

# Status of the Workforce Safety & Insurance Fund



Workers' Compensation Review Committee

June 27, 2007

Fargo, ND

## Fund Analysis - Purpose

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1. Provide information necessary for decision-making;
2. Aid in viewing the effect of dividends credits;
3. Useful rudder to steer toward Legislatively Mandated Threshold (LMT);

## Fundamental Assumptions of Fund Analysis - Constraints

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1. Unrealized investments gains are included in "gross" fund level but are deducted from the "net;"
  - a) Unrealized investment gain – A profit resulting from holding on to an investment which value has increased; however, you have not cashed it in or sold it. Therefore you have not realized the gain. If the value of a stock has tripled but you have not sold it, you cannot fully realize those gains.
  - b) Realized investment gain – A profit resulting from selling an investment at a higher price than what it was purchased.
2. Models used in this analysis directs the fund toward compliance with legislative intent as specified in NDCC 65-04-02.

**65-04-02. Reserves - Surplus.** *"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 discount rate used in evaluating the financial reserves may not exceed six percent. The level of financial reserves plus surplus must be at least one hundred twenty percent but may not exceed one hundred forty percent of the actuarially established discounted reserve. The independent annual financial audit of the organization must report the organization's financial reserves."*

## Fundamental Assumptions of Fund Analysis – Constraints (continued)

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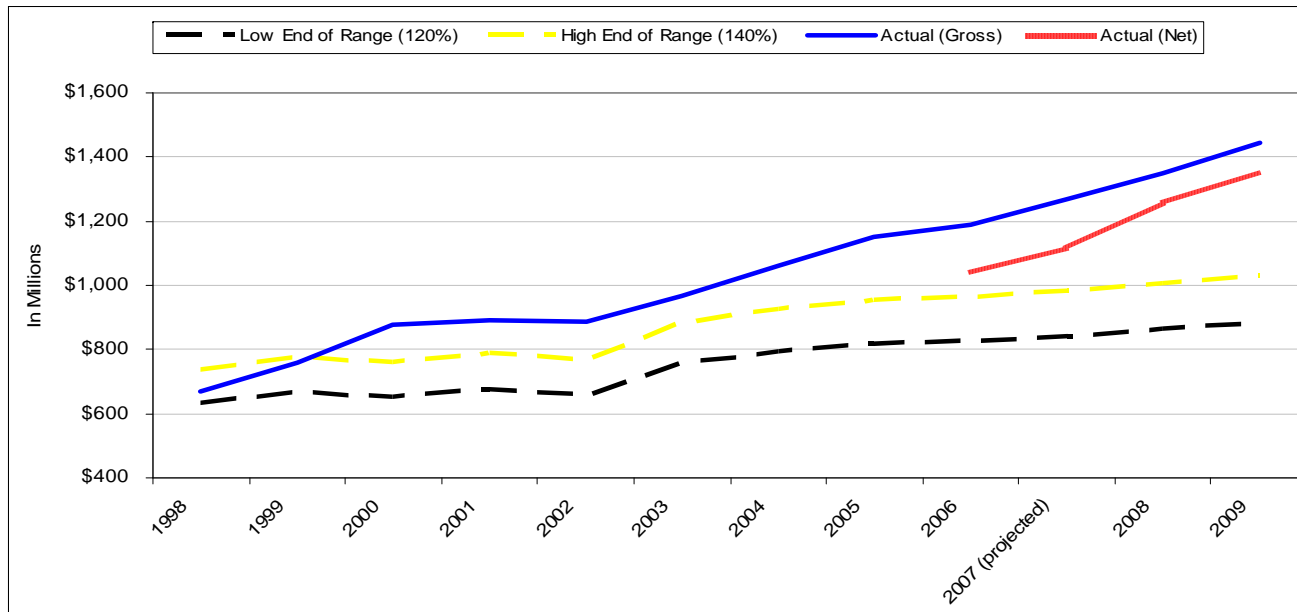
3. Forecast is based upon known historic information and market trends;
4. A two-year forecast is provided. The WSI Board of Directors made decisions for FY 2008 only, with ability to reanalyze in FY 2009;
5. Actual future loss and gain amounts will undoubtedly vary from forecast due to actual investment returns (5.75% target) and other expense/revenue volatility;
6. Staff believes information provided for this purpose is realistic.

