MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION
SFN 2053 (2/85) 5M

GREAT SEAL
STATE OF NORTH DAKOTA

ROLL NUMBER

DESCRIPTION

1531

2005 HOUSE INDUSTRY, BUSINESS AND LABOR

HB 1531

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1531

House Industry, Business and Labor Committee

☐ Conference Committee

Hearing Date 4-4-05

Tape Number	Side A	Side B	Meter #
1	x		0-35.5
Committee Clerk Signature	Jody Renke		

Minutes:

Chairman Keiser: Opened the hearing on HB 1531

Representative Berg: Appeared in support of the bill. the number one purpose for a delayed bill is that at this stage of the session, all of our statutes are set to relate to WSI and workers comp legislation for the next 2 years. Based on the decisions we made and the actuaries input on those decisions we are in a position I think where we have stability at least for the next 2 years. What is an apporopriate reserve for WSI to have, the bill before really does a couple of things, it recognizes the roll of the board and that is to manage WSI and appropriate reserves but also recognizes I guess our input which I would call the stock holders of WSI and where we think that reserve should be, we look around the country at best practices and generally what other states said that we should have 110% of what we are anticipating what we will need in the future. These are the dollars that will help offset medical cost for reoccurring injuries or wage replacement for an injured employee. A minimum that we need should be at least 120% of the anticipated liability we would have and the other question is what should the maximum be and that would be 140% of the anticipated future liability, this would have potential to put 50-70 million dollars in refunds back to businesses that are paying for WSI. The impact of North Dakota could not come at a better time or again have more of an impact on our states future growth.

Representative Ekstrom: The bill does not state that the excess beyond 130% would go back directly to premium reductions or for that manner, an expansion of benefits.

Representative Berg: that is the role that we have given the board, in terms of increasing benefits all the bills that we have acted on our statutes are set in place for the next two years and the options that the board would have you can ask that question more directly to them but the option at this point is simply to retain the money or with this direction it gives them the ability to provide some rebates in premiums.

Sandy Blunt, Executive Director, CEO WSI: Appeared in support of the bill and provided a written statement **(SEE ATTACHED TESTIMONY).**

Representative Thorpe: What is our ceiling and our low right now in WSI?

Sandy Blunt: Currently the board has set two things, one a 5% discount we were at a 6% discount, headed toward a year, we were discounting our rates until there was enough money in the fund, last November the board chose a target of 5% as a discount rate on that, we now currently have set 250 million dollars about 2 21/2 times averaging the premium, what this law would clearly state that its percentage which is slightly more considerate then the position the board has taken.

Representative Amerman: On your educational revolving loan fund your proposing, it says there will be low interest loans to individuals who suffered a compensable work injury, I need clarification in my mind. Is this new legislation something that we have done this year or is it for 2007?

Sandy Blunt: That would be HB 1491 which was sponsored by Representative Berg, and in that layout that you have to enter vocational rehabilitation highlights. The second part of your question, that was dated back in December, you did approve legislation that gave us the authority on the revolving loan as well as gave us the authority on HB 1491. This would be the third and final piece of legislation.

Representative Keiser: How would it compare between monopolistic states and non monopolistic states, relative to setting the floor and the ceiling?

Sandy Blunt: In rock terms, slightly different, you would be looking at the average of 110% that they ask that you carry, we are not comfortable enough with that, we want to see that guaranteed that there are no concerns, the money will be there for the injured workers, and below 120% the agency better then be before the legislature while we still have plenty of time, to say how are we going to address this? Is it going to acquire an increase? or is it simply going to be made up in investments? Our actuary is comfortable moving that down to 140%, and at some point enough is enough and should be returned to the benefit to the state of North Dakota.

We were about 1/4 of a million in the red, that has been recovered through 86% of covered investments, 14% was paid in by employers.

Dave Straley, North Dakota Chamber of Commerce: Appeared in support of the bill and provided a written statement **(SEE ATTACHED TESTIMONY).**

Representative Dosch: I Move a **DO PASS** on HB 1531

Representative Ruby: I **SECOND** the **DO PASS** motion on HB 1531.

Motion carried **VOTE: 13-YES 1-NO 0-Absent**

Representative Dosch will carry the bill on the floor.

FISCAL NOTE

Requested by Legislative Council
03/31/2005

Bill/Resolution No.: HB 1531

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2003-2005 Biennium		2005-2007 Biennium		2007-2009 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

2003-2005 Biennium			2005-2007 Biennium			2007-2009 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2. **Narrative:** *Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.*

WORKFORCE SAFETY & INSURANCE
2005 LEGISLATION
SUMMARY OF ACTUARIAL INFORMATION

BILL DESCRIPTION: WSI Reserve Discount-Surplus

BILL NO: HB 1531

SUMMARY OF ACTUARIAL INFORMATION: Workforce Safety & Insurance, together with its actuary, Glenn Evans of Pacific Actuarial Consultants, has reviewed the legislation proposed in this bill in conformance with Section 54-03-25 of the North Dakota Century Code.

The proposed legislation establishes a maximum discount rate to be used in evaluating the financial reserves at six percent and defines adequate reserve and surplus as a range of 120% to 140% of the actuarially established discounted reserve.

FISCAL IMPACT: The proposed legislation is relatively consistent with current Board operating policy.

DATE: March 31, 2005

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*
   A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

see Narrative for Actuarial Impact Statement required to conform with Section 54-03-25 of the NDCC.

   B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

see Narrative for Actuarial Impact Statement required to conform with Section 54-03-25 of the NDCC.

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

not applicable

Name:	John Halvorson	**Agency:**	WSI
Phone Number:	328-3760	**Date Prepared:**	03/31/2005

Date: 4-4-05

Roll Call Vote #: 1

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1531

House **INDUSTRY, BUSINESS AND LABOR** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number ______

Action Taken Do Pass

Motion Made By Rep Dosch Seconded By Rep. Ruby

Representatives	Yes	No	Representatives	Yes	No
G. Keiser-Chairman	X		Rep. B. Amerman	X	
N. Johnson-Vice Chairman	X		Rep. T. Boe	X	
Rep. D. Clark	X		Rep. M. Ekstrom		X
Rep. D. Dietrich	X		Rep. E. Thorpe	X	
Rep. M. Dosch	X				
Rep. G. Froseth	X				
Rep. J. Kasper	X				
Rep. D. Nottestad	X				
Rep. D. Ruby	X				
Rep. D. Vigesaa	X				

Total (Yes) 13 No 1

Absent 0

Floor Assignment Rep Dosch

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1531: Industry, Business and Labor Committee (Rep. Keiser, Chairman) recommends **DO PASS** (13 YEAS, 1 NAY, 0 ABSENT AND NOT VOTING). HB 1531 was placed on the Eleventh order on the calendar.

2005 SENATE INDUSTRY, BUSINESS AND LABOR

HB 1531

2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1531

Senate Industry, Business and Labor Committee

☐ Conference Committee

Hearing Date 4-7-05

Tape Number	Side A	Side B	Meter #
1	xxx		74-4200
Committee Clerk Signature Lisa VanBerkom			

Minutes: **Chairman Mutch opened the hearing on HB 1531. All Senators were present.**

HB 1531 relates to WSI fund reserve balance and rate of discount.

Rep. Keiser introduced the bill.

Rep. Keiser: We have a situation in WSI where during the interim, we had in the Commerce Committee, a great deal of discussion with the reserve. HB 1531 attempts to put into code, what the board adopted in November, 2004. The board currently is using a five percent discount on the reserve. This bill states that it may not exceed six percent. We went throughout the U.S. and looked at the five monopolistic states primarily, but also the others in terms of legislative policies with WSI reserve funds. Nationally, the actuaries are recommending that it not exceed six percent and we think in the policy we should cap it at six percent. We are also establishing the floor and the ceiling for what the account must have in it. The floor addresses concerns for injured claimants, and the ceiling addresses concerns for the business communities in our state.

Senator Espegard: The six percent, the board has five percent, is that more room to work in?

Rep. Keiser: That's exactly right. The board adopted a position of using the five percent, however, the actuaries said there should be the flexibility.

Senator Espegard: You talked about the return, and a period, is that the period of the last two years?

Rep. Keiser: I believe about five year period.

Senator Espegard: Where are they?

Senator Klein: The WSI has their quarterly meeting this morning. I told them they didn't have to come. I have his testimony.

Senator Nething: Why is this bill coming forth now? As a delayed bill?

Rep. Keiser: What drove this, this bill, the first draft, was a concern to the board. We have been trying to work with the current board to define what levels to set and this is a result of those discussions. The only reason it wasn't introduced earlier, was we were trying to get into a position where all of the parties could agree.

Senator Espegard: It says that what they are asking is what they are doing now? It also allows them to go higher on their discount. I really don't see any benefit of the legislation. The language doesn't show any benefit.

Rep. Keiser: Again, the board wasn't operating in these perimeters until the legislative interim process became involved and at that time, the board then said it was okay.

David Straley, Chamber of Commerce, spoke in support of the bill. See written testimony.

Senator Nething: As I look at this, if this bill went into effect, what would happen with the reserves?

David: I believe that WSI would have this as a directive in front them and they could determine what would happen in the future.

Senator Nething: Doesn't this bill have an immediate impact as to refunds?

David: I think the board has been working together and they see it coming and be proactive in their approach.

Senator Espegard: I see it that nothing will take place. You have given them more run.

David: They are actually above the one-hundred and forty percent.

Senator Espegard: So are you saying their is going to be a refund coming?

David: I believe there will be.

Rep. Keiser: They are currently doing this. They asked why they were carrying the tremendous reserves they are carrying. Actuaries say we don't need them.

Senator Heitkamp: David, we've had a number of bills that came in front of us this session regarding WSI, some which I sponsored, and the Chamber of Commerce and GNDA always came in and said that they couldn't support those bills because they thought they needed to stay out of the business of micro-managing WSI. We needed to leave it to "stellar" job that they are doing, so why the change today?

David: No, I will stand behind those words. Eighty-six percent of the funds that you see today has come from investments.

Senator Heitkamp: Why do you want us to get into micro-managing them now?

David: I don't think that we should be growing the fund to the level it is at. This bill provides flexibility.

Senator Heitkamp: We had a number of bills in here this session, and what kept coming back up was that we couldn't afford to do that for workers because the fund had not reached where the report said it needed to be. GNDA and yourself came in and said the fund wasn't where it needed to be. Now you are saying it is. Did you change positions somehow?

David: I'm not remembering what bill you are referring to. No we did not vote on it.

Senator Heitkamp: It's about the discount.

David: It's about the reserve levels that they are taking.

Senator Espegard: This report that we have here, is dated December of 2004, which means it was done in plenty of time for a bill to be introduced here. What legislation are they talking about here?

David: I am not going to speak for WSI on this issue.

Senator Espegard: I agree with Senator Heitkamp that we have been led to believe that the fund wasn't where it was supposed to be.

Senator Nething: I wish we would've had this information at the beginning of the session.

Senator Fairfield: The way I'm looking at this is a strategy from the beginning. Senator Espegard read from a report from 2004, is this a political strategy?

Rep. Keiser: I think we could have gotten the bill to you faster. This is not a strategy.

Rep. Berg: We need a reserve is so that if someone is injured and it is taken care of, but medical science says that when that person is sixty-five, he is going to need a knee replacement.

Senator Fairfield: So there was a decision to wait on this until all of the other bills had passed?

Rep. Berg: This has been a fact for a decade. Anyone can find this information out.

Senator Heitkamp: That isn't what they said in here. They said the fund was not where they needed it to be.

Rep. Berg: That shocks me. This bill did not come from WSI. This came from legislators.

Senator Espegard: We have testimony here from 2004 that WSI wanted to give discounts, so they were going to do what this says to do.

Rep. Berg: They support this, but it sets perimeters.

Chairman Mutch recessed the hearing until they could hear from WSI.

2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1531

Senate Industry, Business and Labor Committee

☐ Conference Committee

Hearing Date 4-11-05

Tape Number	Side A	Side B	Meter #
1	xxx		
Committee Clerk Signature Lisa VanBerkom			

Minutes: **Chairman Mutch called to order, the hearing on HB 1531. All Senators were present.**

Sandy Blunt, CEO WSI, spoke in support of the bill.

Sandy: Some questions were raised on the 7th of April, when we were absent from the hearing, that I would like to answer.

Senator Klein: So the direction of reserves and premiums, are we cutting into the reserves?

Sandy: Correct. There is the premiums, and the amount of the premiums will have an effect on what the reserve amount is. We are talking about a reserve surplus.

Senator Espegard: When you talk about interest, it is the amount that the account will earn?

Sandy: Yes, the amount you earn, then if we think we can earn that, then the current obligation is discounted back.

Senator Krebsbach: What is this bill going to do, that you aren't doing already?

Sandy: It codifies current operating procedure, which has been researched to be very conservative and sound.

Senator Heitkamp: We had a number of bills come through and a lot of your testimony was based on the premise that we don't need to meddle in the activities of your board. Your self-governance was working, that the fund was going up, so why now would you stand there and support this?

Sandy: We will draw a line where we think it's appropriate. This is something that is set by the legislature to have a floor and ceiling to codify it.

Senator Heitkamp: We were told all session until now, that the fund wasn't mature, was this a strategy?

Sandy: We never said that the fund wasn't mature.

Senator Espegard: I have a problem with the ranges. If in the future, someone else is running the place, how can you say to operate around 120?

Sandy: 120 is still good. 110 is too low.

Senator Nething introduced an amendment. 50847.0102.

Senator Nething moved the amendments. Senator Espegard seconded.

Roll Call Vote: 4 yes. 3 no. 0 absent.

Senator Krebsbach moved a DO NOT PASS. Senator Klein seconded.

Roll Call Vote: 4 yes. 3 no. 0 absent.

Senator Krebsbach is the carrier.

The committee met again on April 13, to reconsider their action of DO NOT PASS.

By voice vote, the committee voted in favor of the reconsideration of the bill.

Senator Espegard moved to remove the amendment 50847.0102.

Senator Krebsbach seconded.

Roll Call Vote: 4 yes. 3 no. 0 absent.

Senator Klein moved a DO PASS. Senator Krebsbach seconded.

Roll Call Vote: 5 yes. 2 no. 0 absent.

Carrier: Senator Krebsbach

50847.0102
Title. 0200

Prepared by the Legislative Council staff for
Senator Nething
April 7, 2005

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1531

Page 1, line 2, after "discount" insert "; and to repeal House Bill No. 1171 of the fifty-ninth legislative assembly, relating to the definition of permanent total disability and temporary total disability, eligibility for partial disability benefits, and vocational rehabilitation options, retraining, and noncompliance appeals for workforce safety and insurance purposes"

Page 1, after line 12, insert:

"**SECTION 2. REPEAL.** House Bill No. 1171, as approved by the fifty-ninth legislative assembly, is repealed."

Renumber accordingly

Date: 4-11-05
Roll Call Vote #: 1

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1531

Senate **Industry, Business, and Labor** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number 50847.0102

Action Taken Adopt Amendments

Motion Made By Nething Seconded By Espegard

Senators	Yes	No	Senators	Yes	No
1st Chairman Mutch		X	Senator Fairfield	X	
Senator Klein		X	Senator Heitkamp	X	
Senator Krebsbach		X			
Senator Espegard	X				
Senator Nething	X				

Total (Yes) 4 No 3

Absent

Floor Assignment

If the vote is on an amendment, briefly indicate intent:

Date: 4-11-05
Roll Call Vote #: 2

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1531

Senate **Industry, Business, and Labor** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken Do Not Pass

Motion Made By Krebsbach Seconded By Klein

Senators	Yes	No	Senators	Yes	No
Chairman Mutch	X		**Senator Fairfield**		X
Senator Klein	X		**Senator Heitkamp**		X
Senator Krebsbach	X				
Senator Espegard	X				
Senator Nething		X			

Total (Yes) 4 No 3

Absent 0

Floor Assignment Krebsbach

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1531: Industry, Business and Labor Committee (Sen. Mutch, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO NOT PASS** (4 YEAS, 3 NAYS, 0 ABSENT AND NOT VOTING). HB 1531 was placed on the Sixth order on the calendar.

Page 1, line 2, after "discount" insert "; and to repeal House Bill No. 1171 of the fifty-ninth legislative assembly, relating to the definition of permanent total disability and temporary total disability, eligibility for partial disability benefits, and vocational rehabilitation options, retraining, and noncompliance appeals for workforce safety and insurance purposes"

Page 1, after line 12, insert:

"**SECTION 2. REPEAL.** House Bill No. 1171, as approved by the fifty-ninth legislative assembly, is repealed."

Renumber accordingly

Date: 4-13-05
Roll Call Vote #: 1

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1531

Senate Industry, Business and Labor Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken Reconsider Action

Motion Made By Espegard Seconded By Klein

Senators	Yes	No	Senators	Yes	No
Senator Mutch, Chairman	X		Senator Fairfield	~~X~~	X
Senator Klein , Vice Chairman	X		Senator Heitkamp	~~X~~	X
Senator Krebsbach	X				
Senator Nething		X			
Senator Espegard	X				
VOICE VOTE					

Total (Yes) 7 No 0

Absent 0

Floor Assignment

If the vote is on an amendment, briefly indicate intent:

Date: 4-13-05
Roll Call Vote #: 2

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1531

Senate Industry, Business and Labor Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number ______

Action Taken remove amendment 50847.0102

Motion Made By Espegard Seconded By Krebsbach

Senators	Yes	No	Senators	Yes	No
Senator Mutch, Chairman	X		Senator Fairfield		X
Senator Klein , Vice Chairman	X		Senator Heitkamp		X
Senator Krebsbach	X				
Senator Nething		X			
Senator Espegard	X				

Total (Yes) 4 No 3

Absent 0

Floor Assignment ______

If the vote is on an amendment, briefly indicate intent:

Date: 4-13-05
Roll Call Vote #: 3

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1531

Senate Industry, Business and Labor Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken Do Pass

Motion Made By Klein Seconded By Krebsbach

Senators	Yes	No	Senators	Yes	No
Senator Mutch, Chairman	X		Senator Fairfield		X
Senator Klein , Vice Chairman	X		Senator Heitkamp		X
Senator Krebsbach	X				
Senator Nething	X				
Senator Espegard	X				

Total (Yes) 5 No 2

Absent 0

Floor Assignment Krebsbach

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1531: Industry, Business and Labor Committee (Sen. Mutch, Chairman) recommends **DO PASS** (5 YEAS, 2 NAYS, 0 ABSENT AND NOT VOTING). HB 1531 was placed on the Fourteenth order on the calendar.

