

**WORKERS' COMPENSATION BOARD OF DIRECTORS
TUESDAY, NOVEMBER 20, 2007
WILLIAM GREEN BUILDING
THE NEIL SCHULTZ CONFERENCE CENTER
30 WEST SPRING ST., 2ND FLOOR (MEZZANINE)
COLUMBUS, OHIO 43215**

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

Members Absent: Kenneth Haffey

Others present at the request of the Board:

F. Ronald O'Keefe, Fiduciary Counsel to the Board
Andrew Doehrel, CEO, Ohio Chamber of Commerce

CALL TO ORDER

Mr. Lhota called the meeting to order at 9:30 AM, Tuesday, November 20, 2007 and roll call was taken. At the onset of the meeting all members were present, except for Kenneth Haffey and Larry Price.

Mr. Lhota indicated that Mr. O'Keefe has produced two memorandums regarding the fiduciary duties of Board members. Both documents are subject to the attorney-client privilege. However, the Board has chosen to waive said privilege so that the memorandums may be discussed at the Board meeting. The second memorandum will be provided prior to the Board meeting on Wednesday, November 21, 2007.

BOARD TRAINING, NOVEMBER 20, 2007

Training for the Board continued Tuesday morning. A presentation was made by Andrew Doehrel, Chief Executive Officer of the Ohio Chamber of Commerce. Mr. Doehrel provided a brief historical perspective of workers' compensation legislation enacted over the past twenty-one years with respect to group rating. Beginning in the 1980's, labor/business groups began studying workers' compensation issues, including

claims administration issues. In the view of Mr. Doehrel, the group rating system was implemented to compel employers to pay attention to claims costs, and manage their claims more closely.

Mr. Price joined the meeting at 9:40 AM.

Group rating included safety programs and sponsors of groups under which employers were pooled together to achieve premium discounts. Mr. Bryan inquired whether or not the legislation was intended to address the issue of businesses moving in and out of groups. Mr. Doehrel's response was that this issue was not discussed with the legislators, but the issue was raised with BWC early on when group rating was being implemented. Mr. Harris emphasized that in addition to concern over the bottom line, employers were also concerned with the total number of workplace injuries and the well-being of their labor forces. Mr. Smith inquired as to how the group rating system moved away from actuarial soundness. Mr. Doehrel responded that one could argue that the system is actuarially sound, and that there may be other problems besides issues with the credibility tables. Mr. Fulton asked whether it had been envisioned that so many trade groups would be involved with group rating, and whether there should be more oversight and tighter parameters. Mr. Doehrel indicated that it was never anticipated that so many players would get involved. He further indicated that tighter parameters may be needed and that there could be bad actors. Mr. Matesich inquired as to whether the Ohio Chamber of Commerce sponsors any groups. Mr. Doehrel indicated that the Ohio Chamber of Commerce does sponsor a group. Mr. Matesich then asked who provides oversight as to how groups operate and what functions they perform. Mr. Doehrel responded that BWC has set group rating rules, but organizations such as his work with third party administrators to carry out group sponsorship. Mr. Matesich asked whether the original intent of the group rating legislation was to allow companies to group with other like companies. Mr. Doehrel explained that he is unclear about legislative intent, but that for practical reasons you can't group employers together too narrowly or there might not be enough employers to form a group.

John Pedrick, BWC Chief Actuarial Officer, then gave a presentation in which he provided a comparison between the Washington state monopolistic fund and the Ohio monopolistic fund. Washington does have a group rating system. Mr. Pedrick reviewed a letter provided by Washington that explains its group retrospective rating system. Under the Washington system, employers may participate in retrospective rating individually or through a group operated by a business association. The Washington system utilizes a three year retrospective experience period. The Washington system has refunded an average of twenty one percent of premium to employers in the retrospective program. Mr. Bryan inquired as to how a group premium is calculated. Mr. Pedrick explained that retrospectively rated employers, whether in a group or not, first pay experience rated premium based on each individual employer's history, not on the collective group history. Refunds or additional premium required by the actual claim experience are determined over the three years following the policy period, after which the policy period is closed out. Further, Mr. Matesich questioned whether or not their system is always operating three years behind. Mr. Pedrick explained that an employer

