. At least two (2) members shall be "investment experts", as required by Ohio Revised Code, and at least two (2) members shall be voting members of the WCOC. The Committee shall select its Chairperson.

## MEETINGS

The Committee will meet at least four times a year and otherwise on an as-needed basis as determined by the Committee Chair in consultation with the Chair of the WCOC.

## RESPONSIBILITIES

The WCOC is the primary body charged with overseeing investment activities relating to the Funds. The WCOC may appoint members to the Investment Committee for the express purpose of assisting the WCOC to carry out its oversight functions, including the duties specified below:

- i. Approve the strategic asset allocation and investment policy for the Funds and periodically review such policy in light of any changes in actuarial variables, market conditions, or other evolving facts or situations relevant to the appropriate character of that policy.
- ii. Permit the Administrator to invest in an investment class only after the WCOC, by majority vote, opens the class in question.
- iii. Close any class of investments when it deems prudent.
- iv. Monitor and review the investment performance of the Funds on a quarterly (February, May, August and November) basis to determine achievement of goals and compliance with this Investment Policy.
- v. Advise and consent to the Administrator's hiring of the CIO.
- vi. Advise and consent to the OBWC's employment of an internal auditor, who shall report directly to the WCOC on investment matters.
- vii. Approve the selection and termination of all Investment Consultants.
- viii. Approve the criteria and procedures for the selection of the Investment Managers and General Partners.
- ix. Approve the final selection and funding and termination of all Investment Managers and General Partners.
- x. Approve the asset class to be managed, investment style, scope of investment activities and maximum percent of the Fund that may be allocated to each Investment Manager and General Partner.
- xi. Prohibit on a prospective basis any specific investment that the WCOC finds to be contrary to the Investment Objectives of the Funds. In the event that the WCOC determines that any activity undertaken or proposed to be undertaken pursuant to this Investment Policy is contrary to the Investment Objectives, the WCOC shall direct the Administrator to take the appropriate corrective action.
- xii. Submit a report annually on the performance and the value of each investment class to the governor, the president and minority leader of the senate, and the speaker and the minority leader of the house of representatives.

# Workers' Compensation Oversight Commission

## **Private Employer Retrospective Rating Plan Minimum Premium Percentages**

Description of Program: Retrospective Rating is an alternative rating program for employers who choose to accept claims cost risk in exchange for lower initial premiums. The program began in 1987. It is similar to a stop loss program in which the employer selects a maximum per claim limit and a maximum premium limit. The employer begins by paying a minimum premium amount only on the payroll reports due in February and August for the policy year. Annually for 10 years, the BWC issues a bill for the actual claim costs paid for the claims incurred in the policy year up to the maximum claim limit and the maximum premium limit selected. In the 10<sup>th</sup> year, the BWC "closes-out" the plan by charging the employer with any remaining reserves subject to the limits selected.

Table Description: The employer's minimum premium amount is calculated using the percentages listed in the tables from rule 4123-17-53. The minimum premium is intended to pay for and cover the insurance charges beyond the policy year claim costs. The insurance charges include those claim costs that are charged to the Surplus Fund, funding of the Safety & Hygiene Fund, the Premium Payment Security Fund and a loading factor to pay for defaults on future retrospectively rated premiums and annual billings. The total expense factor is 9.6%.

The Retrospective Rating tables were last updated in 1997.

The minimum premium percentages table change will affect approximately 100 to 110 employers and may generate an additional 20% or \$3.4 million dollars of minimum premiums.

**4123-17-53 Private employer retrospective rating plan minimum premium percentages**

The Administrator of Workers' Compensation, with the advice and consent of the workers' compensation oversight commission, has authority to approve contributions made to the state insurance fund by employers pursuant to sections 4121.121, 4121.13, 4121.30, 4123.29, and 4123.34 of the Revised Code. The administrator hereby sets the private employer retrospective rating plan minimum premium percentages to be effective for the July 1 ~~1997~~ 2006, policy year, as indicated in the attached appendixes A, (tier I, tables A, B, C, and D) and appendix B, (tier II, tables A, B, C, and D).

## **EXECUTIVE SUMMARY**

### **Modification of 4123-17-13 of the Ohio Administrative Code Rule controlling the making of the initial application for rating**

#### **Policy Initiation Criteria**

##### **Overview of Issue**

BWC is attempting to address problems that result when the same or similar owner(s) of a business operation apply for new coverage and the issuance of new coverage would result in the owner avoiding an outstanding liability (financial obligation and/or negative experience rating) under the prior coverage. Typically, there was no purchase of an existing business/policy, and the existing policy is cancelled or zero payroll is reported. Some employers may change entity type, corporate officers, location and business operation slightly as justification that they are a new operation/business but there is a problem if the result would be a negative impact to the state insurance fund and the evasion of an existing obligation.

The suggested change to 4123-17-13 OAC is to support corrective action if – after reviewing the information submitted with the application – the bureau determines that the employer is essentially the same employer for whom risk coverage previously had been provided. In such a situation, the bureau may choose to transfer the prior risk coverage to the employer applying for additional coverage and may require the employer to assume outstanding obligations “earned” under the prior risk coverage. The bureau may choose to reactivate previously cancelled risk coverage in order to complete this transfer.

BWC would look at the following indicators to determine if an application for coverage is NOT for a new operation/business or for a business that is operating under new ownership:

- Same or similar principals (owners) involved with both operations/businesses;
- Same or similar operation/business;
- Same or similar employees;
- Same or similar location.

At times, questions regarding issuance of new coverage are identified after a new policy has been finalized. In disputed cases, the bureau would request documentation of ownership, a purchase agreement, tax records and other relevant documents as needed to support the employer’s position that a new workers’ compensation policy is justified and should be issued.

##### **Summary**

This rule change would allow BWC to require the employer to report and pay premium under the original (old) policy while retaining accounts receivable balance due and negative experience rating/rating plan. It would address the issues of evasion of accounts receivable obligations and evasion of a negative experience rating.

