Bureau of Workers' Compensation

Governor Ted Strickland
Administrator Marsha P. Ryan

The Ohio Model

Presentation to the Competitive Workers' Compensation Task Force

Marsha P. Ryan, BWC Administrator
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Unique in design, Ohio's workers' compensation system is well-positioned to provide the best care to injured workers and the best service to employers at the lowest possible cost.

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Uniqueness in Design – Ohio's Workers' Compensation System

The Constitution establishes that the people of the State are the "Trustees" of Ohio's workers' compensation system. By statute, two agencies were created to administer Ohio's workers' compensation system: the Ohio Bureau of Workers' Compensation (BWC) and the Industrial Commission of Ohio (IC). BWC is the administrative and insurance arm, collecting workers' compensation insurance premiums from employers, and overseeing compensable claims of injured workers. The IC is the claims adjudicative branch that resolves disputes arising from a workers' compensation claim.

In 1911, the Ohio General Assembly passed the Workers' Compensation Act. The Industrial Commission of Ohio ran the system until 1955, when BWC was created. BWC was created to protect the health and well-being of Ohio workers, while providing insurance coverage to employers. As a state-operated insurance fund, the agency provides total workers' compensation services for employers and their injured employees.

The State Insurance Fund covers medical expenses and lost wages for approximately two-thirds of Ohio's work force. The remaining third receives workers' compensation coverage directly through their employers who are part of the self-insurance program guided by strict qualifications set by BWC.

The system was designed to provide the appropriate care for Ohio's injured workers. BWC was given a balanced mandate: provide that care at the lowest possible cost to employers consistent with maintaining a solvent system.

While numerous changes were made to the system since its creation nearly 100 years ago, two landmark pieces of legislation enacted in the modern era stand out, HB 107 and HB 100. HB 107, passed in July, 1993, required BWC to establish the Health Partnership Program (HPP). The legislation was in response to stakeholder concerns that the system was not meeting the healthcare needs of the market. Spurred by the legislature, business, labor, medical providers and the BWC collaborated on the Managed Care Organization (MCO) system we have today.

Again, acting on the concerns of stakeholders, the legislature passed another piece of significant legislation, HB 100 in July, 2007. HB 100 established a professional Board of Directors to be fiduciaries of Ohio's workers' compensation system, to provide independent verification of BWC's financial and operational performance; and granted the Board direct authority in advising the Administrator and setting the agency's overall policies. In addition to creating a professional Board, HB 100 called for a "comprehensive study" of Ohio's workers compensation system and the creation of a new claims reserving system. Both of those mandates were completed on time and are the geneses of the professional, insurance industry best practices being implemented by the BWC today.

The crafters of the Constitution and the architects of recent legislation have succeeded in keeping Ohio's workers' compensation system relevant and fair to all.

Charting a New Course – BWC's Board of Directors

Following the investment scandals of 2005, the Board in conjunction with the Administrator took deliberate action to restore public confidence in BWC.

- Strengthened internal controls through the Division of Internal Audit;
- Hired an independent consultant to advise the Board on investment polices and performance;
- Established new investment guidelines that support BWC's mission but protect our assets from inappropriate risk;
- Conducted public forums to get direct input from stakeholders on matters of importance at BWC;
- Readily adopted the Governor's orders of ethics, accountability and transparency;
- Tackled with measured urgency the most critical findings of an independent comprehensive study of BWC's rating programs and other functions;
- Established clear goals and benchmarks to assess the performance of the Administrator and the agency, as well as the Board;
- Requested the creation of a monthly "Enterprise Report" that would make BWC's key financial and operational performance measures highly visible to all constituents.

Lowest Cost Consistent With Maintaining a Solvent Fund

The Legislature has designed BWC as a state agency operating an exclusive state fund. Such design provides BWC with a number of structural advantages that enable it to operate with the lowest possible cost structure.