or group in the retrospective rating program has multiple policy years in progress – the current year and three prior years. Marsha Ryan, BWC Administrator, requested an explanation of different refunds. Mr. Pedrick stated that experience rating is a prospective ratemaking tool that refines the rate for next year based on past experience, to the extent it provides reliable information. Retrospective rating is somewhat similar to self insurance since additional premium invoices or refunds are based on the actual claims of the policy period. A discount program is also a prospective rating scheme since it should reflect expected savings. Mr. Smith and Mr. Matesich engaged Mr. Pedrick in discussion on experience rating and retrospective rating. The Washington system has a twenty-one percent average refund, with a loss ratio of group rated employers the same as the ratio of non-group rated employers. Mr. Smith inquired as to how this compares with Ohio. Mr. Pedrick indicated that the loss ratios for some group rated employers are three times the premium in Ohio. Ms. Ryan noted that equalization of the loss ratios is not occurring between groups. Mr. Price inquired as to whether a retrospective rated employer that suffered a loss is kicked out of the group in Washington's system. Mr. Pedrick explained that for a given policy year a group remains in tact. Over time, those groups with higher than expected costs disappear since employers can pay less in the long run without the group. Mr. Price raised the issue of equalizing without removing employers from their groups. Pedrick stated that Washington uses a split experience rating plan similar to the NCCI approach.

Mr. Hummel questioned as to whether or not premiums were raised to pay refunds. Mr. Pedrick responded that increasing premiums to pay refunds is a characteristic of a refund system because it properly raises premium for those who bring more losses to the pool while lowering premium for those with lower than average losses. The loss ratio indicates whether the discount percentage is correct. Ms. Falls noted that the NCCI approach emphasizes the frequency of losses, whereas the Ohio system emphasizes the severity of losses. The Washington system includes a retrospective approach, whereas the Ohio system implements a prospective approach. Mr. Bryan emphasized the importance of actuarial soundness and the equalization of loss ratios.

Mr. Fulton noted that RC 4123.29(A)(4)(c) indicates that an employer is to be considered a part of a group for retrospective rating. Mr. Fulton then raised the issue of whether such language may be an indication that the legislature intended BWC to follow the Washington model. Mr. Fulton requested that the BWC Legal Department review this issue. James Barnes, BWC General Counsel indicated that BWC will look at the law, but cannot evaluate legislative intent. Mr. Matesich suggested that Mr. Fulton's comments may be opening the door to changing the system to retrospective rating. Ms. Falls asked Mr. Pedrick to further explain credibility tables. Mr. Pedrick did so. Mr. Harris brought up issues with regard to the severity data provided. Mr. Pedrick suggested that based on several actuarial models, the correct maximum for the credibility table is approximately sixty percent. A decrease in the credibility tables has a concurrent reduction in the base rate. Mr. Pedrick emphasized the need to further look at the group continuity rules.

Joy Bush, BWC Director of Employer Management Services, next provided follow-up information from her presentation of last month. Ms. Bush provided a graphic

representation of the distribution by industry class and payroll. Ms. Ryan asked Ms. Bush to correlate the spreadsheet to the pie charts. Mr. Matesich had Ms. Bush clarify details of the spreadsheet. Ms. Bush discussed consideration of changing group requirements. The legally required mandate is the size of the groups. Mr. Price inquired as whether the group rating discussion had a large variety of participants and who they were. Ms. Bush indicated that there was a large variety of participants. Mr. Matesich questioned as to what the action plan was. Ms. Bush indicated that the plan was to make changes to the credibility table, and the priority was safety and marketing first.

RECESS:

Motion to recess was made by Ms. Falls and seconded by Mr. Harris at approximately 12:00 PM.

**WORKERS' COMPENSATION BOARD OF DIRECTORS
WEDNESDAY, NOVEMBER 21, 2007, 8:00 AM
WILLIAM GREEN BUILDING
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COLUMBUS, OHIO 43215**

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

Members Absent: None

CALL TO ORDER

Mr. Lhota reconvened the meeting at 8:00 AM and roll call was taken. All members were present.