## EXECUTIVE SUMMARY

### EXECUTIVE SUMMARY

#### SUCCESSORSHIP LIABILITY

**Overview of Issue:**

The basic purpose of this proposed rule change is to transfer a predecessor's account (any and all BWC liabilities such as an accounts receivable balance, an advance deposit, or experience) to a successor employer when the successor takes over the entire operation/business of the predecessor employer. The rule change would ensure BWC collects any and all debt associated with a predecessor operation.

**Situation:**

Many employers sell their businesses, leaving outstanding financial obligations due BWC. This can include employers that simply sell their businesses outright to a non-affiliated party as well as those that cease operations under one entity and move their operations to a newly formed entity. These unpaid obligations can be in the form of premium debts, non-compliance claims billings, and/or VSSR assessments. BWC must spread these unpaid obligations amongst the remaining employer population in order to remain revenue neutral.

**Proposal:**

It is BWC's recommendation that Ohio Administrative Code 4127-17-02, Basic or manual rate, that allows the bureau to transfer a predecessor's experience modification to a successor, be revised to include the transfer of financial liabilities. This change will make a successor liable for any unpaid obligations of the predecessor. Transferring this liability should be self-policing in many instances because prospective buyers will require sellers to resolve these outstanding liabilities prior to making the purchase or make them part of the purchase agreement.

This practice is currently in use by both the Ohio Department of Taxation and the Ohio Department of Jobs and Family Services as a tool to assist them in collecting all employers' fair share of the cost of operating their respective systems.

In addition, BWC is attempting to ensure that transfers of experience for transactions that occur on either January 1 or July 1 have effective dates on January 1 or July 1, respectively, rather than the beginning date of the next following payroll reporting period. This is a subject of contention under the current rule language, and the intent needs to be expressed more clearly.

**Rule Change Proposal  
March 2006**

**EXECUTIVE SUMMARY**

**Modification of 4123-17-26 of the Ohio Administrative Code:  
Minimum annual administrative charge**

**Overview of Issue:**

BWC is proposing a change to OAC 4123-17-26, minimum annual administrative charge, because the current administrative charge of \$10 semiannually (\$20 annually) for employers that either report zero payroll or that would have less than \$10 of premium due for a payroll reporting period is insufficient to cover the expense of maintaining these policies. The current charge has not been updated in almost a decade.

BWC is currently studying how to calculate the cost of policy maintenance and is seeking authority to remove the \$10 per half year reference to allow for the results of research to be utilized to set a proper administrative cost charge. Research to determine the appropriate minimum administrative cost has been completed. We are requesting an increase to \$50 semiannually or \$100 annually.

## EXECUTIVE SUMMARY

### Minimum and maximum reportable payroll

**Requested Modification of 4123-17-07 and 4123-17-30 of the Ohio Administrative Code** (4123-17-07 OAC) Officers of corporations, partnerships and sole proprietorships, an individual incorporated as a corporation, family farm corporations, and ordained ministers; (4123-17-30 OAC) Payroll limitations for corporate officers, sole proprietors, an individual incorporated as a corporation, members of partnerships, and family farm corporations.

#### Overview of Issue

Currently, BWC rules do not apply a minimum reportable payroll to all individuals who could potentially have a compensable claim. The minimum of \$100 per week that was set approximately thirty years ago does not cover BWC's exposure, and the maximum of \$800 per week is inconsistent with the amount needed for maximum indemnity benefits. This change alleviates the unfair burden to the state insurance fund through subsidization by other employers.

The purpose is to bring minimum and maximum reportable payroll to a level that computes to the minimum and maximum compensation allowable based on the Statewide Average Weekly Wage (SAWW) calculated annually by ODJFS. The entities that are affected by the indexed minimums and maximums would be expanded to include minimums for officers of corporation (president, vice-president, secretary, treasurer, etc.) who are not currently subject to minimum reportable payroll requirements.

The affected entities are:

- Sole proprietors;
- Members of partnerships;
- An individual incorporated as a corporation with no employees;
- Members of family farm corporations; and
- Officers of corporations (for whom there currently is no reportable minimum payroll).

OAC 4123-17-07 needs to be modified to state that actual remuneration of an executive officer of a corporation (e.g., president, vice-president, secretary, treasurer) must be included in the payroll report of the corporation subject to a weekly minimum as well as a maximum. This adds a minimum for corporate officers which makes the corporate officer reporting the same as for the other entities who choose elective coverage.

OAC 4123-17-30 needs to be modified to specify total payroll limitations for all employers that choose elective coverage (sole proprietors, members of partnerships, an individual incorporated as a corporation and members of family farm corporations) as well as corporate officers. Currently, the maximum reportable payroll under 4123-17-30 is not to exceed an average of \$800 per week (\$20,800 semi-annually, \$41,600 annually) which is not in line with benefit levels that would be awarded if injured.

The proposed change would require reporting of the actual payroll received but not more than an average weekly wage equal to one hundred fifty per cent of the statewide average weekly wage which, for 2006, would be \$1,056 weekly, which is \$27,456 semiannually and \$54,912 annually.

Currently, the minimum reportable payroll under 4123-17-30 is the actual payroll received but not less than an average of \$100.00 per week which is \$2,600 semiannually and \$5,200 annually. The proposed change would require reporting the actual payroll received but not less than an average weekly wage equal to fifty per cent of the statewide average weekly wage, which, for 2006, would be \$352 weekly, which is \$9,152 semiannually and \$18,304 annually.

Indexing to the SAWW will not only result in less of a need to modify the rule to update a specified amount, it will ensure a reasonable computation based on BWC's exposure.