- Exempt from state and federal taxes;
- Premium is paid in arrears, which avoids payroll estimates – employers only pay on actual payroll exposure;
- Ability to discount loss reserves enables BWC to recognize the true economic value of reserves and requires less capital to support;
- Exemption from risk-based capital and rating agency requirements allows for a more efficient capital structure;
- Not motivated by profit;
- Insulated from pricing cycles.

Because of these structural advantages, particularly reduced acquisition and underwriting costs, BWC can apportion a far greater proportion of its premium dollar to managing and paying claims. The HPP structure causes BWC's "loss adjustment expenses" to run a little higher than private carriers. Keep in mind that this is by design. The HPP also has a balanced mission to make certain that injured workers in Ohio receive appropriate medical treatment at appropriate costs to employers. BWC is able to dedicate .96 of every premium dollar to claims and claims management, while private industry is closer to .70

Put another way, if private industry provided the same benefits to injured workers, and therefore the same loss costs as BWC, it is likely they would have to increase rates to cover their higher general overhead, commissions, capital requirements and profit.

Since BWC is an exclusive market, it is not subject to the cyclical business swings of the property casualty insurance industry. BWC can set its rates each year based on Ohio's loss costs without influence from the highs and lows of the insurance cycles.

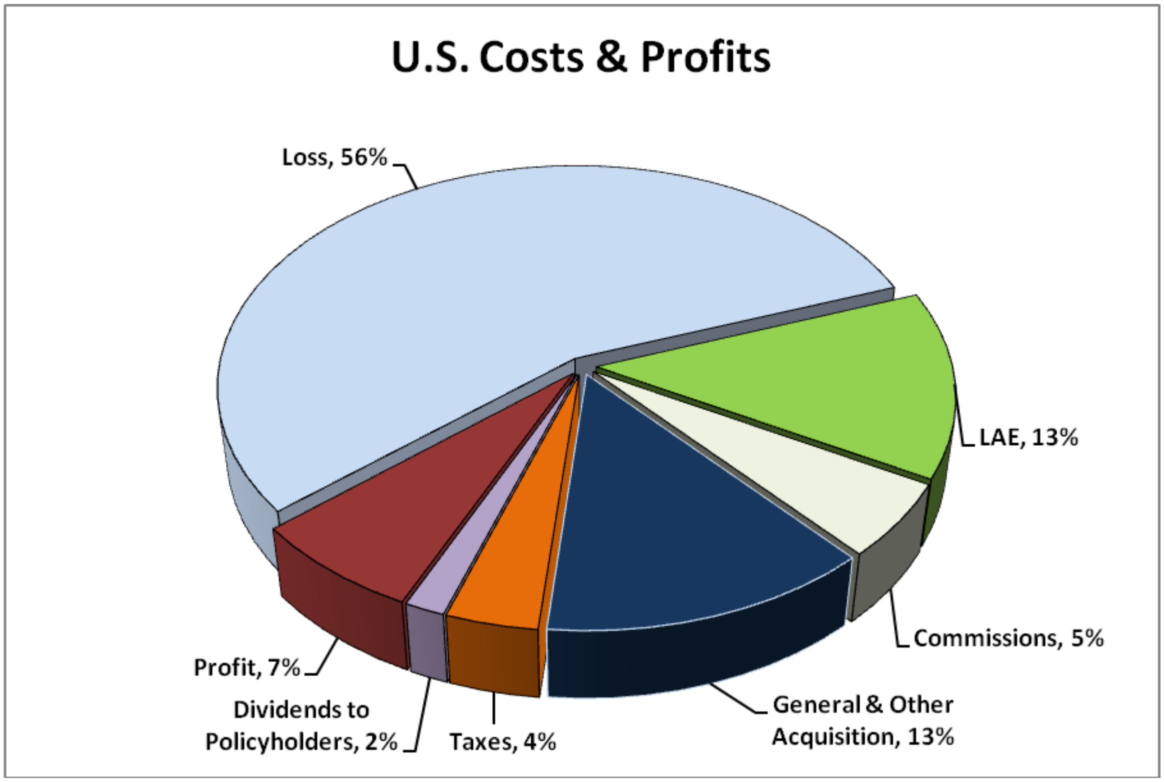
Below are statistics from A.M. Best's "Aggregates and Averages" that show key ratios of the workers compensation industry as compared to BWC.

