

MICROFILM DIVIDER

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



ROLL NUMBER

DESCRIPTION

1022

2005 HOUSE APPROPRIATIONS

HB 1022

January 6, 2005

House Appropriations Full Committee

Care, Home and Community Based Care, Foster Care, Subsidized Adoption Grants, Indian County Allocations, State Hospital Traditional Services and the Technology budget.

Mr. David Zentner spoke on the Medicaid Management Information System (handout #3-10, attached). (Meter Tape #2, Side B, #20.7) and asked that decisions concerning this system be made as soon as possible so that they could begin their process for finding vendors. A project schedule can be found on Attachment E of handout.

Human Services distributed additional material concerning "Government Performance and Accountability Measures" (handout #3-11, attached) with no discussion.

Ms Sheila Peterson from the Office of Management and Budget reviewed HB1024 concerning Deficiency appropriation. (Meter Tape #2, Side B, #35.9)

Rep. Eliot Glassheim clarified by saying that the funds to provide services were just a surcharge to reduce ITD's General Fund Budget and then it was decided that they were not allowed to use special funds to pay this so ITD now has a deficiency.

HB 1022 **Ms Sandy Blunt** from Workforce Safety and Insurance distributed handout #3-12 (attached). (meter Tape #3, Side A, #9.9) ~~Ms Peterson described~~ variances as needed because of the change in the number of FTE's, a lesser expense in professional services, and less software purchases.

Ms Peterson discussed goals and objectives listed on page 5 of handout.

Gen. Michael Haugen spoke for the Adjutant General's Office (handout #3-13, attached). (meter Tape #3, Side A, #34.3) Gen. Haugen reviewed page 2 of handout covering all variances between 2003-05 and 2005-07, and noted that they would bring their information regarding performance measurement to the subcommittee hearing.

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB1022

House Appropriations Committee
Education and Environment Division

☐ Check here for Conference Committee

Hearing Date January 14, 2005

Tape Number	Side A	Side B	Meter #
1	x		0 - 13.3

Committee Clerk Signature

Robin Pursley

Minutes: Chairman Martinson opened the hearing on HB1022.

Sandy Blunt, Executive Director and CEO of Workforce Safety & Insurance here to testify on HB1022. (See attached written testimony A1022). Briefly reviewed annual costs of North Dakota's workers' compensation systems for the past 24 years. Presented an administrative budget of \$33,272,276 for the next two years. Attached are reports for WSI's nine continuing appropriations including: building construction, building operations, reinsurance, other states coverage, allocated loss adjustment expenses, preferred worker program, performance evaluation, insurance fraud and the information fund. (See attached written testimony A1022).

Rep. Aarsvold A couple years ago you set up a special unit to cover out-of-state employment. Remind me of what that was.

Sandy Blunt That's "all state coverage". Went to Minnesota and asked permission to establish an insurance company that is call Compseild. That insurance company gave us a license to sell

insurance for Worker's Compensation coverage for North Dakota employers only in that state.

We are now able to offer "all states coverage" to all our employers so therefore the need to operate, conduct and run our own insurance company, which only gave us coverage in one state, is on hold.

Rep. Aarsvold Was that a business decision? What drove you to do that?

Sandy Blunt Yes, it was a business decision. The amount of money you would expend as an employer was in the \$2,000 to \$3,000 range simply to get coverage in Minnesota only, Now we are able to offer for \$600 flat whether you have one or one thousand employees, you can now have all states coverage in 45 private states in the United States. Business decision to decrease cost to employers and increase the coverage they were receiving.

Rep. Aarsvold Any impact on our fund?

Sandy Blunt Only impact is that we are saving money and that we do not have to expend money to build and maintain a computer system to watch and track all the accounts that we have established there.

Rep. Gulleason Are the contract costs on the spreadsheet?. Those contracts that you use for the physicians fees and lawyer fees?

Sandy Blunt Those are ALAE costs and they are not in our budget proper. Costs are attached to a claim file.

Dave Sandy, head of finance We did not bring those reports with us.

Rep. Gulleason Could you bring those? This will be in a subcommittee so if you could make those available. Also, I know that there was a comprehensive study done. Will that be provided to the committee?

Sandy Blunt What comprehensive study?

Rep. Gulleason Don't recall what it was called?

Sandy Blunt The Octagon Report. Yes, we will make that available also.

Rep. Wald Legal fees become part of the claim total, correct? So when you show us your total claims that would include litigation costs?

Sandy Blunt Yes, the chart attached total costs are all in.

Rep. Wald Where are you at today in terms of ITD? Information technology and your system becoming part of the big, black hole of government?

Sandy Blunt Every three to five years need to update system. Next time we go to take bids we will be under ITD.

Chairman Martinson Hearing closed. **Chairman Martinson** Reopened hearing on HB1022..

Rep. Wald Do you pay regular city taxes?

Sandy Blunt Yes, it's called expenses in lieu of taxes. It comes out like a tax.

Rep. Wald City of Bismarck gets reimburse for police and fire protection, etc.?

Sandy Blunt Yes.

Rep. Wald Any plans down the road to house any other state agencies?

Sandy Blunt No.

Rep. Wald Who are your other tenants?

Sandy Blunt Dept. Of Commerce, Parks and Rec., ND Council of the Arts, Dept. Of Health, Children's Services, Child Support, Human Services, Provider Auditor, OMB Risk Management and ourselves.

Chairman Martinson Hearing closed.

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB1022

House Appropriations Committee
Education and Environment Division

☐ Check here for Conference Committee

Hearing Date January 30, 2005

Tape Number
1

Side A
x

Side B

Meter #
10.7 to 12

Committee Clerk Signature



Minutes: Chairman Martinson opened hearing on HB1022.

Rep. Wald The amendment I'm proposing for Workforce Safety and Insurance is 58045.0101.

What I'm asking for is the section to consider adding \$25,000 to a line item called "Education and business development." (See attachment A1022) They have expenses sometimes that are not reimbursable. That would be \$12,500 per biennium. They may not use all of that but it is for business promotion. Sandy Blundt, Executive Director and CEO of WSI said that many times there are situation where he is at meetings or visiting larger policy holders and it's the noon lunch and he is expected to pick up the tab and there is no way for him to get reimbursed for those personal expenses. I move that we amend the bill as per amendment .0101.

Chairman Martinson Doesn't really add \$25,000 just allows them to use \$12,500 per biennium for miscellaneous expenses, business expenses.

Rep. Wald PR work.

Chairman Martinson The Dept. Of Commerce and what other agencies can use money?

Rep. Wald I talked to the Tax Commissioner and to the Insurance Commissioner and they have the ability to take care of those kind of personal expenses.

Sandy Paulson, OMB These is an office management policy and it's called "promotional expenses" and it lists a number of agencies, Commerce and Workforce Safety included, if part of your goals and objectives are in fact to promote the agency that you can do this and bypass some of the more restrictive requirements for receiving payments for vouchers and that sort of thing. I believe that Workforce Safety is in that group. It should not require a special legislation to become part of that.

Rep. Wald Both Mr. Blundt and John Halverson said no. Could you check on that?

Sandy Paulson I certainly can.

Rep. Wald Can you make a quick phone call so we don't have to hold up?

Sandy Paulson Yes.

Rep. Wald The appropriations is all special funds so there is no general fund money that is budgeted. All of the revenue is in quartered paid work comp premiums. For the committee's information, then North Dakota's Work Comps expense ratio is 13.75% of revenue. The industry average is 29.75%. They are slightly less than half of the general industry is in terms of administrative expenses.

Rep. Aarsvold What are the nature of these activities

Rep. Wald He's viewed in the business community as a president of an insurance company, which is really what he is. Sometimes they will have a dinner somewhere with a larger policy holder and he is expected to pick up the tab. I was told he had no way to recoup that and why

should he pay that expense out of his personal earnings. This would also include some educational training and business promotion. It would \$12,500 per biennium for those expenses.

Rep. Aarsvold Is that a practice in other agencies?

Rep. Wald I don't know. We will find out from Sandy.

Sandy Paulson I just talked to OMB accounting and Workforce Safety is on the list of promotional agencies, so yes he would be able to turn in vouchers and get reimbursed for it. I specifically asked that question.

Rep. Wald So they we don't need it.

Chairman Martinson Does that include a liquor tab?

Sandy Paulson We have had other agencies ask about that. What we say is "if it is going to end up on the front page of the paper and are you going to be able to justify this expense". That is usually what we tell the directors of state agencies. We really don't what to go there but it is there decision and they are the ones that would have to justify it.

Chairman Martinson So they could buy a round or they could have wine?

Sandy Paulson Yes.

Rep. Aarsvold Is there a budget item for that of is it a check?

Sandy Paulson It would have to come out of their travel line item. With Workforce Safety it is alittle different because they have a special line item so they are not really restricted to certain amounts for travel. Again we do expected them to report to a board, that the board would be asking questions so they would have to justify those expenditures.

Chairman Martinson Frank, are you going to proposed those amendments?

Rep. Wald If they can do it, there's no point in duplicating it. Mr. Blundt said he was comfortable with amount of money in his operating line item. However when you said it comes out of travel, their travel went from \$573,000 to \$545,000 so there was a reduction in their travel line item.

Sandy Paulson Yes, they submitted with the reduction. Over all they just had one line item. When you sign the bill, it has one line item. They showing that to demonstrate where their expenditures take place.

Rep. Wald If it is not need and you say they can do it, I'll withdraw the motion.

Chairman Martinson The other way to do it, is to put it on there and if it turns out there is a problem with it we can change it the big committee or change it in the Senate. Whatever you want to do.

Rep. Wald If we put it on there, we'll have to honest in the full committee and it might attract a lot of flies so I think we should just table it. I move that we do a do pass on HB1022 as per the appropriations of \$32,440, 814. (See written attachment A1022 \$33,440,814).

Vice Chairman Brusegaard I second.

VOTE: 5 YES and 0 NO with 1 absent. DO PASS. Chairman Martinson will present bill to full committee.

2005 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB1022
Workforce Safety and Insurance

House Appropriations Full Committee

☐ Conference Committee

Hearing Date February 15, 2005

Tape Number
2

Side A

Side B
X

Meter #
#14.2 - #18.4

Committee Clerk Signature

Chris Alexander

Minutes:

Rep. Ken Svedjan, Chairman opened the discussion on HB1022.

Rep. Francis J. Wald explained that this bill has an amendment #0102 which changes the payroll compensation at the 3 and 4 level.

Rep. Francis J. Wald moved to adopt amendment #0102 to HB1022.

Rep. Bob Martinson seconded.

Rep. Ken Svedjan, Chairman called for a voice vote on the motion to adopt amendment #0102 to HB1022. Motion carried.

Rep. Francis J. Wald further explained that there is a reduction in FTEs in this bill to 223.14.

The reason for this is that some programs are changing and the positions are no longer needed.

The administrative costs for 2005 are projected to be 13.75% of total expenses with the industry average being 29.75%. All of the money in this budget is employer paid premiums. There is no general fund money in this budget.

Rep. Francis J. Wald moved a Do Pass As Amended motion to HB1022.

Rep. Bob Martinson seconded.

Rep. Ken Svedjan, Chairman asked if the FTEs were changed by the committee.

Rep. Francis J. Wald answered no.

Rep. Ken Svedjan, Chairman called for a roll call vote on the Do Pass As Amended motion on HB1022. Motion carried with a vote of 19 yeas, 0 neas, and 4 absences. Rep Wald will carry the bill to the house floor.

Rep. Ken Svedjan, Chairman closed the discussion on HB1022.

TA1022

18

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1022

Page 1, after line 11, insert:

"Operations	\$1,043,183
Education and business development	<u>25,000</u> "

Page 1, line 12, replace "1,043,183" with "1,068,183"

Page 1, after line 16, insert:

"Operations	\$33,440,814
Education and business development	<u>25,000</u> "

Page 1, line 17, replace "33,440,814" with "33,465,814"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1022 - Workforce Safety and Insurance - House Action

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Workforce safety and insurance	\$33,440,814		\$33,440,814
Education and business development		\$25,000	<u>25,000</u>
Total all funds	\$33,440,814	\$25,000	\$33,465,814
Less estimated income	<u>33,440,814</u>	<u>25,000</u>	<u>33,465,814</u>
General fund	\$0	\$0	\$0
FTE	223.14	0.00	223.14

Dept. 485 - Workforce Safety and Insurance - Detail of House Changes

	ADDS FUNDING FOR EDUCATION AND BUSINESS DEVELOPMENT ¹	TOTAL HOUSE CHANGES
Workforce safety and insurance		
Education and business development	\$25,000	\$25,000
Total all funds	\$25,000	\$25,000
Less estimated income	<u>25,000</u>	<u>25,000</u>
General fund	\$0	\$0
FTE	0.00	0.00

¹ This amendment adds special funds of \$25,000 in the education and business development line item.

Date: 1.20.05
Roll Call Vote #:

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1022

House Appropriations Education and Environment

☐ Check here for Conference Committee

Legislative Council Amendment Number

58043.0102

Amendment
Added
2/11/05

Action Taken

Do Pass As Amend

Motion Made By

Rep. Wald

Seconded By

V Chair Brusegaard

Representatives
Chairman Martinson
Vice Chairman Brusegaard
Rep. Rennerfeldt
Rep. Wald

Yes
X
X
X
X

No

Representatives
Rep. Aarsvold
Rep. Gulleon

Yes No

X
absent

Total

6

(Yes)

5

No

0

Absent

1

Floor Assignment

Chairman Martinson

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

Date: **February 15, 2005**
Roll Call Vote #: **1**

2005 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. HB1022

House Appropriations - Full Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number **58045.0102**

Action Taken **DO PASS AS AMENDED**

Motion Made By **Rep Wald** Seconded By **Rep Martinson**

Representatives	Yes	No	Representatives	Yes	No
Rep. Ken Svedjan, Chairman	X		Rep. Bob Skarphol	X	
Rep. Mike Timm, Vice Chairman	X		Rep. David Monson	X	
Rep. Bob Martinson	X		Rep. Eliot Glassheim	X	
Rep. Tom Brusegaard	X		Rep. Jeff Delzer	X	
Rep. Earl Rennerfeldt	X		Rep. Chet Pollert	X	
Rep. Francis J. Wald	X		Rep. Larry Bellew	X	
Rep. Ole Aarsvold	X		Rep. Alon C. Wieland	X	
Rep. Pam Guleson	AB		Rep. James Kerzman	X	
Rep. Ron Carlisle	X		Rep. Ralph Metcalf	X	
Rep. Keith Kempenich	X				
Rep. Blair Thoreson	AB				
Rep. Joe Kroeber	AB				
Rep. Clark Williams	AB				
Rep. Al Carlson	X				

Total Yes **19** No **0**

Absent **4**

Floor Assignment **Rep Wald**

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

REPORT OF STANDING COMMITTEE

HB 1022: Appropriations Committee (Rep. Svedjan, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (19 YEAS, 0 NAYS, 4 ABSENT AND NOT VOTING). HB 1022 was placed on the Sixth order on the calendar.

Page 1, line 12, replace "1,043,183" with "938,642"

Page 1, line 17, replace "33,440,814" with "33,336,273"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1022 - Workforce Safety and Insurance - House Action

	EXECUTIVE BUDGET	HOUSE CHANGES	HOUSE VERSION
Workforce Safety and Insurance	<u>\$33,440,814</u>	<u>(\$104,541)</u>	<u>\$33,336,273</u>
Total all funds	\$33,440,814	(\$104,541)	\$33,336,273
Less estimated income	<u>33,440,814</u>	<u>(104,541)</u>	<u>33,336,273</u>
General fund	\$0	\$0	\$0
FTE	223.14	0.00	223.14

Dept. 485 - Workforce Safety and Insurance - Detail of House Changes

	REDUCES COMPENSATION PACKAGE TO 3/4	TOTAL HOUSE CHANGES
Workforce Safety and Insurance	<u>(\$104,541)</u>	<u>(\$104,541)</u>
Total all funds	(\$104,541)	(\$104,541)
Less estimated income	<u>(104,541)</u>	<u>(104,541)</u>
General fund	\$0	\$0
FTE	0.00	0.00

2005 SENATE APPROPRIATIONS

HB 1022

2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1022

Senate Appropriations Committee

☐ Conference Committee

Hearing Date 03/07/05

Tape Number

1

Side A

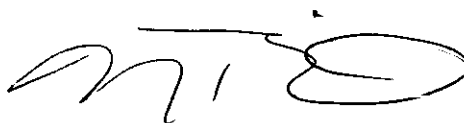
x

Side B

Meter #

0-3067

Committee Clerk Signature



Minutes: **Chairman Holmberg** opened meeting on HB 1022.

Sandy Blunt, Executive Director and CEO of Workforce Safety and Insurance (WSI)

appeared in support of HB 1022. Written testimony was provided, see appendix I. He went over the budget overview for the next biennium.

Sen. Fischer: Could you enlighten me on IT contractual services?

Mr. Blunt: It includes data warehousing, disaster recovery, but it doesn't guarantee backup.

Sen. Fischer: So the safe storage areas in through ITD?

Mr. Blunt: Yes, sort of, Sun Guard of Philadelphia has given us a good price.

Sen. Mathern: page three, administrative expenses, does that include capitol costs?

Mr. Blunt: It includes building, and IT daily operating costs, it does not cover legal fraud.

Sen. Mathern: What system do you use to take in claims as it relates to Medicare costs?

Mr. Blunt: CMS or Claims Management Stem, Pharisen, or MIRA

2005 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. 1022

Senate Appropriations Committee

☐ Conference Committee

Hearing Date March 24, 2005

Tape Number

1

Side A

a

Side B

Meter #

1491-1650

Committee Clerk Signature



Minutes:

Chairman Holmberg called the discussion to order on HB 1022.

Senator Thane distributed amendments on the Workforce Safety and **moved approval of the amendments. Senator Bowman Seconded, a voice vote was taken. The motion carried.**

Senator Thane moved a DO PASS WITH AMENDMENTS, Senator Bowman seconded. A roll call vote was taken resulting in 13 yes, 0 no, 2 absent. The motion carried.

Chairman Holmberg closed the discussion on HB 1022.

Date
Roll Call Vote #:

2005 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 1022

Senate SENATE APPROPRIATIONS

Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken

DP as A

Motion Made By

Thane

Seconded By

Bowman

Senators			Senators		
	Yes	No		Yes	No
CHAIRMAN HOLMBERG	✓		SENATOR KRAUTER	✓	
VICE CHAIRMAN BOWMAN	✓		SENATOR LINDAAS	✓	
VICE CHAIRMAN GRINDBERG	✓		SENATOR MATHERN	✓	
SENATOR ANDRIST	✓		SENATOR ROBINSON	✓	
SENATOR CHRISTMANN	✓		SEN. TALLACKSON	✓	
SENATOR FISCHER	✓				
SENATOR KILZER	✓				
SENATOR KRINGSTAD	✓				
SENATOR SCHOBINGER	✓				
SENATOR THANE	✓				

Total (Yes)

13

No

0

Absent

2

Floor Assignment

Thane

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

REPORT OF STANDING COMMITTEE

HB 1022, as engrossed: Appropriations Committee (Sen. Holmberg, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (13 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING). Engrossed HB 1022 was placed on the Sixth order on the calendar.

Page 1, line 12, replace "938,642" with "911,935"

Page 1, line 17, replace "33,336,273" with "33,309,566"

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

House Bill No. 1022 - Workforce Safety and Insurance - Senate Action

	EXECUTIVE BUDGET	HOUSE VERSION	SENATE CHANGES	SENATE VERSION
Workforce Safety and Insurance	<u>\$33,440,814</u>	<u>\$33,336,273</u>	<u>(\$26,707)</u>	<u>\$33,309,566</u>
Total all funds	\$33,440,814	\$33,336,273	(\$26,707)	\$33,309,566
Less estimated income	<u>33,440,814</u>	<u>33,336,273</u>	<u>(26,707)</u>	<u>33,309,566</u>
General fund	\$0	\$0	\$0	\$0
FTE	223.14	223.14	0.00	223.14

Dept. 485 - Workforce Safety and Insurance - Detail of Senate Changes

	REDUCES RECOMMENDED FUNDING FOR HEALTH INSURANCE ¹	TOTAL SENATE CHANGES
Workforce Safety and Insurance	<u>(\$26,707)</u>	<u>(\$26,707)</u>
Total all funds	(\$26,707)	(\$26,707)
Less estimated income	<u>(26,707)</u>	<u>(26,707)</u>
General fund	\$0	\$0
FTE	0.00	0.00

¹ This amendment reduces funding for state employee health insurance premiums from \$559.15 to \$553.95 per month.

2005 TESTIMONY

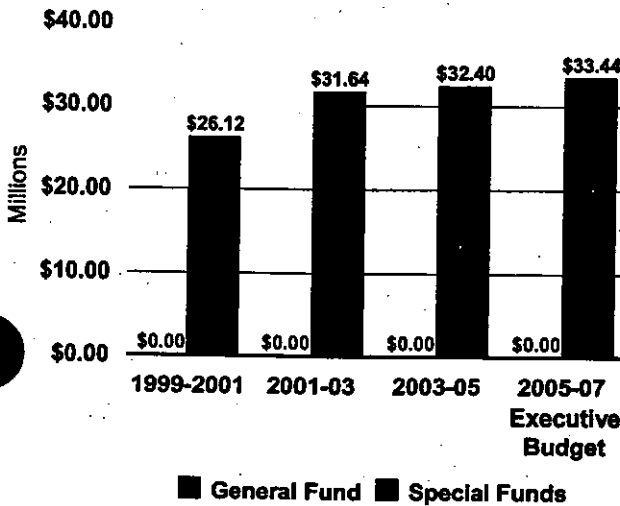
HB 1022

Department 485 - Workforce Safety and Insurance
House Bill No. 1022

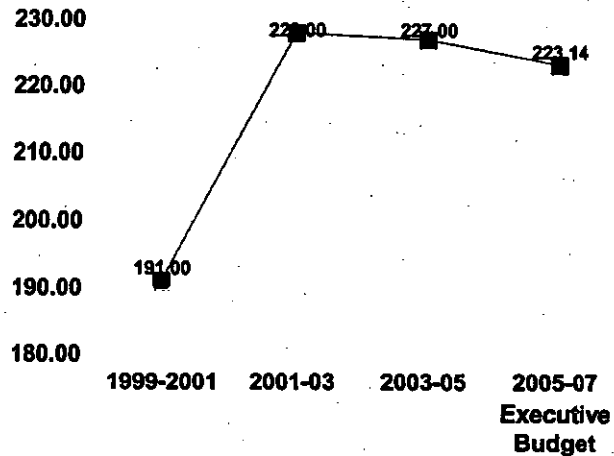
	FTE Positions	General Fund	Other Funds	Total
2005-07 Executive Budget	223.14	\$0	\$33,440,814	\$33,440,814
2003-05 Legislative Appropriations	227.00 ¹	0	32,397,631	32,397,631
Increase (Decrease)	(3.86)	\$0	\$1,043,183	\$1,043,183

¹The number of FTE positions for the 2003-05 biennium has been adjusted to reflect the reduction and transfer of 1 FTE position relating to information technology services, including electronic mail, file and print server administration, data base administration, storage, application server, and hosting services from Workforce Safety and Insurance to the Information Technology Department as of November 1, 2003, provided for in Section 10 of House Bill No. 1505.