MINUTES OF OCTOBER 26, 2007 MEETING

Ms. Ryan noted that she had several suggested changes to the minutes. On page seven, Ms. Ryan suggested that the spelling of some of the legislators' names should be corrected. Ms. Ryan requested that the minutes specifically note her congratulations on the Board Members' Senate confirmation. Furthermore, Ms. Ryan suggested that on page two it should be noted that Ms. Falls inquired as to how premiums break out for employer groups, and whether the 80/20 rule applies. On page three, Mr. Fulton's question concerning whether or not salary continuation had an impact on reserving, was answered by Ms. Bush as yes. Upon a motion by Mr. Bryan, and seconded by Mr. Matesich, the October 26, 2007 meeting minutes were approved with the noted amendments.

FIDUCIARY RESPONSIBILITY DISCUSSION

The memorandum letter dated November 8, 2007, was discussed at length by fiduciary counsel, Ron O'Keefe. The Board waived any privilege of confidentiality with respect to the memorandum of November 8, 2007.

A second memorandum was provided to the Board on November 20, 2007. Mr. O'Keefe discussed the details of fiduciary responsibility. He noted that it is rooted in common law, and places the Board members in the position of trustee. The duty requires members to exercise the highest duty of care, and entrusts them with oversight responsibility of a

public entity governed by law, imposing upon them the duties of loyalty and care. Members are required to safeguard and maintain the solvency of the Ohio State Insurance Fund. Members must separate themselves from their relationship with a constituency and focus solely on their fiduciary responsibility as a Board member. Their actions must be in the interest of the entire fund as a whole, and what is fair and equitable to all BWC stakeholders. Mr. Smith inquired with regard to the issue of members recusing themselves, and whether this must be done only in the event of an actual conflict, or whether a member may recuse himself in the event of a perceived conflict. Mr. O'Keefe replied that members should be encouraged to participate in discussion, but should recuse themselves when action is taken on the issue if a personal interest interferes. Ms. Falls inquired whether or not fiduciary duty permitted board members to have honest differences of opinion. Mr. O'Keefe replied that it is permissible to have different points of view, and that it appears the legislators may have believed that different points of view were in the best interest of the State Insurance Fund. Mr. Price indicated that dialogue among the Board members is in the best interest of the public.

Mr. Lhota questioned whether or not a member should provide a reason for recusal. Mr. O'Keefe replied that stating a general reason is sufficient. Mr. Matesich noted the Board must do what is fair and equitable for employers but also maintain solvency of the State Insurance Fund. Mr. Matesich inquired as to whether or not there is a priority or weight assigned to the principle of fairness and equity for employers and solvency. Mr. O'Keefe indicated that solvency is paramount. To achieve a fair and equitable decision, members must use good judgment. Mr. Fulton stated that solvency includes preservation of the fund for injured workers so that a humanitarian benefit can be paid.

Mr. Lhota recessed the meeting at 8:27 AM for a group photograph of the Board of Directors. The meeting was reconvened by Mr. Lhota at 8:44 AM.

COMMITTEE REPORTS

Governance Committee:

Ms. Falls discussed the November 16, 2007 meeting of the committee in Mansfield. Ms. Falls expressed her appreciation for Mr. Fulton attending the meeting. Ms. Falls then discussed the charter of the Governance Committee. As outlined in the charter, the governance of the entire Board will be considered by the Governance Committee. The role of the Committee will be evolving, with the Committee dedicated to the utilization of best practices in corporate governance. The Committee's role will be to work on an issue and then report back to the Board with recommendations, and to assist the Chair with his responsibilities. In the Duties and Responsibilities section of the charter, it is noted that there will be a review of the Board's Governance Guidelines annually, the incorporation of House Bill 100 requirements, and a coordination of the Administrator's annual review. Further, the committee shall develop and coordinate the ongoing self-assessment of Board members and oversee its education and orientation processes. Ms. Falls noted that the Governance Committee appreciated the Board's approval of the hiring of fiduciary counsel.

Mr. Caldwell inquired as to whether all duties and functions of the Governance Committee were written in the statutes. Ms. Falls answered that they were incorporated into the charter. House Bill 100 provides a set of minimum requirements for the Board. The Committee has chosen to include extra tasks for the Board. Mr. Caldwell suggested that the charter include language that states the Committee makes recommendations consistent with House Bill 100. In addition, Mr. Caldwell and Mr. Lhota requested that the charter indicate that executive session is used for the purpose of the Administrator's performance review, instead of the more general "personnel review."