Workers' Compensation Insurance Ratios

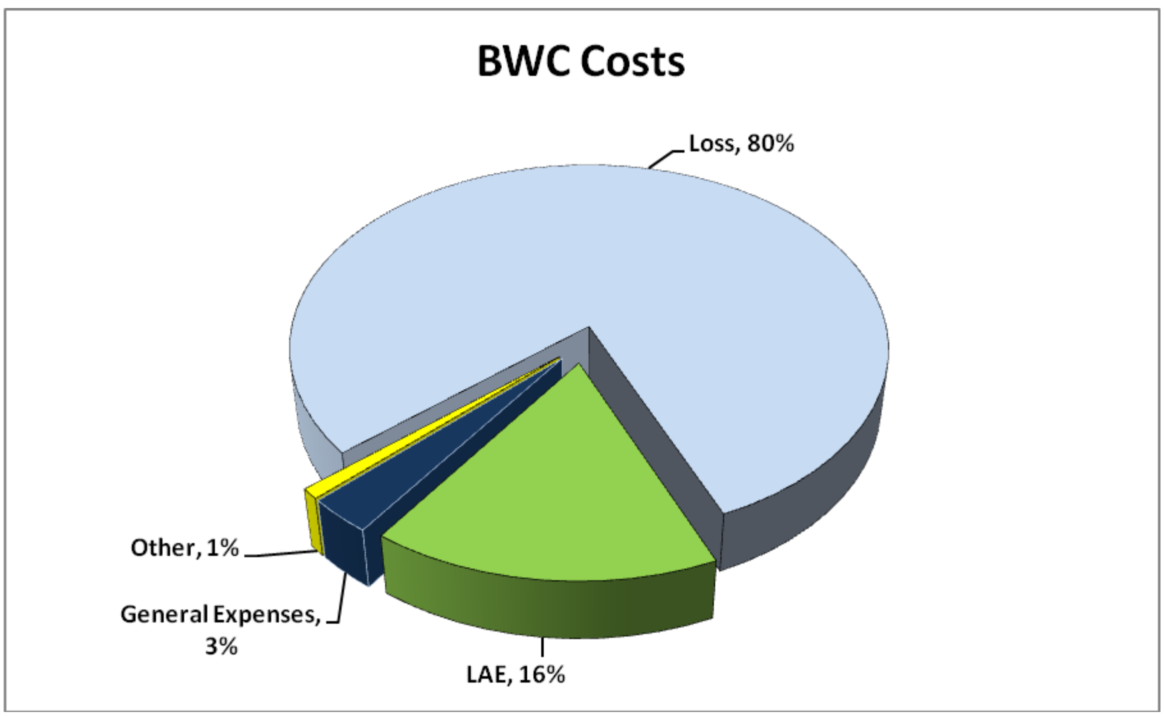
	Loss Ratio	LAE Ratio	Net Loss Ratio	Tot UW Exp	LAE & UW Exp
Ohio as of 1-31-2010	90.3%	19.1%	109.4%	4.1%	23.1%
Workers' Compensation Composite 10yr	68.0%	14.2%	82.2%	23.0%	37.2%
Workers' Compensation Composite 2008	61.8%	15.0%	76.8%	24.7%	39.7%

Notes:

AM Best Composite data reviewed - all other underwriting expenses used to calculate the general expense ratio.
The general expense ratio excludes commissions, brokerage, other acquisition costs, and taxes.