### **Two Minor Technical Changes**

OAC 4123-17-07 is also being updated to reflect that an individual incorporated as a corporation may purchase elective coverage only if this involves a single/sole owner and no employees. OAC 4123-17-30 is also being updated to correct a typographical error where the word "employer" was used when the word "employee" was intended in the sentence "For sole proprietors, members of partnerships, an individual incorporated as a corporation, and officers of family farm corporations who elect to include themselves as employers..." This was a mistake that dates back to 7/1/1993. They elect to include themselves as employees, not employers. Ohio Revised Code 4123.01 excludes individuals incorporated as a corporation, single/sole owner with no employees, from the definition of employees.

## EXECUTIVE SUMMARY

### EXECUTIVE SUMMARY

#### SUCCESSORSHIP LIABILITY

**Overview of Issue:**

The basic purpose of this proposed rule change is to transfer a predecessor's account (any and all BWC liabilities such as an accounts receivable balance, an advance deposit, or experience) to a successor employer when the successor takes over the entire operation/business of the predecessor employer. The rule change would ensure BWC collects any and all debt associated with a predecessor operation.

**Situation:**

Many employers sell their businesses, leaving outstanding financial obligations due BWC. This can include employers that simply sell their businesses outright to a non-affiliated party as well as those that cease operations under one entity and move their operations to a newly formed entity. These unpaid obligations can be in the form of premium debts, non-compliance claims billings, and/or VSSR assessments. BWC must spread these unpaid obligations amongst the remaining employer population in order to remain revenue neutral.

**Proposal:**

It is BWC's recommendation that Ohio Administrative Code 4127-17-02, Basic or manual rate, that allows the bureau to transfer a predecessor's experience modification to a successor, be revised to include the transfer of financial liabilities. This change will make a successor liable for any unpaid obligations of the predecessor. Transferring this liability should be self-policing in many instances because prospective buyers will require sellers to resolve these outstanding liabilities prior to making the purchase or make them part of the purchase agreement.

This practice is currently in use by both the Ohio Department of Taxation and the Ohio Department of Jobs and Family Services as a tool to assist them in collecting all employers' fair share of the cost of operating their respective systems.

In addition, BWC is attempting to ensure that transfers of experience for transactions that occur on either January 1 or July 1 have effective dates on January 1 or July 1, respectively, rather than the beginning date of the next following payroll reporting period. This is a subject of contention under the current rule language, and the intent needs to be expressed more clearly.

**(C)(1) now clarifies that this paragraph has an effective date of on or after September 1, 2006 for transactions where one employer wholly succeeds another in the operation of a business in terms of the transfer of the predecessor's rights and obligations, thus allowing for those business transactions that are currently being negotiated to conclude.**

## EXECUTIVE SUMMARY

### Minimum and maximum reportable payroll

**Requested Modification of 4123-17-07 and 4123-17-30 of the Ohio Administrative Code** (4123-17-07 OAC) Officers of corporations, partnerships and sole proprietorships, an individual incorporated as a corporation, family farm corporations, and ordained ministers; (4123-17-30 OAC) Payroll limitations for corporate officers, sole proprietors, an individual incorporated as a corporation, members of partnerships, and family farm corporations.

#### Overview of Issue

Currently, BWC rules do not apply a minimum reportable payroll to all individuals who could potentially have a compensable claim. The minimum of \$100 per week that was set approximately thirty years ago does not cover BWC's exposure, and the maximum of \$800 per week is inconsistent with the amount needed for maximum indemnity benefits. This change alleviates the unfair burden to the state insurance fund through subsidization by other employers.

The purpose is to bring minimum and maximum reportable payroll to a level that computes to the minimum and maximum compensation allowable based on the Statewide Average Weekly Wage (SAWW) calculated annually by ODJFS. The entities that are affected by the indexed minimums and maximums would be expanded to include minimums for officers of corporation (president, vice-president, secretary, treasurer, etc.) who are not currently subject to minimum reportable payroll requirements.

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- Members of family farm corporations; and
- Officers of corporations (for whom there currently is no reportable minimum payroll).

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OAC 4123-17-30 needs to be modified to specify total payroll limitations for all employers that choose elective coverage (sole proprietors, members of partnerships, an individual incorporated as a corporation and members of family farm corporations) as well as corporate officers. Currently, the maximum reportable payroll under 4123-17-30 is not to exceed an average of \$800 per week (\$20,800 semi-annually, \$41,600 annually) which is not in line with benefit levels that would be awarded if injured.

The proposed change would require reporting of the actual payroll received but not more than an average weekly wage equal to one hundred fifty per cent of the statewide average weekly wage which, for 2006, would be \$1,056 weekly, which is \$27,456 semiannually and \$54,912 annually.

Currently, the minimum reportable payroll under 4123-17-30 is the actual payroll received but not less than an average of \$100.00 per week which is \$2,600 semiannually and \$5,200 annually. The proposed change would require reporting the actual payroll received but not less than an average weekly wage equal to fifty per cent of the statewide average weekly wage, which, for 2006, would be \$352 weekly, which is \$9,152 semiannually and \$18,304 annually.

Indexing to the SAWW will not only result in less of a need to modify the rule to update a specified amount, it will ensure a reasonable computation based on BWC's exposure.

### **Two Minor Technical Changes**

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**Clarification has been added to paragraph (A) to reflect that the minimum reportable payroll for executive officers is intended to apply to active executive officers, meaning those who are engaged in the decision making and day-to-day operations of the corporation.**

# The Ohio Bureau of Workers' Compensation



## Statement of Investment Policy and Guidelines

DRAFT

April 20, 2006

**The Ohio Bureau of Workers' Compensation  
Statement of Investment Policy and Guidelines**

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# The Ohio Bureau of Workers' Compensation Statement of Investment Policy and Guidelines

## I. INVESTMENT OBJECTIVES

The primary investment objective is to manage the reserve to preserve the ability of Funds to pay all disability benefits and expense obligations when due. Meeting this objective necessitates prudent risk-taking with the Funds' investments. An additional objective is to earn sufficient returns to grow the surplus over time and to keep premium payments as reasonable and predictable as possible for the benefit of the injured workers and employers of Ohio.