It was noted that it is not the Governance Committee's responsibility to conduct the performance review, but rather coordinate it, and ensure that all committee charters are consistent with the appearance of having come from the same organization. Mr. Lhota noted that the Governance Committee facilitates and assists, and that it is not a super committee. Mr. Lhota stated that additional members to the committee are welcome.

On a motion by Ms. Falls, seconded by Mr. Price, the Governance Committee charter was unanimously approved, as amended. Mr. Matesich inquired as to when the Governance Committee meetings are scheduled. Ms. Falls stated that the next meeting will be held in January 2008, with the corporate governance guidelines as the main issue. An exact date must still be determined for the January meeting.

Ms. Falls noted that the Governance Committee discussed the administrative rules approval process for the Board. The Committee agreed that the current process where items go directly to subject matter committees, then to the Board for final approval was sufficient.

The Governance Committee also discussed the use by the Board of resolutions. After seeking the advice of the Board's legal counsel, Assistant Attorney General John Williams, the Committee recommended that the use of resolutions should be eliminated. The process of writing motions should be retained, with the minutes reflecting the vote by roll call. A motion was made by Ms. Falls and seconded by Mr. Harris to eliminate the use of resolutions, which motion passed unanimously.

The Governance Committee discussed the recommendations contained within a memorandum dated November 14, 2007, from Ms. Ryan, which addressed a proposed process for additional public forums. There was also discussion of Don Berno's role as liaison for Board mail sent to the BWC, as well as the process for response to said mail and retention of it. Ms. Ryan emphasized the importance of maintaining a system for gathering and using public input. Such a system should include regular public forums held at least four times per year, topics to be gathered from a variety of sources, advance public notification, maintenance of an interested parties list, and pre-registration. Input from stakeholders is particularly useful for both BWC staff and the Board. Upon the motion of Ms. Falls, seconded by Mr. Fulton, the Board unanimously approved and adopted the Administrator's recommended process for taking stakeholder input and conducting public forums. Mr. Matesich emphasized the importance of being cautious regarding the Board's ability to take prompt action on all issues raised at public forums.

The Board cannot address everything that is brought to its attention and should not give the impression that it can.

Actuarial Committee:

Mr. Bryan presented on behalf of the Actuarial Committee. Mr. Bryan discussed the November 14, 2007 meeting where rules and rates for public employer taxing districts were discussed. Mr. Bryan moved, and Mr. Hummel seconded, that the Board approve the changes to the public employer taxing district credibility tables and rate rules 4123-17-33 and 4123-17-34 of the Administrative Code as presented. The motion passed unanimously (11-0).

There was then a discussion of group rating and the effect of large rate increases, insufficient notice of rate increases, movement in and out of groups, importance of discounts and the effect of one accident causing movement. A motion was made by Mr. Bryan, and seconded by Mr. Matesich, as follows: “that the Bureau of Workers’ Compensation Board of Directors approve and adopt the recommendation of the Actuarial Committee to change the private employer credibility table as provided in Rule 4123-17-05.1 of the Administrative Code. Further, the Actuarial Committee requests that the staff propose a plan to the Workers’ Compensation Board of Directors by June 30, 2008, on the effect of rule-making, continuity of group plans, and the effect of NCCI split plans on group rating. The motion authorizes the Administrator to adopt Rule 4123-17-05.1, which sets the credibility table for private employers, “credibility and maximum value of a loss”, to be effective July 1, 2008, applicable to the payroll reporting period July 1, 2008, through June 30, 2009, with a maximum credibility of eighty-seven percent, as provided in the appendix to the rule.”

Discussion of this motion ensued. Mr. Smith suggested a rate discount of eighty-five percent. An amendment to Mr. Bryan’s motion was made by Mr. Smith, and seconded by Mr. Haffey, to establish a maximum credibility of eighty-five percent. Mr. Hummel suggested that group rating is only one component of the problem, and the rate should be decreased slowly while evaluating other components.

Mr. Fulton emphasized the point that decreasing the credibility rate does not resolve the rate gap, and that he is concerned that all employers will be upset. Mr Fulton noted that one injury can remove an employer from a group, and therefore safety programs are very important. Mr. Fulton moved for an amendment to Mr. Smith’s amendment of Mr. Bryan’s motion, seconded by Mr. Hummel, to set the maximum credibility at eighty-seven percent and to authorize BWC to change to a NCCI split plan immediately.