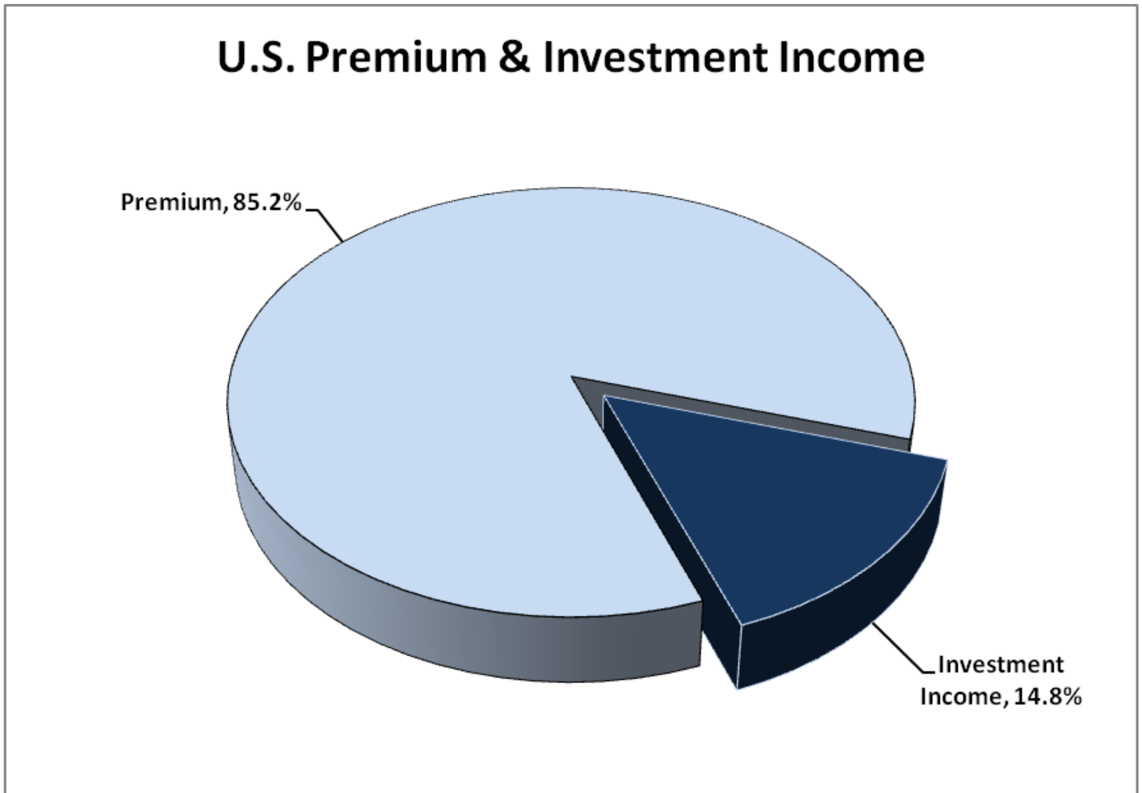


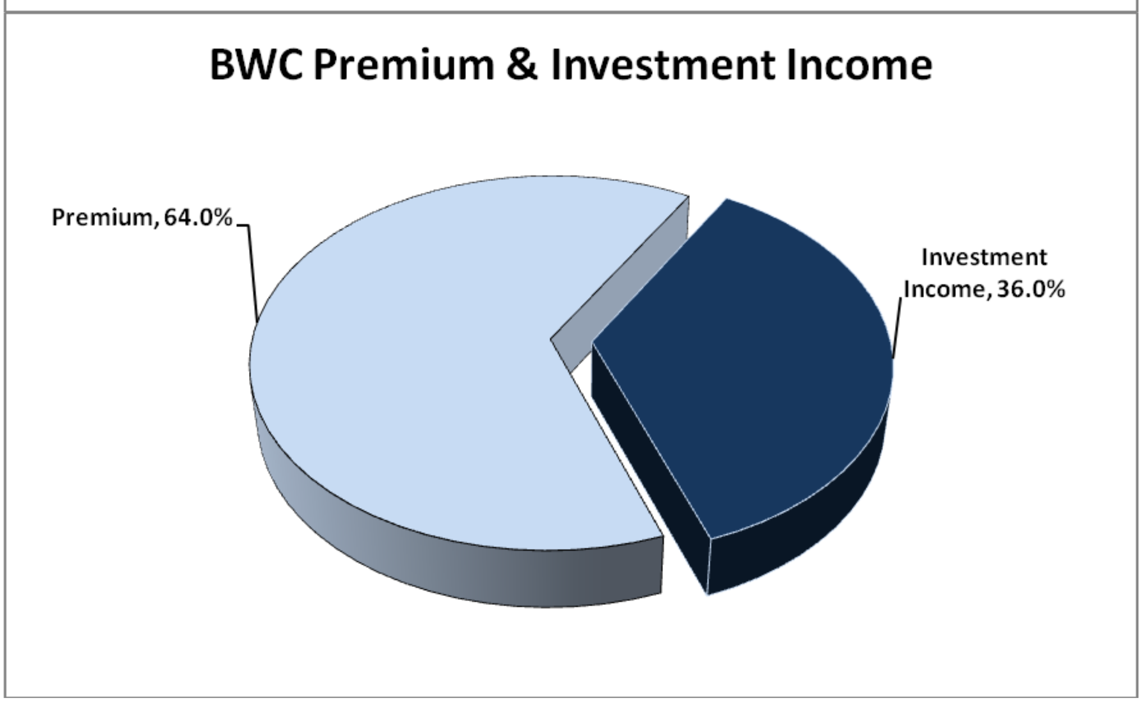
Best's Aggregates & Averages, 2009 Edition



BWC Actuarial Division 2009 blended rate

The insurance industry's revenue for workers' compensation is 85% premium and 15% investment income (2009 A. M. Best Aggregates and Averages). For Ohio, the split is 64% premium and 36% investment income. This is a significant result showing that the BWC's rates can be set at the lowest possible level to provide for all costs and a solvent state insurance fund.





The maintenance of a solvent fund requires BWC to keep a prudent level of net assets (the nearest equivalent concept in the insurance industry is known as “surplus”) to protect the fund against financial and operational risks that may threaten the ability to meet future obligations. These financial and operational risks include, but are not limited to, the following:

- Uncertainty in the ultimate amount and timing of future payments on known claims;
- Legislative and court actions that may affect future operations;
- Substantial catastrophic events, either through acts of nature or acts of man;
- Significant market fluctuations resulting in material changes in the valuation of the portfolio; and
- Economic factors impacting BWC’s ability to collect premiums.

BWC’s Board of Directors adopted a funding policy and set financial indicators that would alert the Board to any changes in financial position.

Benefit Design

As part of the Comprehensive Study required by HB 100, Deloitte Consulting was asked to compare benefits and compensation paid by BWC on behalf of injured workers in Ohio to industry peers. As workers’ benefits are regulated by each state, the peers for Deloitte’s study were other state jurisdictions.

The following is a summary of Deloitte’s Performance Assessment and Summary of Findings from Section 2.2 Cost Controls: Benefits and Compensation Industry Comparison (page 16):

Performance Assessment Summary

- **Effectiveness and Efficiency** - The benefit structure in Ohio is more complex than most with more specific benefit types and BWC administration associated with managing more MCOs than in most states.
- **Financial Strength and Stability** - Stability of benefits to injured workers is maintained consistent with other jurisdictions (e.g. annual average weekly wage, maximum rate and COLA adjustments). Benefit controls related to treatment, ongoing benefit eligibility, and duration are well institutionalized.
- **Transparency** - All benefits appear accessible to injured workers and their representatives, and to all constituents. The BWC Web site is a strong media for communicating benefits and changes.
- **Ohio Economic Impact** - Ohio's workers' compensation benefit structure appears to support the overall mission of providing adequate benefits to injured workers at a reasonable system cost.