Agency Funding



FTE Positions



Executive Budget Highlights

- Deletes 3.86 FTE positions not requested by the agency
- Increases operating expenses to provide funding for ConnectND charges
- Decreases operating expenses to reflect savings associated with the information technology functional consolidation required by North Dakota Century Code Section 54-59-22
- Adjusts funding for operating expenses as follows:
 - Information technology - Data processing
 - Information technology - Telephone
 - Travel
 - Information technology - Software and supplies
 - Postage
 - Information technology - Contractual services
 - Lease or rent buildings and land
 - Dues and professional development
 - Operating fees and services
 - Professional services
 - Office supplies
 - Printing
 - Professional supplies

	General Fund	Other Funds	Total
		(\$309,436)	(\$309,436)
		\$74,050	\$74,050
		(\$54,921)	(\$54,921)
		\$38,871	\$38,871
		(\$46,712)	(\$46,712)
		(\$27,444)	(\$27,444)
		(\$274,250)	(\$274,250)
		(\$71,608)	(\$71,608)
		\$447,000	\$447,000
		\$95,336	\$95,336
		(\$316,545)	(\$316,545)
		(\$28,422)	(\$28,422)
		\$25,747	\$25,747
		(\$32,620)	(\$32,620)
		(\$72,232)	(\$72,232)
		\$18,088	\$18,088

	General Fund	Other Funds	Total
Miscellaneous supplies		(\$47,738)	(\$47,738)
Information technology - Equipment under \$5,000		\$9,060	\$9,060
Total		(\$283,469)	(\$283,469)
Removes one-time funding provided for equipment over \$5,000 (\$18,800) and information technology equipment over \$5,000 (\$92,700)		(\$111,500)	(\$111,500)
6. Provides funding for information technology equipment over \$5,000		\$26,000	\$26,000
7. Reduces funding for workforce safety grants from \$1,184,400 to \$1,000,000		(\$184,400)	(\$184,400)

Major Related Legislation

House Bill No. 1199 - Workforce Safety and Insurance Board of Directors - This bill provides that each employer representative on the board of directors for Workforce Safety and Insurance must be a principal owner, chief executive officer, or chief financial officer of the employer. The bill also provides that the board shall interview an employer representative or a medical representative before placing that candidate's name on the list of replacement candidates submitted to the Governor.

Full House Apps
1-6-05
Handout
3-12

2005 House Bill No. 1022
Testimony before the House Appropriations Committee
Presented by: Sandy Blunt, Executive Director & CEO
Workforce Safety & Insurance
January 6, 2005

Mr. Chairman and Members of the Committee:

Good afternoon. My name is Sandy Blunt and I am the Executive Director and CEO of Workforce Safety & Insurance. I am here to testify on House Bill No. 1022 --our agency's biennial appropriations bill.

On behalf of our Board of Directors and our dedicated workforce, I would like to thank the Chairman and the Committee for providing us this opportunity to testify today.

Before I present Workforce Safety & Insurance's budget, I would like to take a brief moment to reacquaint you with our organization.

Workforce Safety & Insurance --commonly referred to as WSI-- is the sole provider of workers' compensation insurance in the State of North Dakota. WSI was established in 1919 with the purpose of providing wage and medical benefits to workers injured or killed during the course of their employment. Our charge remains unchanged today.

WSI is not a general fund agency and therefore does not operate on a single tax dollar. Instead, WSI collects an annual premium from North Dakota employers in order to operate the fund. The premium rates are established using actuarial formulas which are designed to collect the expected losses plus administrative expenses on a year-by-year basis.

We are once again proud to announce that North Dakota's average premium rate was noted in a national study as being the lowest in the nation for a second year in a row. I am also pleased to note, that in the same study WSI's average rate over the last decade has been among the lowest 10 percent in the nation. Conversely, over the last five years, the National Academy of Social Insurance's comparison has placed North Dakota's average benefits paid to injured workers in the top half nationally. (Only five years worth of data was available from the National Academy of Social Insurance.)

However, in order to remain competitive on a national level, we must constantly look into the future and adjust our business practices. Recently, our Board held a strategic retreat in order to chart a course for our future. Following their retreat, WSI's Board transmitted to the agency its vision, values and mission.

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

WSI's vision is built on our 10 core values of "Excellence, Integrity, Service, Passion, Honesty, Trust, Compassion, Justice, Commitment and Financial Stability."

Finally, supporting our vision and values is our mission, "Our mission is our passion. Our passion is North Dakota's workforce. To us, it's personal."

The budget you have before you today is a personal commitment to control costs, while still delivering the services and advancements to North Dakota's workforce that they expect and deserve. In formulating this budget, our Board asked us to review and cut expenditures where possible while still remaining efficient and effective. Effective in professionally and compassionately providing quality services to our injured workers. And efficient in managing our organization's use of premium dollars to remain financially stable.

While WSI has operated with a single-line appropriation for the past four years, we want to continue to acknowledge our accountability to the Legislature to report all expenses in detail. And the budget submission before you reflects this commitment.

When we developed our first 2005-2007 budget proposal, we reduced our overall request by 1.5 percent from the 2003-2005 budget. The 2005-2007 budget --as was requested-- did not account for any salary or healthcare cost increases.

Due to healthcare premium and cost of living increases, we are requesting a 2.7 percent increase from the prior biennium. It is important to note, that had we not taken any proactive steps to reduce nearly \$1,000,000 in salaries, benefits, and operational costs from our budget, the request today would have been for roughly an 8 percent increase as compared to the 2.7 percent increase proposed. In other words, this would have been a rate of increase that would have been almost three times more than what you see before you today.

Additionally, because WSI employees received salary increases in the current biennium, we are only proposing a three percent increase in our budget for the first year rather than four.

In summary, WSI's appropriation request for the 2005-2007 biennium is for \$33,272,276. Even with the increases in healthcare premiums, salary, and almost \$800,000 in new initiatives for information technology including disaster recovery and data warehousing, this represents only a 2.7 percent increase over the last biennium. In short, this budget represents an inflation-only request.

Thank you again for the time today. The members of WSI's staff and I will be glad to answer any questions you have about House Bill 1022.

WORKFORCE SAFETY & INSURANCE
Overview Presentation to the House Appropriations Committee
January 6, 2005

Funding

	2003-05 Legislative Appropriation	2003-05 Estimated Expenditures for Currently Filled FTE Positions	(1) Variance	2005-07 Executive Recommend.	(2) 2005-07 Recommend. Change (Variance) to 2003-05 Legislative Appropriations	WSI Adjustment for Pay Increases of 3% and 3%	WSI 2005-2007 Request
Salaries and wages	23,583,042	22,970,352	(612,690)	25,160,465	1,577,423	(168,538)	24,991,927
Operating expenses	7,518,689	6,999,833	(518,856)	7,254,349	(264,340)	0	7,254,349
Capital assets	111,500	36,786	(74,714)	26,000	(85,500)	0	26,000
Grants	1,184,400	941,186	(243,214)	1,000,000	(184,400)	0	1,000,000
Total	32,397,631	30,948,157	(1,449,474)	33,440,814	1,043,183	(168,538)	33,272,276
General fund	0	0	0	0	0	0	0
Federal funds	0	0	0	0	0	0	0
Special funds	32,397,631	30,948,157	(1,449,474)	33,440,814	1,043,183	(168,538)	33,272,276
Total	32,397,631	30,948,157	(1,449,474)	33,440,814	1,043,183	(168,538)	33,272,276
FTE	228.00	223.14	(4.86)	223.14	(4.86)	0.00	223.14

(1) Explanation of Major Funding and FTE Variances for the 2003-05 Legislative Appropriation to 2003-05 Current Estimates

	FTE	General Fund	Federal and Special Funds	Total
Positions reduced by WSI to comply with 2003 Senate Bill 2423.	(4.86)		(453,029)	(453,029)
2.				
3.				
4.				
5.				

(2) Explanation of Major Funding and FTE Changes (Variances) for the 2005-07 Recommendation to 2003-05 Legislative Appropriations

	FTE	General Fund	Federal and Special Funds	Total
1. Positions reduced by WSI to comply with 2003 Senate Bill 2423.	(4.86)		(514,072)	(514,072)
2. Governor's Recommended Pay Increases			1,165,040	1,165,040
3. Health Insurance Cost Increases			362,068	362,068
4.				
5.				

Summary of Major Goals and Objectives and Related Performance Measurement Data for the 2005-07 Biennium (to the extent available)

1. Streamline reporting and processing.
 2. Improve Communications with WSI employees, North Dakota employers, North Dakota's workforce and medical providers.
 3. Achieve and guarantee data systems and data integrity.
 4. Fund solvency with integrity.
 5. Enhance the development of WSI staff.
- Develop and expand a more proactive safety program to ultimately reduce claims

4

Inside the Numbers	Pct of 2003-05
2003-2005 Appropriation	32,397,631
Addition for Inflation	264,436
Additional IT Projects	795,000
Addition for Pay Increases	1,165,040
Addition for Health Insurance	362,068
Reduction of FTE	(453,028)
Other Budget Reductions	(1,090,332)
Adjustment to Gov's Pay Increases	(169,538)
2005-2007 Appropriation Request	33,272,276
	-0.5%
	-3.4%
	-1.4%
	1.1%
	3.6%
	2.5%
	0.8%

	03-05 Biennium	05-07 Biennium	Amt Change	Pct Change
Payroll	23,583,042	24,991,927	1,408,885	6.0%
Operating	7,518,689	7,254,349	(264,340)	-3.5%
Capital Assets	111,500	26,000	(85,500)	-76.7%
Safety Grants	1,184,400	1,000,000	(184,400)	-15.6%
Total	32,397,631	33,272,276	874,645	2.7%

⑥

Quick Facts and Figures

Workforce Safety & Insurance

Category	1997	1998	1999	2000	2001	2002	2003	2004
Covered workforce	280,969	287,801	292,868	296,663	299,714	301,913	301,777	304,287
Employer accounts	21,215	21,152	22,108	22,659	20,142	20,006	19,781	19,672
Risk management program employers ¹	926	968	1,030	1,091	1,133	1,206	1,194	1,225
Small account safety incentive program (SASIP) employers ¹	N/A	N/A	N/A	380	701	1,459	1,731	1,731
Earned premiums (\$millions) ²	\$125.8	\$121.9	\$112.4	\$112.1	\$99.0	\$93.1	\$89.6	\$96.8
Average annual premium adjustments	-0.7%	-7.0%	-6.8%	-2.6%	-11.3%	-5.7%	-0.7%	1.1%
Net assets (\$millions) ³	\$100.1	\$191.3	\$251.2	\$376.2	\$378.6	\$386.0	\$390.0	\$458.7
Net assets designated for discount (\$millions) ⁴	\$62.0	\$115.0	\$160.0	\$250.0	\$250.0	\$300.0	\$300.0	\$300.0
Investments (\$millions)	\$550.0	\$688.0	\$776.0	\$900.2	\$925.6	\$907.3	\$980.7	\$1,078.9
Investment returns	16.53%	15.81%	7.42%	12.22%	1.38%	-1.68%	8.96%	9.62%
General and Administrative Expenses (\$millions)	N/A	\$8.0	\$8.8	\$8.3	\$9.7	\$9.1	\$11.7	\$10.9
General and Administrative Expense ratio	N/A	6.5%	7.8%	8.3%	11.2%	9.9%	13.2%	11.2%
Unallocated Loss Adjustment Expense (ULAE) (\$millions) ⁴	N/A	\$2.4	\$2.4	\$2.6	\$2.9	\$4.5	\$5.1	\$4.5
Unallocated Loss Adjustment Expense (ULAE) ratio	N/A	2.0%	2.1%	2.7%	3.3%	4.9%	5.7%	4.6%
Total claims filed	20,448	20,683	20,034	20,045	20,320	19,950	18,753	19,184
Medical-only claims filed	17,482	17,576	17,194	17,399	17,727	17,396	16,311	16,722
Wage-loss claims filed	2,966	3,107	2,840	2,646	2,593	2,554	2,442	2,462
Disability benefits paid (\$millions)	\$33.1	\$32.5	\$31.6	\$32.2	\$34.1	\$33.6	\$34.8	\$35.6
Medical benefits paid (\$millions)	\$33.2	\$29.7	\$27.8	\$32.7	\$36.5	\$37.9	\$40.3	\$45.7
Allocated Loss Adjustment Expense paid (\$millions) ⁵	N/A	\$7.6	\$8.2	\$6.5	\$5.9	\$3.9	\$4.2	\$4.3
Total paid costs (\$millions)	\$66.3	\$69.8	\$67.6	\$71.4	\$76.5	\$75.4	\$79.3	\$85.6
Third party recoveries (\$millions)	-\$1.5	-\$1.1	-\$0.6	-\$0.7	-\$0.8	-\$1.0	-\$1.2	-\$0.7
Maximum weekly wage-loss benefit ⁶	\$387	\$402	\$417	\$480	\$497	\$516	\$537	\$555
Minimum weekly wage-loss benefit ⁷	\$233	\$241	\$251	\$262	\$271	\$282	\$293	\$303
Claims pending over 60 days ¹	101	42	25	N/A	22	4	7	9
Claims accepted/denied within 7 days	N/A	N/A	N/A	45.2%	49.7%	51.7%	51.4%	58.1%
Claims accepted/denied within 14 days	N/A	N/A	N/A	66.0%	71.1%	72.8%	73.8%	76.4%
Claims accepted/denied within 21 days	N/A	N/A	N/A	79.5%	82.9%	84.8%	85.0%	86.3%
Claims accepted/denied within 31 days	N/A	N/A	N/A	89.6%	91.9%	93.4%	94.0%	94.4%
Callers' average time on hold (seconds)	49	25	17	22	26	20	20	22
WSI employee turnover rate	10%	9%	9%	15%	10%	10%	5%	7%
WSI analyst turnover rate	N/A	N/A	N/A	N/A	N/A	14%	10%	5%

¹ Snapshot as of Fiscal Year End.

² Reflects earned premiums before reinsurance and dividends

³ Previously noted as total fund surplus - includes net assets designated for discount

⁴ Previously noted as reserved fund surplus & contingency reserve. This portion of Net Assets is designated to offset the 6% discount on claim liabilities

adjustment expenses include costs charged to the claim file (ALAE) and those not charged to the file (ULAE)

Effective 8/1/99, the maximum weekly benefit increased to 110% of SAWW

minimum benefit is equal to 60% of the SAWW unless this amount exceeds the employee's net wages in which case the employee receives net wages as a weekly compensation rate.

2005 House Bill 1022
Testimony before the House Appropriations Committee
Presented by Sandy Blunt, Executive Director & CEO
Workforce Safety & Insurance (WSI)
Friday, January 14, 2005

Mr. Chairman and Members of the Committee:

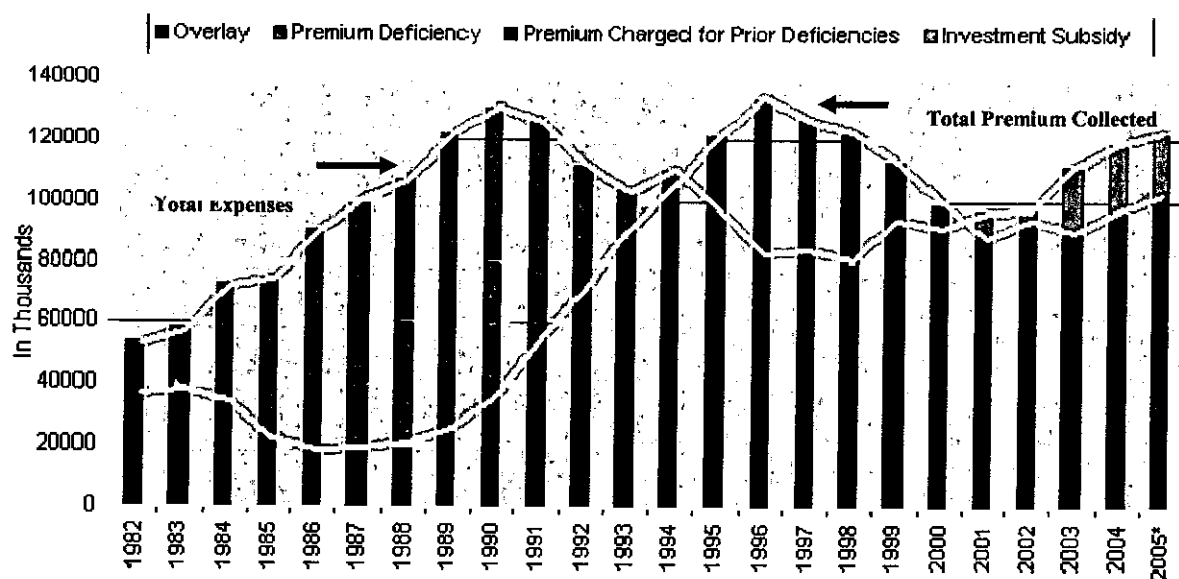
Good morning. My name is Sandy Blunt and I am the Executive Director and CEO of Workforce Safety & Insurance (WSI). I am here to testify on House Bill 1022.

On behalf of our Board of Directors and our dedicated workforce, I would like to thank the Chairman and the Committee for providing this opportunity to testify today.

In that I recently testified before the house Appropriations Committee on Thursday, January 6, 2005, I will respect your time here today and refer you to that testimony for any agency overview.

Before I discuss the budget request submitted, I would like to take a brief moment to review our past.

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.



While the costs of operating the fund have increased in each of the last 5 years, the major cost driver is medical inflation and not administration. WSI's administrative expenses in 2005 account for roughly 13.75 percent of total expenses --a ratio that compares favorably when measured against the workers' compensation industry as a whole, where administrative ratios averaged 29.75 percent.

Presented for your consideration today is our administrative budget of \$33,272,276 for the next two years. (ATTACHMENTS 1 & 2) As I noted in my previous testimony, the budget you have before you today is a personal commitment to control costs, while still delivering the services and advancements to North Dakota's workforce that they expect and deserve.

In comparing the request before you to our current appropriation, you will notice reductions in almost every expense line. When we developed our first 2005-2007 budget proposal, we reduced our overall request by 1.5 percent from the 2003-2005 budget. This was done by reducing 4.86 full time positions and almost \$1.3 million in operating expenses from our budget. The primary areas in the operating expenses that were reduced are IT consulting, software licenses & supplies, and professional development.

The 2005-2007 preliminary budget --as was requested-- did not account for any salary or healthcare cost increases. As a result of healthcare and cost of living increases of approximately \$362 thousand and \$1.2 million respectively, we are requesting a 2.7 percent increase from the prior biennium. Even with the increases in healthcare premiums, employee wages, and almost \$800,000 in new IT initiatives, WSI's budget increase is essentially an inflation-only request.

I would like to again note, as I did in my prior testimony, had WSI not taken any proactive steps to reduce costs from our budget, the request today would have been for roughly an 8 percent increase as compared to the 2.7 percent you see before you. In other words, this would have been a rate of increase that would have been almost three times more than the figure proposed.

Lastly, as required by statute, you will find attached reports for WSI's nine continuing appropriations including: building construction, building operations, reinsurance, other states coverage, allocated loss adjustment expenses, preferred worker program, performance evaluation, insurance fraud, and the information fund. (ATTACHMENT 3).

Thank you again for your time. The members of WSI's staff and I will be glad to answer any questions you have about our budget request and/or continuing appropriation reports.

**Report on Continuing Appropriations
Workforce Safety & Insurance
2005 House Bill 1022**

*Attachment
12-2- with
Jan 6, 2005
K. Stinson*

1 – Building Construction**Statutory Authority: 65-02-31 and Appropriations****Fund 213 – Workers Compensation Fund**

	Actual 1999-2001	Actual 2001-2003	2003-2005 At 11/30/04	Estimated 2003-2005	Estimated 2005-2007
Beginning Balance	0	(1,192,684)	(11,660,257)	(11,660,257)	(12,047,694)
Revenues	0	0	0	0	0
Total Available	0	(1,192,684)	(11,660,257)	(11,660,257)	(12,047,694)
Expenditures	1,192,684	10,467,573	387,437	387,437	0
Ending Balance	(1,192,684)	(11,660,257)	(12,047,694)	(12,047,694)	(12,047,694)

The 1999 Legislative Assembly authorized the purchase or construction of an office building. The 2001 Legislative Assembly amended the authorization to include office space for tenants. The office building was substantially complete in June 2003, with minor finishing work concluding in September 2003.

The project was completed on time and within budget.

All in all, including the land acquisition of \$901,974, total capitalized cost is \$11,882,030.

2 – Building Operations**Statutory Authority: 65-02-05-1****Fund 213 – Workers Compensation Fund**

	Actual 1999-2001	Actual 2001-2003	2003-2005 At 11/30/04	Estimated 2003-2005	Estimated 2005-2007
Beginning Balance	0	0	0	0	147,107
Revenues	0	0	890,650	1,256,167	1,254,000
Total Available	0	0	890,650	1,256,167	1,401,107
Expenditures	0	0	634,654	1,109,060	1,250,160
Ending Balance	0	0	255,996	147,107	150,947

Persuant to NDCC 65-02-05.1, Workforce Safety & Insurance leases space in its office building, Century Center, to six other state agencies. All the lease terms commenced on July 1, 2003 and expire on June 30, 2005. Design and construction of the building included input from the tenants and space was customized to fit their needs when possible. Initial lease rates were \$13 per square foot for office space and \$5 per square foot for storage space. Rates will remain at the

same level for the 2005-2007 biennium.

Workforce Safety & Insurance manages the day-to-day operations and maintenance of the building, such as utilities, janitorial service and grounds keeping. The largest operating expense of the building is the "payment in lieu of property tax" which was \$150,090 in fiscal year 2004 and is estimated to be \$270,000 in 2005. This payment is made in accordance with NDCC 65-02-31.

3 – Reinsurance

Statutory Authority: 65-02-13.1

Fund 213 – Workers Compensation Fund

	Actual 1999-2001	Actual 2001-2003	2003-2005 At 11/30/04	Estimated 2003-2005	Estimated 2005-2007
Beginning Balance	0	(2,218,000)	(4,702,828)	(4,702,828)	(4,702,828)
Revenues	0	0	0	0	0
Total Available	0	(2,218,000)	(4,702,828)	(4,702,828)	(4,702,828)
Expenditures	2,218,000	2,484,828	0	0	0
Ending Balance	(2,218,000)	(4,702,828)	(4,702,828)	(4,702,828)	(4,702,828)

Persuant to NDCC 65-02-13.1, WSI has "excess of loss" reinsurance protection for losses occurring between December 1, 1999 and November 30, 2002. In 2002, global influences pushed the price of reinsurance beyond reasonable means. As a result, WSI has not purchased reinsurance since November 30, 2002. The existing reinsurance treaties have saved the workers' compensation fund \$3.2 million dollars.

4 – Other States Coverage

Statutory Authority: 65-02-13.1

Fund 213 – Workers Compensation Fund

	Actual 1999-2001	Actual 2001-2003	2003-2005 At 11/30/04	Estimated 2003-2005	Estimated 2005-2007
Beginning Balance	0	(22,069)	(256,951)	(256,951)	(606,951)
Revenues	0	0	0	350,000	1,000,000
Total Available	0	(22,069)	(256,951)	93,049	393,049
Expenditures	22,069	234,882	306,538	700,000	1,000,000
Ending Balance	(22,069)	(256,951)	(563,489)	(606,951)	(606,951)

WSI is the sole provider of workers' compensation coverage in North Dakota. WSI covers all North Dakota employers for their work related injuries in North Dakota.

A North Dakota employer that has operations outside of North Dakota must purchase a workers' compensation policy from a licensed insurance carrier in that other state.