Mr. Bryan suggested that BWC’s Actuarial Department should look at this issue further and avoid jumping into it too rapidly. Mr. Matesich inquired as to whether or not Mr. Fulton was intending to require BWC to begin using NCCI. Mr. Fulton would authorize, but not require, BWC to use NCCI. Mr. Pedrick noted that it would be impossible for the BWC to implement NCCI by July 1, 2008. A feasible but ambitious target date might be July 1, 2009. The process is not as simple as just changing the credibility tables. The conversion would require the rate making methodology to be changed entirely. Mr. Price

emphasized the serious nature of the issues, and stated that each issue must be given appropriate scrutiny. He noted that NCCI is significant, but cautioned against combining issues and moving too quickly. Mr. Price referred to the numerous actuarial studies done in the early 1990s which all advocated lower credibility tables. Mr. Harris noted that he opposed Mr. Fulton's amendment to the extent that it only recommends eighty-seven percent instead of eighty-five percent. In response to a question from Mr. Fulton, Mr. Pedrick indicated that the NCCI approach does not look at each claim in total. NCCI's approach is divided into two parts. The first part is the first five thousand dollars, and functions as a frequency instrument, and reduces the impact of one claim. It considers whether the employer is presenting more or less risk than the average for all employers in the same class, using claim frequency as the primary risk indicator. Employers should not experience severe impact with one claim under this approach. Mr. Hummel indicated that the group rating discount does not prevent employers from being removed from group.

Voting on the Fulton amendment to the Smith amendment of Mr. Bryan's motion failed 8-3. The voting was as follows: (Y=Yes; N = No)

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

Discussion began concerning Mr. Smith's amendment to Mr. Bryan's motion. Mr. Matesich raised discussion regarding the web of problems, and that changing the discount rate by itself will not change the problem with premium and rate setting. The Board must understand and address each individual component. Ms. Falls stated that she agreed that many issues need to be addressed to achieve actuarial soundness, but a strong signal that the Board intends to address the inequities needs to be sent. Mr. Caldwell stated that he believes that the amendment to the motion of Mr. Bryan addresses Mr. Matesich's concerns.

Voting on the Smith amendment to Mr. Bryan's motion passed 9-2. The voting was as follows:

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

Discussion began concerning Mr. Bryan's motion as amended. Mr. Harris inquired as to whether NCCI could be implemented by July 2009. Mr. Pedrick stated this would be tough to answer at this point in time. Ms. Ryan indicated that BWC does want to move as quickly as possible with providing a report on the BWC plan to implement the NCCI approach. She stated that her administration is committed to act in all speed. Mr. Fulton inquired as to what the priorities of BWC would be with respect to the various issues

being discussed. Mr. Pedrick replied that the NCCI approach and group continuity would be a priority. Ms. Falls requested that a timeline for comprehensive change be prepared. Mr. Hummel requested that all other issues should be addressed prior to adjusting the credibility rate again. Mr. Bryan noted that the plan requires a report by June 30, 2008.

Mr. Bryan read the amended motion: “that the Bureau of Workers’ Compensation Board of Directors approve and adopt the recommendation of the Actuarial Committee [as amended] to change the private employer credibility table as provided in Rule 4123-17-05.1 of the Administrative Code. Further, the Actuarial Committee requests that the staff propose a plan to the Workers’ Compensation Board of Directors by June 30, 2008, on the effect of rule-making, continuity of group plans, and the effect of NCCI split plans on group rating. The motion authorizes the Administrator to adopt Rule 4123-17-05.1, which sets the credibility table for private employers, “credibility and maximum value of a loss”, to be effective July 1, 2008, applicable to the payroll reporting period July 1, 2008, through June 30, 2009, with a maximum credibility of eighty-five percent, as provided in the appendix to the rule.”

Voting on Mr. Bryan’s motion, as amended, passed 11-0.

Mr. Bryan discussed the November 20, 2007 meeting. The committee charter was approved by the committee. A motion was made by Mr. Bryan, and seconded by Mr. Hummel for the Board to approve the charter passed unanimously 11-0. The charter expands the Actuarial Committee from three to five members. A motion was made by Mr. Lhota, and seconded by Mr. Price, that the Actuarial Committee be expanded to include Mr. Fulton and Mr. Harris. The motion passed by unanimous roll call vote.