## Key Future Financial Commitments Mitigated into Fund Analysis - Allocations

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1. Safety allocation of \$35M;
2. Educational loan fund of \$15M;
3. IT System Replacement Project - \$14M;
4. FYE 07 Premium Dividends Payable;
5. Legislative Increases to Reserve Levels;
6. Others...

# Model One – 0% Dividends

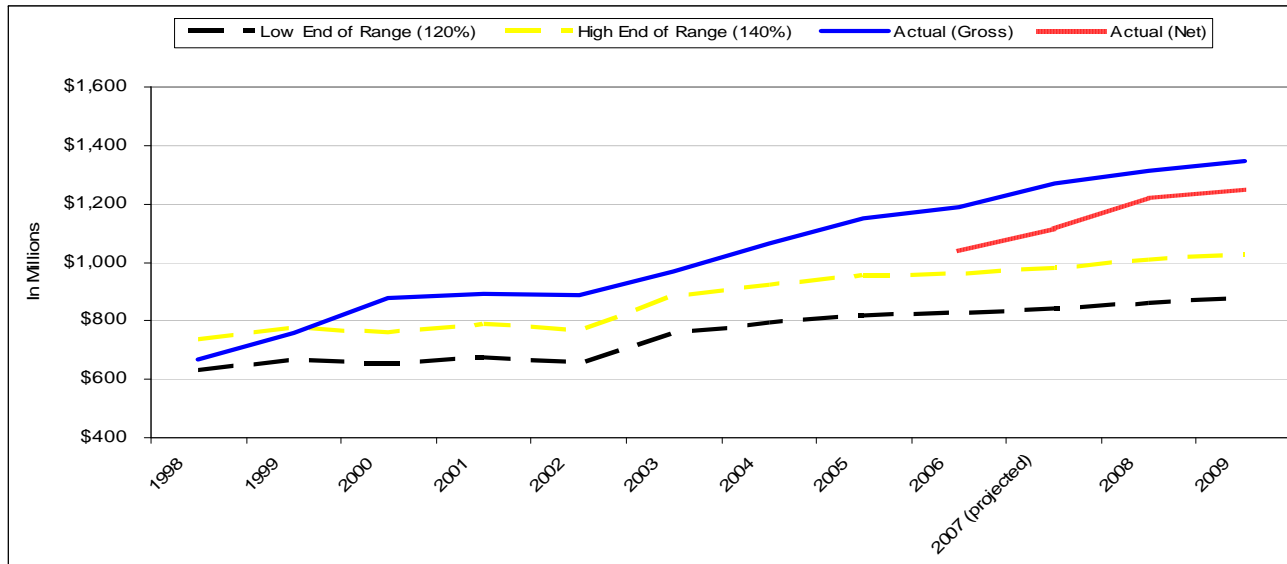


Devalues Product – May Jeopardize Safety and RTW

	2007 (projected)	2008	2009
Low End of Range (120%)	\$839,520	\$861,294	\$879,643
High End of Range (140%)	\$979,440	\$1,004,843	\$1,026,250
Actual (Gross)	\$1,268,400	\$1,348,521	\$1,445,922
Actual (Net)	\$1,114,311	\$1,253,721	\$1,349,302
Funds in Excess of LMT (Gross)	\$288,960	\$343,678	\$419,671
Funds in Excess of LMT (Net)	\$134,871	\$248,878	\$323,051

Diverges from Legislatively Mandated Threshold (LMT)