2005 TESTIMONY

HB 1531

2005 House Bill No. 1531
Testimony before the House Industry, Business, and Labor Committee
Presented by: Sandy Blunt, Executive Director & CEO
Workforce Safety and Insurance
April 4, 2005

Good morning Mr. Chairman and Members of the Committee:

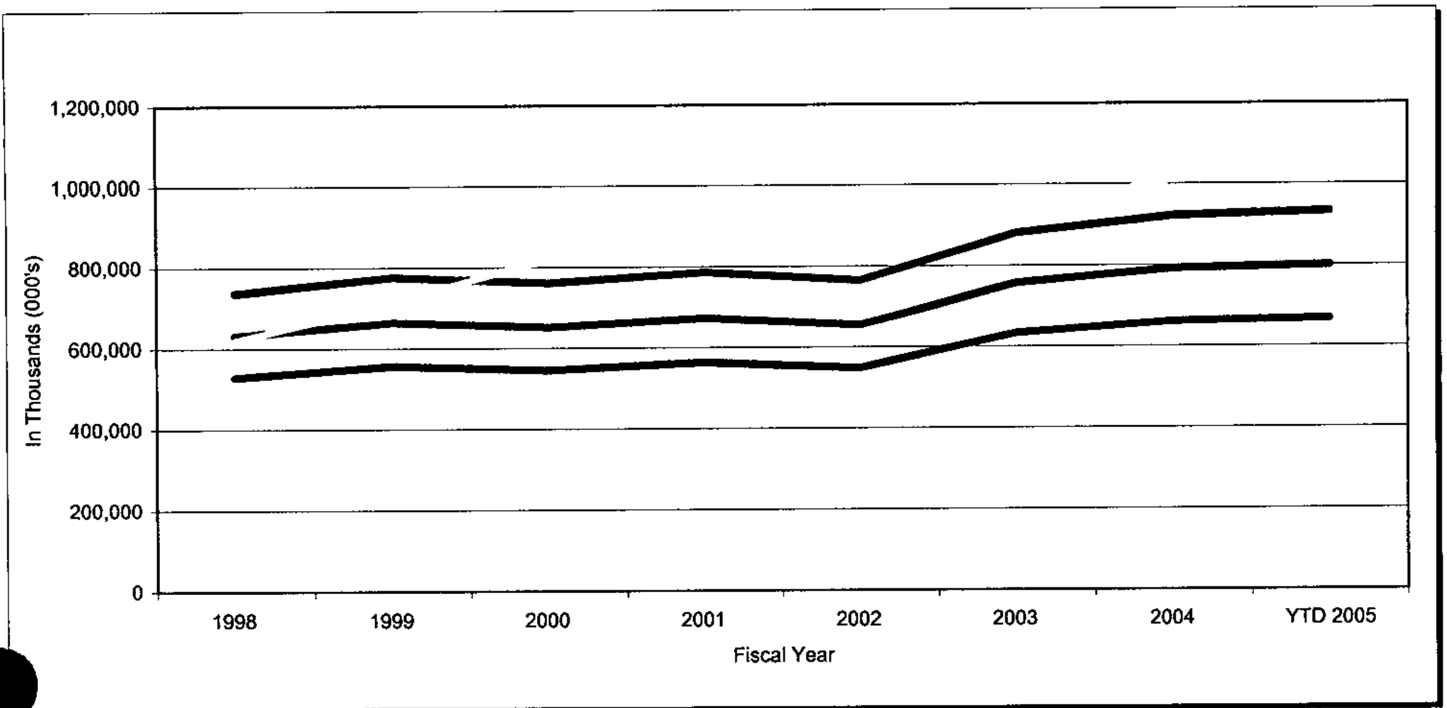
My name is Sandy Blunt and I am the Executive Director & CEO of Workforce Safety and Insurance (WSI). I am here to testify in support of House Bill 1531 (HB 1531). HB 1531 amends section 65-04-02 of the North Dakota Century Code relating to workforce safety and insurance fund reserve balance and rate of discount. The WSI Board of Directors supports this bill.

Current law requires WSI to "maintain adequate financial reserves to ensure the solvency of the fund and the payment of future benefit obligations, based upon actuarially sound principles." HB 1531 sets the maximum discount rate to be used in evaluating the financial reserves at six percent. Discounting of loss reserves is a common practice within the workers' compensation industry. WSI's current discount rate is five percent and was established and approved by WSI's Board of Directors after a comprehensive study and analysis and consultation with investment, financial, accounting, and actuarial experts.

HB 1531 also sets the financial reserve surplus range. Currently, the law requires the maintenance of adequate reserves to ensure ongoing solvency. Over the past decade WSI's financial position has improved from a significant deficit position to one that is now solvent. The proposed language codifies the Board's current operating policy by setting a reserve plus surplus range of one hundred and twenty percent to one hundred and forty percent of the actuarially established discounted reserve.

I would be happy to answer any questions at this time.

Workforce Safety & Insurance
Financial Reserves and Surplus (5% Discount on Liabilities)
Current Position and Last 7 Years



CALCULATION (in 000's)	1998	1999	2000	2001	2002	2003	2004	YTD 2005
Unpaid loss and LAE, discounted at 5%	525,700	553,700	543,000	561,000	545,700	630,100	659,200	666,200
Total fund surplus	142,319	206,274	332,942	332,632	341,073	337,396	403,652	459,107
Less: Unrealized investment gains	(49,085)	(47,728)	(55,548)	(12,865)	0	(32,884)	(52,191)	(58,532)
Total Financial Reserves and Surplus	618,934	712,246	820,394	880,767	886,773	934,612	1,010,661	1,066,775

Total Financial Reserves and Surplus	618,934	712,246	820,394	880,767	886,773	934,612	1,010,661	1,066,775
Unpaid loss and LAE, discounted at 5%	525,700	553,700	543,000	561,000	545,700	630,100	659,200	666,200
Financial Ratio	117.7%	128.6%	151.1%	157.0%	162.5%	148.3%	153.3%	160.1%
Low End of Ratio (120%)	630,840	664,440	651,600	673,200	654,840	756,120	791,040	799,440
High End of Ratio (140%)	735,980	775,180	760,200	785,400	763,980	882,140	922,880	932,680

Sandy Blunt testimony

Page 2

4-4-05
HB 1531

WSI Reserve Surplus Proposal

Workforce Safety & Insurance (WSI) is the exclusive provider of workers' compensation insurance and benefits in the state of North Dakota. WSI is funded solely by employer premiums; no general fund tax dollars are received. A critical function of WSI is to maintain adequate financial reserves and surplus to ensure the ongoing solvency of the fund and the payment of future benefit obligations.

By making sound investments over the last nine years, WSI's reserve fund has seen steady growth. WSI's portfolio has earned an average of 8.71% each year, accounting for 86 percent of the fund growth since 1995. At their November 17, 2004, meeting, WSI's Board of Directors adopted a funding policy to record reserves on a discounted basis and established a fund surplus target and hold 2 to 2.5 times an average annual premium (about $250 million) as a surplus target to protect against any adverse events in the future. When available net assets are greater than the surplus target, WSI will be in a reserve surplus position. Based on this new methodology, at June 2004, the estimated reserve surplus was approximately $101 million and the surplus is estimated to be $110 million as of October 31, 2004.

	2004	2005*
Total assets	$1,387,479,278.00	$1,422,208,863.00
Total liabilities	$(983,827,597.00)	$(988,230,927.00)
Net assets	$403,651,681.00	$433,977,936.00
Unrealized investment gains	$(52,190,568.00)	$(73,367,419.00)
Available net assets	$351,461,113.00	$360,610,517.00
Surplus Target, $250 m	$250,000,000.00	$250,000,000.00
Reserve Surplus	**$101,461,113.00**	**$110,610,517.00**

*Estimated as of October 31, 2004

WSI Staff Recommendations

Due to the estimated reserve surplus of $110 million, the Board has asked the staff of WSI to recommend some alternatives to draw down the surplus. Please note again that the amounts noted in the document are estimates only and are not guaranteed to represent the actual balance of the fund at the time the final decision are recommended to be made. Consequently, the corresponding recommendations on any credits are proposed sample amounts. All final decision on credits should be made by the Board at the time premium rates are voted upon next spring. Some portion of these recommendations, if approved, will require new legislation. In addition, the full and complete details and operational guidelines must still be produced if concepts are approved.

WSI Staff recommends:

1. Committing $35 million to developing new Safety Initiatives consisting of education, grants, and/or incentives;
2. Committing $15 million to establishing a WSI Educational Revolving Loan Fund for injured workers; and
3. Committing, $60 million over two years in premium dividend credits of 40% and 20% respectively to employers during the 2005/2006 premium years.

Below is the statutory analysis for the above proposals and the best ways to fund these ideas and strategies.

Safety Initiatives

Statewide claim frequency increased for the first time in years during 2004. To assist WSI in controlling claim frequency, WSI is proposing using the $35 million to conduct an aggressive, multi-year program on safety awareness and action. In addition to the education, WSI is proposing to create a matching grants program for employers to purchase safety equipment, education, workplace modifications, etc.

WSI has authority under NDCC 65-03-04 to create and operate safety programs through loss prevention interventions including education, training, consultation, grants, or incentives. While statutory authority exists for safety programs, a flexible funding mechanism does not. Funding must come through the legislative appropriation process or in the form of premium discounts offered to employers. We recommend seeking approval from the legislature for a continuing appropriation as a funding mechanism to allow WSI to pursue additional means of promoting safer workplaces by allocating a portion of the reserve surplus to safety.

Workforce safety and insurance educational revolving loan fund

The organization proposes establishing a revolving loan fund to provide low-interest loans to individuals who has suffered a compensable work injury. The loans must be used to pursue an education at an education at an accredited institution of higher education or an institution of technical education. The revolving fund would be a special fund and maintained as a separate account and invested pursuant to 21-10-06. The Bank of North Dakota and the WSI would together determine the financial criteria that must be met for an applicant to be approved. The loan would have a fixed rate of one percent below the Bank of North Dakota's prime interest rate and the interest on the loan would not begin accruing until the first payment is made. The total amount loaned annually would not exceed $2,500,000. The maximum amount payable on behalf of an applicant may not exceed $50,000 and must be paid out within five years. Repayment would begin when the individual: a) receives his/her degree; b) ceases to continue to pursue his/her degree; c) is released by the institution for cause; and d) not later than some number of years after the initial loan is accepted. A loan would be required to be repaid within a period not to exceed twenty years. Investment income upon moneys in the fund and collections of interest and principal on loans made from the fund are appropriated on a continual basis to maintain the fund.

Premium Dividend

Authority for a return of dollars involving premium calculations programs is provided by North Dakota Century Code (NDCC) 65-04-19.3 and Administrative Rule 92-01-02-55.

WSI recommends returning a portion of the surplus in the form of premium dividend credits for employers. The credits are proposed to be applied to renewals beginning July 01, 2005 and offered on a year-by-year basis as appropriated and available. The premium reduction should be taken as a flat percentage credit of total premium due for the reporting period. The return of premium would be calculated using estimated premium and be reconciled at year end using actual premium for the respective policy period.

The reduction of premium should be implemented in conjunction with the policy year and applicable to all employers who have active accounts for the period specified and would not apply to minimum premium accounts or accounts in a delinquent/unsatisfactory status. The amount of the premium credit should be determined using the most recent reserve surplus information available prior to the policy year being proposed to receive the credit. All decisions on the final amount of the credit should be tied to the actual balance of any surplus of the fund at the time the credit is being proposed and should not be made until after the final and appropriate premium rates have been set for the policy year being considered. Any potential premium credits to be offered should not be used in determining the appropriate and necessary rates required to assure fiscal stability. WSI premium rates should serve the correct purpose of collecting the actuarially estimated costs of the year in which they are charged.

2005 Proposed Legislative Benefits Injured Workers

HB 1120: Scholarships & Communication

- Increases the maximum amount of scholarships from $3,000 to $4,000 per year for up to 5 years for spouses and dependent children of a worker who died as a result of a compensable work-related injury.
- Establishes the amount of scholarships issued in exceptional circumstances at $10,000 per year for up to 5 years.
- Increases the maximum amount of scholarships that can be awarded annually from $150,000 to $300,000.
- Establishes the ability of healthcare professionals to communicate directly with employers on claims information relevant to the work injury and return to work issues.

HB 1125: Safety Incentives

- Provides for additional safety incentives to ensure the health and safety of North Dakota's workforce.
- Establishes a continuing appropriation authority to fund safety education, grant, and incentive programs in the event there is a reserve surplus

HB 1171: Disability and Vocational Rehabilitation

- Provides the option for an injured worker to choose to pursue a retraining program or opt for up to five years of partial disability benefits.
- Provides WSI with discretion to allow an injured worker to pursue retraining in cases where an employee's first appropriate option was not retraining.

HB 1491: Revolving Loan Fund

- Dedicates $15 million of WSI's reserve surplus to establish an educational revolving loan fund.

HB 1506: Non-dependency Payments

- In light of the fact that the non-dependency benefit had not been increased since the late 1970's, the bill increases the amount of the non-dependency benefit from $2,000 to 5% of the cap on death benefits --the cap is currently $250,000.
- Increases lump sum death award for death claims where no surviving spouse or dependents exist from $2,000 to $12,500.
- The advantage of using a fixed percentage for the non-dependency benefit is that it will allow the benefit to remain as a constant percentage of the total death benefit cap should it increase in the future.

SB 2351: Additional Benefit Payable

- The bill redefines the weekly benefit as the compensation rate "before" any applicable social security offset and would only apply to ABP payments made on or after August 1, 2005.
- The anticipated overall premium level increase is less than one-half of one percent --or less than five hundred thousand dollars per year. This increase equates to an average of $1,000 per ABP recipient per year for the duration of their ABP period.

The following benefit bills were passed during the 1997, 1999, 2001, and 2003 legislative sessions.

- Increased weekly death benefits for surviving spouses from a fixed $210 per week to up to $577 per week (110% of statewide average weekly wage (SAWW)).
- Increased lifetime cap on death benefits by more than 25%, from $197,000 to $250,000.
- Introduced a post-retirement additional benefit for injured workers whose disability benefit ends at time of retirement.
- Increased the maximum disability benefit from 100% of SAWW to 110% of SAWW. As a percent of the state's average wages, it's one of the highest maximum benefit rates in the country.
- Shortened the waiting period that the long-term disabled must wait to become eligible for cost of living adjustments from 10 years to 7 years.
- Passed legislation allowing up to a $50,000 home remodeling and vehicle adaptation allowance for each catastrophically injured worker.
- Increased permanent partial impairment awards for the severely impaired.
- Created the Guardian Scholarship program to help pay for the education of a spouse and/or dependent of a worker who dies on the job. To date, 240 scholarships totaling $684,000 have been awarded.

Workforce Safety & Insurance

WSI Putting safety to work

Workforce Safety & Insurance Discounted vs. Undiscounted Analysis

November 16, 2004

WSI DISCOUNTED vs. UNDISCOUNTED ANALYSIS

Workforce Safety & Insurance (WSI) is the exclusive provider of workers' compensation insurance and benefits in the state of North Dakota. A critical function of WSI, through the oversight of the Board of Directors, is to ensure the long-term financial stability of its reserve fund. Any solvent insurance company has the objective of funding the estimated yearly payment stream with the corresponding premium collection. Insurance is designed –in theory and in practice—to pay its expenses on a year-to-year basis. If an insurance company can not do so and finds itself insolvent and closed, their reserve fund is activated to cover the cost of all the current claims. The function of the reserve fund is to set aside an appropriate amount of funding to cover 100 percent of the future costs of current claims should the organization be closed or liquidated for any reason. The reserve fund is an estimate of what the cumulative future payments will be for all the claims that exist on WSI's books today. The process of establishing reserves is complex and subject to many variables.

In the Casualty Actuarial Society (CAS) discussion paper entitled "RISK THEORETIC ISSUES IN THE DISCOUNTING OF LOSS RESERVES, CAS outlined the issue of reserving as follows:

FUNDAMENTAL ISSUES
The largest liability item on the balance sheet of virtually all insurance companies is also, arguably, the most uncertain. Often, the dollar amount of the liability for losses and loss adjustment expenses is not known until several years after the liability has been incurred and accounted for. This liability is subject to future uncertain events beyond the control of the insurance company, such as the socio-legal climate, jury sentiments, attitudes toward claim settlement, etc. that will prevail when the claims that give rise to the liability reach their ultimate disposition. A loss reserve is simply an estimate of this liability as of a given point in time, based on currently available information.

It is generally true that the reserves for the longer-tailed lines of business (i.e., those with greater-than-average time lags between claim incident and disposition) are the more uncertain. It is also a fact that these same lines of business present the greater opportunity for investment income on the assets supporting the reserves and thus for greater amounts of reserve discounting. There is some correlation then between reserve uncertainty and discount potential, and this gives some support to the idea that undiscounted reserves give implicit recognition to risk.

SOURCES OF UNCERTAINTY
The sources of reserve uncertainty are many and arise principally from the following elements:

1. *The ultimate value of claims reported but unpaid as of the evaluation date*
2. *The ultimate number and value of claims incurred but unreported as of the evaluation date*
3. *The ultimate value of claims closed as of the evaluation date but reopened subsequently*
4. *The payment timing of all unpaid claims for which a liability exists as of the evaluation date*
5. *Investment yields*
6. *Asset values*

(Note that this list is not exhaustive.)