In the event of a work-related injury as a result of temporary or incidental exposure outside of

North Dakota, an employee can file for workers' compensation benefits in North Dakota; the state in which the injury occurred; or their state of residence.

If a licensed insurance company does not insure the North Dakota employer while temporarily or incidentally outside of North Dakota, that employer subjects themselves to non-compliance exposure with the workers' compensation law in the state in which an injured worker files a claim. North Dakota coverage does not protect a North Dakota employer from being deemed uninsured in another state.

WSI has been seeking a workable solution to this gap in coverage for over 35 years.

In 2003, pursuant to NDCC 65-02-13.1, WSI capitalized a stock company, Comp Shield Insurance Company, Inc., to help address this issue. The goal is to provide coverage for North Dakota employers doing business on a temporary and incidental basis in Minnesota. In 2004, Comp Shield Insurance Company, Inc. was authorized and became licensed to operate in the State of Minnesota.

WSI is continuing to search for a solution that will provide this coverage in all states.

5 – Allocated Loss Adjustment Expenses

Statutory Authority: 65-02-06.1

Fund 213 – Workers Compensation Fund

	Actual 1999-2001	Actual 2001-2003	2003-2005 At 11/30/04	Estimated 2003-2005	Estimated 2005-2007
Beginning Balance	0	(12,330,716)	(20,594,443)	(20,594,443)	(29,794,443)
Revenues	0	0	0	0	0
Total Available	0	(12,330,716)	(20,594,443)	(20,594,443)	(29,794,443)
Expenditures	12,330,716	8,263,727	5,979,978	9,200,000	10,000,000
Ending Balance	(12,330,716)	(20,594,443)	(26,574,421)	(29,794,443)	(39,794,443)

Persuant to NDCC 65-02-06.1, WSI's allocated loss adjustment expenses are charged directly to specific claims and authorized as a continuing appropriation, just like indemnity and medical benefits for injured workers. These expenses include legal fees, and cost containment expenses such as rehabilitation, return to work case management and injured worker fraud investigations.

The 2001 Legislative Assembly authorized WSI to hire 25 FTE to replace contracted services for medical bill entry and audit, return to work, and utilization review. As a result, allocated loss adjustment expenses were reduced by nearly \$6.8 million during the 2001-2003 biennium. However the shift to FTE increased administrative expenses appropriated by \$2.0 million for the same time period. The net effect on the workers' compensation fund was a savings of \$4.8 million.

6 – Preferred Worker Program
Statutory Authority: 65-05-36
Fund 213 – Workers Compensation Fund

	Actual 1999-2001	Actual 2001-2003	2003-2005 At 11/30/04	Estimated 2003-2005	Estimated 2005-2007
Beginning Balance	0	0	(4,288)	(4,288)	(14,288)
Revenues	0	0	0	0	0
Total Available	0	0	(4,288)	(4,288)	(14,288)
Expenditures	0	4,288	969	10,000	20,000
Ending Balance	0	(4,288)	(5,257)	(14,288)	(34,288)

Persuant to NDCC 65-05-36, WSI established a program for injured workers who, while employable, are unable to return to the employer at the time of their injury. The preferred worker program offers benefits to North Dakota employers for hiring people under this program. The employer is given a 3-year exemption from paying workers' compensation premium on the employee and, furthermore, the employer is not responsible for any claims costs resulting from a work-related injury to that worker for the first 3 years of employment. This continuing appropriation funds any employment-related expenses, such as equipment purchases and work-site modifications for the preferred worker.

7 – Performance Evaluation
Statutory Authority: 65-02-30
Fund 213 – Workers Compensation Fund

	Actual 1999-2001	Actual 2001-2003	2003-2005 At 11/30/04	Estimated 2003-2005	Estimated 2005-2007
Beginning Balance	0	(183,404)	(311,891)	(311,891)	(461,111)
Revenues	0	0	0	0	0
Total Available	0	(183,404)	(311,891)	(311,891)	(461,111)
Expenditures	183,404	128,487	149,220	149,220	170,000
Ending Balance	(183,404)	(311,891)	(461,111)	(461,111)	(631,111)

NDCC 65-02-30 requires that every two years, the State Auditor's Office engage an independent insurance expert to conduct an in-depth evaluation of the effectiveness and efficiency of WSI functions and operations.

8 – Insurance Fraud
Statutory Authority: 65-02-23
Fund 213 – Workers Compensation Fund

	Actual 1999-2001	Actual 2001-2003	2003-2005 At 11/30/04	Estimated 2003-2005	Estimated 2005-2007
Beginning Balance	0	(219,107)	(292,877)	(292,877)	(492,877)
Revenues	0	0	0	0	0

Total Available	0	(219,107)	(292,877)	(292,877)	(492,877)
Expenditures	219,107	73,770	168,337	200,000	200,000
Ending Balance	(219,107)	(292,877)	(461,214)	(492,877)	(692,877)

Workforce Safety & Insurance established a special investigations unit (SIU) in 1995. SIU works to investigate and prevent insurance fraud by employers, medical providers and injured workers. NDCC 65-02-23 authorizes a continuing appropriation for "costs associated with identifying, preventing and investigating employer and provider fraud." Injured worker fraud expenses are charged directly to the claim as allocated loss adjustment expenses.

Investigations are conducted on employers to ensure they are providing coverage for their workers, as well as reporting the payroll of all their workers. Independent contractor investigations are also conducted. In 2002, WSI partnered with the Secretary of State, the Attorney General, and Job Service to form a construction compliance task force that investigated random job sites throughout the state.

WSI has recently partnered with a pharmacy benefit manager to monitor the dosages and frequency of prescriptions. These efforts will help control pharmaceutical costs and deter fraudulent prescriptions from being filled.

9 – Information Fund

Statutory Authority: 65-01-13

Fund 213 – Workers Compensation Fund

	Actual 1999-2001	Actual 2001-2003	2003-2005 At 11/30/04	Estimated 2003-2005	Estimated 2005-2007
Beginning Balance	0	11,523	40,106	40,106	65,106
Revenues	36,099	46,468	30,622	40,000	40,000
Total Available	36,099	57,991	70,728	80,106	105,106
Expenditures	24,576	17,885	7,500	15,000	20,000
Ending Balance	11,523	40,106	63,228	65,106	85,106

Persuant to NDCC 65-01-13, the information fund was established to recapture some of the costs of providing publications and statistical information to private citizens, businesses, associations, corporations and limited liability companies. Direct costs of operating the information fund are expensed as incurred, such as publication printing costs and file storage and file retrieval fees. Indirect costs, such as employee wages, are not specifically allocated to this fund. Fees collected for publications and other information requests are deposited into this fund.

NDCC 65-01-13 states that "if on the first day of July in any year the amount of money in the information fund is more than ten thousand dollars, the amount in excess of ten thousand dollars must be transferred to the organization's general fund." However, a separate fund was not established by OMB, and all activity is being recorded directly in WSI's administrative fund 213, which eliminates the need for the annual transfer.

**WORKFORCE SAFETY & INSURANCE
LOSS & ALAE PAYMENTS**

	FYE 2000 7/1/1999 6/30/2000	FYE 2001 7/1/2000 6/30/2001	FYE 2002 7/1/2001 6/30/2002	FYE 2003 7/1/2002 6/30/2003	FYE 2004 7/1/2003 6/30/2004
PAID COSTS:					
TOTAL INDEMNITY	32,207,852	34,114,629	33,590,728	34,826,237	35,613,605
TOTAL MEDICAL	32,876,921	36,524,215	37,981,006	40,312,186	45,668,393
TOTAL ALAE - OTHER	4,564,406	4,700,852	2,976,637	2,970,195	3,034,578
TOTAL ALAE - LEGAL	2,245,527	1,431,658	1,178,246	1,278,461	1,278,951
TOTAL PAID COSTS:	71,894,706	76,771,353	75,726,617	79,387,079	85,595,528
 THIRD PARTY RECOVERIES	 (701,352)	 (832,492)	 (992,223)	 (1,162,459)	 (710,456)
 NET PAID COSTS:	 \$71,193,354	 \$75,938,862	 \$74,734,394	 \$78,224,619	 \$84,885,071

~reflects costs paid during period, not necessarily incurred.

**WORKFORCE SAFETY & INSURANCE
LOSS & ALAE PAYMENTS**

	FYE 2000 7/1/1999 6/30/2000	FYE 2001 7/1/2000 6/30/2001	FYE 2002 7/1/2001 6/30/2002	FYE 2003 7/1/2002 6/30/2003	FYE 2004 7/1/2003 6/30/2004
INDEMNITY COSTS:					
DEATH BENEFITS	2,363,823	2,339,566	2,361,706	2,391,320	2,525,346
PERMANENT PARTIAL DISABILITY	40,065	31,404	26,938	26,349	24,790
PERMANENT PARTIAL IMPAIRMENT	1,601,693	1,997,280	1,442,235	1,284,959	1,640,206
POST-REHAB BENEFIT	36,969	102,213	31,509	36,372	42,035
PERMANENT TOTAL DISABILITY	5,502,920	5,653,033	5,991,868	6,517,730	7,928,516
REHABILITATION ALLOWANCE	1,437,553	912,227	891,206	1,120,591	1,257,885
REHAB JOB SEARCH	0	0	0	11,841	36,569
STIPULATION	518,079	501,020	678,771	492,726	358,093
SUPPLEMENTAL BENEFIT	4,157,364	4,622,321	4,824,278	5,016,978	5,669,041
TEMPORARY PARTIAL DISABILITY	2,990,255	3,521,325	3,214,549	3,441,212	3,188,904
TEMPORARY TOTAL DISABILITY	13,534,287	14,403,222	14,091,495	14,431,755	12,874,743
ADDITIONAL BENEFIT PAYABLE	7,317	15,094	24,354	44,625	57,707
PREACCEPTANCE DISABILITY BENEFIT	0	0	0	(1,542)	0
DEPENDENCY ALLOWANCE ONLY	17,527	15,924	11,819	11,320	9,771
TOTAL INDEMNITY COSTS:	32,207,852	34,114,629	33,590,728	34,826,237	35,613,605
THIRD PARTY RECOVERIES:	(701,352)	(832,492)	(992,223)	(1,162,459)	(710,456)

~reflects costs paid during period, not necessarily incurred.

**WORKFORCE SAFETY & INSURANCE
LOSS & ALAE PAYMENTS**

	FYE 2000	FYE 2001	FYE 2002	FYE 2003	FYE 2004
	7/1/1999	7/1/2000	7/1/2001	7/1/2002	7/1/2003
	6/30/2000	6/30/2001	6/30/2002	6/30/2003	6/30/2004
TRUE MEDICAL:					
TRANSFER	502	10,712	637	1,544	0
PHYSICIAN/OSTEOPATH	10,559,009	10,921,305	11,198,000	11,150,045	12,891,411
CHIROPRACTOR	1,403,766	1,390,155	1,524,316	1,570,763	1,770,803
DENTIST	110,806	177,760	145,326	132,667	166,091
OPTOMETRIST	22,932	25,404	31,578	32,844	23,396
HOSPITAL	11,829,778	13,757,854	13,166,793	13,083,942	13,995,662
PHYSICAL THERAPY	1,037,082	1,684,968	2,203,903	2,645,607	3,172,563
DRUGS	3,265,229	3,637,669	4,388,621	5,359,666	6,487,170
MEDICAL SUPPLIES	395,983	324,057	356,232	367,230	366,828
NURSING HOME	536,876	509,369	626,362	656,140	391,825
HOME HEALTH CARE	382,231	342,992	323,740	347,965	321,826
AMBULANCE	265,284	317,379	284,234	414,035	523,213
PROSTHETICS/ORTHOTICS	975,347	1,142,196	1,099,984	1,320,912	1,701,465
PHYSICAL RESTORATION	40,101	25,744	33,545	57,224	42,168
SPEECH THERAPY	0	0	659	4,656	10,045
MASSAGE THERAPY	35	578	165	1,863	4,319
ADULT DAY CARE SERVICES	76,444	75,835	71,055	80,195	147,721
SOCIAL WORKER/THERAPY/COUNS.	26,258	27,233	22,424	15,051	12,922
PODIATRIST (DPM)	42,741	36,100	43,603	68,710	60,025
PSYCHOLOGIST	129,440	132,313	97,261	127,853	111,567
NURSE PRACTITIONER (NP)	140,887	197,267	249,385	657,296	652,754
PHYSICIAN ASSISTANT (PA)	123,283	206,153	356,228	37,195	202
OCCUPATIONAL THERAPY	0	0	0	232,832	796,794
TOTAL TRUE MEDICAL:	31,364,014	34,943,041	36,224,049	38,366,236	43,650,771
MEDICAL - OTHER:					
MILEAGE	387,441	418,463	544,553	556,930	617,806
MEALS	28,442	34,497	26,739	29,408	33,225
MOTEL	59,873	72,324	56,638	71,778	71,075
AIR TRAVEL	63,551	91,317	71,341	99,207	88,286
CAB FARE	5,226	5,326	3,373	12,484	19,410
BUS/TRAIN TRAVEL	979	2,440	511	2,328	315
HOME NURSING CARE	336,354	361,175	422,133	495,960	527,087
MISC. PERSONAL REIMBURSEMENT	16,520	79,711	55,785	51,278	25,617
FUNERAL HOME	75,825	44,791	67,474	59,361	52,079
MISCELLANEOUS	44,785	81,409	23,285	62,769	22,330
SALES TAX	2,078	1,311	3,635	4,002	3,662
SERVICE ADJUSTMENTS	514	1,814	1,449	906	515
REMODELING	14,617	3,735	27,169	23,308	67,753
SCHOLARSHIP	83,115	93,032	100,276	93,898	98,488
TOTAL MEDICAL - OTHER:	1,119,319	1,291,346	1,404,360	1,563,616	1,627,649
MEDICAL - REHABILITATION COSTS:					
SCHOOL COSTS	393,546	287,024	269,079	299,208	311,069
RELOCATION EXPENSES	42	912	18	0	0
VOCATIONAL EXPENSES	0	1,892	83,500	83,127	78,904
TOTAL MEDICAL - REHABILITATION COSTS:	393,589	289,828	352,597	382,334	389,973
TOTAL MEDICAL:	32,876,921	36,524,215	37,981,006	40,312,186	45,668,393

~reflects costs paid during period, not necessarily incurred.

**WORKFORCE SAFETY & INSURANCE
LOSS & ALAE PAYMENTS**

	FYE 2000 7/1/1999 6/30/2000	FYE 2001 7/1/2000 6/30/2001	FYE 2002 7/1/2001 6/30/2002	FYE 2003 7/1/2002 6/30/2003	FYE 2004 7/1/2003 6/30/2004
ALAE - LEGAL:					
CLAIMANT ATTORNEY FEES AND COSTS	689,200	407,166	239,942	227,731	224,092
WSI COUNSEL FEES AND COSTS	938,759	566,318	490,097	607,651	609,914
ATTY FEES AND COSTS--THIRD PARTY	89,178	104,269	71,981	19,617	42,553
MISCELLANEOUS FEES AND COSTS	103,935	72,453	55,460	107,275	58,123
HEARING OFFICERS - OAH	364,780	235,915	279,132	264,753	305,398
COURT REPORTER FEES	59,675	45,535	41,635	51,436	38,871
TOTAL ALAE - LEGAL COSTS:	2,245,527	1,431,658	1,178,246	1,278,461	1,278,951
TOTAL ALAE - OTHER COSTS:	4,564,406	4,700,852	2,976,637	2,970,195	3,034,578
TOTAL ALLOCATED LOSS ADJUSTMENT EXPENSES	6,809,933	6,132,510	4,154,883	4,248,656	4,313,530

-reflects costs paid during period, not necessarily incurred.

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2005 Engrossed House Bill No. 1022
Testimony before the Senate Appropriations Committee
Presented by Sandy Blunt, Executive Director & CEO
Workforce Safety & Insurance
Monday, March 7, 2005

Mr. Chairman and Members of the Committee:

Good morning. My name is Sandy Blunt and I am the Executive Director and CEO of Workforce Safety & Insurance (WSI). I am here to testify on Engrossed House Bill 1022. On behalf of our Board of Directors and our dedicated workforce, I would like to thank the Chairman and the Committee for providing us the opportunity to testify today.

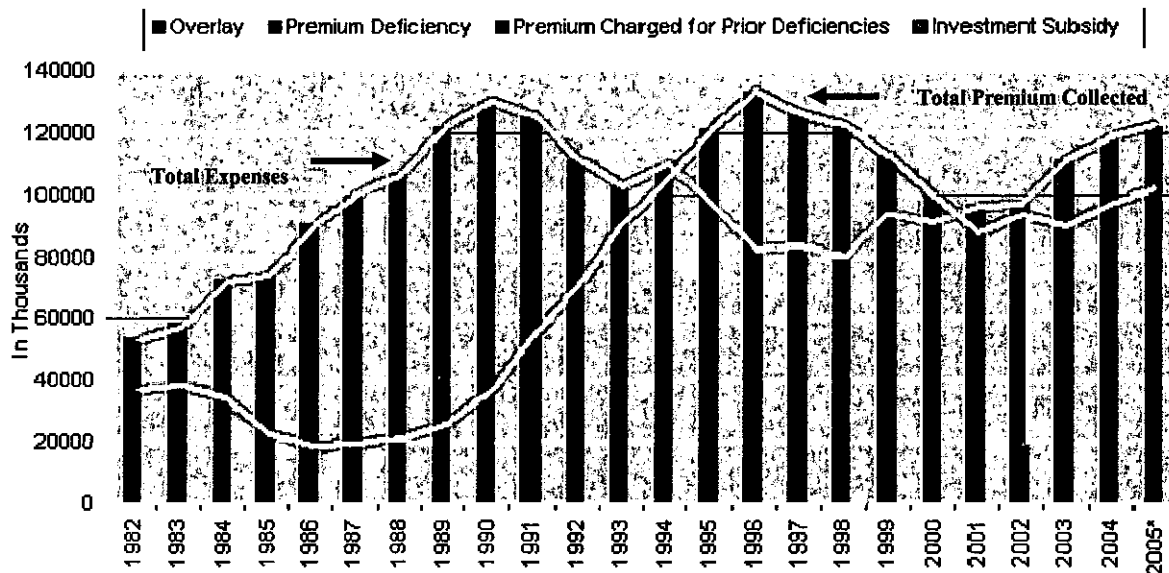
Before I present Workforce Safety & Insurance's budget, I would like to take a brief moment to reacquaint you with our organization.

Workforce Safety & Insurance --commonly referred to as WSI-- is the sole provider of workers' compensation insurance in the State of North Dakota. WSI was established in 1919 with the purpose of providing wage and medical benefits to workers injured or killed during the course of their employment. Our charge remains unchanged today. In fact, WSI's mission statement proudly states: "Our mission is our passion. Our passion is North Dakota's workforce. To us, it's personal."

WSI is not a general fund agency and therefore does not operate on a single tax dollar. Instead, WSI collects an annual premium from North Dakota employers in order to operate the fund. The premium rates are established using actuarial formulas which are designed to collect the expected losses plus administrative expenses on a year-by-year basis.

We are once again proud to announce that in a national study North Dakota's average premium rate was the lowest in the nation for a second year in a row. I am also pleased to note, that in the same study WSI's average rate over the last decade has been among the lowest 10 percent in the nation. Conversely, over the last five years, the National Academy of Social Insurance's comparison has placed North Dakota's average benefits paid to injured workers in the top half nationally. (Only five years worth of data was available from the National Academy of Social Insurance.)

what does North Dakota's premium trend look like? The chart below identifies the historic costs of North Dakota's workers' compensation system for the past 24 years. The yellow presents the dollars needed in order to meet the fund's actual obligations, while the white line identifies the actual premium dollars collected. As you will note, our premium trend is on an upward growth pattern.



While the costs of operating the fund have increased in each of the last 5 years, the major cost drivers are medical, drug, and wage inflation and not administration. WSI's administrative expenses in 2005 account for roughly 13.75 percent of total expenses --a ratio that compares favorably when measured against the workers' compensation industry as a whole, where administrative ratios averaged 29.75 percent.

The budget you have before you today is a personal commitment to control costs, while still delivering the services and advancements to North Dakota's workforce that they expect and deserve. In formulating this budget, our Board asked us to review and cut expenditures where possible while still remaining efficient and effective: efficient in managing our organization's use of premium dollars to remain financially stable; and, effective in professionally and compassionately providing quality services to our injured workers.

While WSI has operated with a single-line appropriation for the past four years, we want to continue to acknowledge our accountability to the Legislature to report all budgetary expenses in detail. And our budget submission reflects this commitment.

Presented for your consideration today is our administrative budget of \$33,336,273 for the next two years. (ATTACHMENT 1) WSI's preliminary 2005-2007 budget proposal represented a 1.5 percent reduction from the 2003-2005 budget. This was done by reducing 4.86 full time positions and almost \$1.3 million in operating expenses. The primary areas in the operating expenses that were reduced were IT consulting, software licenses/supplies, and professional development.

However, the 2005-2007 preliminary budget --as was requested-- did not account for any salary or healthcare cost increases. As a result of healthcare and cost of living increases of approximately \$362 thousand and \$1.06 million respectively, we are requesting a 2.9 percent increase from the prior biennium. Even with the increases in healthcare premiums, employee wages, and almost \$800,000 in new IT initiatives, WSI's budget increase represents an inflation-only request.

I would like to note, had WSI not taken any proactive steps to reduce costs from the budget, today's request would have been for roughly a 7.6 percent increase as compared to the 2.9 percent you see before you. In other words, this would have been a rate of increase that would have been more than 2.5 times more the proposed figure.

Lastly, as required by statute, you will find attached reports for WSI's nine continuing appropriations including: building construction, building operations, reinsurance, other states coverage, allocated loss adjustment expenses, preferred worker program, performance evaluation, insurance fraud, and the information fund. (ATTACHMENT 2).

Thank you again for your time. The members of WSI's staff and I will be glad to answer any questions you have about our budget request and/or continuing appropriation reports.