## II. BACKGROUND

### A. Purpose

This document establishes the investment policy (the "Investment Policy") for the Ohio Bureau of Workers' Compensation ("OBWC") State Insurance Fund and Ancillary Funds ("the Funds"). The Oversight Commission ("WCOC") adopts this policy in order to assist the Administrator, the Chief Financial Officer, the Chief Investment Officer and the OBWC staff in meeting investment objectives and monitoring the performance of the investment of the surplus and reserves of the Funds.

*The WCOC is required to establish objectives, policies, and criteria for the administration of the investment program that include asset allocation targets and ranges, risk factors, asset class benchmarks, time horizons, total return objectives, and performance evaluation guidelines, and monitor the administrator's progress in implementing the objectives, policies, and criteria on a quarterly basis. (O.R.C. 4121.12(G))*

### B. Fiduciary Standard

Under Ohio Revised Code Section 4123.44, the voting members of the WCOC, the Administrator of OBWC, and the Chief Investment Officer of the OBWC are trustees of the state insurance fund and fiduciaries of the Funds, which are held for the benefit of the injured workers and employers of Ohio.

*All fiduciaries shall discharge their duties with respect to the Funds with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, and by diversifying the investments of the assets of the funds so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so. (O.R.C. 4123.44)*

All investment activities undertaken by, or on behalf of, the OBWC, including any investment activities performed by outside Investment Managers and General Partners, will strictly adhere to the terms of this Investment Policy, the restrictions of the Ohio Revised Code Section 4123.44 and any other applicable statutory or administrative rules. A copy of the Ohio Revised Code Section 4123.44, as amended, is attached to this Investment Policy and all aspects of this Investment Policy shall be construed and interpreted in a manner consistent with Section 4123.44.

# **The Ohio Bureau of Workers' Compensation Statement of Investment Policy and Guidelines**

## **III. ROLES AND RESPONSIBILITIES**

### **A. WCOC Responsibilities**

The WCOC is the primary body charged with overseeing investment activities relating to the Funds. Its oversight functions include the duties specified below:

- i. Approve the strategic asset allocation and investment policy for the Funds and periodically review such policy in light of any changes in actuarial variables, market conditions, or other evolving facts or situations relevant to the appropriate character of that policy.
- ii. Permit the Administrator to invest in an investment class only after the WCOC, by majority vote, opens the class in question.
- iii. Close any class of investments when it deems prudent.
- iv. Monitor and review the investment performance of the Funds on a quarterly (February, May, August and November) basis to determine achievement of goals and compliance with this Investment Policy.
- v. Advise and consent to the Administrator's hiring of the CIO.
- vi. Advise and consent to the OBWC's employment of an internal auditor, who shall report directly to the WCOC on investment matters.
- vii. Approve the selection and termination of all Investment Consultants.
- viii. Approve the criteria and procedures for the selection of the Investment Managers and General Partners.
- ix. Approve the final selection and funding and termination of all Investment Managers and General Partners.
- x. Approve the asset class to be managed, investment style, scope of investment activities and maximum percent of the Fund that may be allocated to each Investment Manager and General Partner.
- xi. Prohibit on a prospective basis any specific investment that the WCOC finds to be contrary to the Investment Objectives of the Funds. In the event that the WCOC determines that any activity undertaken or proposed to be undertaken pursuant to this Investment Policy is contrary to the Investment Objectives, the WCOC shall direct the Administrator to take the appropriate corrective action.
- xii. Submit a report annually on the performance and the value of each investment class to the governor, the president and minority leader of the senate, and the speaker and the minority leader of the house of representatives.

The WCOC may appoint members to an Investment Committee for the express purpose of assisting the WCOC to carry out any of the responsibilities enumerated here.

## **The Ohio Bureau of Workers' Compensation Statement of Investment Policy and Guidelines**

### **B. OBWC Staff Responsibilities**

The Chief Investment Officer shall be employed by the Administrator, with the advice and consent of the WCOC, and shall be a senior member of the OBWC staff with the primary responsibility for implementing the Investment Policy. Subject to the supervision and control of the Administrator, the Chief Investment Officer shall:

- i. Consult with and receive approval from the WCOC regarding the appropriate strategic asset allocation and investment policy for the Funds and periodically review such policy in light of any changes in actuarial variables, market conditions, or other evolving relevant facts or situations.
- ii. Recommend permissible asset classes for investment to the WCOC.
- iii. Monitor and review the investment performance of the Funds on a monthly basis to determine achievement of goals and compliance with Investment Policy
- iv. Consult with and receive approval from the WCOC on the selection and termination of all Investment Consultants.
- v. Consult with and receive approval from the WCOC on the selection and termination of all Investment Managers and General Partners.
- vi. Consult with and receive approval from the WCOC on the asset class to be managed, investment style, scope of investment activities and maximum percent of the Fund that may be allocated to each Investment Manager and General Partner.
- vii. Implement the directives of the WCOC.
- viii. Supervise the management of each Fund's assets in accordance with this Investment Policy and the objectives and guidelines set forth herein.
- ix. Consult with and receive approval from the WCOC regarding criteria and procedures to be utilized to select Investment Managers and General Partners
- x. Monitor all managed assets to insure compliance with the guidelines set forth in this Investment Policy.
- xi. Monitor manager trade execution.
- xii. Promptly vote all proxies and related actions in a manner consistent with the long-term interests and objectives of the Funds set forth herein. The CIO may retain a third party proxy voting service or direct investment managers to vote the proxies related to securities held in their respective portfolios.
- xiii. Maintain detailed records of said voting of proxies and related actions and comply with all regulatory obligations related thereto.
- xiv. Report to the WCOC on at least a quarterly basis regarding the performance of the portfolio and brokerage information for various time periods.
- xv. Consult with the Funds' Investment Managers on at least a quarterly basis to discuss account performance and other material information.
- xvi. Collect and review the current Form ADV of each Investment Manager and Investment Consultant on an annual basis and provide a summary report to the WCOC.