Contributing to the uncertainty surrounding these elements are:

- *inflation*
- *judicial and legal climate*
- *changes in company practice, e.g., with respect to:*
    - o *asset management*
    - o *claims administration*
- *currency fluctuations*
- *the interaction of the various items, e.g.:*
    - o *interest rates vs. inflation*
    - o *claim severity vs. payment lag*

There are two predominant methods that are utilized when establishing a reserve fund --discounted and/or undiscounted. Under an undiscounted methodology, the total amount of the reserve necessary is calculated and 100 percent of that corresponding amount is held aside. Under a discounted method, only a portion of the funds necessary are collected and held. The remaining amount that would be required to pay out the remaining claims would be supplemented by investment income. Undiscounted is the most conservative and risk adverse method available.

In May, 2002, the Board voted to change the WSI reserve fund from discounted to undiscounted. At the time of the vote, the reserve fund was just coming out of a debt situation and the Board believed having an undiscounted reserve fund would protect it from the financial impact of a large catastrophic loss or any adverse court decision.

Since that time, the financial position of the reserve fund and the investment climate have changed significantly and WSI is very close to being fully reserved on an undiscounted basis. As is the duty of any organization, prudent re-evaluations of strategies should be routinely conducted. This analysis again reviews what should be the proper reserving position for the reserve fund: 1) continue at undiscounted or 2) discount at a reasonable rate.

Remaining undiscounted will require the collection and retention of more than $1.1 billion. While it is a conservative approach, is it too conservative for North Dakota's structure? WSI is the exclusive provider of workers' compensation in North Dakota with the statutory ability to establish future premiums to cover losses. Unlike most other states, WSI is not subject to competitive market pressures and has consistently provided some of the lowest premium levels in the country. Because of its state franchise, the likelihood of WSI going out of business is virtually non-existent. With a much lower exposure to risk, should the reserve fund be utilizing the most risk adverse methodology?

In addition, when the current 6 percent discount factor is removed, premiums will more than likely correct upwards to account for the loss of the discount. As noted, insurance is designed to pay costs on a year-to-year basis. Without any discount factor applied, premium rates will rise to cover the gap the discount covered.

Given this fact, should the Board consider a conservative discounting scenario? The management of WSI believes it should consider doing so. Given the long-term payment stream to injured workers, it would be reasonable to assume future investment earnings when calculating the future needs of the reserve fund. It would also be prudent to utilize the time-value of money in order to sufficiently maximize the dollars set aside in the reserve fund.

The next questions are at what rate should the discount be set and how do we guarantee a security net?

CAS' Committee on Theory of Risk defined the discounting issue in its "Risk Adjusted Discount Rates: Summary of the Literature" as follows:

> *Several important and controversial issues are impacted by this subject including: 1) if insurance loss reserves are discounted to reflect their true economic value, what discount rate should be used? 2) how is risk or profit load properly determined for insurance products so that both investment income and risk are appropriately recognized? Is using a risk adjusted discount rate superior to applying a risk load to expected discounted losses? and 3) what is the appropriate risk based capital for property and casualty loss reserves, unearned premium reserves and premium? The answer to this question should give due consideration to economic or discounted as opposed to statutory or undiscounted values.*

The relevant North Dakota law governing the reserve fund requires:

CHAPTER 65-04, THE FUND AND PREMIUM PAYMENTS THERETO
65-04-01. Classification of employments - Premium rates - Requirements.

1. The organization shall classify employments with respect to their degrees of hazard, determine the risks of different classifications, and fix the rate of premium for each of the classifications sufficiently high to provide for:
   a. The payment of the expenses of administration of the organization;
   b. The payment of compensation according to the provisions and schedules contained in this title; and
   c. <u>The maintenance by the fund of adequate reserves and surplus to the end that it may be kept at all times in an entirely solvent condition</u>.
2. In the exercise of the powers and discretion conferred upon it, the organization shall fix and maintain for each class of occupation, the lowest rate which still will enable it to comply with the other provisions of this section.
3. Before the effective date of any premium rate change, the organization shall hold a public hearing on the rate change. Chapter 28-32 does not apply to a hearing held by the organization under this subsection.

65-04-02. Reserves. <u>The organization shall maintain adequate financial reserves to ensure the solvency of the fund and the payment of future benefit obligations, based upon actuarially sound principles</u>. The independent annual financial audit of the organization must report the organization's financial reserves.

The Governmental Accounting Standards Board's GASB 10 requirements state:

> "The practice of presenting claims liabilities at the discounted present value of estimated future cash payments (discounting) is neither mandated nor prohibited. However, claims liabilities associated with structured settlements should be discounted if they represent contractual obligations to pay specific amounts on fixed or determinable dates." GASBS10, Par. 25 & Par. 59

> "If claims liabilities are discounted, the entity should use a rate that is determined by giving consideration to such factors as the entity's settlement rate for those liabilities and its investment yield rate." GASBS10, Par. 60

Due to the long-term nature of the WSI reserves, the discount rate could be matched to the returns of long-term bonds of similar duration. The rate would then be evaluated annually and adjusted for any significant change. These adjustments would ensure that the most current rate is being utilized. Comparability of financial statements from year to year may become more difficult if a different discount rate was in place each year. The discounted method would be to set the discount rate based upon an expected average rate of investment return. This average rate could be evaluated every three to five years in conjunction with the investment cycle. As a result, the discount rate would be more stable.

WSI recently surveyed the other 4 monopolistic funds to determine their discount policy. The state funds of Ohio, West Virginia, and Washington discount their reserve funds. Wyoming is in the process of proposing legislation to allow it to discount. In addition, approximately 50 percent of all the state funds discount at a range of 3.5 percent to 7 percent. The other 50 percent do not discount their reserve fund. State funds base their discount rate on a variety of methods from actuarial recommendations, bond market earnings and historic trends. The Ohio fund discount rate floats according to the 20-year bond return.

Because factors such as those that CAS noted (judicial and legal climate, changes in company practice, currency fluctuations, interest rates vs. inflation, claim severity vs. payment lag) affect future liabilities, we believe there should be an established margin of protection. As a result, the uncertainty inherent in estimating ultimate claims costs, we are recommending that in addition to the discounted amount there be a surplus of 2 to 2 ½ times an average year's premium for unexpected developments.

In determining a basis for an appropriate discount rate, WSI staff researched and consulted with a number of experts in investment cycles to determine a prudent number for a discount rate. Staff consulted with and/or sought an opinion from the North Dakota Retirement and Investment Office, Pacific Actuarial Consultants Callan & Associates, Eide Bailly, LLP. Staff also evaluated/researched a number of resources including:

- WSI Earned Premium Comparison Last 6 Years (Chart 1)
- Asset Growth of $1 at CPI (Chart 2)
- Asset Growth of $1 at 5% (Chart 3)
- Historical Bond Returns since 1926 (Chart 4)
- Historical Treasury Bill Returns since 1926 (Chart 5)
- Historical Standard and Poor's 500 Returns since 1926 (Chart 6)
- WSI Discount Analysis with Equities (Chart 7)
- WSI Discount Analysis without Equities (Chart 8)
- WSI Range of Investment Returns (Chart 9)
- WSI Investment Fund Performance (Chart 10)
- WSI Unpaid Loss and LAE Discounted Liability at June 2004 (Chart 11)
- WSI Unpaid Loss Liability Last 5 Years (Chart 12)
- WSI Underwriting Income (Loss) Last 5 Years (Chart 13)
- Changes in Fund Net Assets (Chart 14)
- Overall Fund Growth Since 1995 (Chart 15)
- WSI Earned Premium Comparison Projections for Next 4 Years (Chart 16)
- Callan & Associates' Report Recommendation (Attachment One)

Based on the research, WSI staff recommends adopting a 5 percent discount with $250,000,000 set aside in surplus. Consequently, the total reserve amount today would be approximately $910,000,000 ($660,000,000 for the required reserve plus $250,000,000 in surplus).

Chart 1
WSI Earned Premium Comparison Last 6 Years
What If Modeling (Results Are Not Actual But For Presentation Purposes Only)

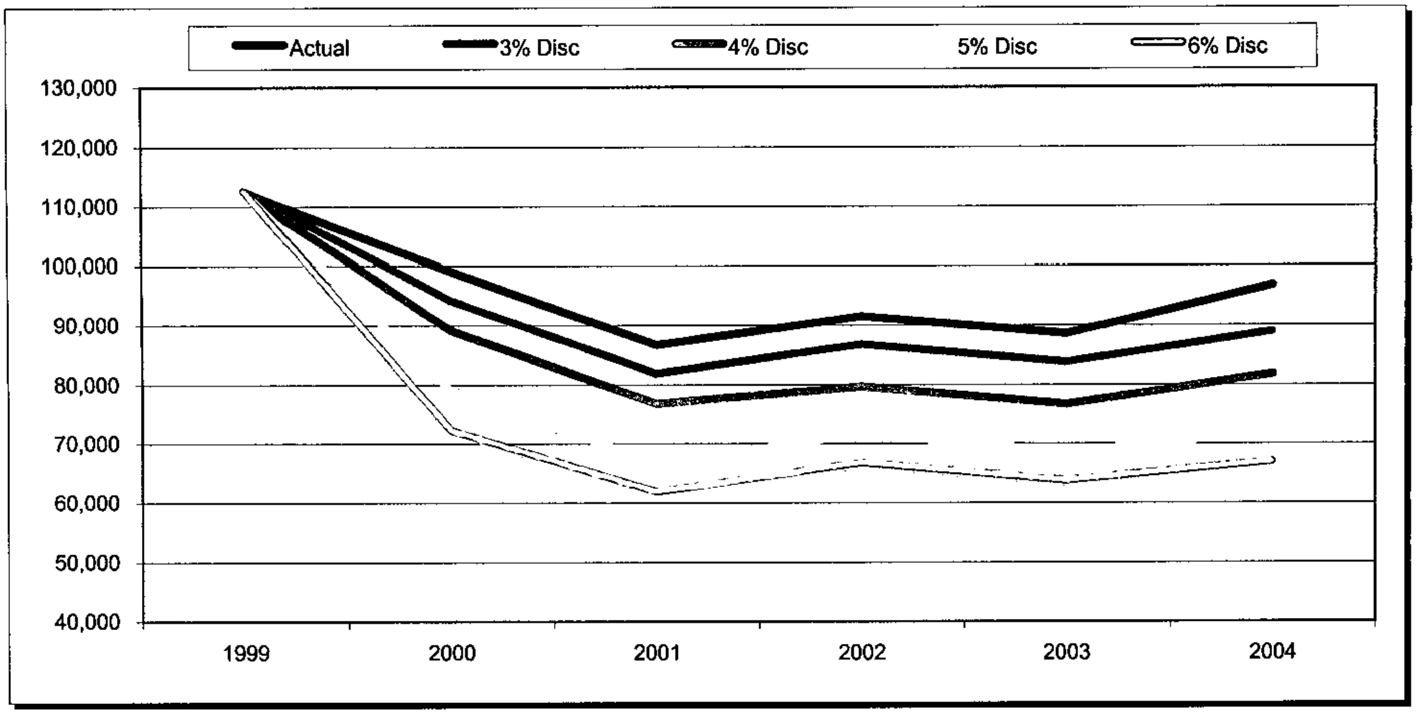


Chart 2
Asset Growth of $1
CPI Rate of 2.7%

Today	1 Year	2 Years	5 Years	10 Years	20 Years
1.00	1.03	1.06	1.15	1.30	1.70
0.58	0.60	0.62	0.68	0.78	1.00

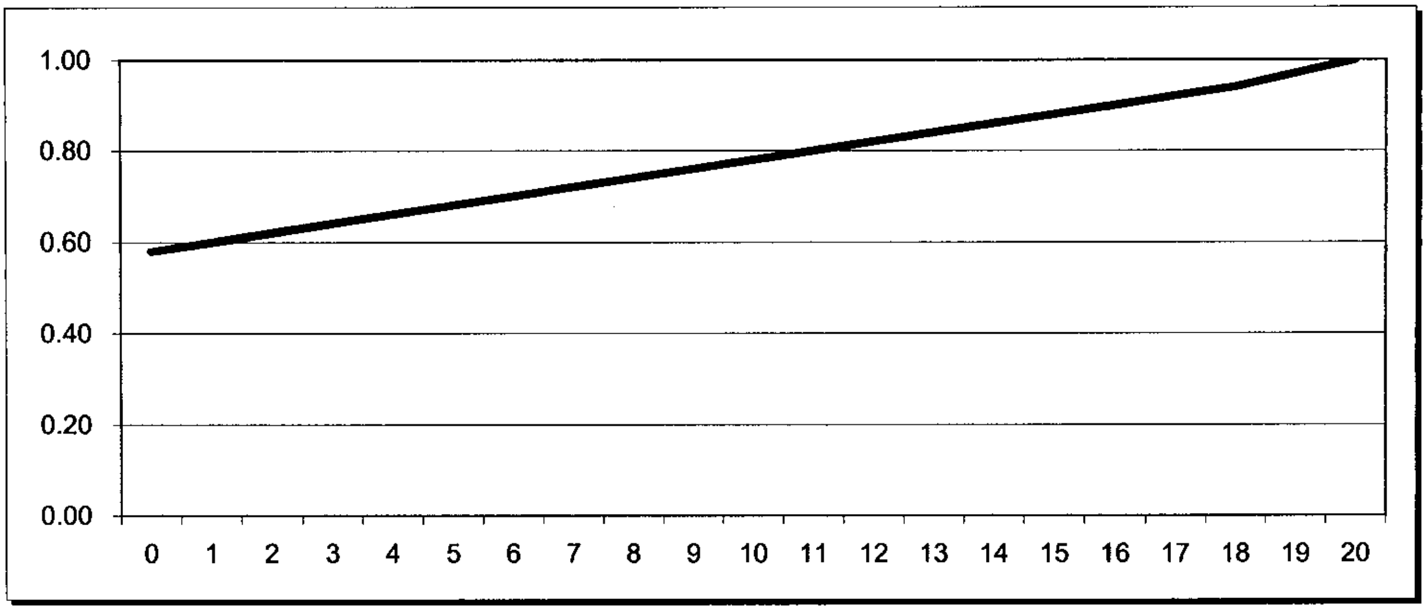


Chart 3
Asset Growth of $1
Investment Rate of 5.0%

Today	1 Year	2 Years	5 Years	10 Years	20 Years
1.00	1.05	1.10	1.28	1.63	2.65
0.38	0.40	0.42	0.48	0.62	1.01

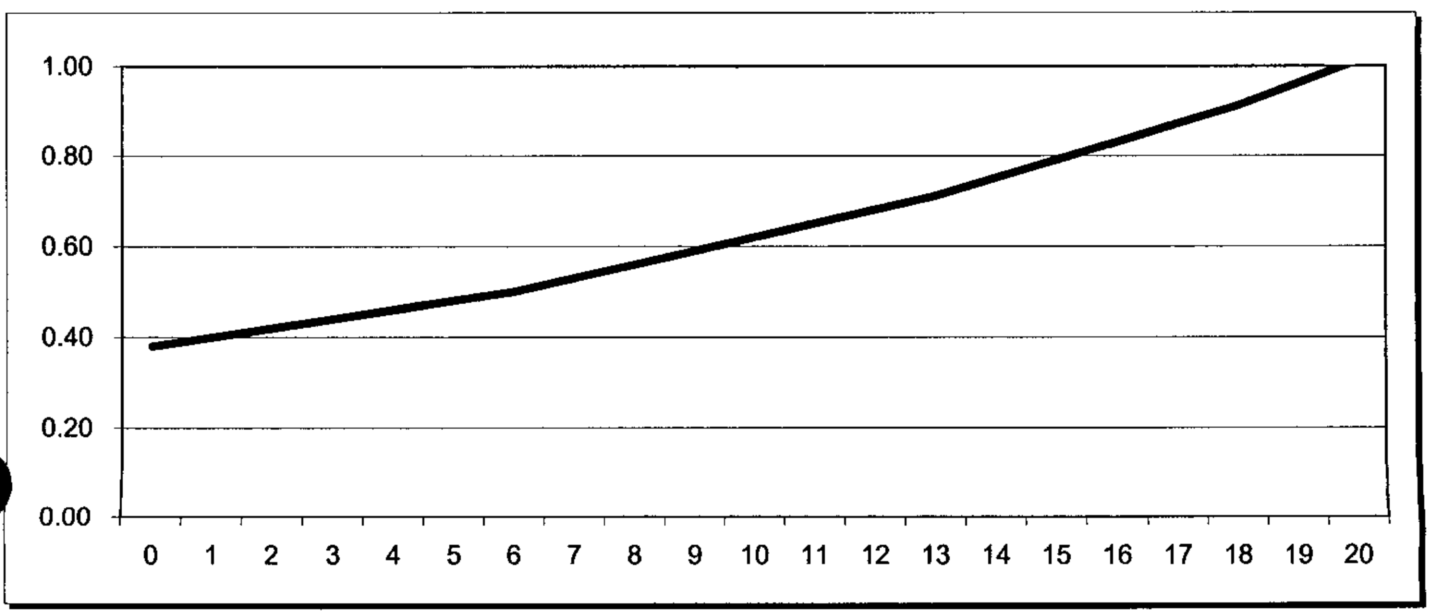
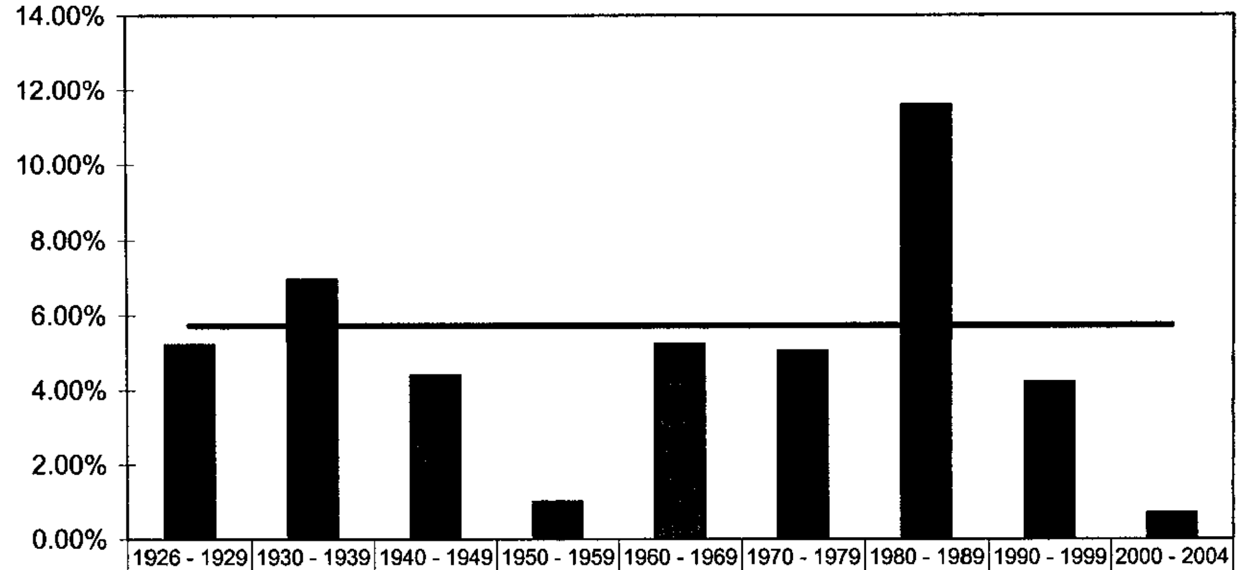
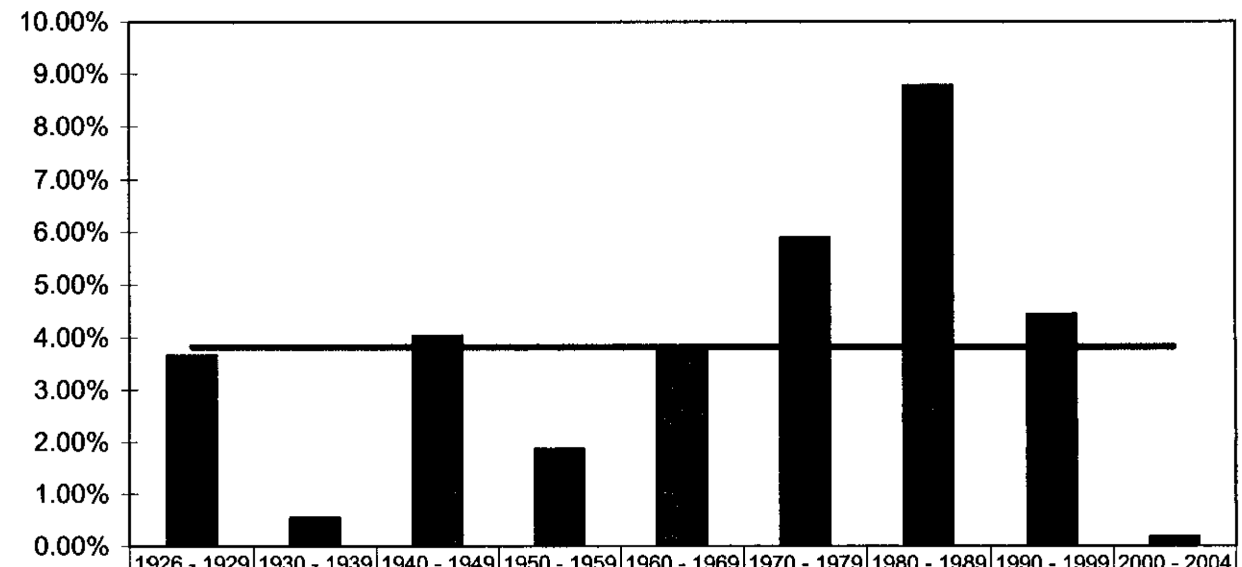