# Model Two – 40% Dividends

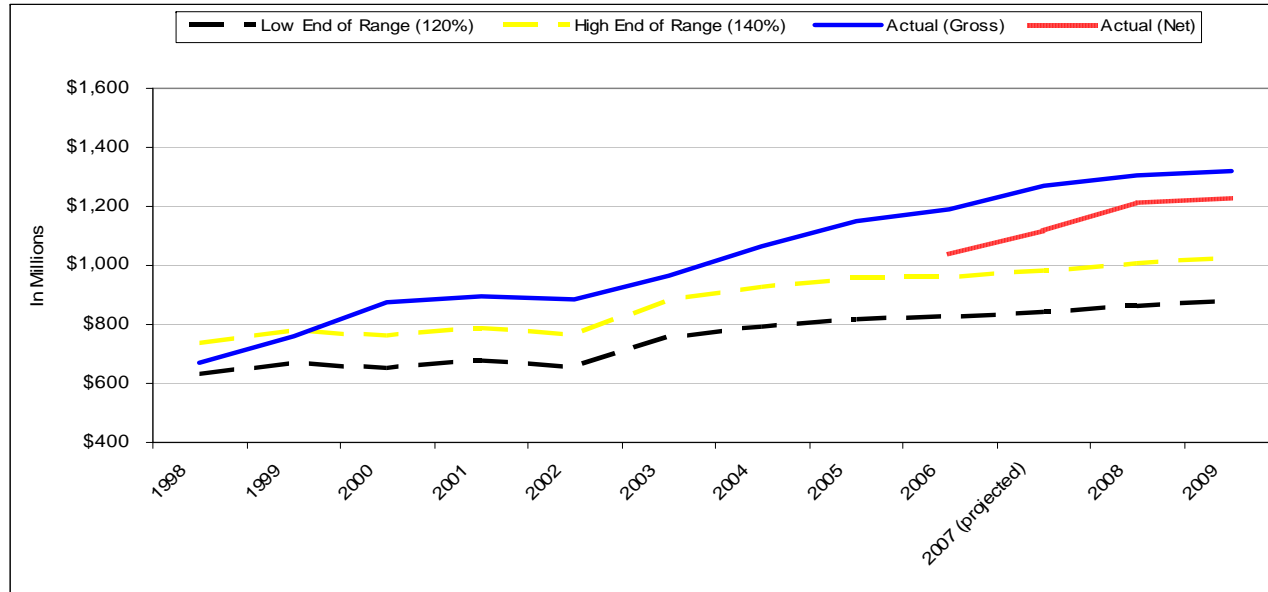


Devalues Product – May Jeopardize Safety and RTW

	2007 (projected)	2008	2009
Low End of Range (120%)	\$839,520	\$861,294	\$879,643
High End of Range (140%)	\$979,440	\$1,004,843	\$1,026,250
Actual (Gross)	\$1,268,400	\$1,313,641	\$1,344,752
Actual (Net)	\$1,114,311	\$1,218,841	\$1,248,132
Funds in Excess of LMT (Gross)	\$288,960	\$308,798	\$318,501
Funds in Excess of LMT (Net)	\$134,871	\$213,998	\$221,881

Diverges from Legislatively Mandated Threshold (LMT)