The Oliver Wyman actuary study was discussed, including the June 30, 2007 loss review, and the importance of the discount rate. A request for proposal concerning an actuary study of rates reserves and surplus required by House Bill 100, will be discussed over the next several months.

Audit Committee:

Kenneth Haffey discussed the Audit Committee meeting. Mr. Haffey stated that the charter is in line with the other committee charters. Upon motion by Mr. Haffey, seconded by Mr. Fulton, the Board voted unanimously (11-0) to adopt the Audit Committee charter.

Mr. Haffey provided an update on external audit activity. At the Committee meeting there was a review of a letter from the Auditor of State, indicating that the Schneider Downs audit is acceptable. The Audit reports will be posted on the Auditor of State website, November 29, 2007.

Mr. Haffey reported that the committee reviewed three rules. Upon a motion by Mr. Haffey, seconded by Mr. Fulton, the Board voted unanimously (11-0) to approve changes to rule 4123-3-10 (electronic benefit payment) of the Administrative Code. Mr. Fulton applauded Ms. Ryan’s efforts on handling the transition to electronic benefits transfer.

Upon motion by Mr. Haffey and seconded by Mr. Fulton, the Board unanimously (11-0) adopted revisions to the public employer risk reduction rules 4167-3-04, 4167-3-04.1, and 4167-3-04.2. Upon motion by Mr. Haffey, seconded by Mr. Fulton, the Board unanimously (11-0) voted to approve changes to ethics rules 4123-15-03 and 4123-15-08 of the Administrative Code.

A quarterly executive summary was presented by Joe Bell, Chief of Internal Audit. Mr. Bell discussed the annual internal audit plan packet, which included issues for this quarter, outstanding issues and the audit schedule. The reports emphasize outstanding comments (material, significant and minor). Keith Elliott, an Internal Audit manager, discussed the three year look back in auditing procedure. Internal Audit criteria was assigned value to comments. There are one-hundred twenty-six comments, currently outstanding with only thirty designated at the material level. It takes time to run through the systems.

Mr. Haffey indicated that the Audit Division has a risk-based plan reporting to certified standards. The Committee will be monitoring all reported comments. Mr. Bryan inquired as whether Mr. Bell reported to the Chair of the Audit Committee. Mr. Bell answered No, his direct reporting relationship is currently to the Administrator. Mr. Bell discussed House Bill 166 (Senate Bill 146) regarding internal audit legislation. The bill was signed by the Governor November 15, 2007. The legislation provides for a centralized internal audit mechanism, a state audit committee that oversees internal audit operations at the Office of Budget and Management, which has a chief internal auditor for all state agencies. It goes into effect in ninety days from November 15, 2007. During that time, BWC expects to receive additional guidance regarding the requirements of this legislation.

Investment Committee:

Mr. Smith reported on Investment Committee activity. There has been a 3.8 percent positive rate of return of all invested assets over the first nine months of 2007 per the Wilshire performance report. The private equity sale is progressing satisfactorily. The asset allocation of all funds, securities, and lending is prudent, as is the transition of investments. By motion of Mr. Smith, seconded by Ms. Falls, the Board unanimously approved the Investment Committee charter (11-0). By motion of Mr. Smith, and seconded by Mr. Harris, the Board unanimously approved a motion that the individual security credit quality restrictions identified in section IV.C.ii of the Investment Policy Statement apply for actively managed fixed income mandates, and not apply to passively indexed managed fixed income mandates, for the reasons outlined in the memorandum of the BWC's Chief Investment Officer dated November 8, 2007. Upon motion by Mr. Smith, seconded by Mr. Harris, the Board unanimously approved (11-0) a change of the column header "Individual Security Max %" of the Investment Policy Statement, to replace it with the column header "Credit Name Max %", for the reasons outlined in the memorandum of the BWC's Chief Investment Officer dated November 8, 2007. A motion was made by Mr. Smith, and seconded by Mr. Harris that the Bureau of Workers' Compensation Board of Directors approve the BWC issuing a Request for Quotes for the selection of an investment manager of the Public Works Relief Employer's Fund and the

Marine Industry Fund, which investment manager will use the Lehman Intermediate U.S. Government / Credit (LIGC) Index, for the reasons set forth in the memorandum of the BWC's Chief Investment Officer dated November 8, 2007. Upon roll call, the motion was passed unanimously (11-0).