**Workforce Safety & Insurance
2005-2007 Appropriation Rollforward**

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	Current 2003-2005 Appropriation	Growth Factors			WSI Cost Containment			2005-2007 Executive Recommend.	
		3% Growth from Inflation	Additional IT Projects	3% and 4% Pay Increases	Health Insurance	Adjusted 2005-2007 Figures	Reduction in FTE		Cost Saving Adjustments
FTE	228,000	0.000	0.000	0.000	0.000	228,000	(4,860)	0.000	223,140
Payroll Expenses									
Salaries and Wages	17,808,341			911,660		18,720,001	(327,501)	562,094	18,954,594
Fringe Benefits	5,774,701			148,839	362,068	6,285,608	(125,528)	(58,750)	6,101,330
Payroll Expenses Subtotal	23,583,042	0	0	1,060,499	362,068	25,005,609	(453,029)	503,344	25,055,924
Operating Expenses									
Data Processing	510,000	15,300				525,300		42,700	568,000
Telephone	417,636	12,529				430,165		(59,241)	370,924
Travel	573,176	17,195				590,371		(44,639)	545,732
Info Tech Software and Supplies	1,155,314	34,659	50,000			1,239,973		(358,909)	881,064
Info Tech Computers and Equipment	250,940	7,528				258,468		1,532	260,000
Postage and Delivery Services	602,728	18,082				620,810		(89,690)	531,120
Info Tech Contractual Services	438,000	13,140	645,000			1,096,140		(211,140)	885,000
Lease/Rent Equipment and Building	671,960	20,159				692,119		75,177	767,296
Professional Development	785,283	23,558	100,000			908,841		(440,103)	468,738
Operating Fees, Services and Repairs	371,582	11,147				382,729		(39,569)	343,160
Professional Services	1,118,706	33,561				1,152,267		(7,814)	1,144,453
Office Supplies	88,878	2,666				91,544		(35,286)	56,258
Printing	295,630	8,869				304,499		(81,101)	223,398
Professional Supplies	87,670	2,630				90,300		15,458	105,758
Miscellaneous Supplies	151,186	4,536				155,722		(52,274)	103,448
Operating Expenses Subtotal	7,518,689	225,559	795,000	0	0	8,539,248	0	(1,284,899)	7,254,349
Capital Assets	111,500	3,345				114,845		(88,845)	26,000
Safety Partnership Grants	1,184,400	35,532				1,219,932		(219,932)	1,000,000
Budget Appropriation Totals	32,397,631	264,436	795,000	1,060,499	362,068	34,879,634	(453,029)	(1,090,332)	33,336,273
Inside the Numbers									
2003-2005 Appropriation	32,397,631	Pct of 2003-05			03-05 Biennium	05-07 Biennium	Amt Change	Pct Change	
Addition for Inflation	264,436	0.82%			23,583,042	25,055,924	1,472,882	6.25%	
Additional IT Projects	795,000	2.45%			7,518,689	7,254,349	(264,340)	-3.52%	
Addition for Pay Increases	1,060,499	3.27%			11,500	26,000	(85,500)	-76.68%	
Addition for Health Insurance	362,068	1.12%			1,184,400	1,000,000	(184,400)	-15.57%	
Reduction of FTE	(453,029)	-1.40%			32,397,631	33,336,273	938,642	2.90%	
Other Budget Reductions	(1,090,332)	-3.37%							
2005-2007 Appropriation Request	33,336,273	2.90%							

Attachment 2

**Report on Continuing Appropriations
Workforce Safety & Insurance
2005 House Bill 1022**

1 – Building Construction

Statutory Authority: 65-02-31 and Appropriations

Fund 213 – Workers Compensation Fund

	Actual 1999-2001	Actual 2001-2003	2003-2005 At 1/31/05	Estimated 2003-2005	Estimated 2005-2007
Beginning Balance	0	0	0	0	0
Revenues	0	0	0	0	0
Transfers	1,192,684	10,467,573	387,437	387,437	0
Total Available	1,192,684	10,467,573	387,437	387,437	0
Expenditures	1,192,684	10,467,573	387,437	387,437	0
Ending Balance	0	0	0	0	0

The 1999 Legislative Assembly authorized the purchase or construction of an office building. The 2001 Legislative Assembly amended the authorization to include office space for tenants. The office building was substantially complete in June 2003, with minor finishing work concluding in September 2003.

The project was completed on time and within budget.

All in all, including the land acquisition of \$901,974, total capitalized cost is \$11,882,030.

2 – Building Operations

Statutory Authority: 65-02-05-1

Fund 213 – Workers Compensation Fund

	Actual 1999-2001	Actual 2001-2003	2003-2005 At 1/31/05	Estimated 2003-2005	Estimated 2005-2007
Beginning Balance	0	0	0	0	147,107
Revenues	0	0	995,154	1,256,167	1,254,000
Transfers	0	0	0	0	0
Total Available	0	0	995,154	1,256,167	1,401,107
Expenditures	0	0	948,029	1,109,060	1,250,160
Ending Balance	0	0	47,125	147,107	150,947

Persuant to NDCC 65-02-05.1, Workforce Safety & Insurance leases space in its office building, Century Center, to six other state agencies. All the lease terms commenced on July 1, 2003 and expire on June 30, 2005. Design and construction of the building included input from the tenants

and space was customized to fit their needs when possible. Initial lease rates were \$13 per square foot for office space and \$5 per square foot for storage space. Rates will remain at the same level for the 2005-2007 biennium.

Workforce Safety & Insurance manages the day-to-day operations and maintenance of the building, such as utilities, janitorial service and grounds keeping. The largest operating expense of the building is the "payment in lieu of property tax" which was \$150,090 in fiscal year 2004 and is estimated to be \$270,000 in 2005. This payment is made in accordance with NDCC 65-02-31.

3 – Reinsurance

Statutory Authority: 65-02-13.1

Fund 213 – Workers Compensation Fund

	Actual 1999-2001	Actual 2001-2003	2003-2005 At 1/31/05	Estimated 2003-2005	Estimated 2005-2007
Beginning Balance	0	0	0	0	0
Revenues	0	0	0	0	0
Transfers	2,218,000	2,484,828	0	0	0
Total Available	2,218,000	2,484,828	0	0	0
Expenditures	2,218,000	2,484,828	0	0	0
Ending Balance	0	0	0	0	0

Persuant to NDCC 65-02-13.1, WSI has "excess of loss" reinsurance protection for losses occurring between December 1, 1999 and November 30, 2002. In 2002, global influences pushed the price of reinsurance beyond reasonable means. As a result, WSI has not purchased reinsurance since November 30, 2002. The existing reinsurance treaties have saved the workers' compensation fund \$4.6 million dollars.

4 – Other States Coverage

Statutory Authority: 65-02-13.1

Fund 213 – Workers Compensation Fund

	Actual 1999-2001	Actual 2001-2003	2003-2005 At 1/31/05	Estimated 2003-2005	Estimated 2005-2007
Beginning Balance	0	0	0	0	0
Revenues	0	0	0	350,000	1,000,000
Transfers	22,069	234,882	336,390	350,000	0
Total Available	22,069	234,882	336,390	700,000	1,000,000
Expenditures	22,069	234,882	336,390	700,000	1,000,000
Ending Balance	0	0	0	0	0

WSI is the sole provider of workers' compensation coverage in North Dakota. WSI covers all North Dakota employers for their work related injuries in North Dakota. However, a North Dakota employer that has operations outside of North Dakota needs to obtain coverage from a licensed insurance carrier in that other state. WSI has been seeking a workable solution to this gap in coverage for over 35 years.

In 2003, pursuant to NDCC 65-02-13.1, WSI capitalized a stock company, Comp Shield Insurance Company, Inc., to help address this issue. The goal is to provide coverage for North Dakota employers doing business on a temporary and incidental basis in Minnesota. In 2004, Comp Shield Insurance Company, Inc. was authorized and became licensed to operate in the State of Minnesota.

In September 2004, WSI contracted with the Accident Fund of America to provide "temporary and incidental" coverage for all states (except the 4 monopolistic jurisdictions of Washington, West Virginia, Ohio and Wyoming, where reciprocal agreements are in place). This coverage is available to North Dakota employers for only \$600 per year, regardless of the number of employees.

5 – Allocated Loss Adjustment Expenses
Statutory Authority: 65-02-06.1
Fund 213 – Workers Compensation Fund

	Actual 1999-2001	Actual 2001-2003	2003-2005 At 1/31/05	Estimated 2003-2005	Estimated 2005-2007
Beginning Balance	0	0	0	0	0
Revenues	0	0	0	0	0
Transfers	12,330,716	8,263,727	6,601,909	9,200,000	10,000,000
Total Available	12,330,716	8,263,727	6,601,909	9,200,000	10,000,000
Expenditures	12,330,716	8,263,727	6,601,909	9,200,000	10,000,000
Ending Balance	0	0	0	0	0

Persuant to NDCC 65-02-06.1, WSI's allocated loss adjustment expenses are charged directly to specific claims and authorized as a continuing appropriation, just like indemnity and medical benefits for injured workers. These expenses include legal fees, and cost containment expenses such as rehabilitation, return to work case management and injured worker fraud investigations.

The 2001 Legislative Assembly authorized WSI to hire 25 FTE to replace contracted services for medical bill entry and audit, return to work, and utilization review. As a result, allocated loss adjustment expenses were reduced by nearly \$6.8 million during the 2001-2003 biennium. However the shift to FTE increased administrative expenses appropriated by \$2.0 million for the same time period. The net effect on the workers' compensation fund was a savings of \$4.8 million.

6 – Preferred Worker Program
Statutory Authority: 65-05-36
Fund 213 – Workers Compensation Fund

	Actual 1999-2001	Actual 2001-2003	2003-2005 At 1/31/05	Estimated 2003-2005	Estimated 2005-2007
Beginning Balance	0	0	0	0	0
Revenues	0	0	0	0	0
Transfers	0	4,288	1,166	10,000	20,000
Total Available	0	4,288	1,166	10,000	20,000
Expenditures	0	4,288	1,166	10,000	20,000
Ending Balance	0	0	0	0	0

Persuant to NDCC 65-05-36, WSI established a program for injured workers who, while employable, are unable to return to the employer at the time of their injury. The preferred worker program offers benefits to North Dakota employers for hiring people under this program. The employer is given a 3-year exemption from paying workers' compensation premium on the employee and, furthermore, the employer is not responsible for any claims costs resulting from a work-related injury to that worker for the first 3 years of employment. This continuing appropriation funds any employment-related expenses, such as equipment purchases and work-site modifications for the preferred worker. Starting January 2005, WSI also offers a wage reimbursement incentive for up to 50% of salaries and wages paid to preferred workers for the first 180 days of employment.

7 – Performance Evaluation
Statutory Authority: 65-02-30
Fund 213 – Workers Compensation Fund

	Actual 1999-2001	Actual 2001-2003	2003-2005 At 1/31/05	Estimated 2003-2005	Estimated 2005-2007
Beginning Balance	0	0	0	0	0
Revenues	0	0	0	0	0
Transfers	183,404	128,487	149,220	149,220	170,000
Total Available	183,404	128,487	149,220	149,220	170,000
Expenditures	183,404	128,487	149,220	149,220	170,000
Ending Balance	0	0	0	0	0

NDCC 65-02-30 requires that every two years, the State Auditor's Office engage an independent insurance expert to conduct an in-depth evaluation of the effectiveness and efficiency of WSI functions and operations.

8 – Insurance Fraud

Statutory Authority: 65-02-23

Fund 213 – Workers Compensation Fund

	Actual 1999-2001	Actual 2001-2003	2003-2005 At 1/31/05	Estimated 2003-2005	Estimated 2005-2007
Beginning Balance	0	0	0	0	0
Revenues	0	0	0	0	0
Transfers	219,107	73,770	172,106	200,000	200,000
Total Available	219,107	73,770	172,106	200,000	200,000
Expenditures	219,107	73,770	172,106	200,000	200,000
Ending Balance	0	0	0	0	0

Workforce Safety & Insurance established a special investigations unit (SIU) in 1995. SIU works to investigate and prevent insurance fraud by employers, medical providers and injured workers. NDCC 65-02-23 authorizes a continuing appropriation for "costs associated with identifying, preventing and investigating employer and provider fraud." Injured worker fraud expenses are charged directly to the claim as allocated loss adjustment expenses.

Investigations are conducted on employers to ensure they are providing coverage for their workers, as well as reporting the payroll of all their workers. Independent contractor investigations are also conducted. In 2002, WSI partnered with the Secretary of State, the Attorney General, and Job Service to form a construction compliance task force that investigated random job sites throughout the state.

WSI has recently partnered with a pharmacy benefit manager to monitor the dosages and frequency of prescriptions. These efforts will help control pharmaceutical costs and deter fraudulent prescriptions from being filled.

9 – Information Fund

Statutory Authority: 65-01-13

Fund 213 – Workers Compensation Fund

	Actual 1999-2001	Actual 2001-2003	2003-2005 At 1/31/05	Estimated 2003-2005	Estimated 2005-2007
Beginning Balance	0	10,000	10,000	10,000	10,000
Revenues	36,099	46,468	34,419	40,000	40,000
Transfers	(1,523)	(28,583)	(23,122)	(25,000)	(20,000)
Total Available	34,576	27,885	21,297	25,000	30,000
Expenditures	24,576	17,885	8,626	15,000	20,000
Ending Balance	10,000	10,000	12,671	10,000	10,000

Persuant to NDCC 65-01-13, the information fund was established to recapture some of the costs of providing publications and statistical information to private citizens, businesses, associations, corporations and limited liability companies. Direct costs of operating the information fund are

expensed as incurred, such as publication printing costs and file storage and file retrieval fees. Indirect costs, such as employee wages, are not specifically allocated to this fund. Fees collected for publications and other information requests are deposited into this fund.

NDCC 65-01-13 states that "if on the first day of July in any year the amount of money in the information fund is more than ten thousand dollars, the amount in excess of ten thousand dollars must be transferred to the organization's general fund." However, a separate fund was not established by OMB, and all activity is being recorded directly in WSI's administrative fund 213, which eliminates the need for the annual transfer.



**Workforce Safety
& Insurance**

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:*
 - *asset management*
 - *claims administration*
- *currency fluctuations*
- *the interaction of the various items, e.g.:*
 - *interest rates vs. inflation*
 - *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. 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.
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. 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. 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)

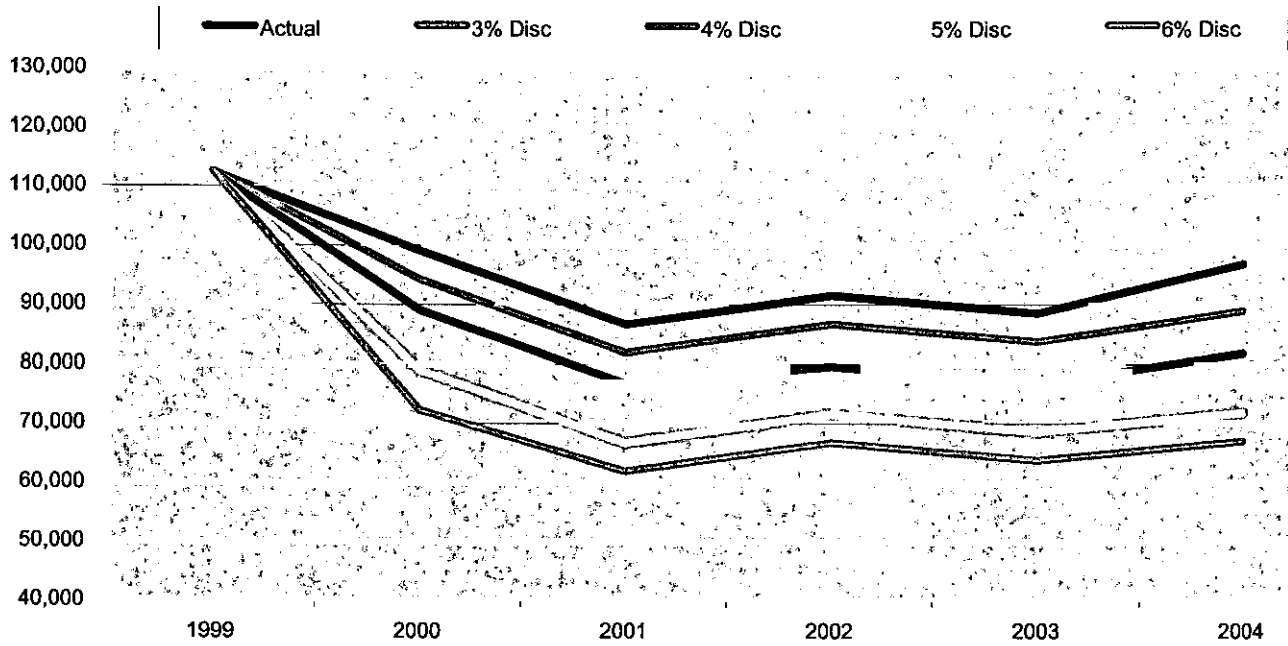


Chart 2
Asset Growth of \$1
CPI Rate of 2.7%

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

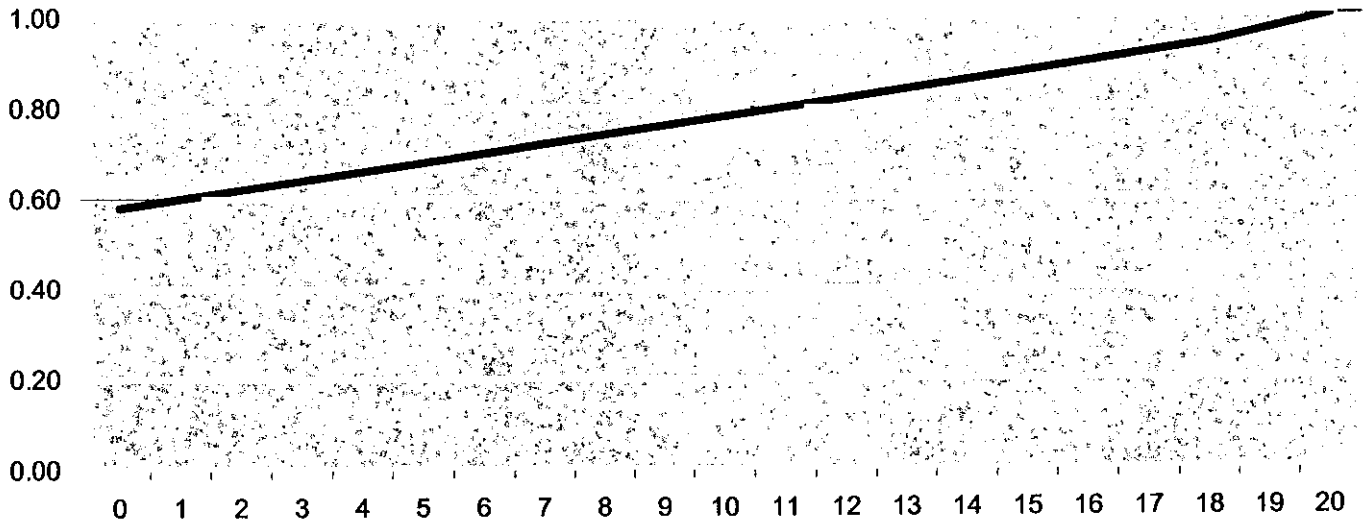
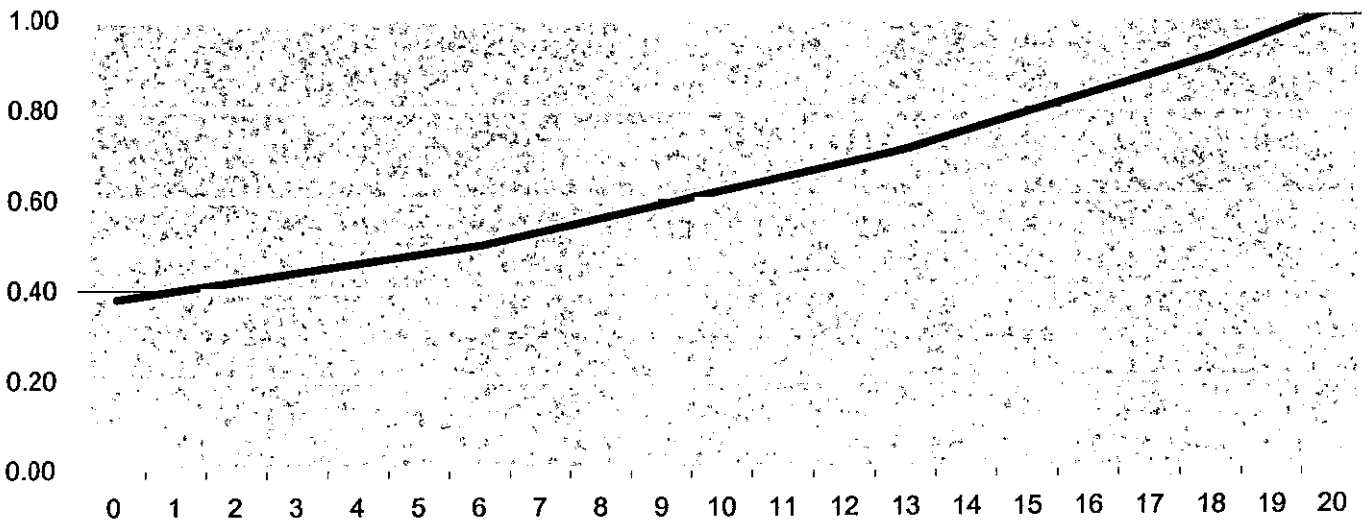


Chart 3
Asset Growth of \$1
Investment Rate of 5.0%

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



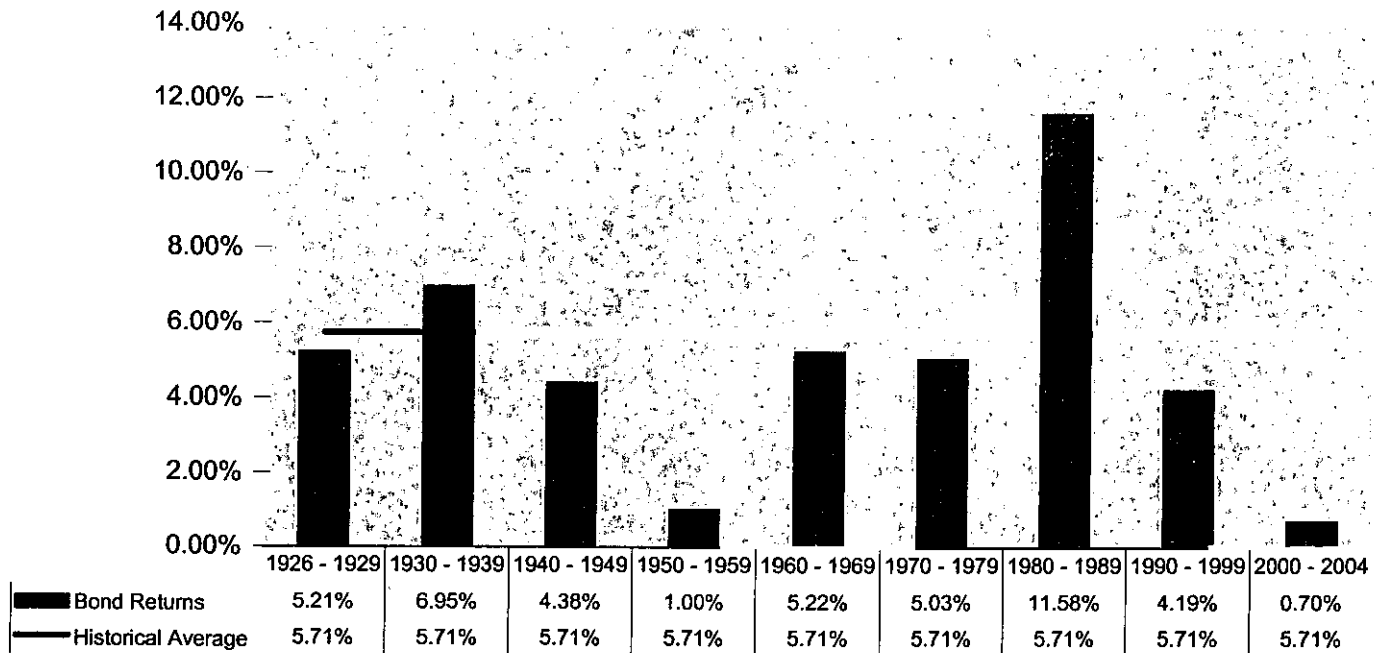
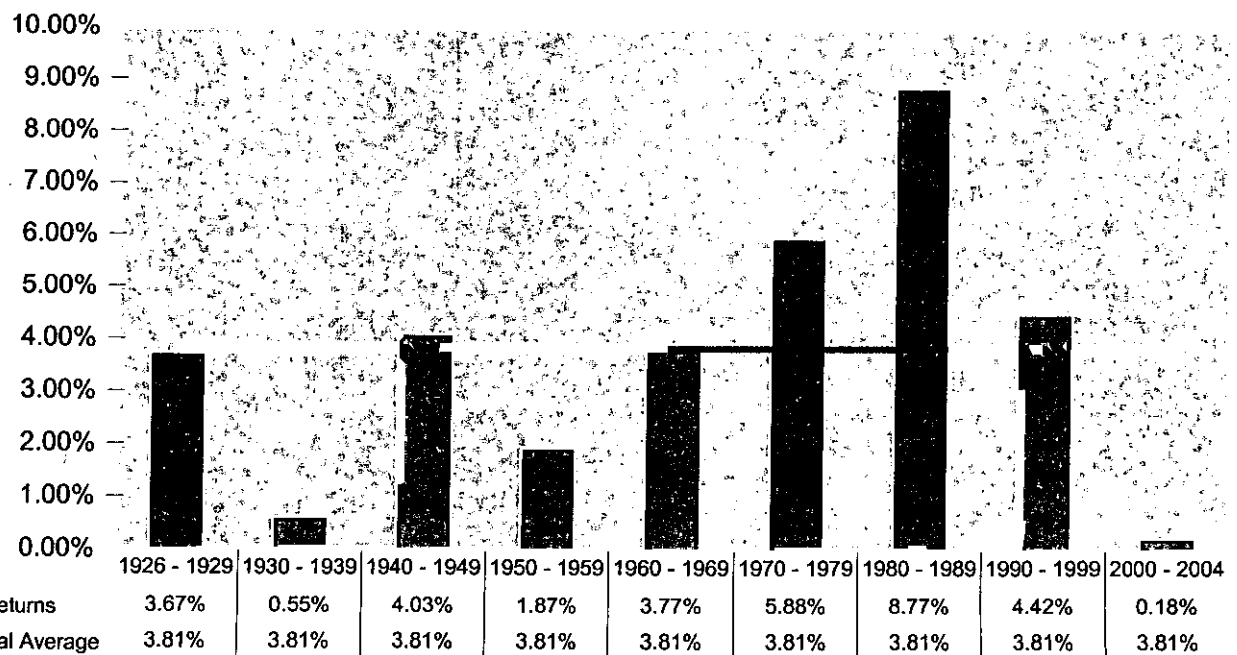