Chart 4
Historical Bond Returns
1926 - 3rd Quarter of 2004



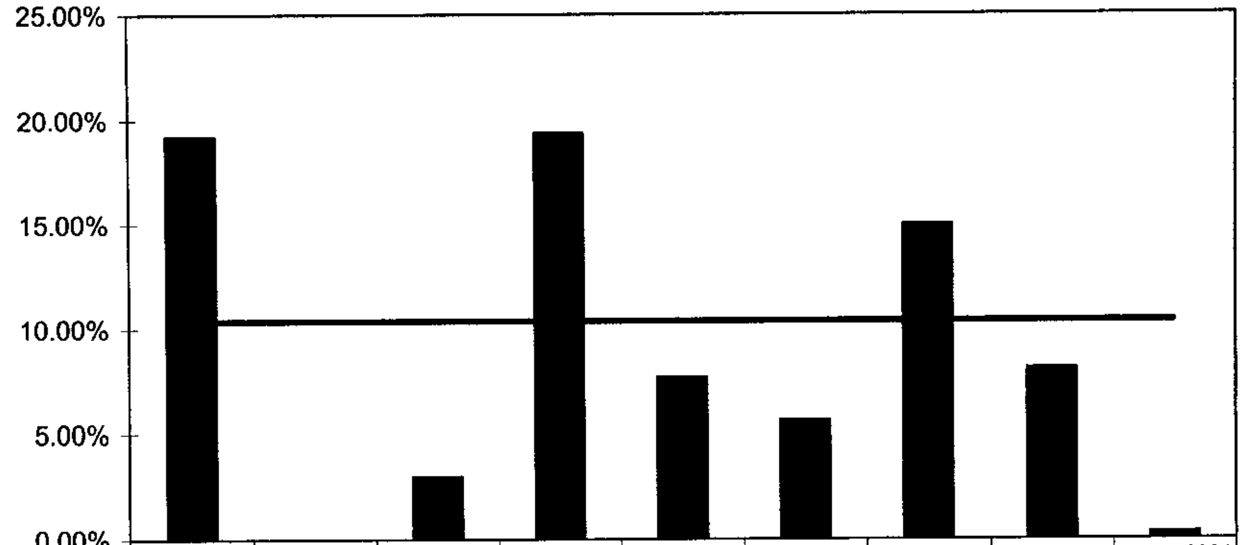
	1926 - 1929	1930 - 1939	1940 - 1949	1950 - 1959	1960 - 1969	1970 - 1979	1980 - 1989	1990 - 1999	2000 - 2004
Bond Returns	5.21%	6.95%	4.38%	1.00%	5.22%	5.03%	11.58%	4.19%	0.70%
Historical Average	5.71%	5.71%	5.71%	5.71%	5.71%	5.71%	5.71%	5.71%	5.71%

Chart 5
Historical Treasury Bill Returns
1926 - 3rd Quarter of 2004



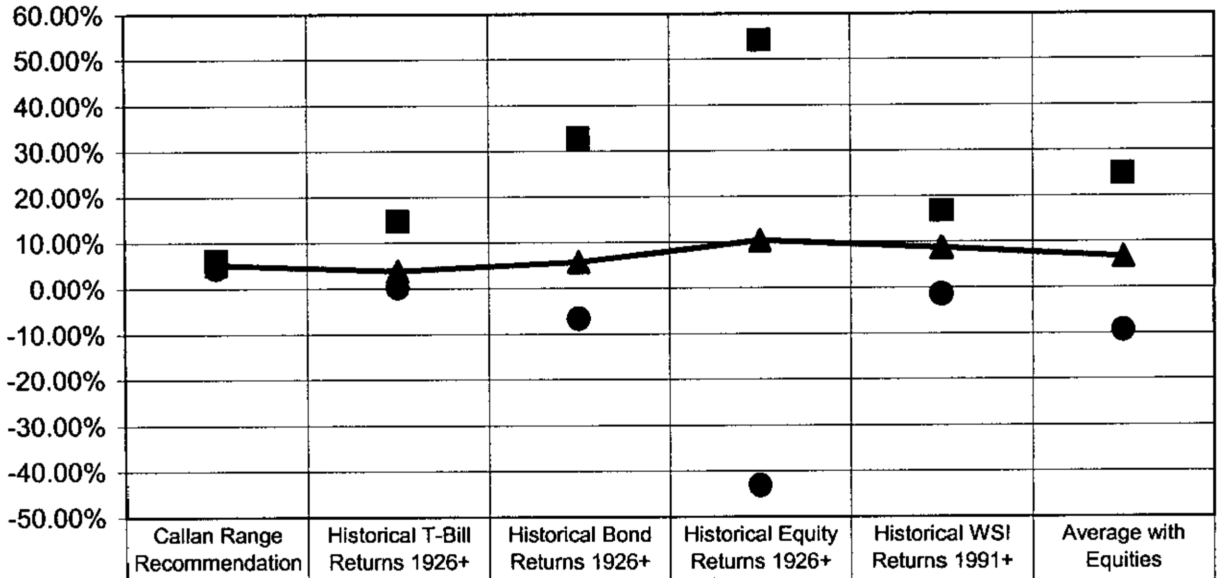
	1926 - 1929	1930 - 1939	1940 - 1949	1950 - 1959	1960 - 1969	1970 - 1979	1980 - 1989	1990 - 1999	2000 - 2004
T-Bill Returns	3.67%	0.55%	4.03%	1.87%	3.77%	5.88%	8.77%	4.42%	0.18%
Historical Average	3.81%	3.81%	3.81%	3.81%	3.81%	3.81%	3.81%	3.81%	3.81%

Chart 6
Historical S&P 500 Returns
1926 - 3rd Quarter of 2004



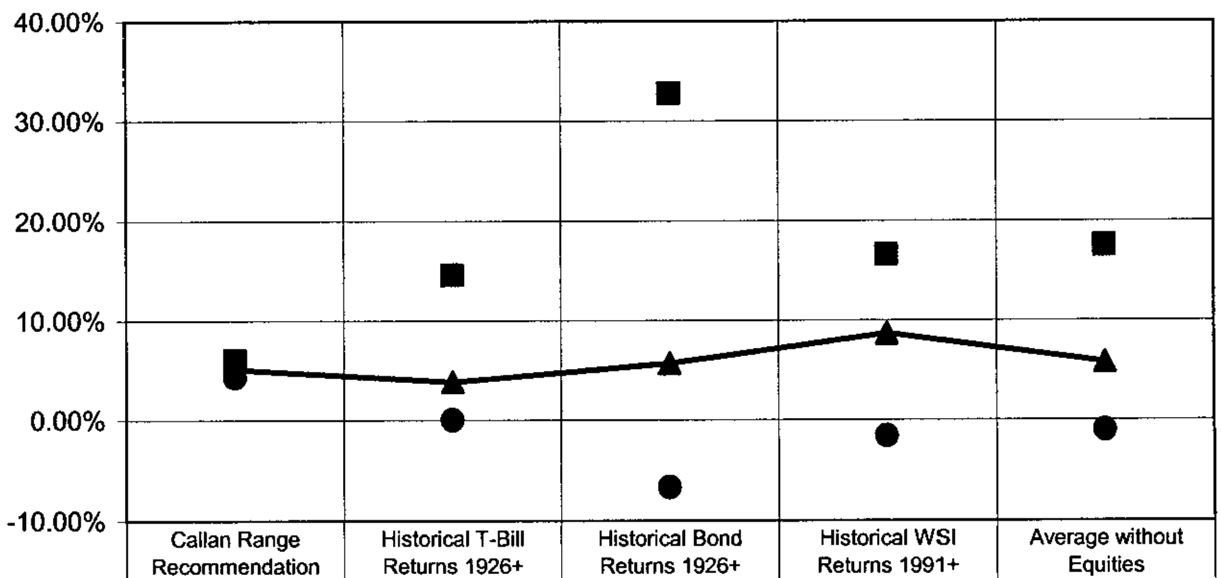
	1926 - 1929	1930 - 1939	1940 - 1949	1950 - 1959	1960 - 1969	1970 - 1979	1980 - 1989	1990 - 1999	2000 - 2004
S & P Returns	19.19%	-0.06%	2.97%	19.35%	7.68%	5.63%	14.97%	8.10%	0.31%
Historical Average	10.33%	10.33%	10.33%	10.33%	10.33%	10.33%	10.33%	10.33%	10.33%

Chart 7
WSI Discount Analysis with Equities



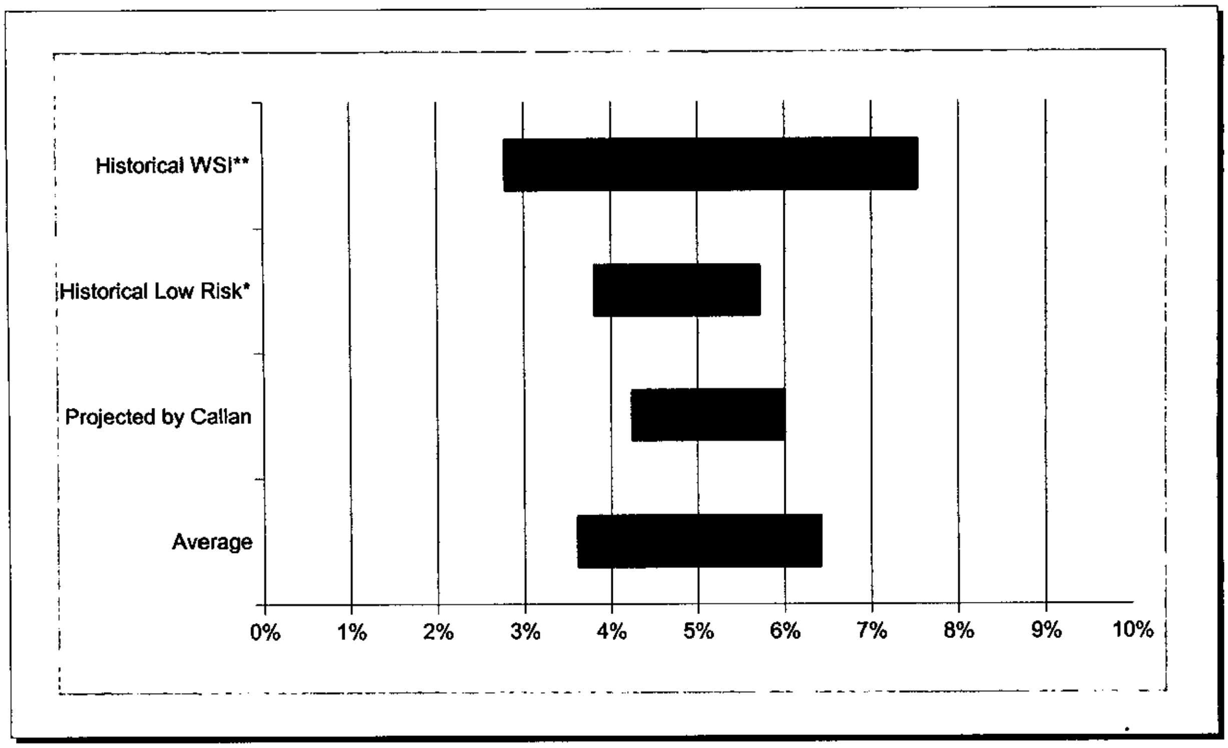
	Callan Range Recommendation	Historical T-Bill Returns 1926+	Historical Bond Returns 1926+	Historical Equity Returns 1926+	Historical WSI Returns 1991+	Average with Equities
● Low	4.25%	-0.04%	-6.81%	-43.35%	-1.68%	-9.53%
■ High	6.00%	14.53%	32.64%	53.97%	16.53%	24.73%
▲ Midpoint/Average	5.13%	3.81%	5.71%	10.33%	8.67%	6.73%

Chart 8
WSI Discount Analysis without Equities



	Callan Range Recommendation	Historical T-Bill Returns 1926+	Historical Bond Returns 1926+	Historical WSI Returns 1991+	Average without Equities
● Low	4.25%	-0.04%	-6.81%	-1.68%	-1.07%
■ High	6.00%	14.53%	32.64%	16.53%	17.42%
▲ Midpoint/Average	5.13%	3.81%	5.71%	8.67%	5.83%

Chart 9
Range of Investment Returns



	Historical WSI**	Historical Low Risk*	Projected by Callan	Average
Low End	2.79%	3.81%	4.25%	3.62%
High End	7.53%	5.71%	6.00%	6.41%
Midpoint	5.16%	4.76%	5.13%	5.02%

**Historical WSI
WSI investment statistics date back to 1991. Average returns were calculated for all rolling 3-yr, 4-yr, 5-yr, 6-yr and 7-yr periods. The lower end of the range reflects WSI's worst 3-yr return. The upper end of the range reflects WSI's worst 7-yr return.

*Historical Low Risk
Treasury bill and bond statistics date back to 1926. Average returns were calculated for both of these fixed-income investments. The lower end of the range reflects the average annual return for treasury bills. The upper end of the range reflects the average annual return for bonds.