## **The Ohio Bureau of Workers' Compensation Statement of Investment Policy and Guidelines**

### **C. Investments Managers' Responsibilities**

Each Investment Manager shall:

- i. Be a bank, insurance company, investment management company, or investment advisor as defined by the Investment Advisors Act of 1940.
- ii. Manage the plan assets under its care, custody and/or control in accordance with the Investment Policy set forth herein and in compliance with applicable Ohio statutory requirements.
- iii. Exercise full investment discretion over the assets in their care within the guidelines set forth herein, their Investment Management Agreement and the specific portfolio guidelines contained therein.
- iv. Subject to any exceptions expressly set forth herein, Investment Managers shall be directly responsible for executing trades related to the portfolios they manage for the Funds. Investment Managers shall be responsible for seeking the best execution of trades. Any Broker used by any Investment Manager must be properly licensed.
- v. Provide monthly performance evaluation reports that comply with the Global Performance Presentation Standards (GPPS) issued by the CFA Institute.
- vi. Provide the CIO with firm's Brokerage, Soft Dollar and Trade Execution Policy on an annual basis.
- vii. Provide the CIO with a report on at least monthly basis on the trading activities of the Funds, including, but not limited to, the volume of trades and related commissions executed by each Broker.
- viii. Provide the CIO with the firm's Ethics Policy and quarterly confirmation of its compliance with said policy.
- ix. Provide the CIO with the firm's most recent Form ADV on an annual basis.
- x. Comply with the Campaign Contribution Policy and submit the Political Contribution Disclosure Statement, attached as Appendix XIII, on a quarterly basis.
- xi. Promptly inform the CIO in writing of all changes of a material nature pertaining to the firm's organization and professional staff.
- xii. If directed by the Administrator and/or the Chief Investment Officer, shall promptly vote all proxies and related actions in a manner consistent with the long-term interests and objectives of the Funds. Each manager designated to vote shall provide OBWC with firm's proxy voting policy on an annual basis, keep detailed records of said voting of proxies and related action and comply with all regulatory obligations related thereto.
- xiii. Report to the CIO on at least a quarterly basis on the status of the portfolio and its performance for various time periods and meet with the staff at least semi-annually to report on the economic outlook and compliance with goals and objectives.
- xiv. Acknowledge and agree in writing to their fiduciary responsibility to fully comply with the entire Investment Policy.

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**D. General Partners' Responsibilities**

Each General Partner shall:

- i. Manage the plan assets under its care, custody and/or control in accordance with the Investment Policy set forth herein and in compliance with applicable Ohio statutory requirements.
- ii. Exercise full investment discretion over the assets in their care within the guidelines set forth herein, their Partnership and/or Subscription Agreement and the specific portfolio guidelines contained therein.
- iii. Provide the CIO with quarterly financial statements and an audited annual financial statement for each partnership or fund to which the Ohio BWC has made a commitment.
- iv. Provide the CIO with an annual Valuation Certification attesting to the value of the Ohio BWC's holdings in each partnership or fund.
- v. Provide the CIO with the firm's Ethics Policy and annual confirmation of its compliance with said policy (for agreements entered into after January 1, 2006 only).
- vi. Promptly provide the CIO with a detailed report of all capital calls and/or distributions for each partnership or fund.
- vii. Comply with the Campaign Contribution Policy and submit the Political Contribution Disclosure Statement, attached as Appendix XIII, on an annual basis (for agreements entered into after January 1, 2006 only).
- viii. Promptly inform the CIO in writing of all changes of a material nature pertaining to the firm's organization and professional staff.

**E. Investment Consultants' Responsibilities**

The Investment Consultant shall:

- i. Provide independent and unbiased information to the WCOC, the Administrator and the CIO.
- ii. Assist in the development and amendment of this Investment Policy.
- iii. Assist in the establishment of strategic asset allocation targets.
- iv. Assist in the development of performance measurement standards.
- v. Report the monthly investment results and quarterly risk characteristics of the Funds to the WCOC.
- vi. Monitor and evaluate Investment Manager performance on an ongoing basis.
- vii. Conduct due diligence on the Funds' current and prospective Investment Managers.
- viii. Establish a procedural due diligence search process.

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- ix. Assist in the development of criteria and procedures to be utilized for the selection of all Investment Managers.
- x. Provide the CIO with the firm's most recent Form ADV on an annual basis.
- xi. Provide any other advice or services that the WCOC or the Administrator and Chief Investment Officer determine from time to time is necessary, useful or appropriate to fulfill the objectives of this Investment Policy in accordance with the Investment Consulting Agreement.

### **IV. INVESTMENT POLICY GUIDELINES**

#### **A. Asset Allocation Guidelines**

**The Funds are part of the Ohio Workers' Compensation System, an exclusive state insurance fund system that is held for the sole benefit of the injured workers and employers of Ohio.**

**Asset allocation** refers to the strategic deployment of assets among the major classes of investments such as fixed income, U.S. equity, non-U.S. equity, alternative investments and cash equivalents. The asset allocation decision reflects the Funds' return requirements as well as the Funds' tolerance for return variability (risk) within the context of the expected liabilities of the Funds. The liability considerations shall include, but not be limited to, current and expected future values of the benefits, premiums and total assets. These factors are important for identifying the investment horizon of the Funds and their cash flow requirements.

The WCOC has adopted a long-term asset allocation policy for each Fund that identifies the strategic target weights to each of the major asset classes. These policies are detailed in Appendix IX.

The Target Policy Weights in Appendix IX are effective January 1, 2006 and are based on an asset/liability analysis presented in September 2005. A formal asset/liability analysis for each Fund will be conducted annually, or more frequently if conditions warrant.