Chart 5
Historical Treasury Bill Returns
1926 - 3rd Quarter of 2004



Period	Annualized Return
1926 - 1929	19.19%
1930 - 1939	-0.06%
1940 - 1949	2.97%
1950 - 1959	19.35%
1960 - 1969	7.68%
1970 - 1979	5.63%
1980 - 1989	14.97%
1990 - 1999	8.10%
2000 - 2004	0.31%
Total Average	10.33%

[illegible]

Chart 7
WSI Discount Analysis with Equities

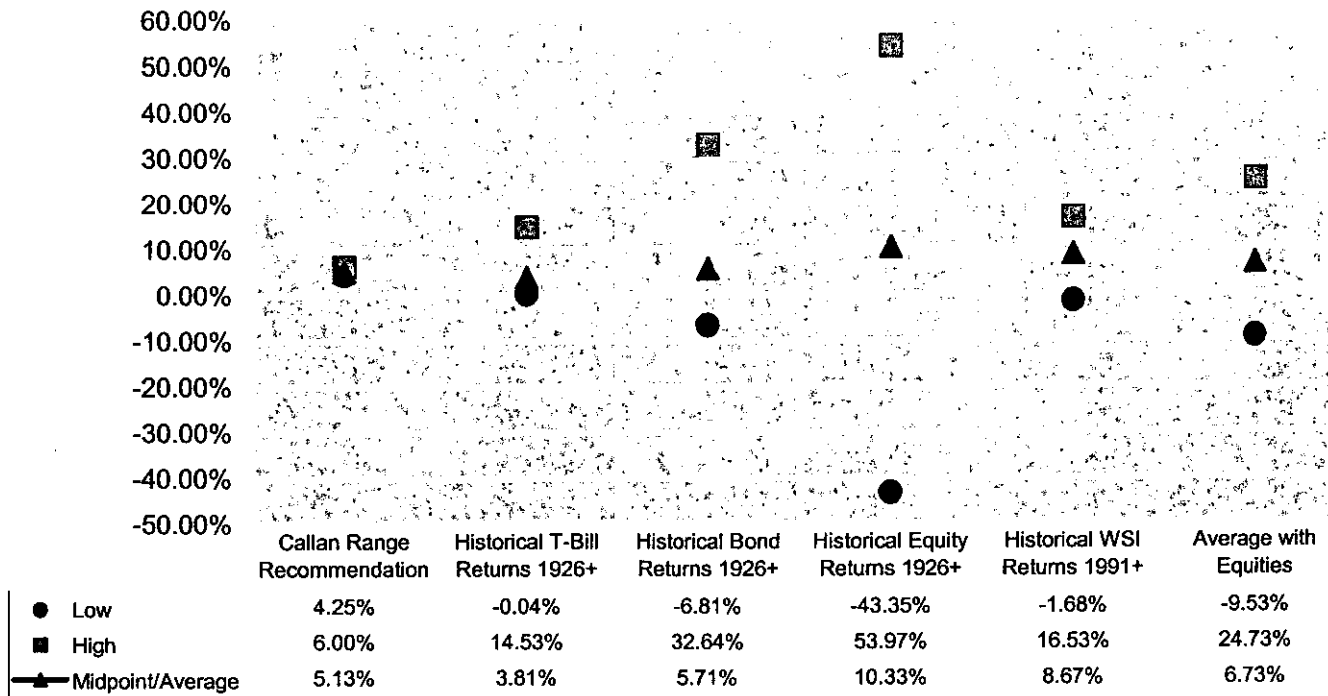


Chart 8
WSI Discount Analysis without Equities

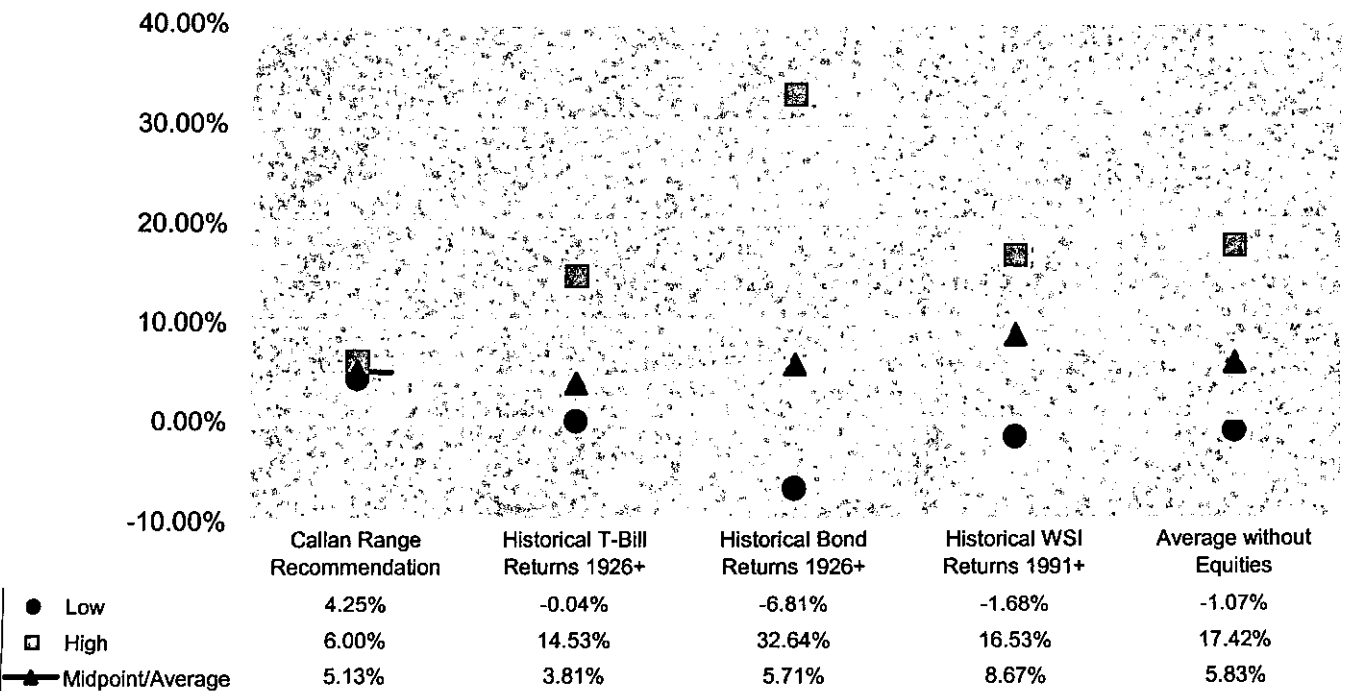
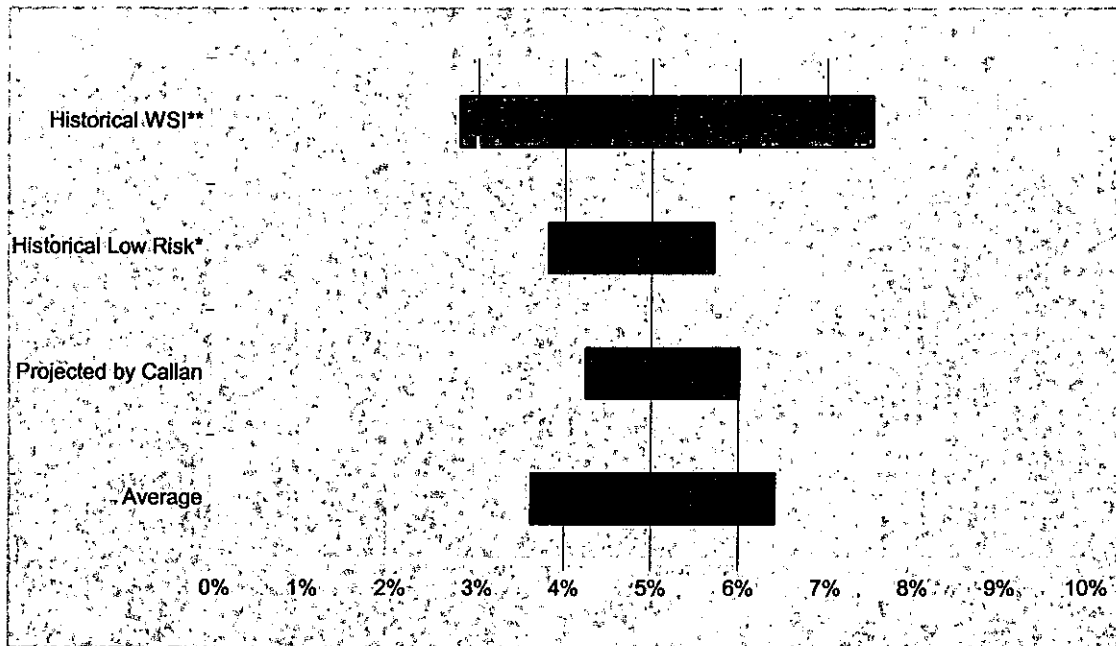


Chart 9
Range of Investment Returns



	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%	-8.87%	-18.89%	-0.48%	21.46%
Small Cap Domestic Equity	N/A	N/A	N/A	N/A	N/A	N/A	N/A	13.95%	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%	4.98%	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%	11.81%	8.64%	8.55%	7.43%	13.05%	13.88%	13.18%	11.76%	6.91%	3.81%	2.79%	5.50%
4 Yr Avg Returns	4.46%	13.74%		8.73%	9.76%	8.77%	9.64%	13.74%	12.23%	12.94%	9.07%	4.70%	5.07%	4.46%
5 Yr Avg Returns	5.54%	12.45%			9.63%	9.72%	10.28%	10.84%	12.45%	12.23%	10.52%	6.83%	5.54%	5.97%
6 Yr Avg Returns	6.21%	12.41%				9.60%	10.83%	11.16%	10.27%	12.41%	10.34%	8.39%	7.18%	6.21%
7 Yr Avg Returns	7.53%	11.53%					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	9.66%	10.64%	9.52%	7.96%	5.48%	1.65%	-1.40%	-2.43%	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%	-8.05%	1.02%	8.29%	29.16%
Cash Equivalents	5.30%	4.88%	4.22%	4.32%	4.44%	4.29%	4.14%	3.94%	3.65%	3.39%	2.74%	1.73%	1.36%	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%	4.48%	5.50%	9.29%	9.62%