The meeting recessed at 10:51 AM, and reconvened at 11:00 AM.

MONTHLY FINANCIAL REPORT

Tracy Valentino, BWC Interim Chief Financial Officer, presented on BWC financial statements included in the meeting materials. Ms. Valentino discussed all of the financial statements included in the meeting materials in great detail. The statements include combined statement of operations schedule, net assets, investment income, cash flows, projected statement of operations, projected statement of investment income, projected statement of cash flows, insurance ratios, and fiscal year end ratios. There was substantial discussion of the financial statements. Discussion of the discount rate was postponed. Net assets have increased from \$2.3 billion on 6/30/07 to \$2.9 billion on 10/31/07, the result of net investment income totaling \$856 million over this four-month period.

Mr. Bryan raised the issue of a negative administrative cost account. Ms. Valentino indicated that the BWC only assesses the employers enough to cover expenses for the year, since there is no statutory authority to assess for future years. Nevertheless, the BWC still has a financial reporting requirement to recognize the liability. Mr. Price inquired as to whether or not the BWC has a \$3 billion dollar surplus. Ms. Valentino explained that the BWC is obligated to maintain a surplus of funds, to absorb costs in the event of a catastrophe. The BWC needs to utilize a clear and planful approach to dividends and maintaining a reasonable surplus to account for risks.

Mr. Bryan recommended as fiduciaries that the Board needs to make provision for errors in the plan, and should use good rationales for carrying surplus amounts. Mr. Fulton asked for some statistics regarding the financial statements. Ms. Valentino stated that she will provide Mr. Fulton with the statistics he requested.

Bruce Dunn, BWC Chief Investment Officer, discussed the volatility of the investment portfolio, which further requires the BWC to maintain a reasonable surplus. Mr. Harris emphasized the importance of the surplus and that it is held for the benefit of the claimants. Mr. Bryan added that the surplus could be considered the employers' to the extent it exceeds the injured workers' needs. Ms. Valentino will provide the Board with historical financial data. Ms. Falls inquired as to the interest rate on cash equivalents. Mr. Dunn responded that it is currently around 4.75%. The surplus as of June 30, 2008 is projected to be \$2.5 billion. Mr. Lhota requested month to month cash balance statements for the prior twenty-four months. Ms. Valentino shall provide these to Mr. Lhota. Mr. Lhota inquired as to the expense ratio. He would like to see for the Administrative Cost Fund monthly budgets as compared with BWC monthly expenses. Ms. Valentino replied that the Operating Statement, for practical purposes, reflects the BWC comparative period budget. The Administrative Cost Funds are essentially the

budget. Mr. Lhota wishes to see a report charting performance against budget. Ms. Valentino stated that this kind of report will be prepared as requested. Mr. Harris inquired whether or not the Office of Budget and Management can dictate staffing levels. Ms. Ryan replied that the office can, to the extent that vacancies can not be filled if budget money is not provided. Ms. Valentino noted that since 1995, BWC has reduced the number of staff it employs from 4,200 to the current approximate level of 2,900. Ms. Valentino noted that the agency budget has been around \$300 million for several years.

ADMINISTRATOR BRIEFING

Ms. Ryan expressed her sincere appreciation for the efforts that all members have been putting forth since the inception of the Board. Ms. Ryan discussed recent accomplishments at the BWC, including an excellent performance with respect to the Combined Charitable Campaign. She also noted that new invoice software has been implemented, with some problems. There have been duplicate bills received by employers. These employers have been notified that only one bill needs to be paid. Ms. Ryan updated the Board with regard to the ongoing Managed Care Organization contract negotiation. Bob Coury, BWC's Chief of Medical Services and Compliance, has been working very hard on BWC's behalf with regard to such negotiations. Ms. Ryan also reported that Dr. Gregory Jewell, BWC Medical Director, will soon be leaving his position, and BWC will be seeking a replacement. The Medical Director may be either a medical doctor or an osteopathic doctor. Mr. Price congratulated Ms. Ryan and the BWC staff for its recent accomplishments and hard work.

ADJOURNMENT

Upon motion by Mr. Lhota, seconded by Mr. Haffey, the meeting was adjourned at 11:51 AM. The motion to adjourn, upon roll call, was passed unanimously, 11-0.

Prepared by Tom Woodruff, BWC Staff Counsel