#### **B. Rebalancing Policy**

The asset allocation targets represent a long-term strategy. Short-term market activity will cause the asset mix to drift from the specific allocation targets. A **Rebalancing Policy** is designed to provide a disciplined approach to control the risk exposure of each Fund to the investment categories that have deviated from the established target policy weights. The WCOC has adopted a policy of range rebalancing. Under range rebalancing, asset rebalancing will be triggered only when actual weightings fall outside of the ranges specified above. The WCOC expects range rebalancing to produce a superior return/risk tradeoff as compared to time rebalancing because turnover occurs only when necessary.

The Funds' asset allocations are to be monitored quarterly, or more frequently if market conditions warrant. Should the actual asset allocations for a particular class of investments deviate from the indicated range for a particular asset class, the Administrator and Chief Investment Officer will make the necessary adjustments to satisfy the asset allocation guidelines established by this Investment Policy. In order to minimize turnover, Fund cash flows, such as premiums received or benefits paid, will be used to the fullest extent to achieve rebalancing objectives.

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## **C. General Guidelines**

The following represent the general guidelines that will apply to the management of Fund assets. In addition, each Investment Manager will have specific guidelines that are part of their Investment Management Agreement that will document the Funds' performance expectations and the Investment Manager's role in the overall portfolio. The Funds use these guidelines to establish, guide and control the strategy for each Investment Manager.

i. The following guidelines serve to diversify the organizational risk of Investment Management firms or General Partners providing services to the Funds and to minimize the dependence by the Funds on any one investment firm. The diversification guidelines are as follows:

- No one investment organization or General Partner, utilizing active investment strategies, should manage more than 15% of the Funds' assets at the time it is hired.
- An investment organization, utilizing passive investment strategies, may manage up to 100% of the Funds' assets at the time it is hired. This guideline has been established to allow the BWC to take full advantage of the benefits of low fees resulting from the economies of scale that exist with passive management. The WCOC, Staff and the Consultant will closely monitor this organizational risk to ensure the security of Fund assets. The maximum allocation under this guideline will only be utilized in circumstances where the fee benefit is believed to outweigh the organizational risk to the Funds.
- The Funds' assets managed by any one firm, utilizing either active or passive investment strategies, or General Partner should not exceed 5% of the total assets managed by the firm or General Partner for all clients in that specific strategy, style or partnership, at the time it is hired, unless unique circumstances – such as the need to hire a manager in a capacity-constrained asset class such as high yield or small cap U.S. equity - warrant an exception.

ii. **Fixed Income Investments**

The investment goal of the fixed income investments is to protect the Funds against adverse changes in the value of the Funds' assets relative to their liabilities. The WCOC has adopted a policy to invest each Fund's fixed income portfolio in a manner that will approximate the duration and yield curve characteristics of its liabilities in order to preserve the reserve, provide for stable premiums and grow the surplus.

### **Average Weighted Credit Quality**

The minimum average weighted quality of the total fixed income portfolio shall be A, as measured by the lower of the Moody's or Standard & Poors (S&P) rating.

### **Duration**

The duration of the fixed income portfolio in aggregate shall be maintained within a range of +/- 5% of each Fund's fixed income benchmark.

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**Diversification**

The fixed income portfolio shall be diversified as specified below<sup>1</sup> to minimize the risk of losses:

***By Sector:***

| <b><u>Sector Allocation</u></b>  | <b><u>Max. % of Fund</u></b> |
|--|------------------------------|
| <b>U.S. Governments:</b>   | <b><i>100%</i></b>           |
| Treasuries   | 100%                         |
| Agencies   | 100%                         |
| <b>Mortgages</b>   | <b><i>40%</i></b>            |
| Agencies   | 40%                          |
| Non-Agency   | 10%                          |
| Collateralized Mortgage Obligations (CMOs)<br>(must be rated AA or better) | 10%                          |
| Commercial Mortgage Backed Securities (CMBS)<br>and Project Loans          | 10%                          |
| Floating Rate Mortgages  | 10%                          |
| <b>Investment Grade Credit</b>   | <b><i>70%</i></b>            |
| Finance  | 35%                          |
| Industrial   | 35%                          |
| Transportation   | 35%                          |
| Utilities  | 35%                          |
| Yankees  | 10%                          |
| Asset Backed Securities (ABS)<br>(must be rated AA or better)              | 10%                          |
| <b>Foreign Governments</b>   | <b><i>0%</i></b>             |
| <b>Below Investment Grade Credit</b>                                       | <b><i>5%</i></b>             |

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<sup>1</sup> Percentages represent a maximum allocation and will not sum to 100%

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***By Credit Quality:***

| <u>Credit Quality</u> | <u>Max. % of Fund</u> | <u>Individual Security<br/>Max %</u> |
|-----------------------|-----------------------|--------------------------------------|
| Government            | 100%                  | N.A.                                 |
| Aaa/AAA               | 50%                   | 1.00%                                |
| Aa/AA                 | 25%                   | 1.00%                                |
| A/A                   | 20%                   | 0.75%                                |
| Baa/BBB               | 10%                   | 0.50%                                |
| Ba/BB                 | 5%                    | 0.25%                                |
| B/B                   | 2%                    | 0.10%                                |
| CCC                   | 1%                    | 0.05%                                |
| Below CCC             | 0%                    | 0.00%                                |

Maximums refer to the allocation at the time of purchase. In the event that downgraded securities result in a violation of these constraints, the WCOC shall grant an exemption that would allow an Investment Manager to continue to hold the downgraded security or securities, at their discretion, for a period of up to three months. An Investment Manager shall immediately report any guideline violation resulting from a downgraded security in their portfolio to the WCOC. The Investment Manager shall also provide an action plan to bring the portfolio back in compliance with the guidelines in their next quarterly report to the WCOC.

The Funds may invest in Rule 144A and private placement securities subject to the sector and credit constraints specified above.

**iii. U.S. Equity**

The investment goal of the domestic equity investments is to offer the Funds a broad exposure to the return opportunities and investment characteristics associated with the U.S. domestic equity market.