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

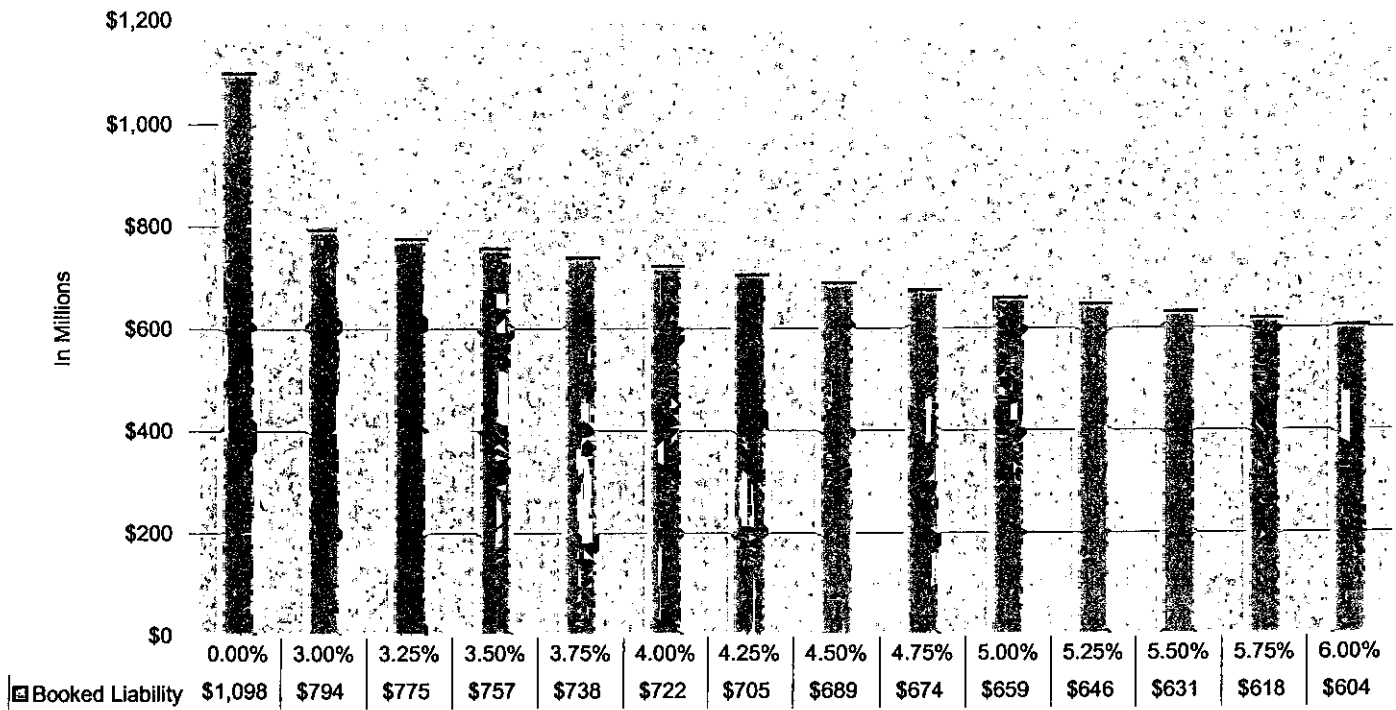


Chart 12
WSI Unpaid Loss Liability
Last 5 Years

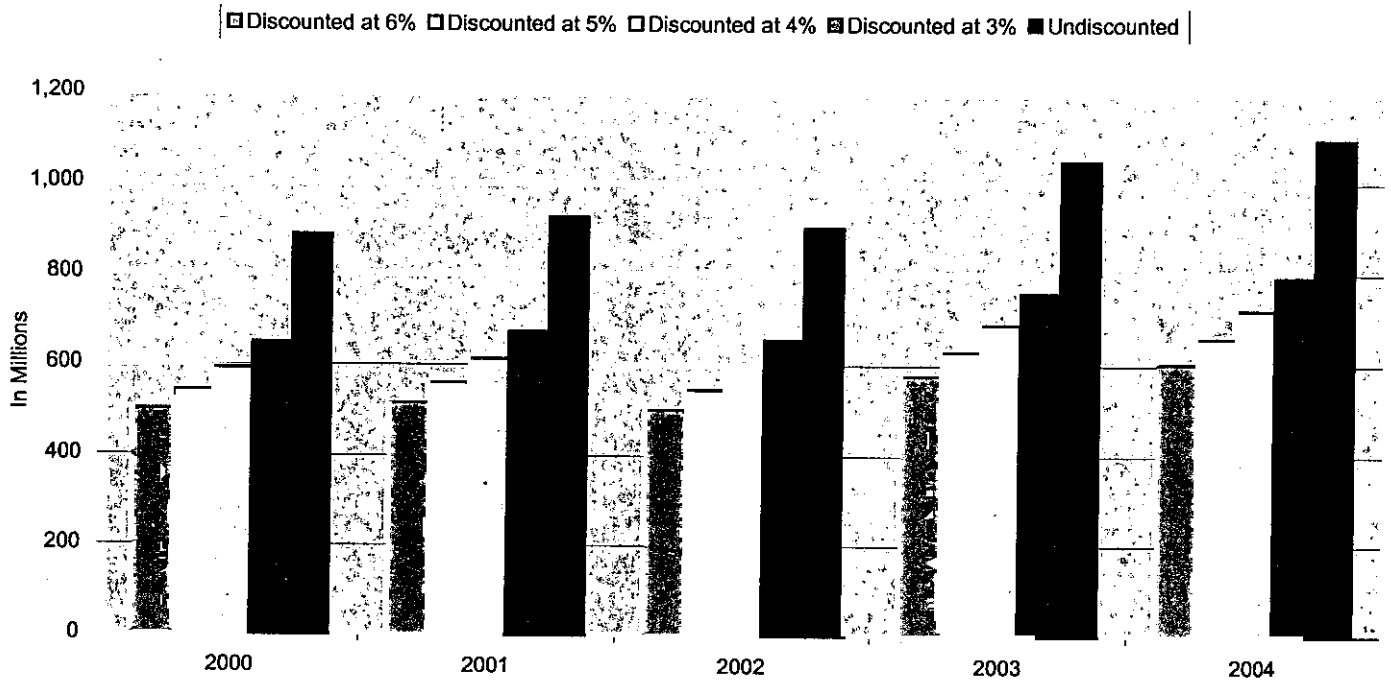


Chart 13
WSI Underwriting Income (Loss)
Last 5 Years

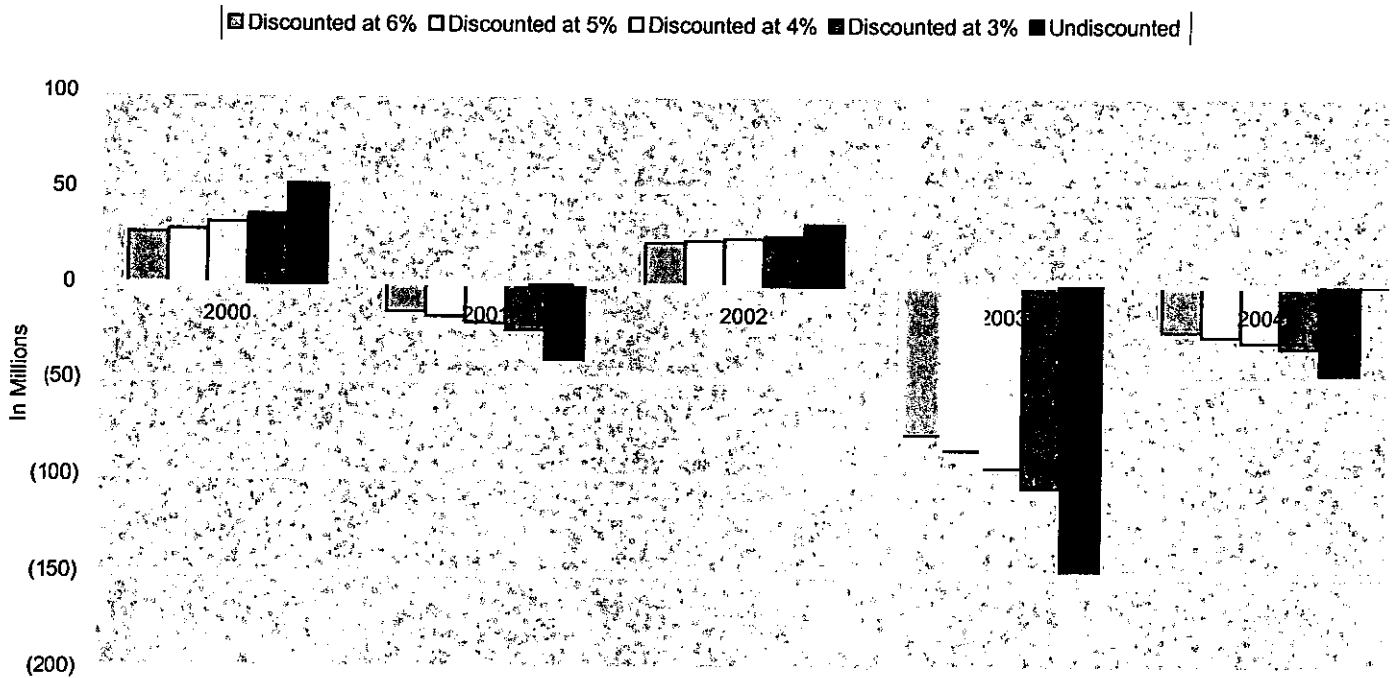


Chart 14
Change in WSI Net Assets
Last 9 Years

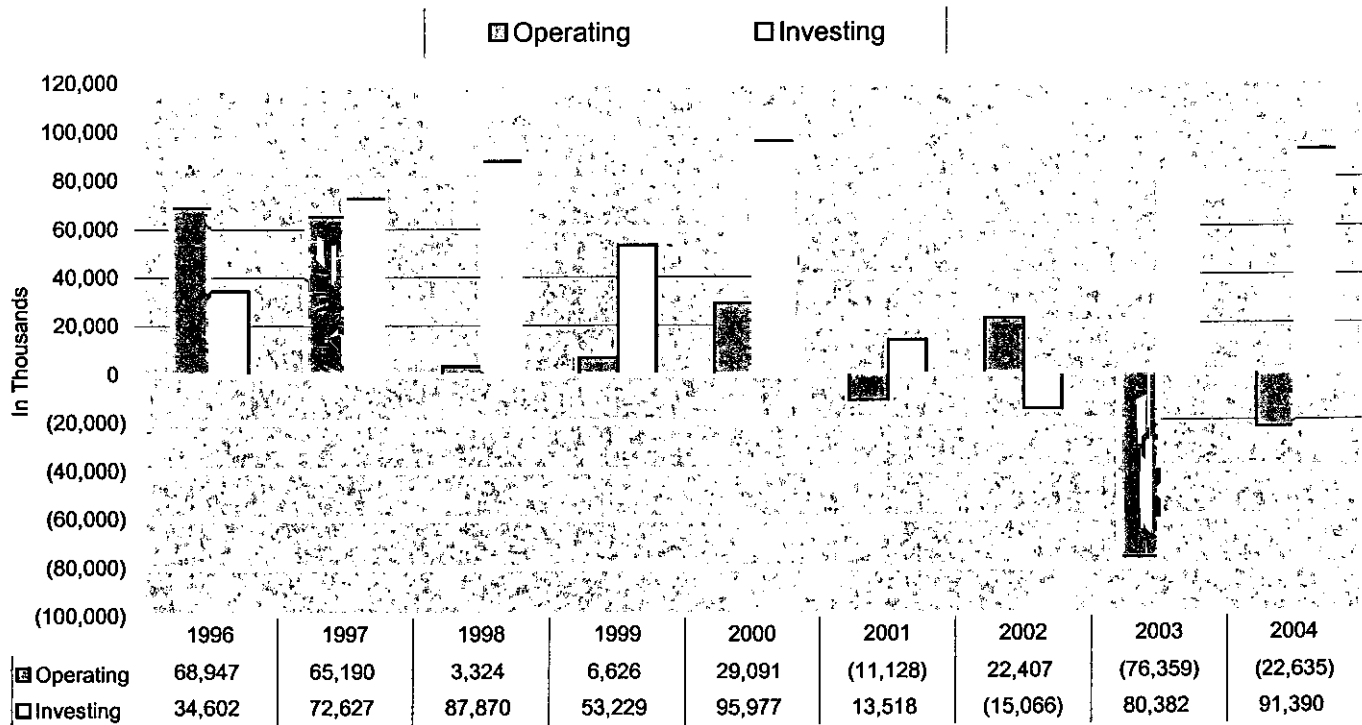


Chart 15
Overall Growth in WSI Net Assets
Last 9 Years

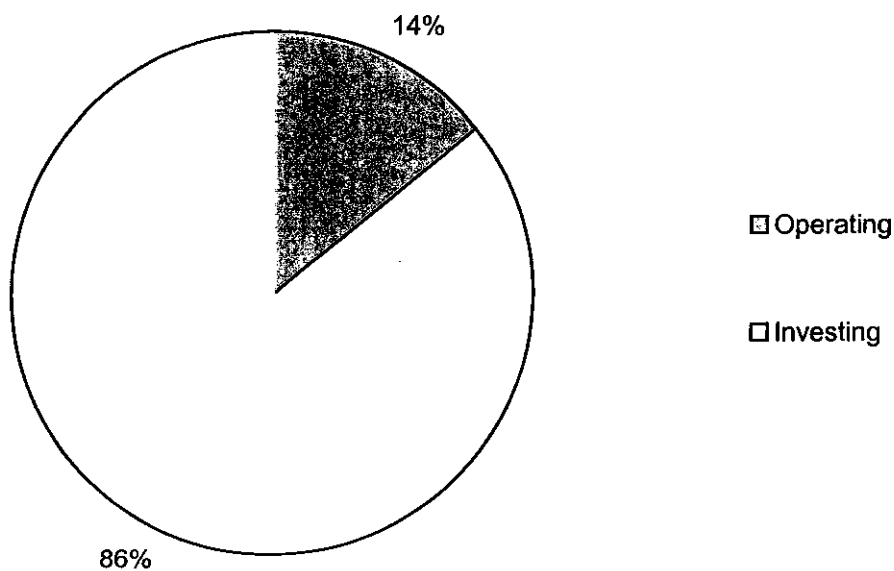
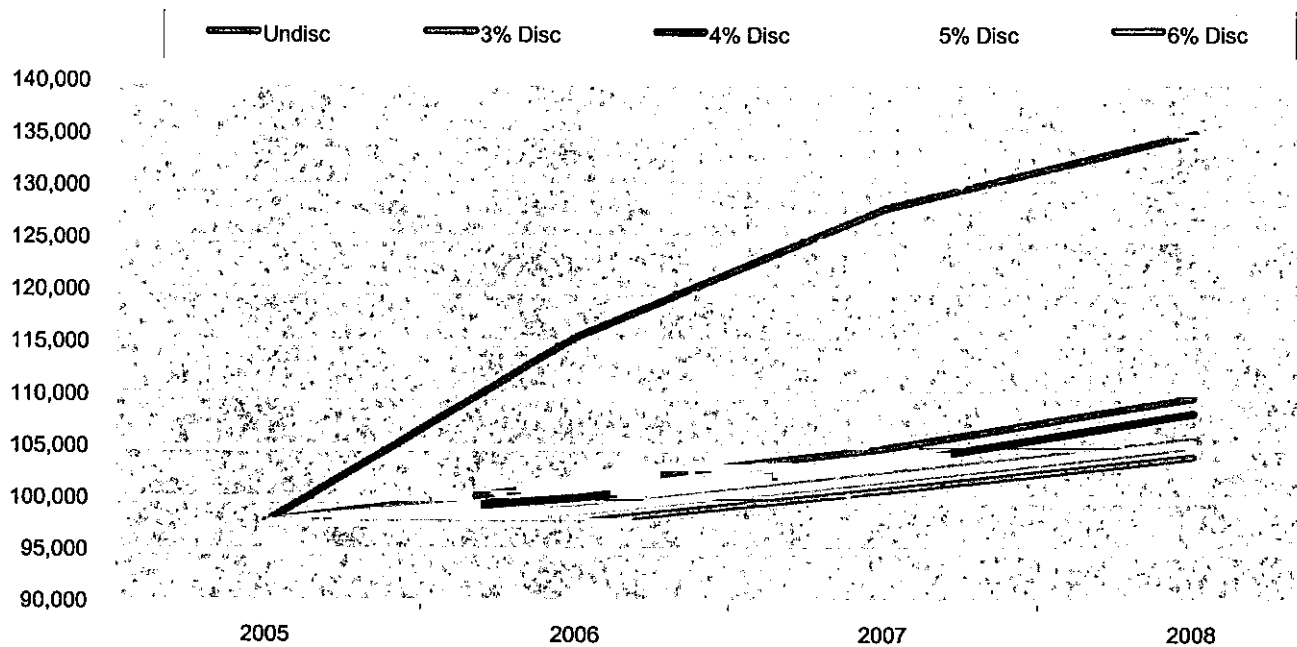


Chart 16
WSI Earned Premium Comparison Projections For Next 4 Years
What If Modeling (Results Are Not Actual But For Presentation Purposes Only)
(Assumes 2% Growth in Liabilities)



CALLAN ASSOCIATES

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:

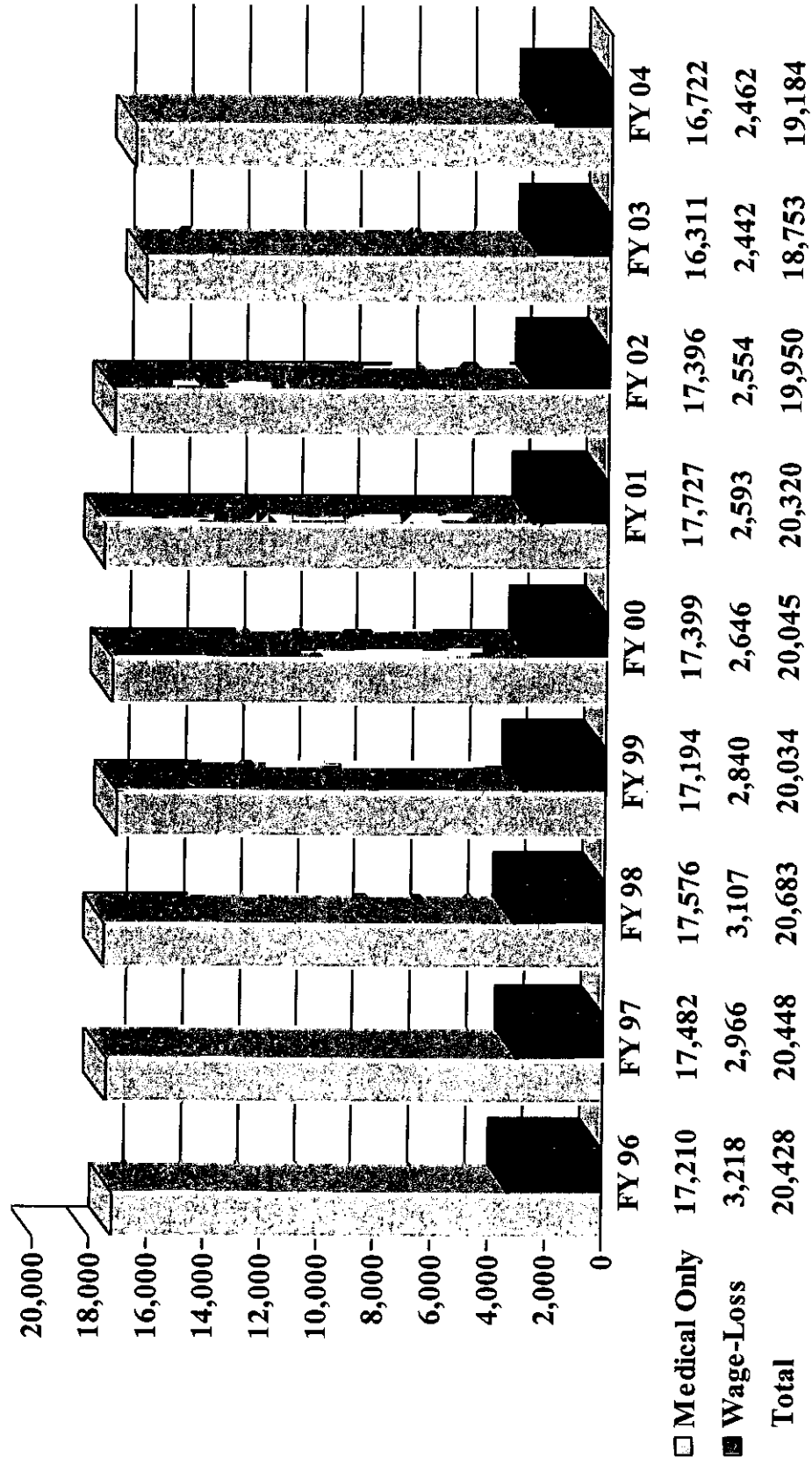
- a discount rate that is sound and defensible;
- greater flexibility in maintaining a stable premium rate structure through time;
- reduction in the detrimental impact of actuarial loss(es) on the financial health of the WSI funded status.

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

Workforce Safety & Insurance Historical Trends

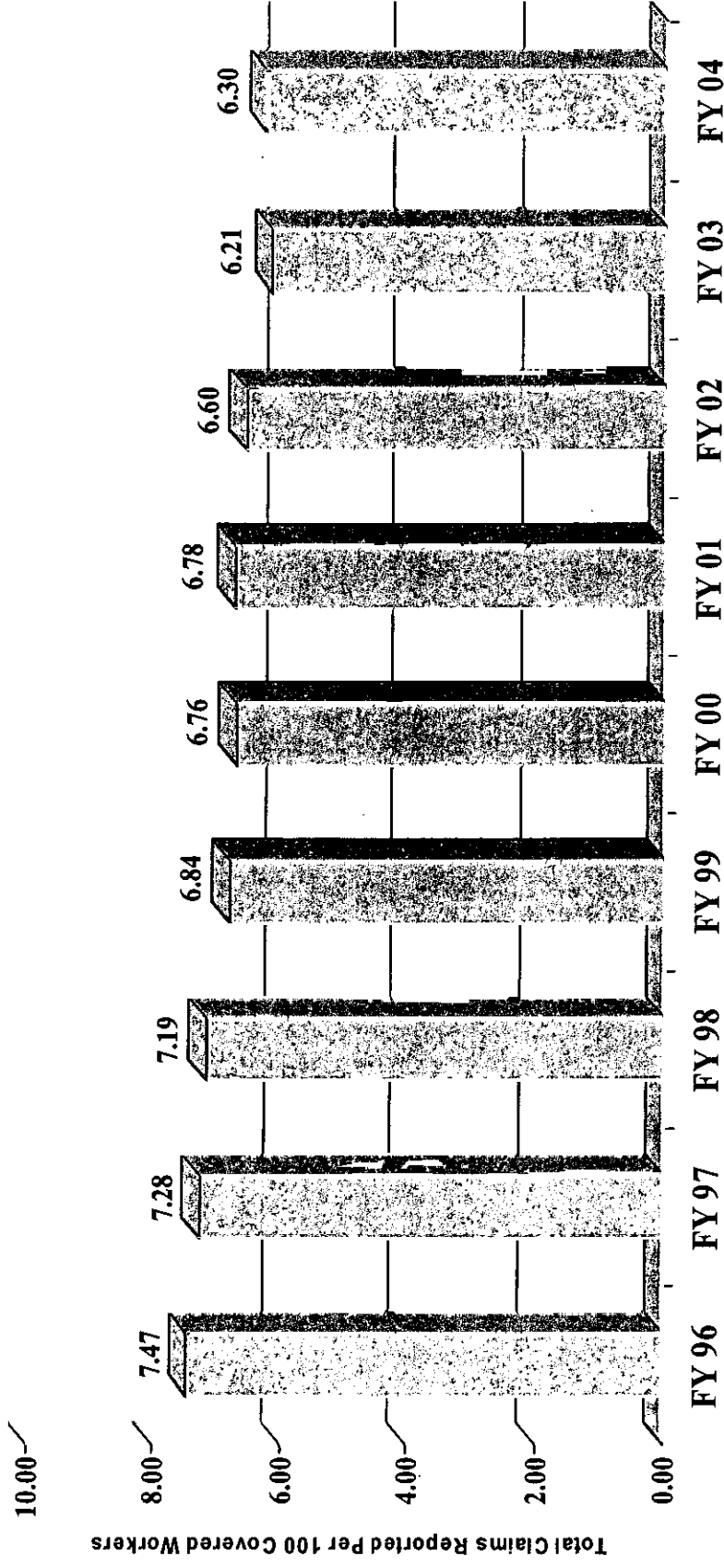
as of June 30, 2004

Number of Claims Filed



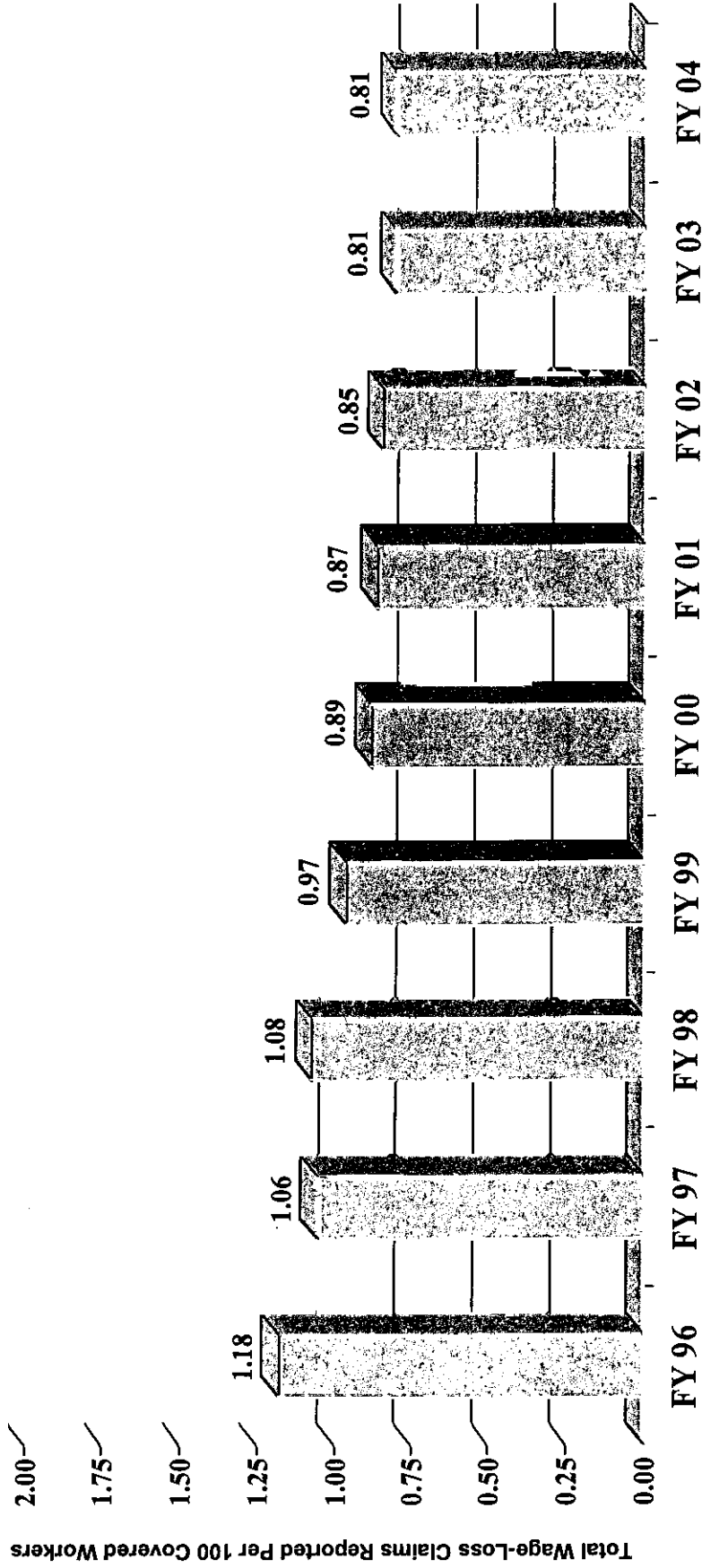
WSI

Claims Reported Per 100 Covered Workers



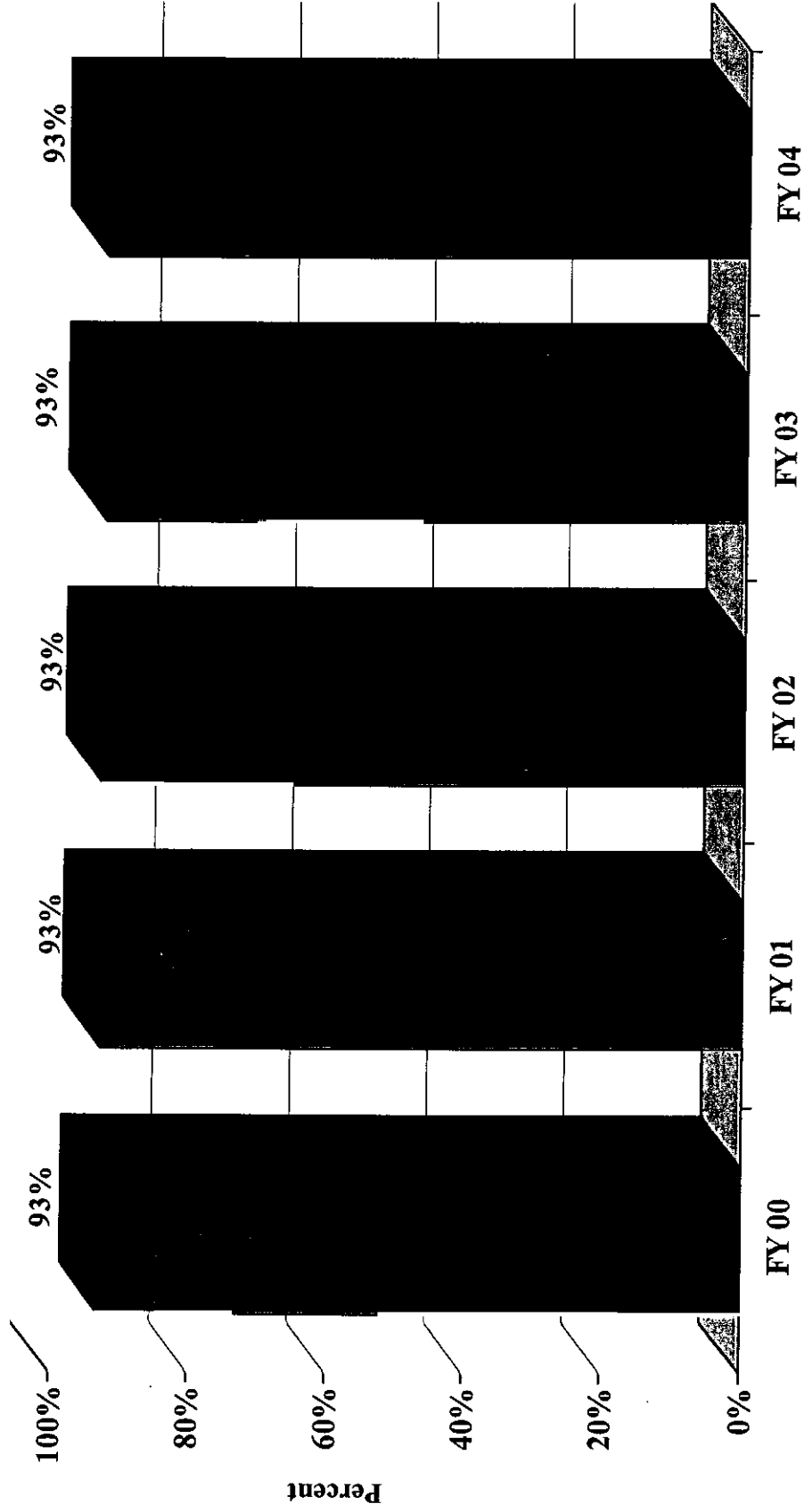
By June, 2004 there were 2,956 employers (representing over 1/2 of the state's workforce) utilizing an approved safety plan.

Wage-Loss Claims Reported Per 100 Covered Workers

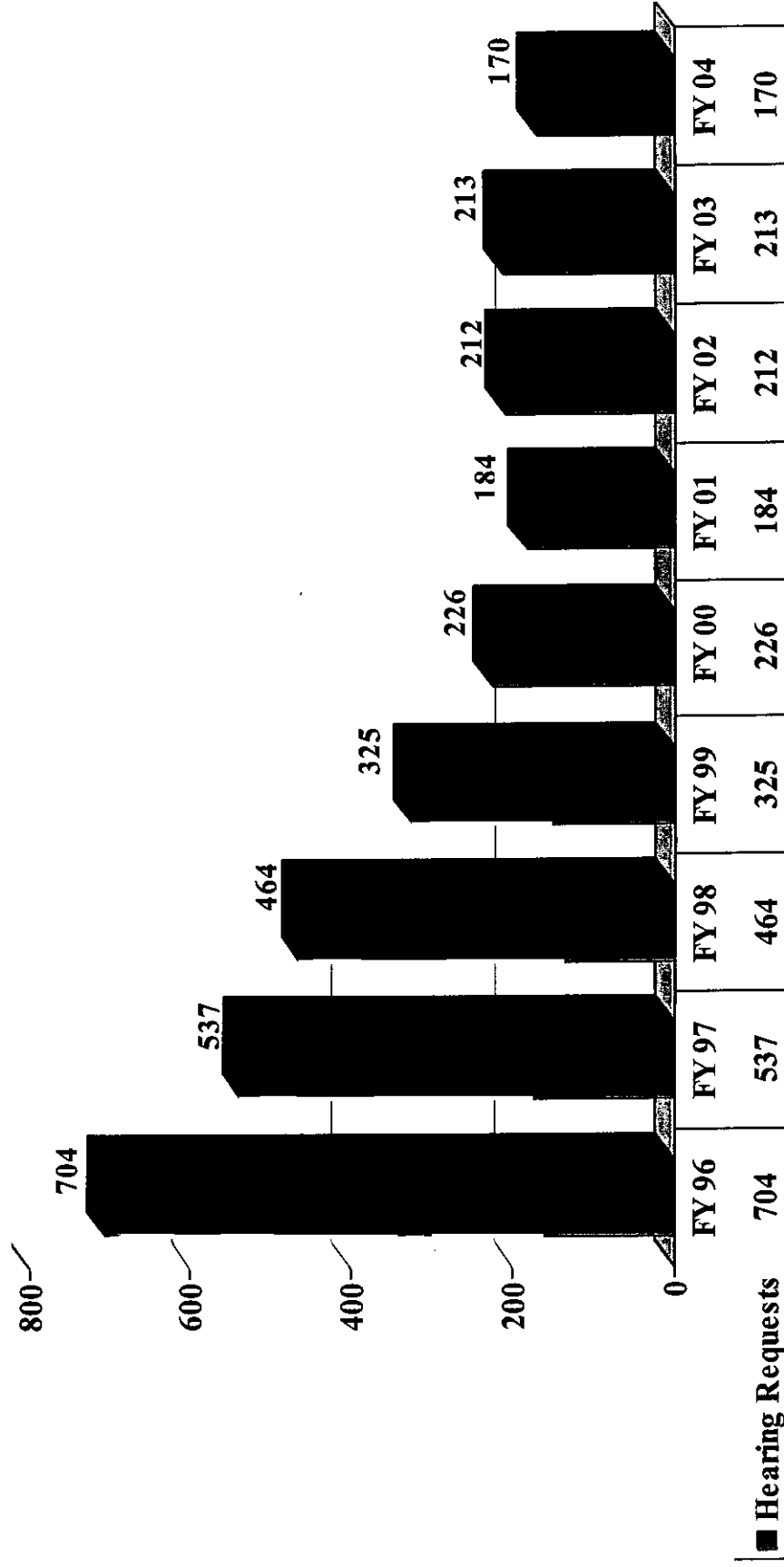


By June, 2004 there were 2,956 employers (representing over 1/2 of the state's workforce) utilizing an approved safety plan.

