

WSI Board Update
Presented by Mike Gallagher, WSI Board Chair
Interim Legislative Workers' Compensation Review Committee Meeting
Dickinson, ND
August 1, 2012

Mr. Chairman and members of the interim Legislative Workers' Compensation Review Committee:

Good afternoon. My name is Mike Gallagher and I am Chair of the WSI Board of Directors.

On behalf of myself and the WSI Board I want to thank you for the opportunity to present here today.

I have served on the WSI Board since January 2008 and acted as Chair since January 2011.

The WSI Board of Directors consists of eleven members—six employer representatives, three employee representatives, one member of the North Dakota Medical Association, and one member at-large. Board members are appointed to four year terms and the statute provides for up to two consecutive terms.

The WSI Board typically has six regular meetings per year and will have special meetings as needed. During the legislative session, the Board holds weekly conference call meetings to discuss and make recommendations on WSI related legislation.

In 2008, the Board implemented the Carver Model of Policy Governance. Although it has been modified since to accommodate changes in law, we still find it to be an effective way to operate as a Board.

In short, Policy Governance is a model by which we have adopted written policies describing the Ends (or outcomes expected), Governance Process, Board-Management Relationship and Executive Limitations. The goal being to provide a clear expectation of the role of Board members and staff.

The End Statement which was developed by the Board and serves as the basis for WSI's strategic plan is "WSI exists so that workers in North Dakota experience safe work environments and are protected in the event of work related injury, at a balanced and acceptable cost for workers, employers, citizens, and providers."

At most regular Board meetings, time is set aside to gather input from various stakeholder groups. The Board typically invites one group per meeting. Past participants have included:

- 1) A medical provider panel consisting of representatives from the North Dakota Medical Association and North Dakota Healthcare Association;
- 2) An injured worker support group representative;

- 3) A premium payer forum consisting of representatives from the North Dakota Petroleum Council, the North Dakota Motor Carriers Association, the North Dakota Chamber of Commerce, and the Associated General Contractors;
- 4) A legislative perspective;
- 5) A North Dakota Petroleum Council presentation;
- 6) A panel of large construction contractors;
- 7) An AFL-CIO representative;
- 8) A panel of petroleum industry employers; and most recently
- 9) A medical and pharmacy panel consisting of representatives of the State Board of Pharmacy, the North Dakota Pharmacy Association, the North Dakota Medical Association, the State Board of Medical Examiners, and WSI to discuss prescribed narcotic usage and trends.

The WSI Board and staff have found great value with these stakeholder discussions as it allows us to gather feedback and perspectives from the various groups.

Some of the primary statutory responsibilities of the WSI Board of Directors are as follows:

- 1) Provide annual, formal recommendations to the governor regarding setting premium levels and providing premium dividend distributions;
- 2) Provide formal recommendations to the governor regarding legislation that affect the organization; and
- 3) Provide formal recommendations to the governor regarding the fund's investment allocation.

WSI Board Premium Rate Recommendation

In recent years, premium rates have been relatively stable.

At the April 18, 2012 WSI Board meeting, WSI's consulting actuaries with the firm of Bickerstaff, Whatley, Ryan and Burkhalter (BWRB) presented the results of WSI's annual premium rate review.

The actuarial rate indication was for a statewide average rate level decrease of 4.5% with a 15% swing limit for individual rate classifications, meaning the change for any given rate classification would range between -19.5% to 10.5%.

The payroll cap, which is set by statute at 70% of the state's average annual wage (SAAW), increased from \$25,500 to \$27,900 for the 2012-13 premium year. The net effect of the rate change combined with the change in the payroll cap should result in an increase of approximately 1.1% to statewide premium levels.

WSI also recommended no change to the existing \$250 minimum premium.

The Board adopted the actuarial indications and recommended the indications to the Governor which were ultimately approved.

The new premium rates took effect July 1, 2012.

Dividend Recommendation

Statutory surplus requirements require the WSI fund to maintain a level of surplus in a range of 20% to 40% of discounted reserve liabilities. To the extent the fund exceeds that range, the excess surplus is returned to the policyholders via dividends. The maximum dividend cannot exceed 50% of the prior year's premium.

Based on up to date information provided at the June 20, 2012 Board meeting, the estimated surplus level was 52.7%, or in excess of the statutory surplus range.

The Board recommended to the Governor the maximum dividend of 50%. In addition, the Board recommended allocating an additional \$15 million towards funding future safety education and grant programs. Both recommendations were ultimately approved by the Governor.

With these recommendations, the expected resulting fund level as of June 30, 2012 was approximately 35.1%.

With this year's dividend recommendation, total dividends declared over the past eight years are approaching \$600 million. While the Board is pleased to be able to provide this dividend back to our premium payers due to the success of WSI investments and the economic stimulus it provides for our state, we keep in mind that it must not be at the cost of our injured worker's care. We are pleased that North Dakota continues to rank highly in benefits to injured workers.

Investment Asset Allocation Recommendation

WSI's last asset allocation study was conducted by Callan & Associates. It was completed in August 2009. The following allocation was recommended by WSI's Board and approved by the Governor.

May-12	
Asset Allocation	Target
Large Cap Domestic Equity (Target 9.75%)	9.8%
Small Cap Domestic Equity (Target 3.25%)	3.3%
International Equity (Target 7.0%)	7.0%
Domestic Fixed Income (Target 51.0%)	51.0%
Inflation Protected Assets (Target 22.0%)	22.0%
Real Estate (Target 6.0%)	6.0%
Cash Equivalents (Target 1.0%)	1.0%
Total Fund	100.0%

Absent unforeseen events, we anticipate the next asset allocation study to be completed in 2014. Per statute, WSI funds are managed by the Retirement and Investment Office with oversight from the State Investment Board.

Legislative Recommendations

Later this month at the August 22, 2012 WSI Board meeting, WSI staff will present tentative legislative proposals to the Board. We anticipate that the Board will make recommendations on the staff proposed 2013 legislation at the October 17, 2012 Board meeting. Proposed legislation that is approved will be submitted as agency bills for consideration by the 2013 Legislative Assembly.

As indicated previously the WSI Board holds weekly conference call meetings during the legislative session to discuss and make recommendations on WSI related legislation.

That concludes my update and I am available to answer any questions you may have at this time.