**Diversification**

The U.S. Equity portfolio shall be diversified as specified below to minimize the risk of losses:

- Investments will be diversified by capitalization size and by style (growth and value) to approximate the overall market as measured by each Fund's U.S. Equity benchmark.
- No single holding shall account for more than 5% of each Fund's total U.S. equity portfolio at market.
- No single holding shall account for more than 5% of the outstanding equity securities of any one corporation

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v. **Non-U.S. Equity**

The investment goal of the non-U.S. equity investments is to offer the Funds a broad exposure to the return opportunities, diversification effects and investment characteristics associated with the non-U.S. equity market.

**Diversification**

The Non-U.S. Equity portfolio shall be diversified as specified below to minimize the risk of losses:

- Investments will be diversified by capitalization size and by style (growth and value) to approximate the overall market as measured by each Fund's Non-U.S. Equity benchmark.
- Investments will be diversified by geographic region and sector, so as to optimize the relationship of expected return to expected risk after taking into consideration the asset allocation of each Fund.
- No single holding shall account for more than 5% of each Fund's total Non-U.S. equity portfolio at market.
- No single holding shall account for more than 5% of the outstanding equity securities of any one corporation

vi. **Alternative Investments**

The SIF has allocated a portion of its investment portfolio to private equity securities, limited partnerships and funds of funds subject to all applicable legal requirements and limits set forth in this Investment Policy. The purpose of investing in private equity securities, partnerships or funds is to enhance the overall investment returns of the Funds.

**Future investments in Alternative Investments are not presently anticipated.**

vii. **Cash Equivalents**

Cash equivalents may be held to meet each Fund's short term cash flow needs.

viii. **Securities Lending**

Securities lending has been permitted in the past and is presently being utilized within the Funds in accordance with the commingled trust fund (CTF) agreement between the BWC and State Street Global Advisors.

(The WCOC will be reviewing the appropriateness of the Funds' securities lending activities and expects to make a final decision on its continued use by June 2006.)

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ix. **Derivatives**

A derivative is broadly defined as a contract whose value is based on the performance of an underlying financial asset, index or other investment. The most common forms of derivatives are futures, options, swaps and forwards.

The use of derivatives by the Funds or their Investment Managers is expressly prohibited, with the exception of collateralized mortgage obligations (CMOs) and asset backed securities (ABS) in accordance with the restrictions outlined below and in Section IV.C.iii above.

CMOs are mortgage-backed bonds that separate mortgage pools into different maturity classes. Issued by the Federal Home Loan Mortgage Corporation (Freddie Mac) and private issuers, CMOs are usually backed by government-guaranteed or other top-grade mortgages. To qualify for investment by the Funds, CMOs must be rated AA or better and not be levered. Interest-only (IOs) and principal-only (POs) instruments are prohibited.

ABS are bonds or notes backed by loan paper on accounts receivable originated by banks, credit card companies or other providers of credit and often “enhanced” by a bank letter of credit or by insurance coverage provided by an institution other than the issuer. To qualify for investment by the Funds, ABS must be rated AA or better.

x. **Commission Recapture / Directed Brokerage**

The Funds shall not engage in commission recapture or directed brokerage programs.

xi. **General Prohibitions**

The following activities or investments are expressly prohibited within the Funds:

- a. Short selling in any form.
- b. All forms of leverage, including, but not limited to, purchasing securities on margin, treasury rolls and reverse repurchase agreements.
- c. Coins, artwork, horses, jewelry, gems, stamps, antiques, artifacts, collectibles, and memorabilia.
- d. Direct or indirect investments in vehicles that target specified assets, which includes unregulated investments that are not commonly part of an institutional portfolio, that lack liquidity and that lack readily determinable valuation.

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**V. PERFORMANCE OBJECTIVES**

**A. Total Fund**

The primary performance objective for each Fund is to achieve an aggregate rate of return that exceeds the return of each Fund's Performance Benchmark on a consistent basis. The Benchmark combines designated market and/or custom indexes for asset classes, weighted by asset-allocation targets. Currently, the indexes are:

| <u>Asset Class</u>      | <u>Benchmark</u>                       |
|-------------------------|--|
| Fixed Income:           | Lehman Aggregate <sup>2</sup>          |
| U.S. Equity             | Wilshire 5000                          |
| Non-U.S. Equity         | MSCI All Country World Index (ex-U.S.) |
| Alternative Investments | Wilshire 5000 + 5%                     |
| Cash Equivalents        | T-Bill                                 |

**B. Asset Class Composites**

Each asset class shall be measured relative to its designated market and/or custom index. It is expected that any active management of individual asset classes will provide an investment return in excess of the index, net of expenses, on a consistent basis.

**C. Investment Managers**

On a timely basis, but not less than four times a year, the Chief Investment Officer will meet with the Investment Consultants to:

- Evaluate the performance of each Investment Manager.
- Review each Investment Manager's adherence to this Investment Policy.
- Analyze any material changes in the Investment Manager's organization, investment strategies or personnel.
- Review each Investment Manager's performance relative to appropriate indices and peer groups.

Each Investment Manager's performance shall be evaluated relative to an appropriate benchmark index and a relative peer group of managers as indicated below. They are expected to (1) rank above median versus their respective peer groups and (2) earn investment returns, net of expenses, that equal or exceed their respective benchmark index.

The performance of each Investment Manager will be monitored on an ongoing basis and the Administrator and the Chief Investment Office shall take any appropriate corrective action,

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<sup>2</sup> The WCOC anticipates that this benchmark will be modified in the future to a custom benchmark that reflects the duration and yield curve characteristics of each Fund's liabilities as described in Appendix IX.