Chart 10
Workforce Safety & Insurance
Investment Fund Performance

Investment Return	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Large Cap Domestic Equity	N/A	N/A	15.30%	2.44%	21.24%	22.84%	27.03%	31.65%	18.35%	2.95%	-9.87%	-16.89%	-0.48%	21.46%
Small Cap Domestic Equity	N/A	N/A	N/A	N/A	N/A	N/A	N/A	13.96%	1.47%	18.95%	-4.21%	-11.69%	0.09%	32.99%
Convertible Bonds	3.30%	14.30%	19.50%	2.18%	11.92%	17.46%	17.93%	19.38%	17.51%	39.07%	-15.57%	-20.37%	10.23%	17.50%
International Equity	N/A	N/A	N/A	N/A	N/A	N/A	N/A	3.18%	22.18%	37.53%	-24.42%	-12.10%	-9.20%	29.16%
Cash Equivalents	7.30%	5.40%	3.20%	3.11%	5.81%	5.44%	5.56%	5.70%	4.96%	6.05%	5.85%	2.41%	1.57%	1.20%
Domestic Fixed Income	9.67%	14.28%	13.18%	-1.11%	12.94%	4.44%	8.39%	11.10%	2.53%	4.45%	11.77%	7.55%	13.76%	1.77%
Total Fund Return	9.00%	13.60%	12.90%	-0.02%	13.32%	9.44%	16.53%	15.81%	7.42%	12.22%	1.38%	-1.68%	8.96%	9.62%

Surplus Target: 2-3 years premium
Standard Investment Cycle: 5-7 years

	Low	High
3 Yr Avg Returns	2.79%	13.88%
4 Yr Avg Returns	4.46%	13.74%
5 Yr Avg Returns	5.54%	12.45%
6 Yr Avg Returns	6.21%	12.41%
7 Yr Avg Returns	7.53%	11.53%

3 Yr Avg Returns

1991 - 1993	1992 - 1994	1993 - 1995	1994 - 1996	1995 - 1997	1996 - 1998	1997 - 1999	1998 - 2000	1999 - 2001	2000 - 2002	2001 - 2003	2002 - 2004
11.81%	8.64%	8.55%	7.43%	13.06%	13.88%	13.18%	11.76%	6.91%	3.81%	2.79%	5.50%

4 Yr Avg Returns

1991 - 1994	1992 - 1995	1993 - 1996	1994 - 1997	1995 - 1998	1996 - 1999	1997 - 2000	1998 - 2001	1999 - 2002	2000 - 2003	2001 - 2004
8.73%	9.79%	8.77%	9.64%	13.74%	12.23%	12.94%	9.07%	4.70%	5.07%	4.46%

5 Yr Avg Returns

1991 - 1995	1992 - 1996	1993 - 1997	1994 - 1998	1995 - 1999	1996 - 2000	1997 - 2001	1998 - 2002	1999 - 2003	2000 - 2004
9.63%	9.72%	10.28%	10.84%	12.45%	12.23%	10.52%	6.83%	5.54%	5.97%

6 Yr Avg Returns

1991 - 1996	1992 - 1997	1993 - 1998	1994 - 1999	1995 - 2000	1996 - 2001	1997 - 2002	1998 - 2003	1999 - 2004
9.60%	10.83%	11.18%	10.27%	12.41%	10.34%	8.39%	7.18%	6.21%

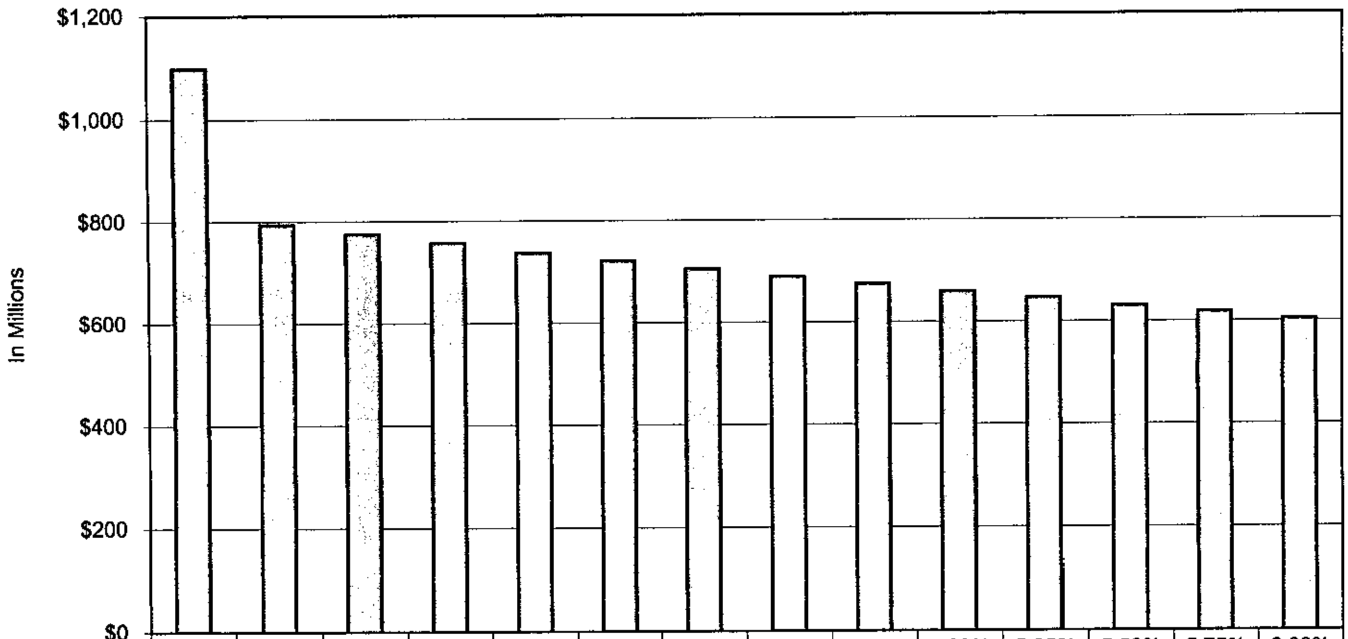
7 Yr Avg Returns

1991 - 1997	1992 - 1998	1993 - 1999	1994 - 2000	1995 - 2001	1996 - 2002	1997 - 2003	1998 - 2004
10.57%	11.53%	10.64%	10.54%	10.76%	8.54%	8.47%	7.53%

Low of Lows	2.79%
High of Lows	7.53%
Midpoint of Low Range	5.16%

Geometric Average Return	Last 14 Yrs	Last 13 Yrs	Last 12 Yrs	Last 11 Yrs	Last 10 Yrs	Last 9 Yrs	Last 8 Yrs	Last 7 Yrs	Last 6 Yrs	Last 5 Yrs	Last 4 Yrs	Last 3 Yrs	Last 2 Yrs	Last Yr
Large Cap Domestic Equity	N/A	N/A	N/A	9.86%	10.64%	9.52%	7.96%	5.48%	1.65%	-1.40%	-2.45%	0.15%	9.94%	21.46%
Small Cap Domestic Equity	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	5.25%	6.02%	3.01%	5.54%	15.37%	32.99%
Convertible Bonds	11.76%	11.46%	10.22%	9.42%	10.17%	9.98%	9.07%	7.86%	6.06%	3.90%	-3.40%	1.03%	13.81%	17.50%
International Equity	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	4.59%	1.39%	-6.05%	1.02%	8.29%	29.16%
Cash Equivalents	5.30%	4.68%	4.22%	4.32%	4.44%	4.29%	4.14%	3.94%	3.65%	3.39%	2.74%	1.73%	1.38%	1.20%
Domestic Fixed Income	9.49%	8.66%	7.45%	6.95%	7.79%	7.23%	7.58%	7.47%	6.88%	7.77%	8.61%	7.58%	7.60%	1.77%
Total Fund Return	10.62%	9.83%	8.67%	8.29%	9.16%	8.71%	8.61%	7.53%	6.21%	5.97%	4.46%	5.50%	9.29%	9.62%

Chart 11
WSI Unpaid Loss and LAE
Discounted Liability at June 2004



	0.00%	3.00%	3.25%	3.50%	3.75%	4.00%	4.25%	4.50%	4.75%	5.00%	5.25%	5.50%	5.75%	6.00%
□ Booked Liability	$1,098	$794	$775	$757	$738	$722	$705	$689	$674	$659	$646	$631	$618	$604

Chart 12
WSI Unpaid Loss Liability
Last 5 Years

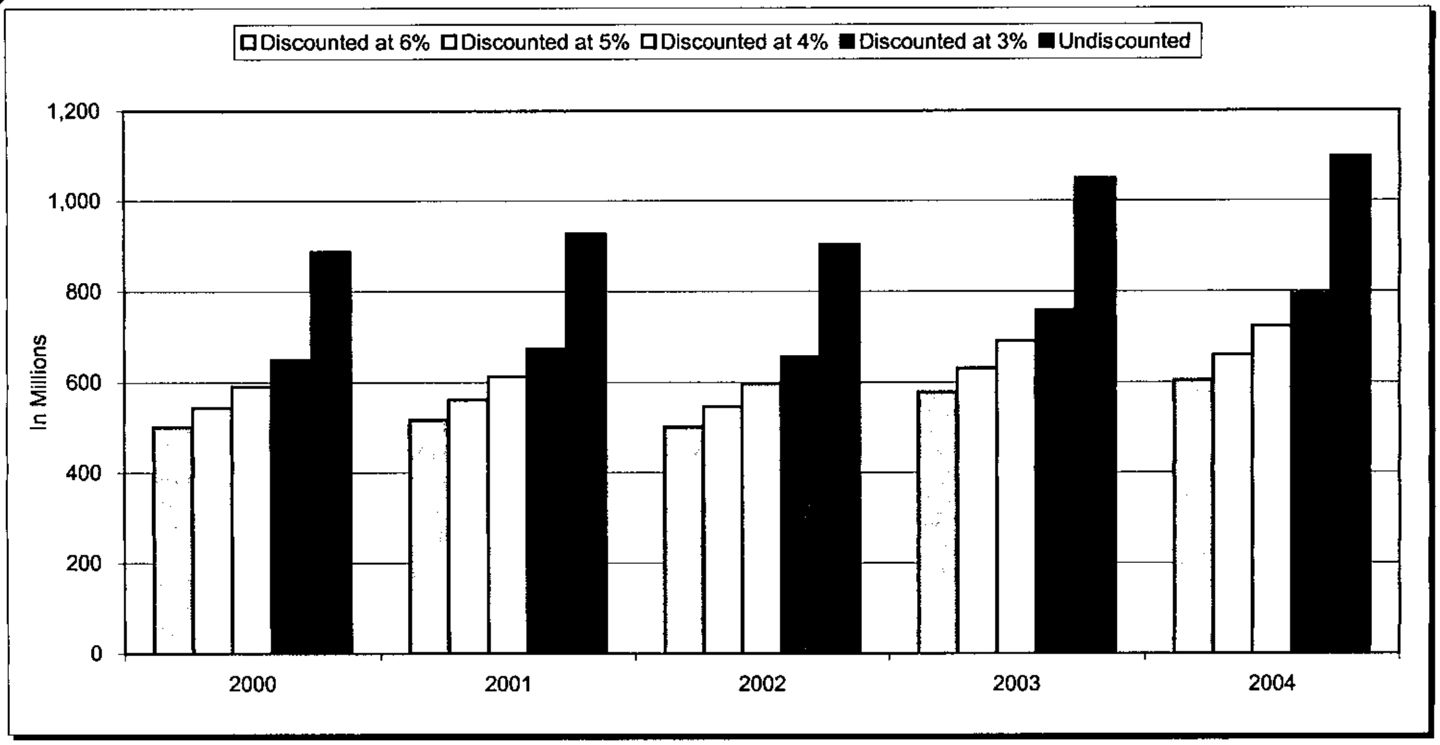


Chart 13
WSI Underwriting Income (Loss)
Last 5 Years

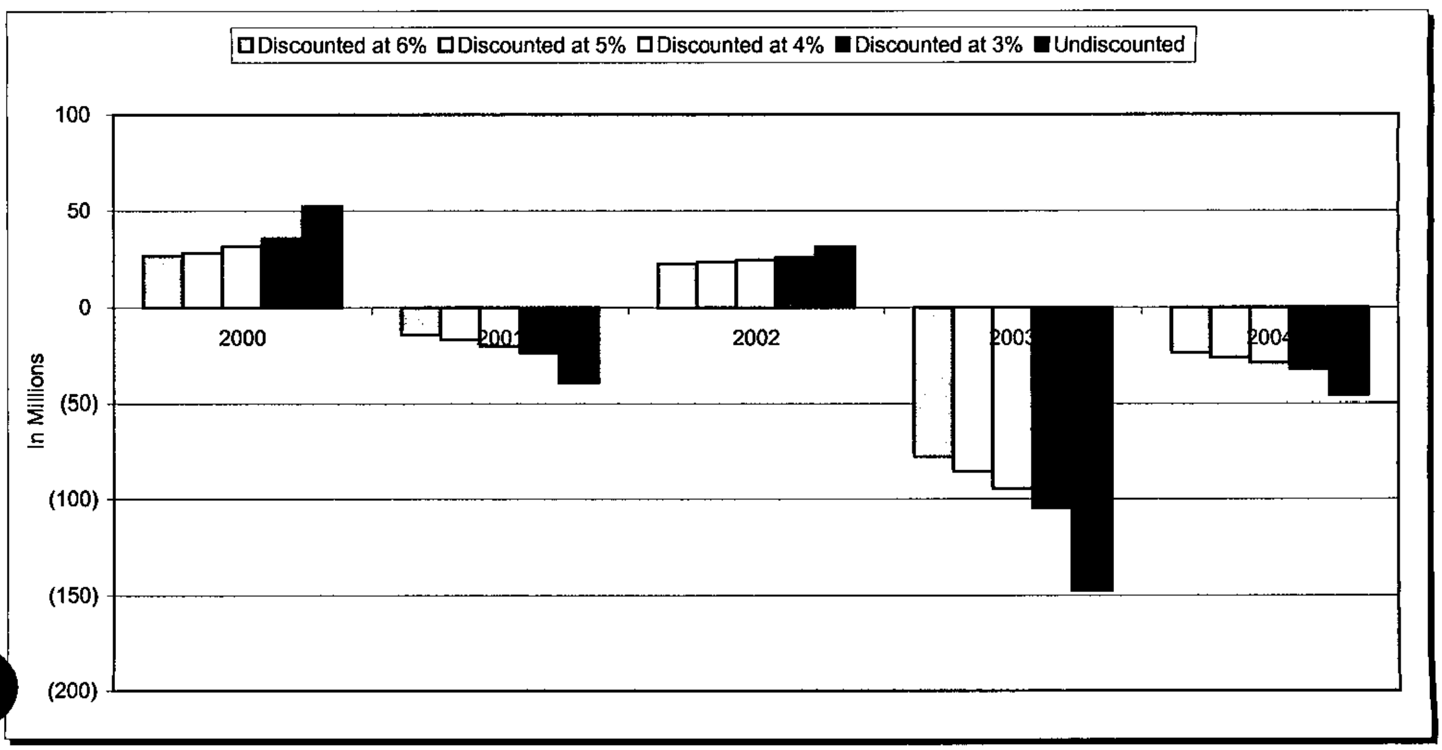
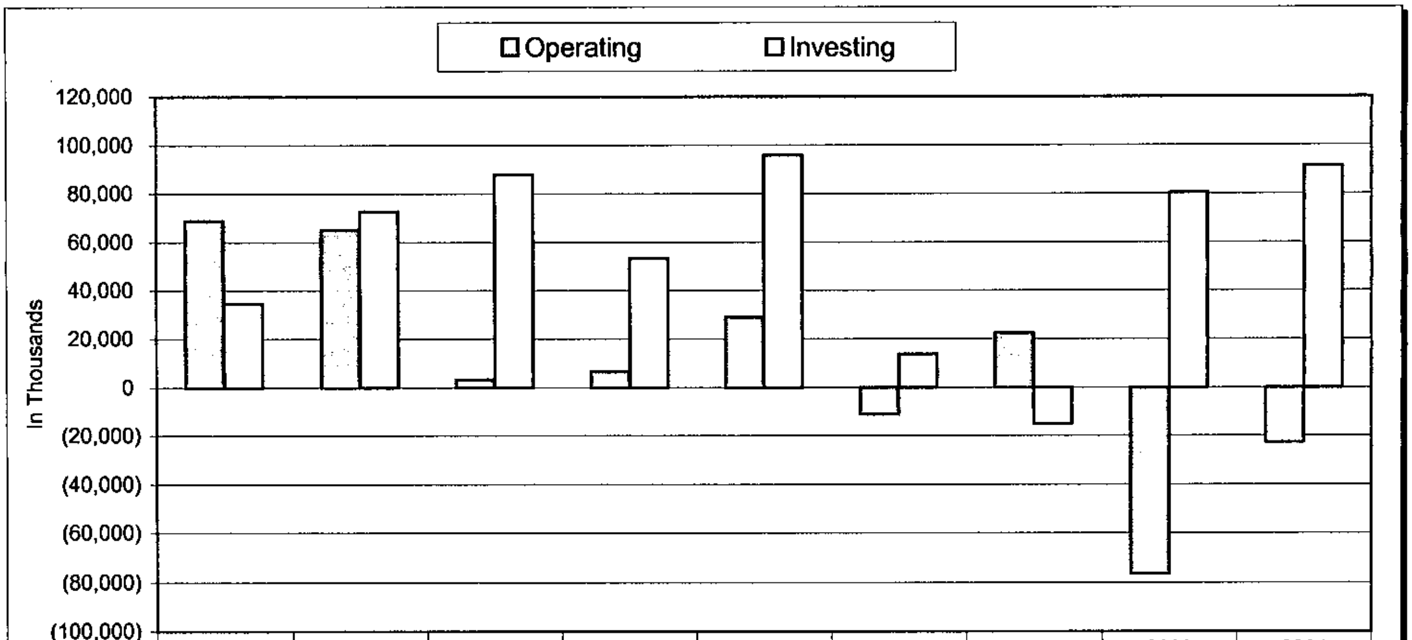


Chart 14
Change in WSI Net Assets
Last 9 Years



	1996	1997	1998	1999	2000	2001	2002	2003	2004
Operating	68,947	65,190	3,324	6,626	29,091	(11,128)	22,407	(76,359)	(22,635)
Investing	34,602	72,627	87,870	53,229	95,977	13,518	(15,066)	80,382	91,390