Initial Claim Acceptance Rate

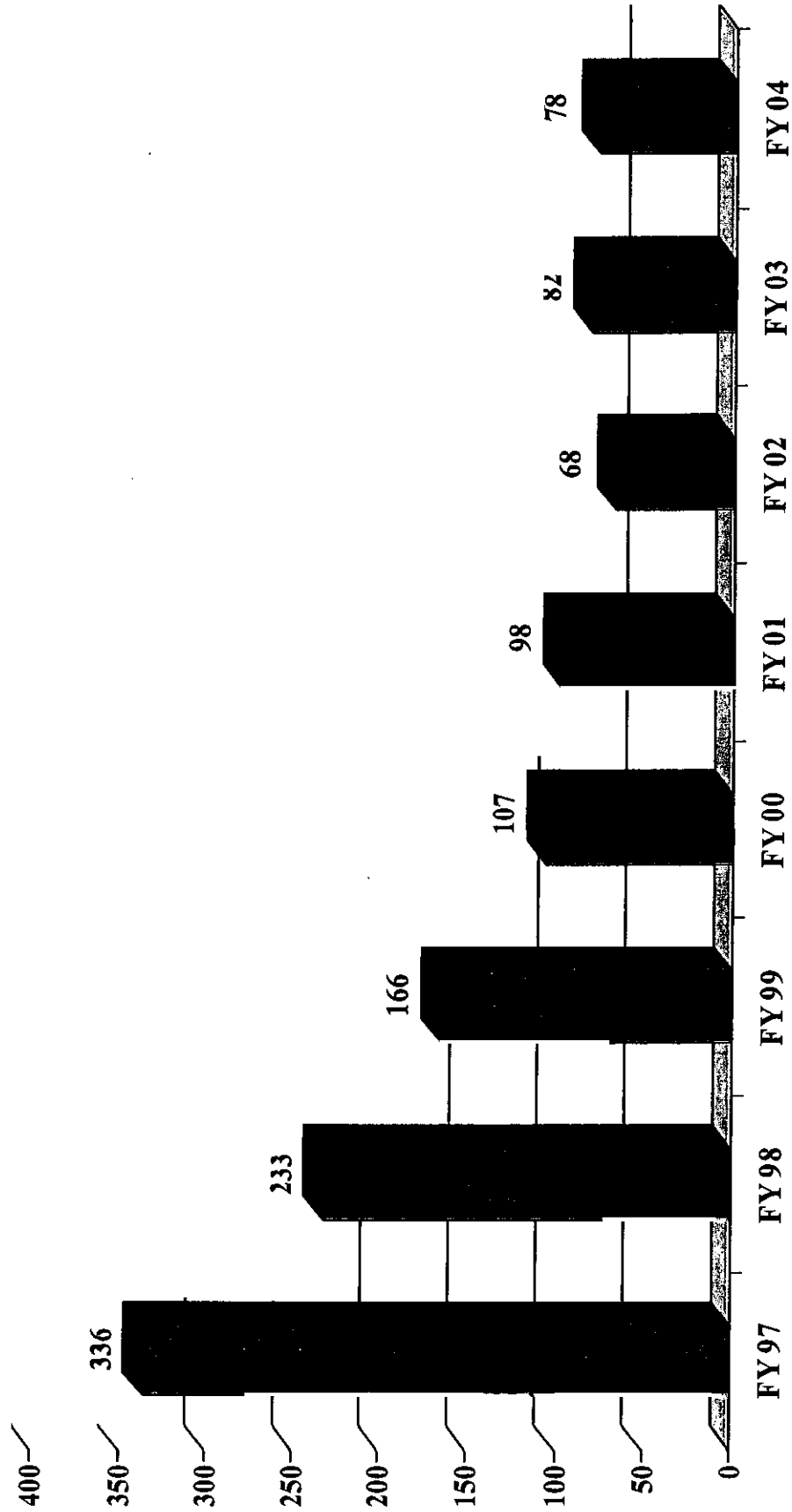


Litigation Requests



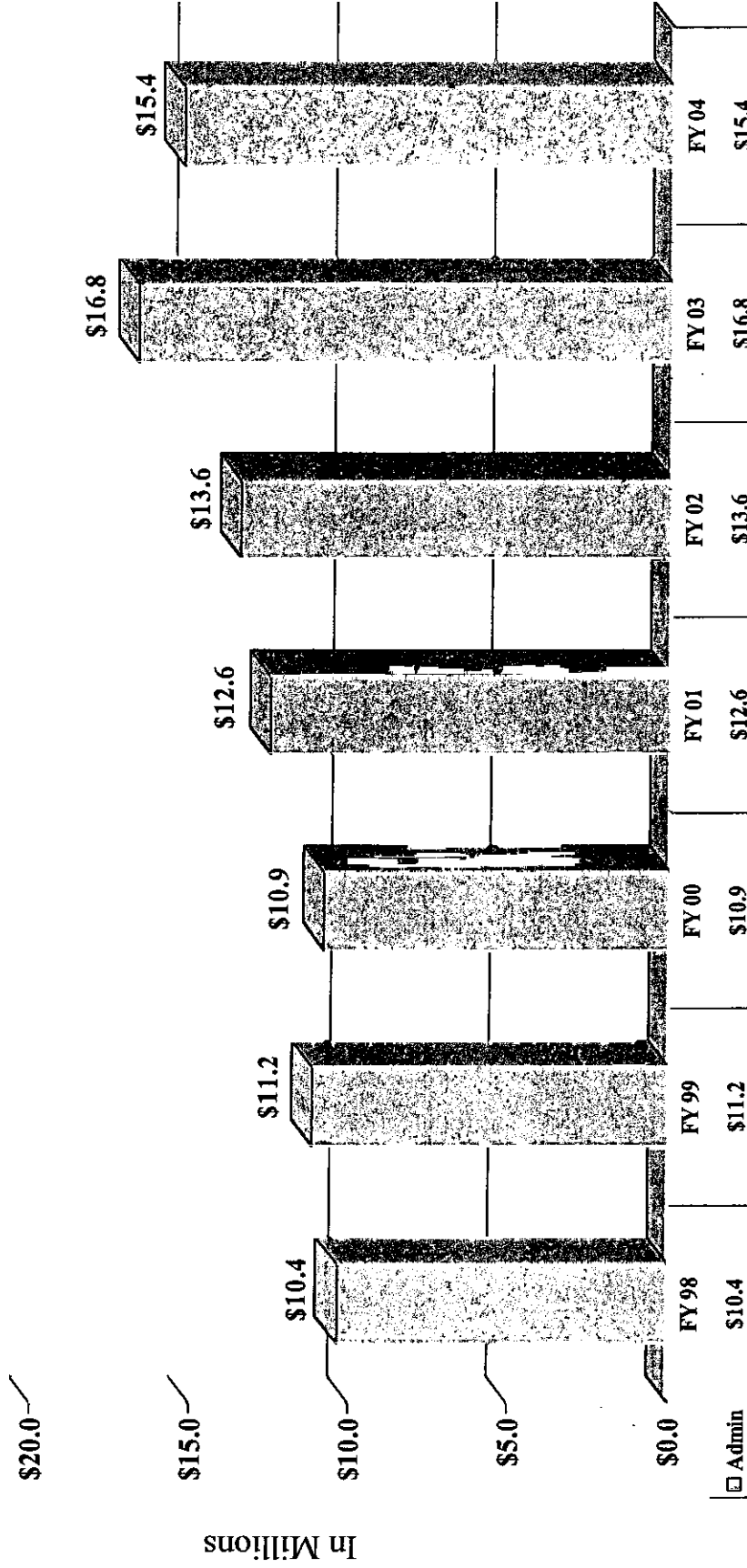
WSI

Constituency Service Requests



WSI

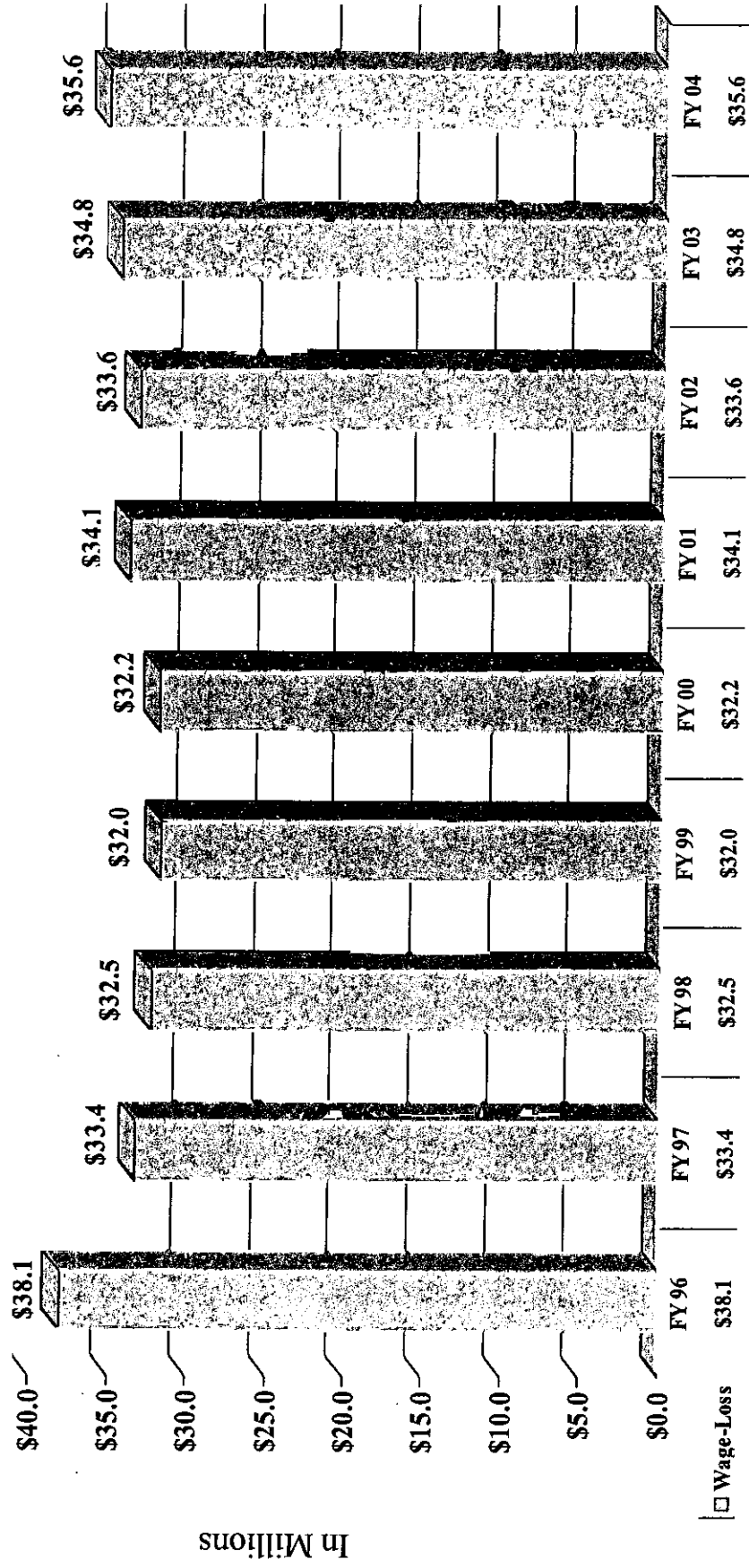
Administrative Expenses



~Includes Admin & ULAE

WSI

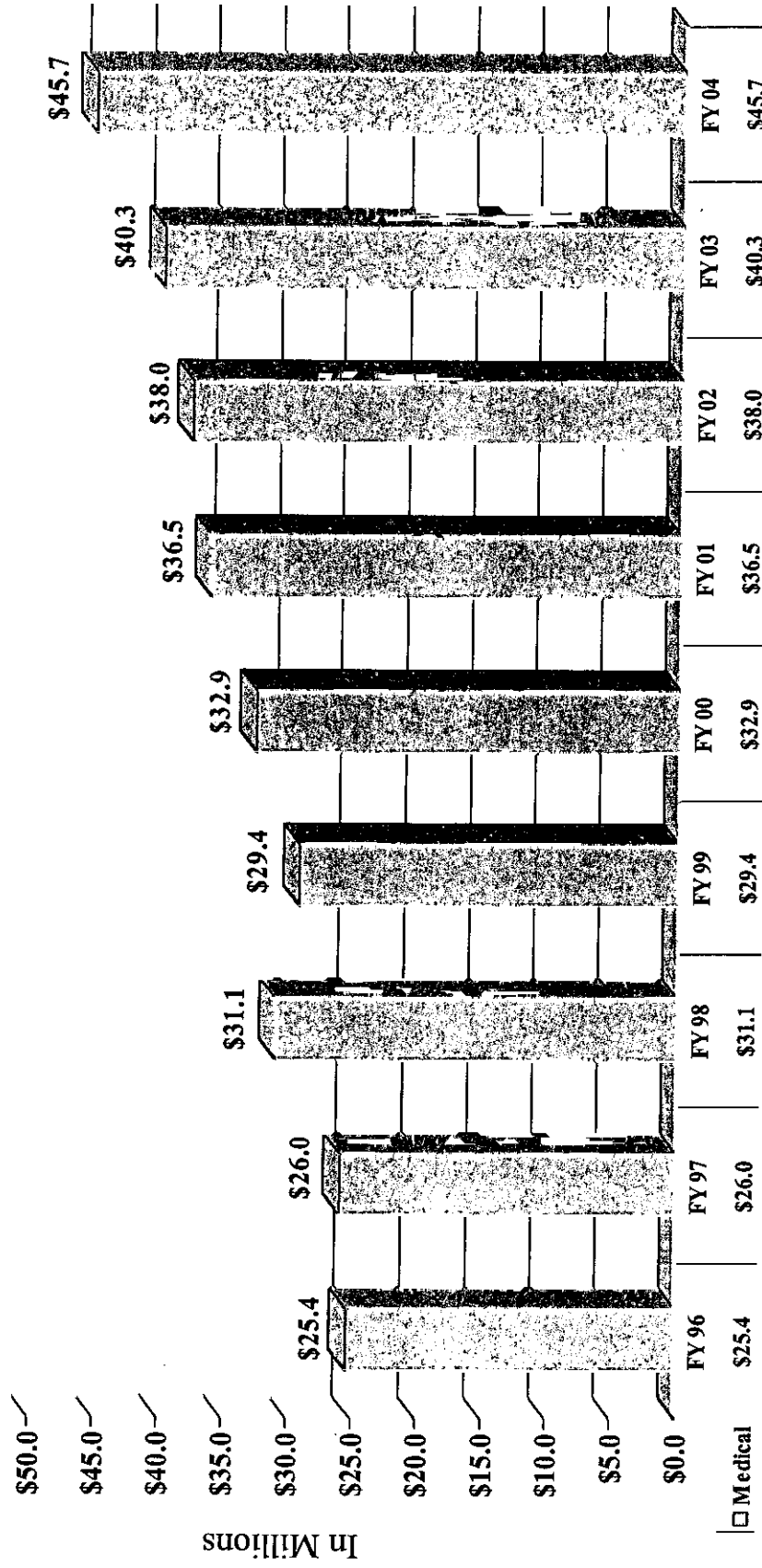
Wage-Loss Payments



~Includes Wage-loss and Indemnity Payments

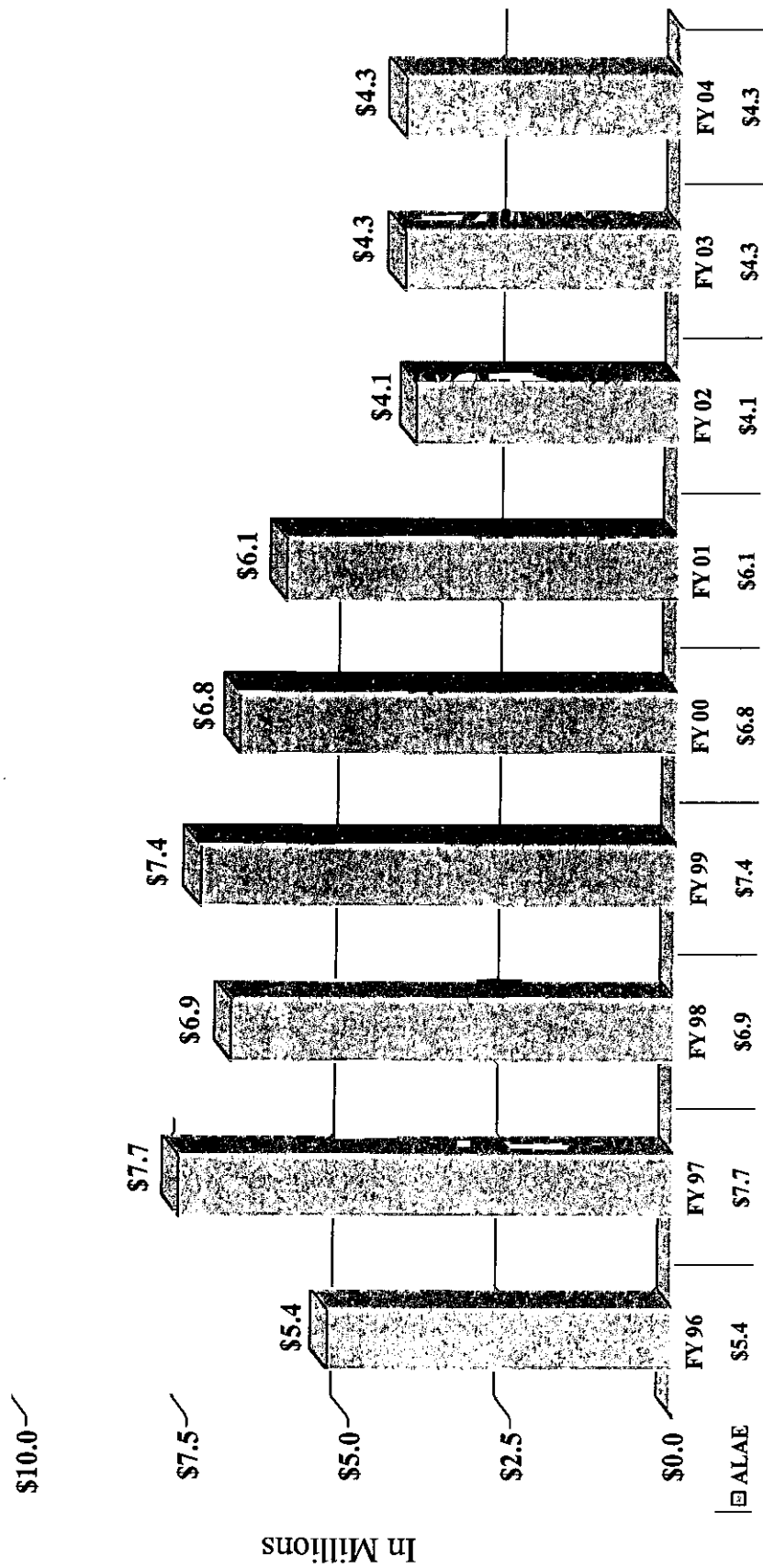
WSI

Medical Payments



WSI

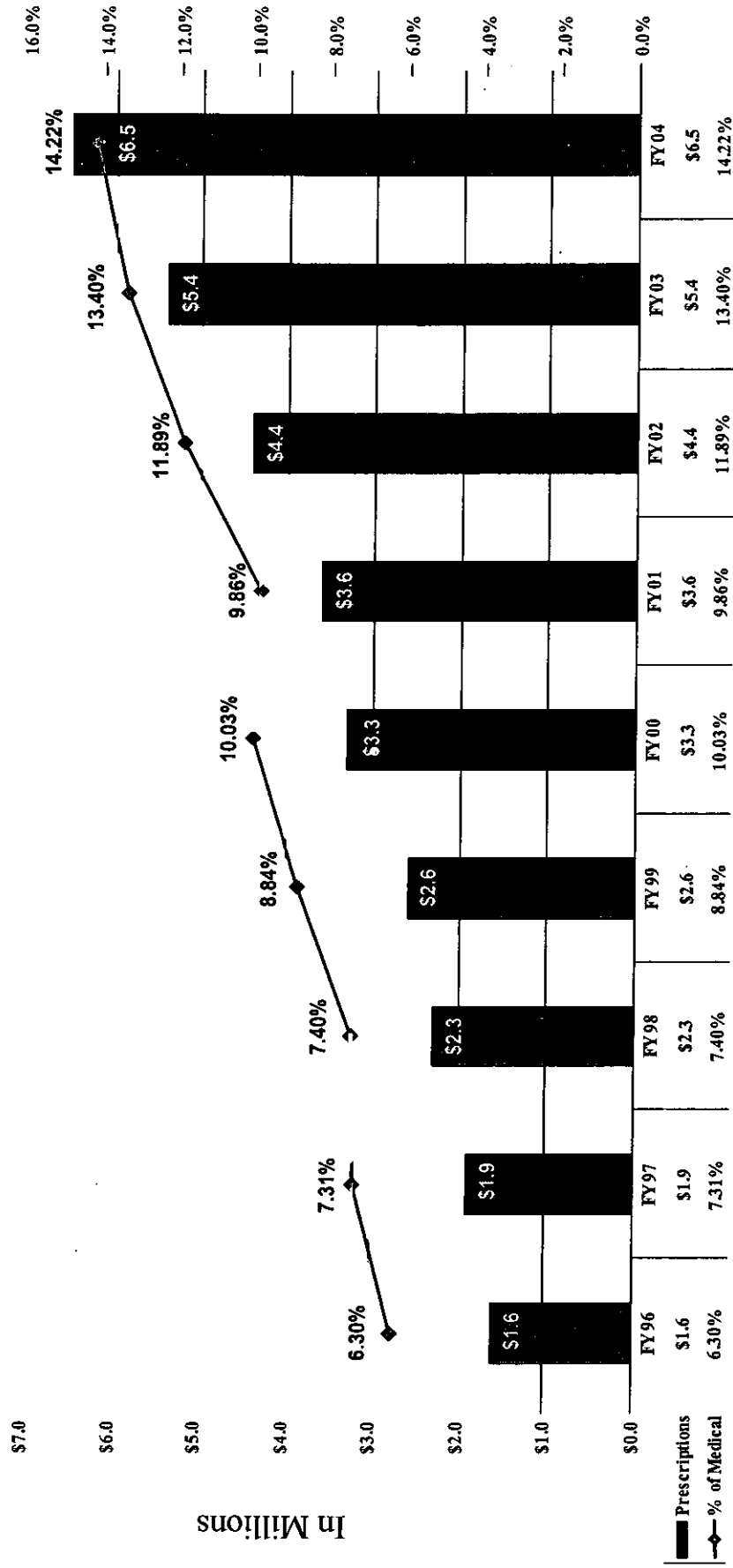
ALAE Payments



~Includes non medical payments charged to the claim file -- ie. Rehab, Legal, Case Mgmt., Other Contracted Services