# Model Three – 50% Dividends



Devalues Product – May Jeopardize Safety and RTW

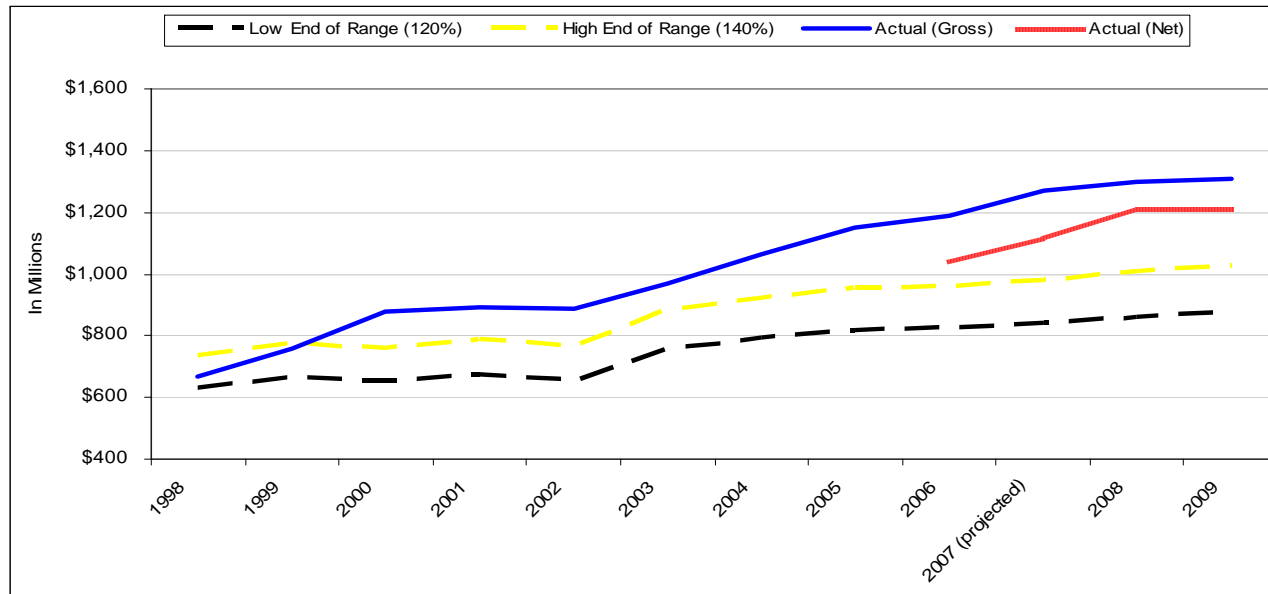


Diverges from Legislatively Mandated Threshold (LMT)

	2007 (projected)	2008	2009
Low End of Range (120%)	\$839,520	\$861,294	\$879,643
High End of Range (140%)	\$979,440	\$1,004,843	\$1,026,250
Actual (Gross)	\$1,268,400	\$1,304,921	\$1,319,362
Actual (Net)	\$1,114,311	\$1,210,121	\$1,222,742
Funds in Excess of LMT (Gross)	\$288,960	\$300,078	\$293,111
Funds in Excess of LMT (Net)	\$134,871	\$205,278	\$196,491



# Model Four – 55% Dividends



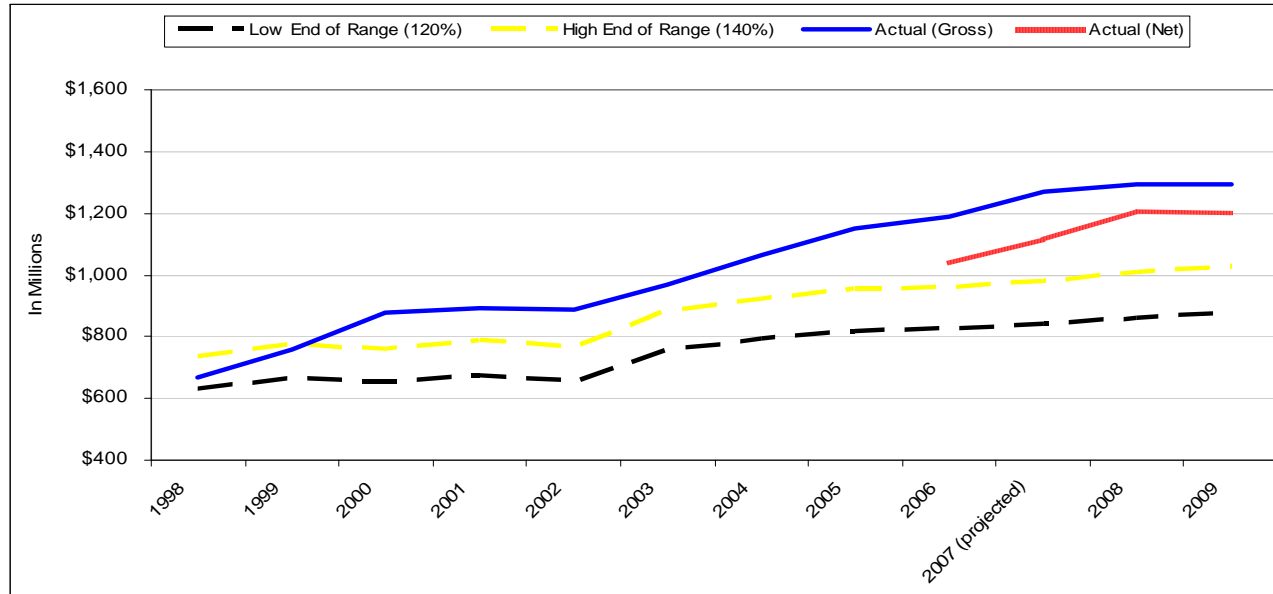
Devalues Product – May Jeopardize Safety and RTW



Diverges from Legislatively Mandated Threshold (LMT)