Chart 15
Overall Growth in WSI Net Assets
Last 9 Years

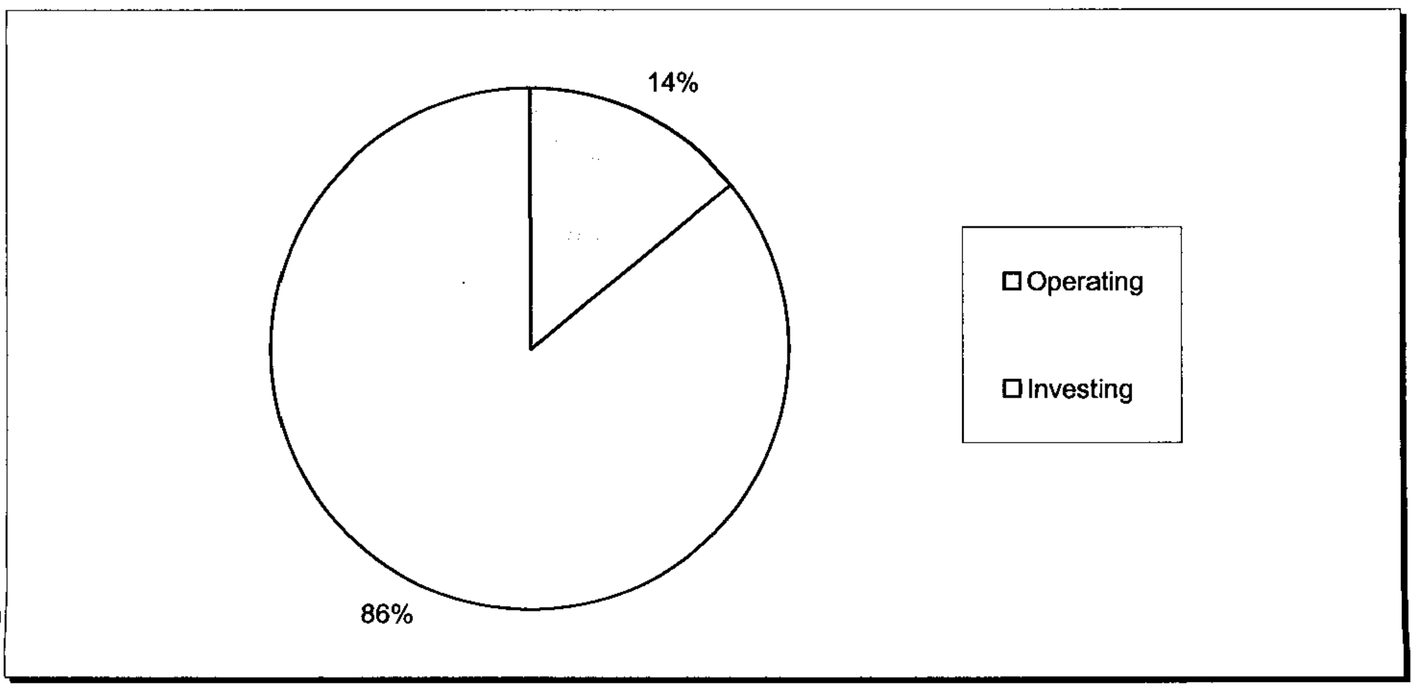
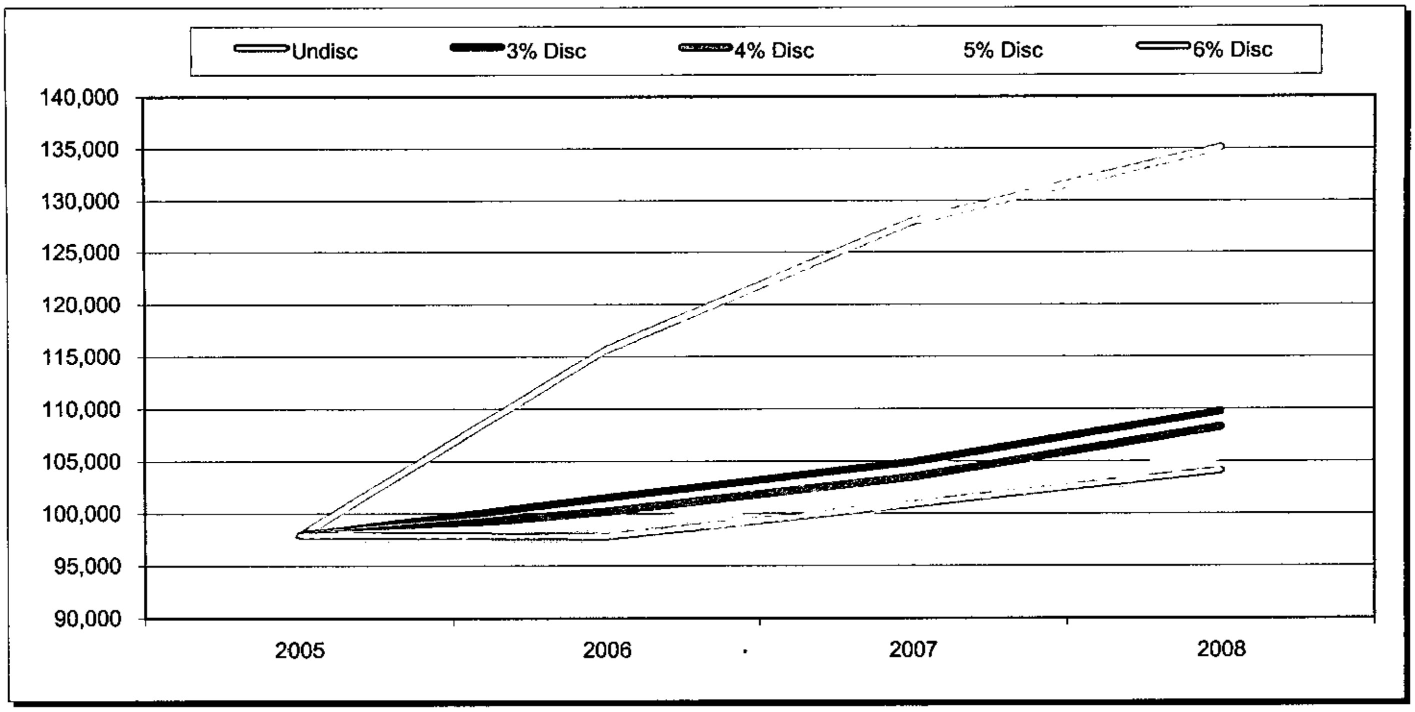


Chart 16
WSI Earned Premium Comparison Projections For Next 4 Years
What If Modeling (Results Are Not Actual But For Presentation Purposes Only)
(Assumes 2% Growth in Liablities)



CALLAN ASSOCIATES INC.

SAN FRANCISCO

NEW YORK

CHICAGO

ATLANTA

DENVER

To: Sandy Blunt, Executive Director/CEO
Workforce Safety and Insurance ("WSI")

From: Karen Harris, Vice President, Capital Markets Research Group

Date: October 11, 2004

Subject: **Discount Rate Assumption**

This memo summarizes Callan's observations regarding the setting of the discount rate assumption for WSI. Callan's Capital Market Research group conducts 30-40 asset/liability studies each year for insurance pools, health and welfare trusts and pension plans. In each instance, we assay the assumptions embedded in the annual valuation. An understanding of assumptions is absolutely crucial if one is to formulate an appropriate investment solution to any funding problem. As an associate actuary and CFA in the Capital Markets group, I offer the following opinions, which have been reviewed by peers, as is Callan's policy in such matters. These opinions are based on my extensive experience as an associate actuary assisting plan sponsors with similar issues.

In summary, Callan believes that an appropriate range for the discount rate is between 4.25% to 6%. This range is consistent with general accounting and actuarial standards. Ultimately, the discount rate selected by the WSI Board should be sound and defensible, and based on a reasonable approach.

Discount Rate

The discount rate is used to determine the value of WSI's obligations (or reserves). The obligation today is simply the present value of future cash outflows currently expected to be required. In accordance with generally accepted accounting standards, the discount rate should reflect the time value of money. On this basis, the actuarial community uses two primary methods for determining an appropriate discount rate for valuing plan obligations (or reserves).

The first method is consistent with ***accounting*** standards and uses an approach that is based on rates of return (or yield to maturity) on high-quality fixed income investments that could effectively settle the obligations.

The second method is consistent with ***actuarial funding*** standards and uses an approach that is based on the expected long-term investment rate of return on the assets supporting the obligations.

Each method determines a preliminary rate, which can then be adjusted lower as a means of building margins for adverse experience.

Settlement Rate Approach

Under the first method (i.e.—application of accounting standards), the period to maturity of the benefits and fixed income instrument selected play key roles in the determination of the appropriate discount rate. The first implication is that the period to maturity of the benefit obligations will be unique to WSI given its plan-specific features and demographic profile. Our experience with WSI's obligations suggests that the maturity is intermediate to long.

The second implication of a settlement rate approach is the selection of the appropriate high quality fixed income instrument, which is usually represented by a "benchmark" index. Callan believes that the selected benchmark should include the following minimum qualifications:

- a minimum credit quality that reflects low risk of default;
- investable benchmark, with a sense of permanence and transparency;
- rates that are based on a broad market of bonds, and not limited to an individual or a specific issuer; and
- fixed income instruments with limited optionality.

Using these minimum standards, there are a number of benchmarks to consider: US treasury bonds, swap rates, or corporate bond indices such as Merrill Lynch, Citigroup, Lehman Brothers or Moody's. As of September 30, 2004, the range of the yields for the various benchmarks listed above is around 3.0-4.0% for intermediate, and 4.75-6% for long bonds.

Expected Long-Term Rate of Return Approach

The second approach to determine an appropriate discount rate for WSI (i.e.—using actuarial funding standards) is to use the long-term rate of return that is expected to be earned on the assets that are supporting the obligations. In this case, the expected return should consider both the returns being earned by the fund and the returns expected to be available in the future for reinvestment. Hence, the strategic policy asset allocation and the expected returns for each asset class are the key inputs for determining the appropriate rate of return on plan assets. The most recent asset allocation and spending study provides one example of the return expectations for the fund going forward.

Given the strategic investment policy adopted by the Board and Callan's 2004 capital market projections, the fund's expected rate of return over the next five-year period is projected at 5.9%. While the time horizon may be short, the figure nevertheless provides a guide to setting an appropriate discount rate assumption.

Summary

Based on the two methods discussed above, Callan believes that WSI could select a discount rate somewhere in the range of 4.25 to 6%. This rate range would reflect either high quality bond yields for settlement (Treasury, swap or corporate rates) or the potential long-term rate of return that could reasonably be expected on plan assets within the current market environment.

Using either method would result in:

- a discount rate that is sound and defensible;
- greater flexibility in maintaining a stable premium rate structure through time;
- reduction in the detrimental impact of actuarial loss(es) on the financial health of the WSI funded status.

cc: Steve Cochrane, NDRIO
Paul Erlendson, Callan
Janet Becker-Wold, Callan

Meeting with Workforce Safety & Insurance and C.A.R.E
September 22, 2004.

Dave Kemnitz

Issues:

1. Discuss Corvel as it relates to relates to return to work concerns.

2. Discuss functional capacity assessment (FCA) – Corvel may be pushing injured workers too hard in determining their ability to return to work.

3. Discuss termination of disability benefits at such time the IW reaches maximum medical improvement (MMI). Many injured workers can not obtain work and, as such, Corvel should help injured workers find work before their benefits are terminated.

4. Discuss the claims analyst's ability to make medical decisions in the management of an injured worker's claim.

5. Discuss concerns relating to nurses and rehabilitation consultants attending medical appointments with injured workers.

6. Discuss the Office of Independent Review (OIR). OIR should be able to make independent decisions when reviewing a claim and should not have to obtain the approval of Workforce Safety & Insurance (WSI).

7. Workforce Safety & Insurance (WSI) should follow the recommendations of the treating doctor versus that of an independent medical examination (IME) doctor.

8. Discuss concerns relating to the amount of disability benefits an injured worker is entitled to at the time they reapply for benefits. CARE believes the injured worker should receive the same disability benefit rate they received at the time of injury.

9. Discuss the continuation in the payment of benefits to an injured worker's spouse in the event of the death of an injured worker. This will require new legislation.

10. Discuss the retirement presumption law – injured workers should continue to receive disability benefits after age 65. This will require new legislation.

11. Discuss the elimination of the social security retirement offset at the time an injured worker reaches retirement age. This will require new legislation.

12. Discuss the oversight of Workforce Safety & Insurance (WSI) by the Governor vs. the current WSI Board of Directors. However, if the Board of Directors continues to oversee WSI, then the structure of Board should be changed to include three injured workers, three employers and three business people.

13. Discuss hearing Procedure – ALJ's.

Workers' comp fund reserves lowered -- *By Patrick Springer-- The Forum - 11/18/2004*

BISMARCK -- The bureau that covers North Dakota workers reversed on Wednesday a longstanding policy that required it to maintain high insurance fund reserves to protect against possible catastrophes.

A unanimous decision by the 11-member board of the state workers' compensation program, Workforce Safety and Insurance, means the fund now must maintain reserves of about $910 million compared with the $1.1 billion previously required.

That results in an estimated excess on hand of $190 million -- a surplus the board will later decide how to handle.

Wednesday's decision, made with little board discussion, came as state auditors have been prodding the program to clarify the way it accounts for its claims liabilities and reserves.

"The biggest change is we can ensure a more consistent premium in the future," said Charles "Sandy" Blunt, the state program's executive director.

Wednesday's action means the board won't increase premiums significantly to maintain its conservative reserve goals -- which would have been a boost of up to one-third under one "what if" scenario presented in a staff analysis.

The move also came as the fund draws increasing scrutiny for the growth in its total assets, which now top $1.3 billion. For reserve purposes, because of the way some of the fund's investments are handled, its total fund is $1.1 billion. Net assets -- assets left over after liabilities -- are almost $459 million.

Since 1996, when the workers' comp program was widely viewed to be facing a possible financial crisis, the fund has embarked on a financially conservative approach in setting its reserves, and therefore levying its premiums.

Under that approach, the program's financial books couldn't allow for the future value of money held in reserve -- in other words, couldn't acknowledge that one dollar today will grow to $2.65 in 20 years at an annual investment rate of 5 percent.

The board decided Wednesday to do just that by allowing itself a 5 percent "discount" in its reserves. Therefore, instead of maintaining $1.1 billion in reserves to cover "undiscounted" liabilities, it must maintain a base reserve of $660 million.

For added protection, the board also decided to maintain a surplus reserve of $250 million more -- about 2" years of premiums -- or a total reserve target of $910 million.

The board agreed with staff that it is appropriate to back away from the goal of reaching an undiscounted reserve level for several reasons. Many of its liabilities come due far into the future, such as wage-replacement benefits for disabled workers.

Also, Workforce Safety and Insurance, or WSI, is a state-run monopoly, not subject to the uncertainties of market competition.

"Because of its state franchise, the likelihood of WSI going out of business is virtually nonexistent," said a staff report presented Wednesday to the board.

Although reaching an undiscounted reserve level was the program's goal since 1996, it continued to operate with a 6 percent discount. For the last three years, state auditors have been prodding the fund to be one or the other -- discounted or undiscounted.

By declaring the goal of gradually reaching the undiscounted reserves, but operating with a discount, the fund's financial statements didn't accurately reflect its revenues, said Ron Tolstad, audit manager in the Office of the State Auditor.

The effect was to significantly understate the fund's net income -- by $250 million from 1996 to 2000, an adjustment auditors required in 2001.

Tolstad made it clear that WSI had to discount or not discount all at once, not gradually as planned.

But making the jump all at once to undiscounted reserves could require annual premiums of $135 million within four years, according to the staff analysis. Last year's premiums totaled about $90 million.

Dave Kemnitz, president of the North Dakota AFL-CIO, the state's largest labor union, said the new policy is based on dramatically different assumptions than those that were used to justify a massive legislative overhaul in workers' compensation laws in the 1990s.

The new laws adopted more restrictive definitions of what qualify as compensated workplace injuries, and made it more difficult for workers to contest denied benefits, according to labor officials.

"I think there should be more concerted effort to reinstate benefits," Kemnitz said. He hopes legislators re-evaluate benefits in light of the fund's healthier financial position today.

"It would be nice if they did," he said.

Jim Poolman, North Dakota insurance commissioner, was a state representative when many of the laws were changed, and supported the changes to ensure the fund's solvency.

As insurance commissioner, Poolman has no regulatory oversight over the fund.

"Should those benefits be increased now that the fund's in good shape?" said Poolman, who didn't attend Wednesday's board meeting.

"That's a question for the Legislature to answer."

N.D. WSI Board of Directors Votes to Adopt 5 Percent Discount in Calculating Reserve Fund

November 19, 2004

North Dakota's Workforce Safety & Insurance (WSI) Board of Directors has voted to adopt a 5 percent discount in calculating the WSI reserve fund. The Board also recommended that $250 million be held for unexpected developments in the future.

The reserve fund is the money set aside to cover the cost of all current workers' compensation claims. The dollars set aside in the reserve fund pay for both wage-loss and medical benefits to the injured workers of North Dakota , in the unlikely event that WSI would be dissolved. Some of WSI's active claims stretch back into the 1930's. The reserve fund is an estimate of what the cumulative future payments will be for all active injured worker claims.

"The action undertaken by the Board in no way affects the dollars being held for the injured workers of North Dakota," said Bob Indvik, WSI's Board chairman. "And this ensures a more consistent premium for North Dakota employers going forward."

Previously, WSI's Board had a goal of recording its reserve fund using an undiscounted method. At the request of the WSI Board, over the last several months, WSI staff consulted with its actuary and several investment experts to re-evaluate that goal.

The results of this comprehensive study reportedly indicated that using the discounted method for stating the WSI reserve fund would be more appropriate given the fact that WSI is the sole provider of workers' comp in North Dakota.

And because of the long-term payment stream to injured workers, it would reportedly be reasonable to assume future investment earnings and use the time value of money when calculating the current needs of the reserve fund.

To determine an appropriate discount level, staff at WSI surveyed other states workers' comp funds, consulted with a number of experts in investment cycles and evaluated the bond, treasury and equity market returns and WSI's historical investment returns. The results indicated that a rate of 5 percent would be a reasonable rate of return over the long term.

In addition, because of the uncertainty inherent in estimating ultimate claim costs, WSI staff recommended that a surplus of 2 to 2½ times an average years' premium be held in reserve for unexpected developments.

The WSI Board adopted this approach, and consequently, the total reserve amount today would be adjusted from approximately $1.1 billion to $910 million dollars ($660 million for the required reserve at a 5 percent discount plus $250 million for unexpected developments).

Find this article at:

News Release
November 19, 2004
Workforce Safety & Insurance
Contact: Mark Armstrong
(701) 328-5931 or 1-800-777-5033

WSI Board Adopts New Reserve Fund Strategy

The Workforce Safety & Insurance (WSI) Board of Directors voted to adopt a 5 percent discount in calculating the WSI reserve fund. The Board also recommended that $250 million be held for unexpected developments in the future.