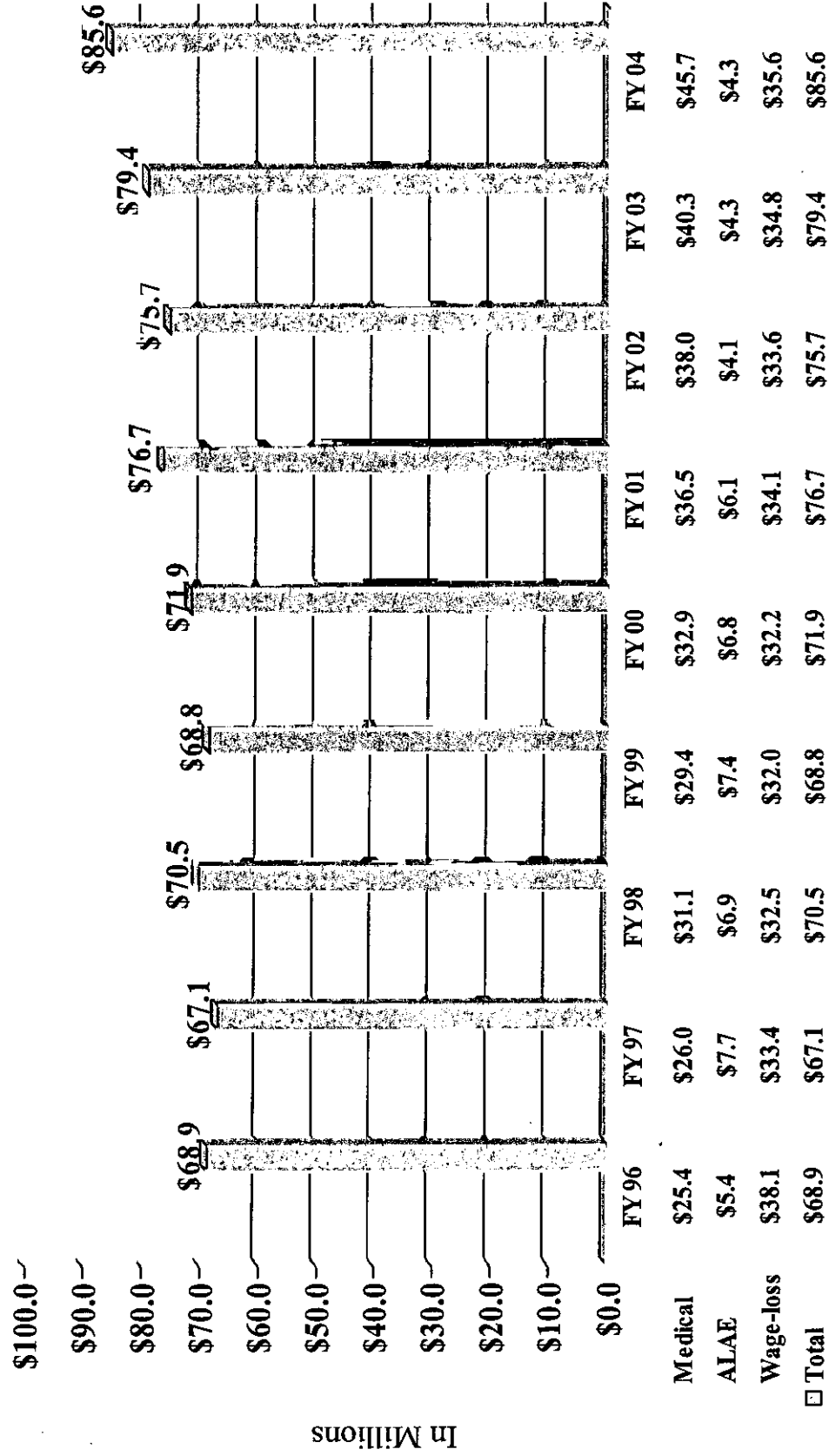
WSI

Prescriptions & Percent of Medical



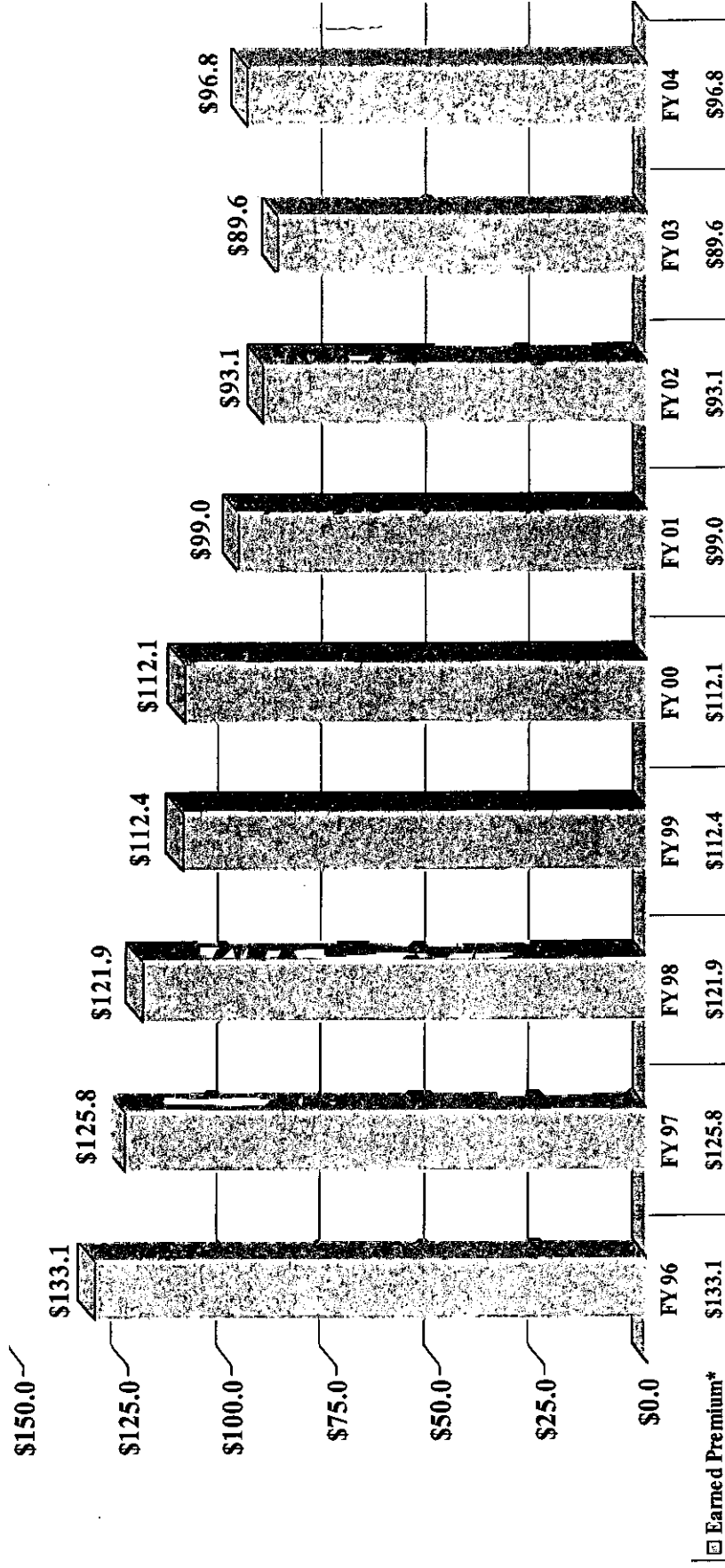
WSI

Total Paid Benefits and Expenses



WSI

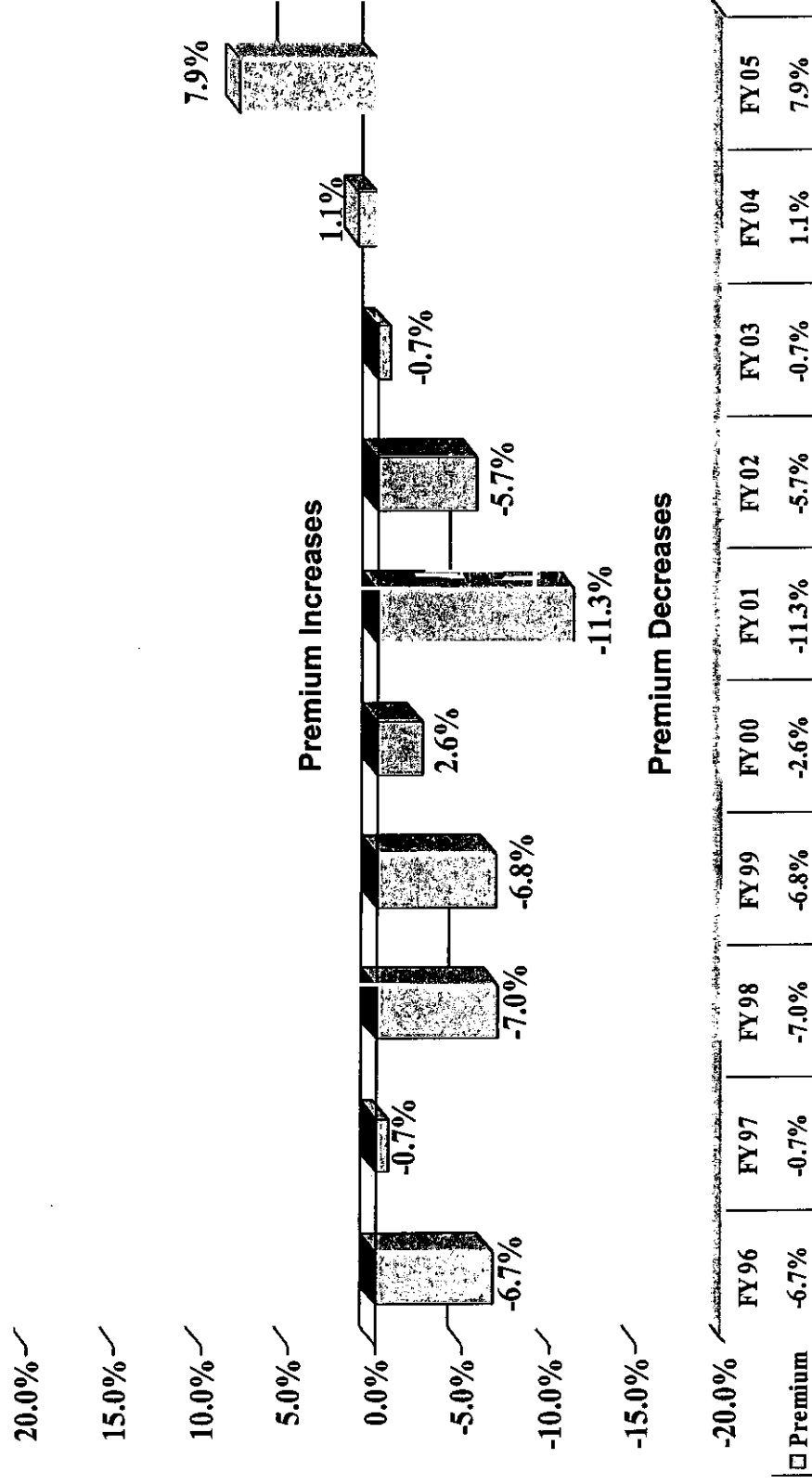
Annual Earned Premium



~Earned premium reflected prior to reinsurance costs and safety dividends

WSI

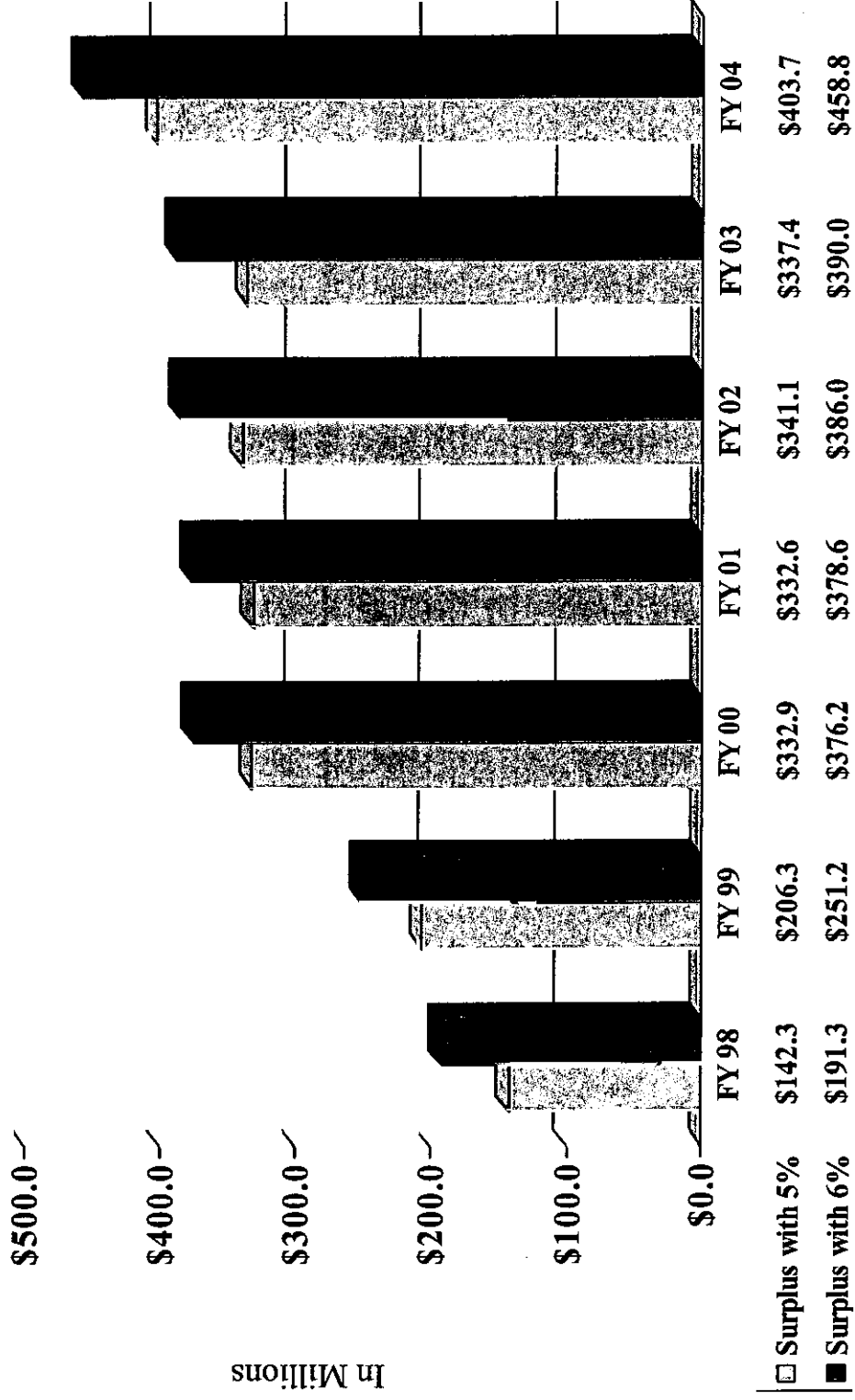
WSI Average Premium Change History



~Premium changes are effective July 1 of each fiscal year

WSI

WSI Fund Surplus

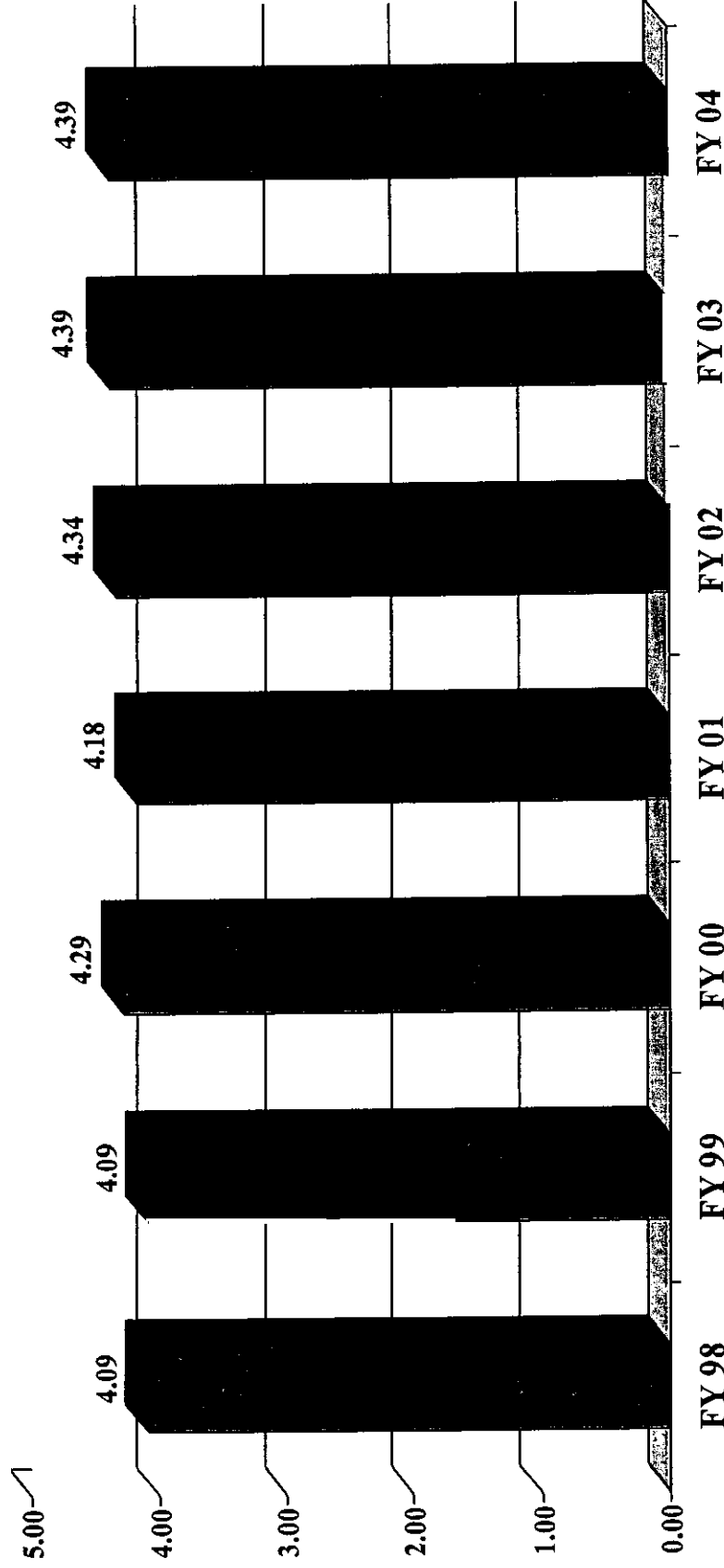


Excess in Need FY 04 = \$97,126,878

WSI

Injured Worker Customer Satisfaction Survey

by Fiscal Year



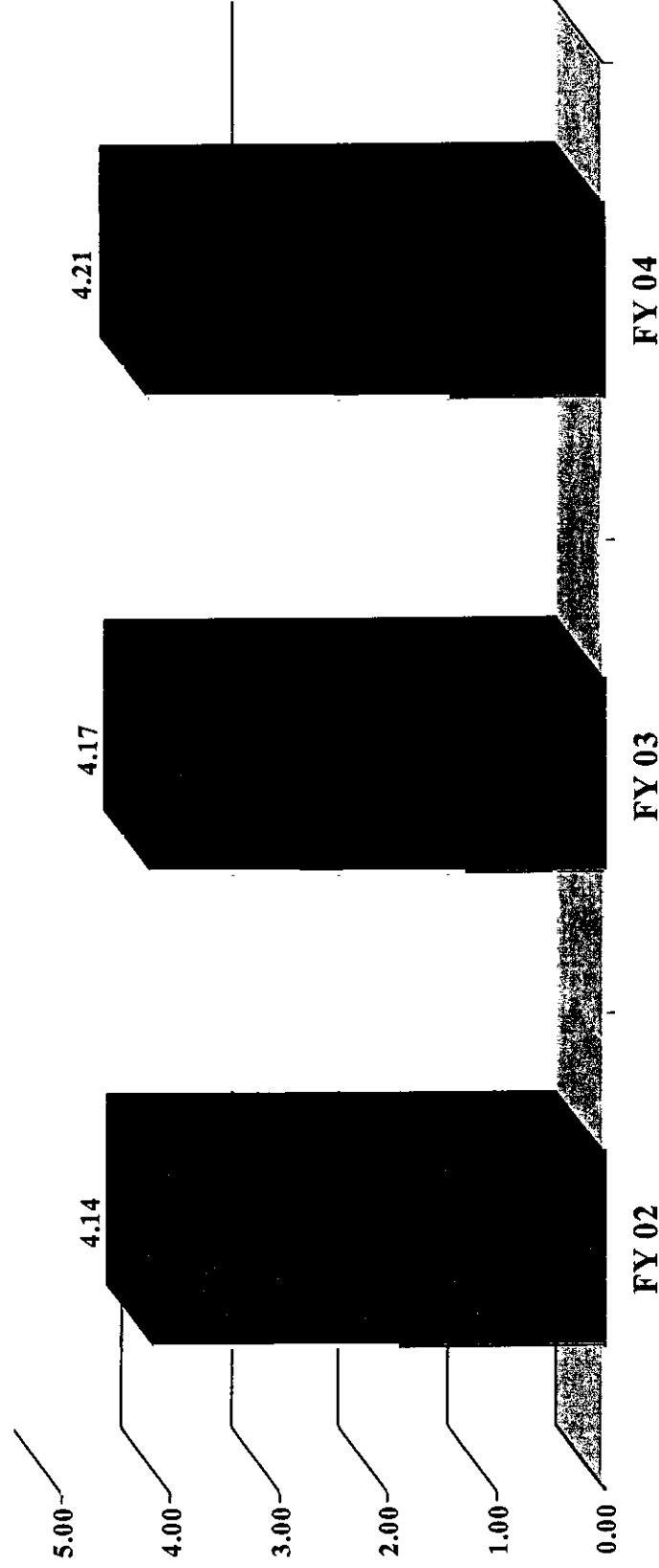
1 indicates least satisfied and 5 is most satisfied.

~Surveys are conducted by an independent research group (DH Research)

WSI

Employer Customer Satisfaction Survey

by Fiscal Year



1 indicates least satisfied and 5 is most satisfied.

- ~Employer survey was revamped beginning with June 2001
- ~Employer surveys are conducted by an independent research group (DH Research)

WSI

WSI

*Contact agency
for a copy*

Operating Report

As of the Quarter Ending: September 30, 2004



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