	2007 (projected)	2008	2009
Low End of Range (120%)	\$839,520	\$861,294	\$879,643
High End of Range (140%)	\$979,440	\$1,004,843	\$1,026,250
Actual (Gross)	\$1,268,400	\$1,300,561	\$1,306,762
Actual (Net)	\$1,114,311	\$1,205,761	\$1,210,142
Funds in Excess of LMT (Gross)	\$288,960	\$295,718	\$280,511
Funds in Excess of LMT (Net)	\$134,871	\$200,918	\$183,891

# Model Five – 60% Dividends



Devalues Product – May Jeopardize Safety and RTW

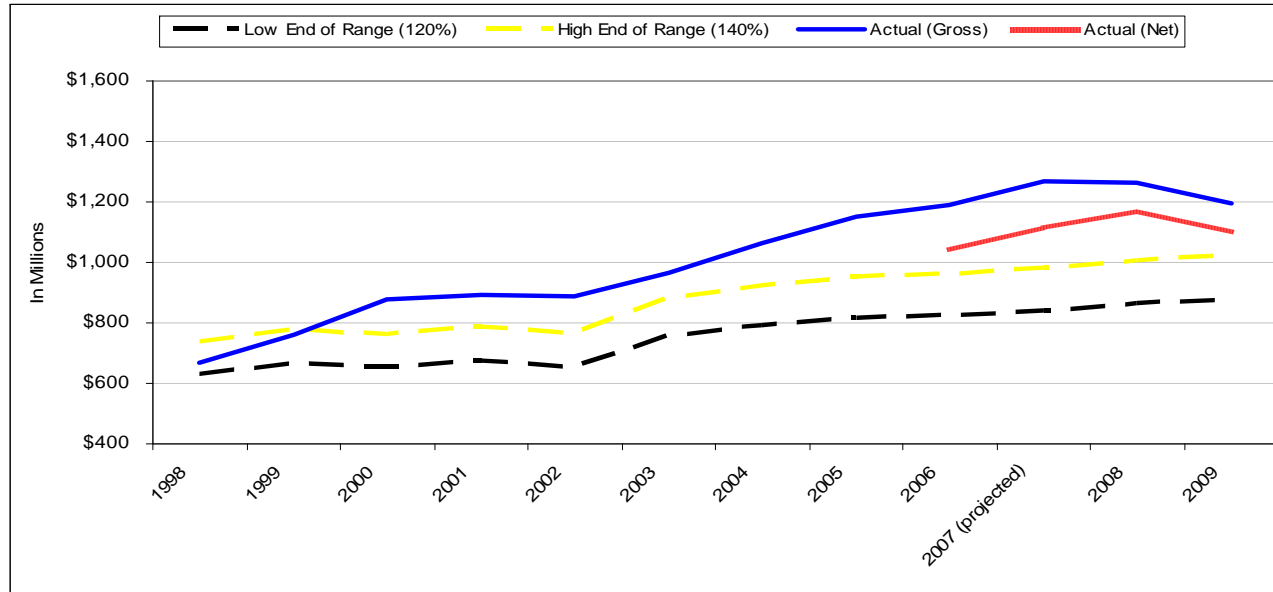


	2007 (projected)	2008	2009
Low End of Range (120%)	\$839,520	\$861,294	\$879,643
High End of Range (140%)	\$979,440	\$1,004,843	\$1,026,250
Actual (Gross)	\$1,268,400	\$1,296,201	\$1,294,172
Actual (Net)	\$1,114,311	\$1,201,401	\$1,197,552
Funds in Excess of LMT (Gross)	\$288,960	\$291,358	\$267,921
Funds in Excess of LMT (Net)	\$134,871	\$196,558	\$171,301



Diverges from Legislatively Mandated Threshold (LMT)

# Model Six – 100% Dividends



Devalues Product – May Jeopardize Safety and RTW



Diverges from Legislatively Mandated Threshold (LMT)

	2007 (projected)	2008	2009
Low End of Range (120%)	\$839,520	\$861,294	\$879,643
High End of Range (140%)	\$979,440	\$1,004,843	\$1,026,250
Actual (Gross)	\$1,268,400	\$1,261,331	\$1,192,912
Actual (Net)	\$1,114,311	\$1,166,531	\$1,096,292
Funds in Excess of LMT (Gross)	\$288,960	\$256,488	\$166,661
Funds in Excess of LMT (Net)	\$134,871	\$161,688	\$70,041

## Fund Analysis Advice

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*"Forecasts are a birds eye view...no one can truly predict the future with accuracy."*