The reserve fund is the money set aside to cover the cost of all current workers' compensation claims. The dollars set aside in the reserve fund pay for both wage-loss and medical benefits to the injured workers of North Dakota, in the unlikely event that WSI would be dissolved. Some of WSI's active claims stretch back into the 1930's. The reserve fund is an estimate of what the cumulative future payments will be for all active injured worker claims.

"The action undertaken by the Board in no way affects the dollars being held for the injured workers of North Dakota," said Bob Indvik, WSI's Board Chair. "And this ensures a more consistent premium for North Dakota employers going forward."

Insurance companies use two methods in calculating a reserve fund – discounted or undiscounted. The undiscounted method requires that all dollars must be collected for up front, while the discounted method takes advantage of the time-value of money.

Previously, WSI's Board had a goal of recording its reserve fund using an undiscounted method. At the request of the WSI Board, over the last several months, WSI staff consulted with its actuary and several investment experts to re-evaluate that goal.

The results of this comprehensive study indicated that using the discounted method for stating the WSI reserve fund would be more appropriate given the fact that WSI is the sole provider of workers' compensation in North Dakota. And because of the long-term payment stream to injured workers, it would be reasonable to assume future investment earnings and use the time value of money when calculating the current needs of the reserve fund.

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In addition, because of the uncertainty inherent in estimating ultimate claim costs, WSI staff recommended that a surplus of 2 to 2½ times an average years' premium be held in reserve for unexpected developments.

The WSI Board adopted this approach, and consequently, the total reserve amount today would be adjusted from approximately $1.1 billion to $910 million dollars ($660 million for the required reserve at a 5 percent discount plus $250 million for unexpected developments).

Chair Indvik also said staff will be allowed to speak with one voice regarding WSI's position, as we have in the past, as bills are being introduced. Bills will be reviewed at the weekly legislative meetings and formal action will be taken there.

Mr. Blunt informed the Board HB 1119, (Drug Testing Bill) is currently receiving the most attention. He and WSI staff will continue to meet with Labor and Minority Party Representatives, regarding this bill.

Mr. Blunt also informed the Board that WSI would like to ask for a continuing appropriation for safety initiatives. This would include safety education, safety training, matching safety grants. This is a wish of the Board since the interview process. There would be a cap of a 40% dividend – 40%, 20%, 10%, stepping down over time, plus a $35 million dollar dedication to safety, with a third of the dollars going back to safety and caring for the workers of the state. Mr. Blunt requested a continuing appropriation authority to put the money aside without having to go back and budget as a biennial item.

It was moved by Nancy Slotten and seconded by Bobbie Ripplinger to allow WSI staff to proceed with a continuing appropriation authority for safety related grant type money. This will also need to be reviewed by the Audit Committee. Voting in favor were Sindy Keller, Cal Kolling, Denny Schneider, Nancy Slotten, Bobbie Ripplinger, Bob Indvik and J.P. Wiest. 7 Yea. 0 Nay. 4 Absent and not voting.
Motion carried.

Mr. Blunt told the Board the excess in need document and strategic plan are both in final stages and will be submitted soon.

Mr. Blunt introduced Mr. Jim Long, new Chief of Support Services. He began work at WSI on Monday, January 3, 2005. Mr. Long has two Masters Degrees in business related fields, as well as a PhD in Organization and Management, with a specialty in leadership. Mr. Long is also a veteran having served in the US Marine Corp.

ADJOURN

The meeting adjourned at 9:35 a.m.

Bobbie Ripplinger, Dr. Allen Wyman, Bob Indvik and J. P. Wiest. 8 Yea. 0 Nay. 3 Absent and not voting. Motion carried.

HB 1122 – Request to amend self-employment wage definition. This amendment came at a request of a constituent of Representative Frank Wald. This amendment would allow WSI to average wages over a period of 3 years, or 52 weeks. The final defined coverage was required or otherwise secured for employers change would coverage required or secured.

It was moved by Sindy Keller and seconded by Mark Gjovig to authorize the amendment to HB 1122, amending the self-employment wage definition. Voting in favor were Mark Gjovig, Sindy Keller, Evan Mandigo, Cal Kolling, Bobbie Ripplinger, Dr. Allen Wyman, Bob Indvik and J. P. Wiest. 8 Yea. 0 Nay. 3 Absent and not voting. Motion carried.

HB 1125 – Relates to premium rates. WSI would like to amend for safety continuing appropriation. The surplus reserve would be allowed to spend down over a period of time, and be re-funded. This would allow WSI to take the excess reserve surplus dollars and appropriate them on a continuing basis to fund the programs that are being considered for development.

It was moved by Sindy Keller and seconded by Mark Gjovig to amend HB 1125 for safety continuing appropriation. Voting in favor were Mark Gjovig, Sindy Keller, Evan Mandigo, Cal Kolling, Bobbie Ripplinger, Dr. Allen Wyman, Bob Indvik and J.P. Wiest. 8 Yea. 0 Nay. 3 Absent and not voting. Motion carried.

HB 1171 – Amend a section pertaining to the vocational rehabilitation hierarchy. Some changes have already been approved by the Board, however, WSI would like to propose sample language if the Board agrees in concept. Language in this bill will need to be discussed with labor. WSI would like the authority to do more for the injured worker than allowed in the bill as it stands. There are injured workers in the state that could potentially qualify under some conditions for this now. Approximately 300-350 people per year currently end up in this hierarchy now.

It was moved by Sindy Keller and seconded by Mark Gjovig to amend HB 1171. Voting in favor were Mark Gjovig, Sindy Keller, Evan Mandigo, Cal Kolling, Bobbie Ripplinger, Dr. Allen Wyman, Bob Indvik and J.P. Wiest. 8 Yea. 0 Nay. 3 Absent and not voting. Motion carried.

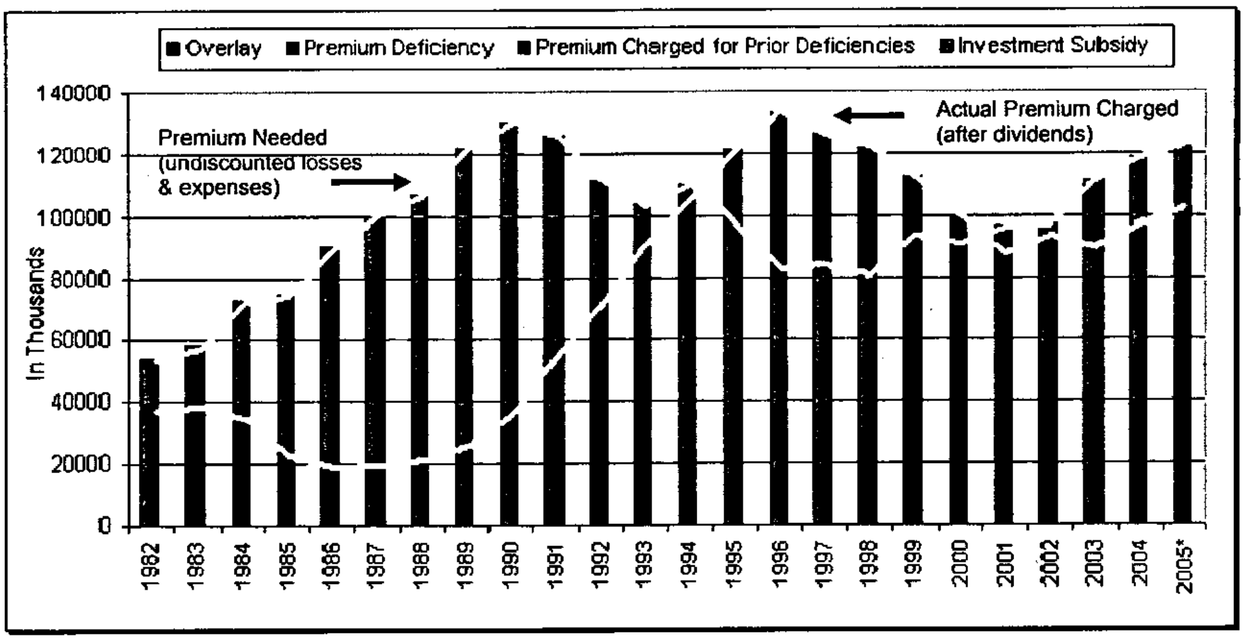
Proposed new bill – WSI Revolving Education Fund – Sandy Blunt informed the Board that this bill was first mentioned last summer in a meeting with Representative Merle Boucher. Last week in a meeting with Representative Rick Berg, and Representative Boucher, a concept was produced and a draft was prepared. Mr. Blunt said the bill is in very draft form. It would authorize WSI to provide a revolving education fund. If an individual does not qualify under the vocational rehabilitation hierarchy previously discussed, for educational assistance which is paid for by WSI. However, the individual is an injured worker, and they desire to move on. The injured worker could approach WSI and ask to take out a loan and repay at the injured workers expense. WSI would therefore establish a revolving loan fund with $15 million dollars, allowing WSI to loan out up to $2.5 million dollars per year. This would not exceed $50,000 per individual and not more than 50 loans per year. This would allow the money to be paid out over a period of five years. The float on the money would be repaid and would help the fund stay whole. WSI would invest the money under the current statute 21-10-06 through the State Investment Board and funds would be isolated into an individual account. An individual would take a loan out at prime rate minus one point (1%). The caveat for WSI would be no interest accrues on that loan until the date required to be repaid. Repaid date would be 1) The date in which a degree is received, 2) The date in which the individual ceases to continue their education 3) The Institution (for cause) releases them from no longer maintaining student status, or 4) Some period of years (not yet determined –

2005 Senate Bill No. 2292
Testimony before the House Industry, Business, and Labor Committee
Presented by: Bob Indvik, Chair of Workforce Safety & Insurance Board of Directors
January 25, 2005

Mr. Chairman and Members of the Committee, good morning, my name is Bob Indvik. I am the Chair of the Workforce Safety & Insurance (WSI) Board of Directors. I am here to testify in opposition to Senate Bill 2292. The WSI Board of Directors unanimously voted to oppose this bill. I will briefly address the Board's concerns.

I will start my testimony today with the issue that broke the back of the proverbial camel and caused significant legislative reform in the early 1990's. For many years in the 1980's and early 1990's, the premium collected from employers was grossly inadequate and did not begin to cover the actual expenses being paid. The then North Dakota Workers Compensation (NDWC) reserve fund was 250 million dollars in the red and there was not enough money to guarantee the payment of all the injured workers' medical and wage replacement costs. The agency was actuarially insolvent.

The chart below identifies the historic annual costs of North Dakota's workers' compensation system for the past 24 years. The yellow line represents the dollars needed in order to meet the fund's actual obligations, while the white line identifies the actual premium dollars collected.



Had NDWC been forced to close its doors in the early 1990's (as the chart suggest should have been done), the sure and certain relief promised to injured workers would not have been in the bank to pay them. Any private insurance carrier in this position would have been taken over and liquidated by regulators. However, because North Dakota has an exclusive system, the legislature had a better idea.

Legislation enacted in 1997 by the 55th North Dakota Legislative Assembly created a 10 member, customer-based Board of Directors. This legislation was amended in 2003 to reflect the Governor appointing 11 members to the Board. Under the 1997 bill, the organization's executive director was designated to be hired by and report directly to the Board. The role of the Board is to ensure continuity of leadership at WSI and to ensure WSI operates efficiently and effectively. The Board has adopted the Carver Model of Board governance, which provides a clear structure for Board leadership and organizational accountability to the Board. This structure includes regular performance monitoring reports and an internal auditor that reports to the Board so they can ensure continued improvements are being made in all key areas of WSI operations and services. Audits are reported to the interim Legislative Audit and Fiscal Review Committee (LAFRC) committee as well as the House and Senate Industry, Business, and Labor committees.

While WSI has achieved tremendous improvements, it also recognizes the need to ensure that every aspect of its operation meets or exceeds private industry standards. Recognizing that no competition exists in the North Dakota workers' compensation market that would force WSI to "operate efficiently or cease to exist," WSI and its Board believe they have a special obligation to maintain the highest standards of performance and efficiency.

As the chart I reviewed earlier shows, for the last several years WSI has had premiums plus investment returns that adequately cover losses and expenses. Through the Board's management of the reserve fund, there are positive net assets instead of a $250 million shortfall.

However, operating WSI responsibly does not just mean running it financially stable. It also means running it to best serve its customers –North Dakota's workforce. Under the Board, the system is less adversarial and more injured worker and employer friendly. Don't just take my word for it, take the customer's opinion instead. WSI's customer surveys, conducted by the independent research group DH Research, show that on a scale of 1 to 5, injured workers rate WSI's service at 4.39 and employer at 4.21.

Workers' Compensation System--Old System vs. New System

Less Adversarial

	The System of Old	The System Today	
Requests for litigation:	1,400	170	Today's system is much less adversarial than the system of old. Litigation requests have been reduced by over 85%. Today, less than 1% of all claims filed request litigation. Constituent service requests were down by over 50% in 1999 and by over 75% today. Claimant counsel were the winners under the old system. The injured workers and employers are the winners today.
Constituent Service Requests:	336	78	
Claim Acceptance Rate:	93%	93%	
Payments to IW Counsel:	$1.1 Million	$224,000	

Less Injuries

	The System of Old	The System Today	
Claims per 100 Covered Workers:	7.47	6.30	Employer implementation of safety programs and utilization of safety grants has resulted in significant declines in claim injury rates.
Wage-Loss Claims per 100 Covered Workers:	1.18	0.81	

Improved Service

	The System of Old	The System Today	
Claims Processed w/ 14 days:	44%	76%	Through Board oversight, operational performance monitoring, and various other accountability mechanisms, benefit delivery and customer service has improved tremendously. Improved service results in less delays, fewer disputes, less costs, and more satisfied customers. Employer and injured worker customer satisfaction surveys are conducted periodically by DH Research, an independent research group out of Fargo. Overall satisfaction ranks high on the 1 to 5 scale.
Medical Bills Processed w/in 30 days:	39%	94%	
Claims Pending over 60 Days:	443	9	
Independently Conducted Injured Worker Customer Satisfaction Surveys (Scale 1 to 5):	Did not exist	4.39	
Independently Conducted Employer Customer Satisfaction Surveys (Scale 1 to 5):	Did not exist	4.21	

Premium Stability

	The System of Old	The System Today	
Rate Changes:	Numerous double digit rate increases up to 60% one year.	Nine reductions and one 6% increase in the last 10 years.	Legislative reforms providing for Board governance and monitoring, Independent Performance Audits, incentives for participation in safety and return to work programs, operational performance monitoring, and a fraud program have resulted in a more cost-effective and efficient operation which ultimately has contributed to a more stable premium environment.
Premiums:	$133 million	$96.8 million	

Financially Healthy

	The System of Old	The System Today	
Net Assets:	Nearly $250 Million Deficit	$459 Million	Timely and periodic Board review of the fund's investment allocations and strategies has contributed to an improved financial position.

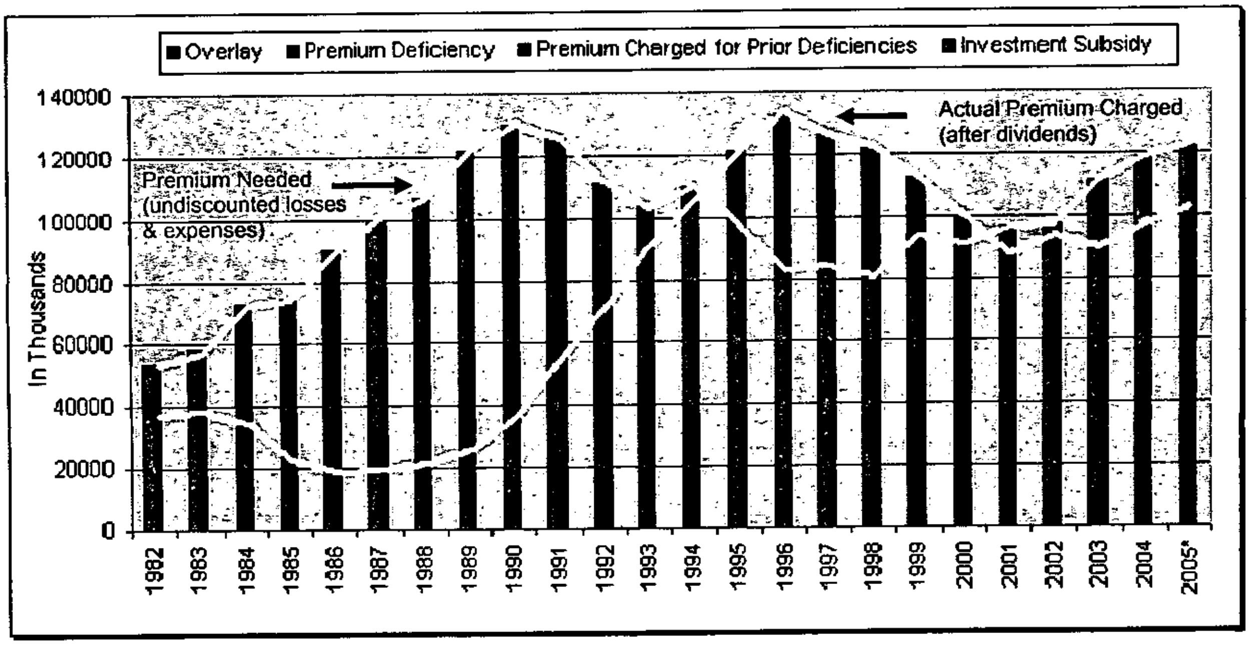
Less Fraud and Abuse

The System of Old	The System Today
Fraud program did not exist. There was no means to detect or deter the fraud and abuse that existed within the system.	Special Investigations Unit established in August, 1994. Has resulted in prosecutions and millions of dollars in cost avoidance to the fund.

