



Bureau of Workers' Compensation

# 2005 Oversight Commission **Annual Report**

Pursuant to O.R.C. 4121.12 (F)(2), the Workers' Compensation Oversight Commission (WCOC) shall issue an annual report on the cost and quality objectives of the Ohio Bureau of Workers' Compensation (BWC). This document details the voting actions of the WCOC during 2005.

## Overview

In 2005, investment irregularities were discovered which brought about many changes to the WCOC and BWC. The Ohio General Assembly passed House Bill 66 (HB 66), which restructured the WCOC by adding two investment experts who voted only on investment-related matters brought before the full commission. Today, the WCOC is now comprised of 11 members: seven voting members representing employers; injured workers; labor; self-insured employers; the public; and investments; and four non-voting members, representing ranking majority and minority members of the Ohio House Commerce and Labor Committee and Ohio Senate Insurance, Commerce and Labor Committee. The WCOC met 11 times throughout 2005.

As part of HB 66, the WCOC also formed two committees to assist and advise the BWC on matters relating to investments and audits. The Investment Committee was formed to assist the WCOC in executing its responsibilities in matters regarding the investment of the assets of the State Insurance Fund (SIF) and assets of the other ancillary funds. The committee's core objective is to advise and assist the WCOC in maximizing investment returns within acceptable risk parameters and is responsible for providing oversight and consent on investment matters to the WCOC.

The Audit Committee was established to assist the WCOC in fulfilling its fiduciary oversight responsibilities through:

- Providing oversight of the integrity of financial reporting process.
- Complying with legal and regulatory requirements.
- Monitoring the design and effectiveness of internal controls throughout the system.
- Confirming external auditors' qualifications and independence.
- Reviewing performance of the internal audit function and independent auditors.

The WCOC provided oversight and consent on the restructuring of the BWC, beginning with welcoming Bill Mabe as the new administrator in November 2005. They also worked with staff to take ownership of recommendations made by the Governor's Management Review Team and incorporate the overwhelming majority of these suggestions into the agency's "Agenda '06" strategic plan. WCOC members also completed fiduciary training in October 2005.

In 2005, there were a total of 27 resolutions acted upon by the Oversight Commission. These resolutions consisted of rules changes/updates, rates changes/updates, and other issues pertinent to the operation of the BWC and the WCOC.

## Premium Rates

The WCOC reviewed and approved aggregate premium rate levels for private and public employers and state agencies, as recommended by the Administrator. The WCOC approved the subsequent rules necessary for filing the rates. Private employer rates on average are 29 percent lower than those for 1994.

Listed below are the percentages of rate changes compared to the prior year's rates for each sector of employers:

Type of Employer	Rate Change	Effective Date
Private Employer Rates	4.4 percent increase	7/1/2005
Public Employer Taxing Districts	1 percent decrease	1/1/2006
Public Employer State Agencies	5 percent increase	7/1/ 2005
Marine Industry Fund	12 percent decrease	7/1/ 2005
Coal Workers' Pneumoconiosis Fund	No rate change, and a continued moratorium on premium payments for subscribers of the fund prior to May 15, 1999.	7/1/ 2005

The WCOC reviewed and accepted BWC's audited financial statements for the 2004 fiscal year as presented by external auditors, KPMG Peat Marwick. The result of the audit was an unqualified opinion, which reflects no material issues involving the accuracy, integrity and procedural propriety of BWC financial data, statements, analysis and/or compliance.

# Investments

## General

The WCOC created an Investment Committee in September 2005. This Investment Committee was created to consist of two investment experts and two members of the WCOC. The committee held meetings on October 17, 2005; October 20, 2005; November 4, 2005; November 16, 2005; and December 14, 2005. The committee observed that capital was extremely thin and the allocation to equities represented significant investment risk relative to the financial strength of BWC and other insurers with similar risks and capital.

The committee acted/voted on the following issues:

1. Recommended termination of all active fixed-income, domestic and international equity investment managers in November 2005;
2. Recommended a new investment policy in November 2005, which reflected a near 100 percent fixed-income allocation; and
3. Recommended an annual activity and report requirements calendar in December 2005.

## Portfolio Market Value and Asset Allocation

The SIF increased by 2.77 percent during calendar year 2005 to approximately \$14.8 billion. As of December 31, 2005, the SIF asset allocation stood as follows:

- Fixed-income and short-term cash comprised 49.52 percent;
- Domestic equities comprised 31.88 percent;
- International equity comprised 15.68 percent; and,
- Alternative assets comprised 2.92 percent.

As of December 31, 2005, BWC had:

- 44 domestic equity managers;
- six international equity managers;
- 19 fixed-income managers;
- 68 alternative asset managers; and,
- three passive index fund managers (S&P 500, MSCI EAFE and Lehman Aggregate Bond Fund).

The 69 public investment managers were given thirty day termination notices upon the direction of the Investment Committee and the Administrator. The investment policy was changed during the November 16, 2005, WCOC meeting to a near 100 percent fixed income allocation.



## **Portfolio Performance Results**

Per Ennis Knupp's report on Evaluation of the Investment Performance of the Ohio Bureau of Workers' Compensation State Insurance Fund dated August 26, 2005, the overall rate of return, net of fees, on the SIF portfolio for fiscal year 2005 was 6.7 percent. This performance trailed the performance benchmark return for SIF by 120 basis points. BWC's Investment Division engaged an independent performance reporting vendor in September 2005 to apply generally accepted industry standard methodologies. All returns commencing fiscal year 2006 beginning July 1, 2005 are calculated and reported both gross and net of investment management fees.