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including, subject to approval by the WCOC, the termination and replacement of an Investment Manager. Factors that may lead to terminating a manager relationship include:

- Performance below median (50th percentile) of their peer group.
- Realization of investment returns, net of expenses, that lag their respective benchmark index.
- Failure to adhere to this Policy or the portfolio's Investment Guidelines.
- Failure to comply with the Ethics Policy of the firm or the WCOC.
- Violation of any law.
- Style drift.
- Organizational changes including:
  - Change in professional staff
  - Significant loss of clients
  - Significant growth of new business
  - Change in ownership

### **VI. COMMUNICATIONS**

- Each Investment Manager will provide written reports at least monthly, including asset inventories, market commentary or anything else deemed significant at the time of reporting.
- Each Private Equity General Partner will provide written reports at least quarterly, including asset inventories, market commentary or anything else deemed significant at the time of reporting.
- Each Investment Manager will provide all reporting required under Section III. C. of this Policy.
- Each Investment Manager is expected to meet with the Administrator and/or the Chief Investment Officer at least annually at OBWC offices.
- Frequent and regular communication with the OBWC by all Investment Managers is encouraged.

### **VII. REVIEW PROCEDURES**

The WCOC in conjunction with the Administrator, Chief Investment Officer and Investment Consultant will review this policy statement at least once a year, to determine if revisions are warranted and will publish the policy statement and any changes it adopts and make copies available to all interested parties.

It is not expected that this Investment Policy will change frequently; in particular short-term changes in the financial markets should generally not require an adjustment in this Investment Policy.

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**VIII. FAIR CONSIDERATION / PUBLIC INTEREST POLICY**

The WCOC desires that Staff and the Investment Consultant identify, research and evaluate qualified Ohio managers, minority managers and women-owned managers and that Investment Managers give consideration to such managers and brokers in their efforts to fulfill the Funds' investment objectives, but only in compliance with their respective fiduciary duties to the Funds.

**Qualified Ohio Managers - Criteria**

As used in this Investment Policy, a qualified Ohio-qualified investment manager or broker is one that meets at least one of the following requirements:

- Has its corporate headquarters or principal place of business in Ohio
- Employs at least 500 individuals in Ohio
- Has a principal place of business in Ohio and employs at least 20 residents of the State

**Minority Managers – Criteria**

As used in this Investment Policy, a minority manager shall be defined as an investment manager or broker that is U.S. domiciled and is majority-owned by one, or any combination, of the following groups: African American, Native American, Hispanic American and Asian American.

Additionally, Investment Managers who are majority-owned by women are included in this Policy

In addition to the requirements above, any qualified Ohio manager, and any minority or women-owned Investment Manager must be a registered investment advisor under the Investment Advisors Act of 1940. Any Broker must be properly licensed.

It is the WCOC's intention to give such firms consideration in their efforts to fulfill the Funds' investment objective; however, the WCOC is not obligated to hire any qualified Ohio manager, minority or women-owned firm on behalf of the Funds if such hiring is inconsistent with its fiduciary duty to the Funds and their stakeholders.

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APPENDIX XIII: CAMPAIGN CONTRIBUTION POLICY

It is the policy of the Ohio Bureau of Workers' Compensation ("OBWC") and the Workers' Compensation Oversight Commission ("WCOC") to ensure that the selection of investment management firms to provide investment management services, or the selection of consulting firms to provide consulting services, or the selection of independent auditors to provide auditing services, to the State Insurance Fund (the "Fund") is based on the merits of such firms and not on the political contributions made by such firms. This policy is designed to protect the beneficiaries of the Fund by prohibiting investment management firms, consulting firms or auditing firms, or such other persons who may contract with the Administrator or WCOC to provide services, from being engaged to provide such services to the Fund if certain political contributions have been made.

In furtherance of this goal, those individuals and firms conducting business with the Administrator or the WCOC, and those desiring to do business with the Administrator and the WCOC, shall adhere to the political contribution requirements that are set forth in Ohio Revised Code Chapter 3517. Such individuals and firms should pay particular attention to the restrictions set forth in O.R.C. 3517.13 (Y) and (Z), which expressly restrict the Administrator of OBWC from doing business with persons or business entities that had made contributions to candidates for Ohio Governor or Lt. Governor. These provisions are set forth below:

- (Y) The administrator of workers' compensation and the employees of the bureau of workers' compensation shall not conduct any business with or award any contract, other than one awarded by competitive bidding, for the purchase of goods costing more than five hundred dollars or services costing more than five hundred dollars to any individual, partnership, association, including, without limitation, a professional association organized under Chapter 1785. of the Revised Code, estate, or trust, if the individual has made, or the individual's spouse has made, or any partner, shareholder, administrator, executor, or trustee, or the spouses of any of those individuals has made, as an individual, within the two previous calendar years, one or more contributions totaling in excess of one thousand dollars to the campaign committee of the governor or lieutenant governor or to the campaign committee of any candidate for the office of governor or lieutenant governor.

- (Z) The administrator of workers' compensation and the employees of the bureau of workers' compensation shall not conduct business with or award any contract, other than one awarded by competitive bidding, for the purchase of goods costing more than five hundred dollars or services costing more than five hundred dollars to a corporation or business trust, except a professional association organized under Chapter 1785. of the Revised Code, if an owner of more than twenty per cent of the corporation or business trust, or the spouse of the owner, has made, as an individual, within the two previous calendar years, taking into consideration only owners for all of such period, one or more contributions totaling in excess of one thousand dollars to the campaign committee of the governor or lieutenant governor or to the campaign committee of any candidate for the office of governor or lieutenant governor.

This campaign contribution policy is not intended to limit participation in the political process by individuals and business entities doing business with the Administrator or the WCOC, or those who may seek to do so in the future. However, such individuals and business entities should be aware that there are restrictions on political contributors, and also upon the award of contracts by officials who receive campaign contributions, in addition to those provisions of Ohio law that are specifically cited in this statement of policy. Any individual or business entity that makes political contributions and also seeks to do business with Ohio governmental agencies should review those provisions carefully. In particular, O.R.C. 3599.03 expressly forbids the payment of corporate funds or use of corporate assets to support a candidate for office, a political party or legislative campaign fund, while O.R.C. 3517.082 and O.R.C. 3599.031 allow bona fide political action committees to make campaign contributions to Ohio candidates.