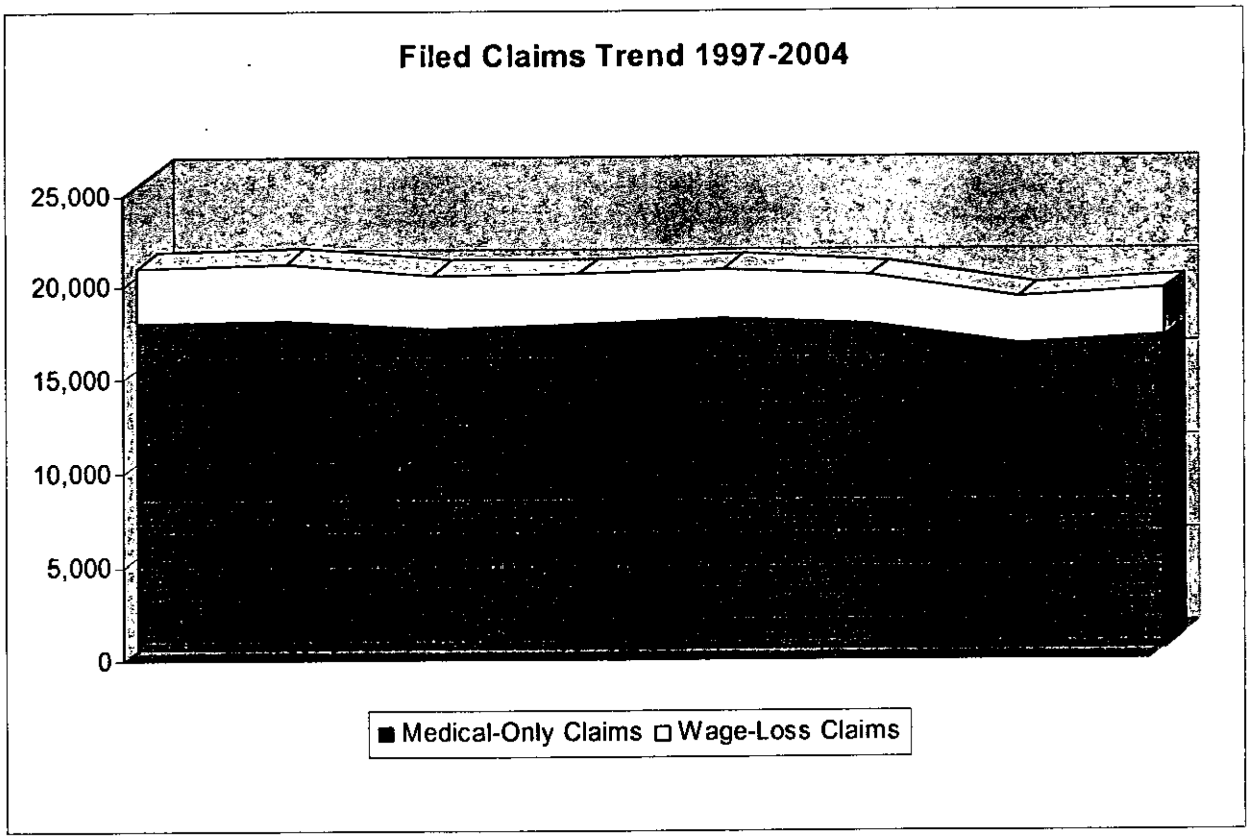
More Accountable

The System of Old	The System Today	
The Executive Director was appointed by the Governor, . The appointment was typically an individual with no expertise in workers' compensation or the insurance industry which resulted in a long learning curve. Prior to the Board, the organization had 14 directors in 17 years. Changes in Governors led to revolving executive leadership which led to an inefficient and ineffective organization. Executive leadership had the inability to strategically plan because the change in governor resulted in a change of leadership. Recruiting a professional workers' compensation executive was difficult because of the revolving Governor door. Premium levels and claims decisions were based on political influence rather than sound business practices.	A Board of Directors was established in 1997 to provide the vision, oversight, and controls to ensure continual improvement. The Executive Director/CEO reports directly to the Board. Numerous accountability measures came along with this. The Board adopted a Governance model, bylaws, and policy manual. The Governance Manual requires a standing Board Audit Committee. The organization created an internal audit department that reports directly to the Board Audit committee. The Governance manual lays out Board outcomes or expectations for the organization to achieve. Operational performance measures are monitored and reported to the Board quarterly to ensure organizational compliance with Board outcomes. Accompanying the Board legislation was the requirement that the organization undergo biennial independent performance audits to be conducted by workers' compensation industry experts (a recurring mandate that few other state agencies have). Audits are reported to the interim LAFRC committee as well as the House and Senate Industry, Business, and Labor committees.	The Board has allowed the organization to perform in a business-like fashion and focus on providing quality service to injured workers and employers while insulated from political influence. The Board has the ability to recruit a qualified workers' compensation professional and ensure stability in leadership. Leadership stability gives the organization the ability to strategically plan for the short-term as well as the long term. The legislature maintains ultimate authority over workers' compensation benefits, the organizational budget, and whether the system is producing the intended results.

WSI Significant Trends
Sandy Blunt, Executive Director/CEO, Workforce Safety & Insurance

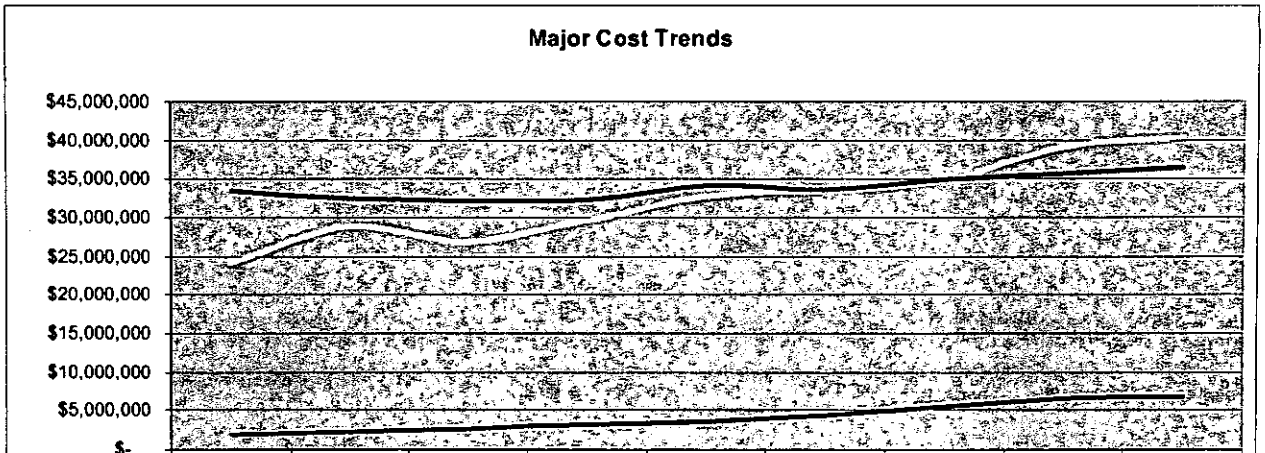


OPENING CHART A



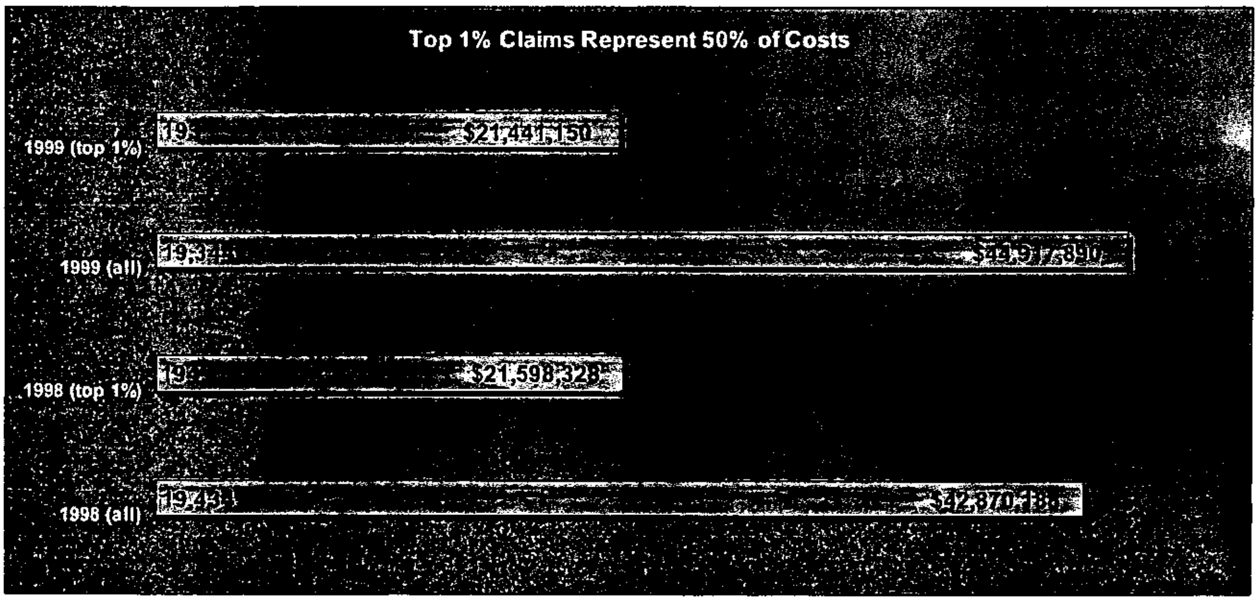
OPENING CHART B

WSI Significant Trends
Sandy Blunt, Executive Director/CEO, Workforce Safety & Insurance



	1997	1998	1999	2000	2001	2002	2003	2004	2005**
Medical	$24,108,060	$28,805,013	$26,754,179	$29,611,692	$32,886,546	$33,592,385	$34,952,520	$39,181,223	$40,278,244
Pharmacy	$1,897,106	$2,255,970	$2,646,141	$3,265,229	$3,637,669	$4,388,621	$5,359,666	$6,487,170	$6,690,154
Wage Loss	$33,399,770	$32,506,764	$31,970,814	$32,207,852	$34,114,629	$33,590,728	$34,826,237	$35,613,605	$36,316,922

OPENING CHART C



* From Page 123 of September 22, 2004, WSI Performance Audit

OPENING CHART D

WSI's Vision -- To be an independently governed and recognized leader in providing superior workers' compensation products and services to employers, workers, and providers.

WSI's Core Values -- Excellence, Integrity, Service, Passion, Honesty, Trust, Compassion, Justice, Commitment and Financial Stability.

WSI's Mission -- Our mission is our passion. Our passion is North Dakota's workforce. To us, it's personal.

2005 Engrossed House Bill No. 1125
Testimony before the Senate Industry, Business, and Labor Committee
Presented by: Anne Jorgenson Green, Staff Counsel
Workforce Safety and Insurance
March 1, 2005

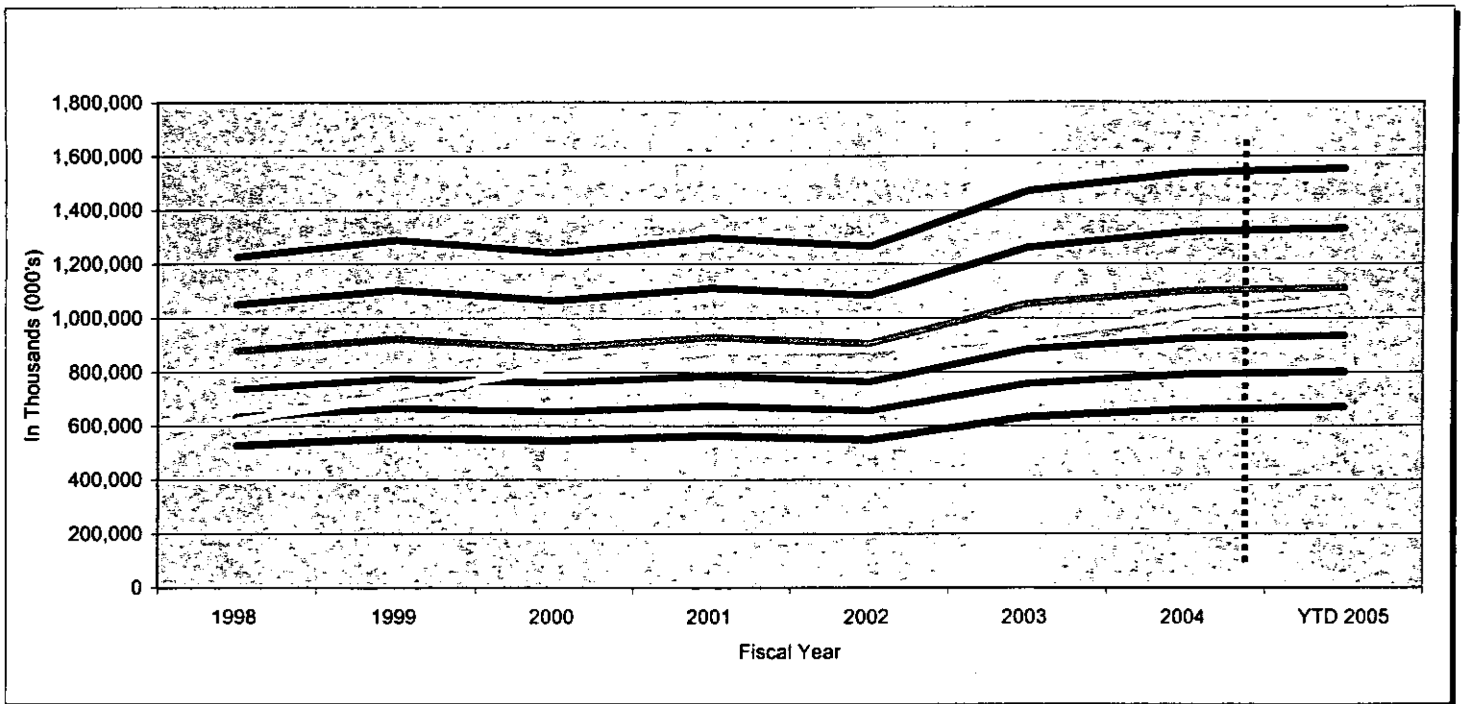
Mr. Chairman, Members of the Committee:

Good Morning. My name is Anne Jorgenson Green and I am staff counsel for Workforce Safety and Insurance (WSI). I am here today to testify in support of Engrossed House Bill 1125 (HB 1125). This bill proposes changes to several statutes regarding policyholder services. The WSI Board of Directors supports this bill.

Section 1. The workforce of North Dakota is the driving force behind the state's business success and the strong communities we enjoy. Protecting our workforce and assuring their safety while they are at work should be a top priority and commitment because the best claim is the one that never happened. Section 1 provides WSI with continuing appropriation authority to fund safety education, matching grants, and incentive programs in the event there is a reserve surplus. The first charge of WSI is to protect North Dakota's workforce through effective safety programs. This amendment allows WSI to direct surplus resources in order to assure we are doing all we can to protect North Dakota's workforce through aggressive safety efforts.

Section 2. This proposed change brings any rate adjustment in the minimum premium into WSI's rate-making process. At the conclusion of the public rate hearing process, WSI's Board of Directors is charged with approving all final rate recommendations with the exception of minimum premium. Currently, minimum premium rates are established by administrative rule. This proposed change permits the Board to approve minimum premium as they do all other rates.

Workforce Safety & Insurance
Financial Reserves and Surplus (5% Discount on Liabilities)
Current Position and Last 7 Years



CALCULATION (in 000's)	1998	1999	2000	2001	2002	2003	2004	YTD 2005
Unpaid loss and LAE, discounted at 5%	525,700	553,700	543,000	561,000	545,700	630,100	659,200	666,200
Total fund surplus	142,319	206,274	332,942	332,632	341,073	337,396	403,652	459,107
Less: Unrealized investment gains	(49,085)	(47,728)	(55,548)	(12,865)	0	(32,884)	(52,191)	(58,532)
Total Financial Reserves and Surplus	618,934	712,246	820,394	880,767	886,773	934,612	1,010,661	1,066,775
Total Financial Reserves and Surplus	618,934	712,246	820,394	880,767	886,773	934,612	1,010,661	1,066,775
Unpaid loss and LAE, discounted at 5%	525,700	553,700	543,000	561,000	545,700	630,100	659,200	666,200
Financial Ratio	117.7%	128.6%	151.1%	157.0%	162.5%	148.3%	153.3%	160.1%
Low End of Ratio (120%)	630,840	664,440	651,600	673,200	654,840	756,120	791,040	799,440
High End of Ratio (140%)	735,980	775,180	760,200	785,400	763,980	882,140	922,880	932,680

Testimony of David Straley
Greater North Dakota Chamber of Commerce
Presented to the House IBL Committee
April 4, 2005

GREATER NORTH DAKOTA CHAMBER of COMMERCE

House Bill 1531

Mr. Chairman and members of the House Industry, Business & Labor Committee, my name is David Straley. I am here today representing a business coalition of 18 chambers of commerce that speak for over 7,400 member businesses in North Dakota. I am here today to urge you to **support** House Bill 1531.

We support the concept that this will give the board of directors a legislative directive, without demanding the exact reserve and surplus level. This guidance by the legislative assembly will be helpful to all interested parties. There will be no more guessing at what adequate means. These guidelines of 120 to 140 percent are reasonable provisions to operate within, yet provide enough flexibility to determine a fair rate of premiums. We believe that establishing the rates as a percentage of discount reserve levels will provide for long-term stabilization of rates to employers.

The past and current board of directors for WSI has done a stellar job and are not often enough given the praise they deserve. They are to be commended for giving the direction they have to WSI for over 8 years now. Because of this guidance, WSI has excess funds in the reserve and surplus.

Thank you, Chairman Keiser and members of the House Industry, Business & Labor Committee, for this opportunity to discuss the business community's position on HB 1531. We urge a **DO PASS** for HB 1531. Thank you and I would be happy to answer any questions at this time.

The following chambers are members of a coalition that support our policy statements:

Beulah
Bismarck-Mandan
Bottineau
Cando
Crosby
Devils Lake
Dickinson
Fargo
Grand Forks
Greater North Dakota Chamber of Commerce
Hettinger
Jamestown
Langdon
Minot
Wahpeton
Watford City
West Fargo
Williston

Total Businesses Represented = 7429