Summary of Findings:

- Ohio's benefit and compensation levels are largely consistent with other states.
- Ohio's number of benefit types is more extensive than found in most other jurisdictions.
- No out-of-pocket costs paid by injured workers.
- Medical charges are controlled through cost containment programs (e.g., medical bill and utilization review).
- Ohio is one of 30 states that authorize the use of Managed Care Organizations (MCOs).
- Ohio is one of 19 states with a dedicated fund for rehabilitation expenses.
- Temporary Total Disability benefits are slightly higher than in most other states (maximum wage replacement rates and percentage-of-wage benefit calculations for first 12 weeks).
- Ohio's permanent partial disability income benefits for injuries are consistent with most other states.
- For fatality survivor benefits, Ohio is in the middle (both mean & median) in eight peer state comparisons.
- Ohio is one of 18 selected states with Cost of Living Adjustments for permanent disability cases.
- 22 states, including Ohio, contain specific offset provisions to limit aggregate benefits received from other sources.

For another perspective, the National Academy of Social Insurance (NASI), a non-profit, non-partisan organization made up of the nation's leading experts on social insurance, publishes an annual report on workers' compensation benefits, coverage and costs, reporting national trends and showing comparative state trends. NASI is funded by the Social Security Administration, the Centers for Medicaid & Medicare Services and the Office of Workers' Compensation Programs of the U.S. Department of Labor. NASI acknowledges both the National Council of Compensation Insurance (NCCI) and the National Association of Insurance Commissioners (NAIC) for their in-kind support of data. The latest year of data reported by NASI is 2007 which is covered in their August, 2009 annual report.

To standardize benefit payments from states of various sizes, NASI divides each state's benefit payments by the total wages of covered workers in the state, which takes into account the number of workers and the prevailing wage in the state. The report urges caution in comparing one state to another but acknowledges that this measure is useful in standardizing large and small states. In 2007, the nation's average cost for benefits per $100 of payroll was 95 cents. Over two-thirds of all U.S. states were within a range of +/- 25% of that number. Ohio ranked 11th (from the highest) with $1.20 per $100 payroll. The District of Columbia ranked last at 26 cents per $100 payroll, while West Virginia at that time ranked #1 (highest) with $3.08 per $100 payroll. These numbers are consistent with Ohio's slightly above average weekly wage and temporary total benefits.

Deloitte's comparison of temporary total benefits (on page 7 of its report) shows that Ohio's average weekly wages are in line with other states (slightly above the average of all states). This tracks with the most recent annual report published by the U.S. Chamber of Commerce entitled "2009 Analysis of Workers' Compensation Laws".

In Pursuit of “Operational Excellence”

It is not good enough to have a noble mission and a good design; you must deliver on that design. Under the new leadership of the Administrator and the Board, BWC has set out to deliver on that promise by making Ohio’s system more competitive and efficient.

- Rate reform drives down base rates, eliminates off-balance and provides stable and equitable cost platform for all 250,000 employers;
- Disciplined investment guidelines have provided better returns and minimized risk;
- Medical cost containment through updated fee schedules and utilization reviews ensures that injured workers are getting the right care at the best prices;
- Operational costs are being driven down through technology utilization, real estate management, reduction in contractors and project governance.

Although BWC is a state agency, it is in the insurance business. It makes good business sense for BWC to adopt the best practices that are fundamental to the insurance industry. There are professional standards, service benchmarks and financial indicators that are applicable to BWC and support the mission of BWC. The Administrator and the Board are guiding BWC’s evolution toward becoming more insurance-like, while making sure that the needs of our stakeholders, injured workers and employers are not shortchanged. We can draw on national standards and products and adapt them to the unique needs of Ohio. Some of the key areas where you can see this occurring are listed below:

- Right rate – right risk, every employer pays fair share;
- Utilize NCCI class system to leverage national database and provide ease of business for multi-state risks;
- Develop Ohio version of NCCI split-experience rating plan to provide better balance between frequency and severity claims management;
- Implemented MIRA II, state-of-the-art reserving system, that is more responsive to Ohio’s current loss trends; reduced case reserves by 30%;
- Develop new products for Ohio such as deductibles, retro, etc.

Rate Reform Results and State Comparisons

The recently completed comprehensive study mandated by the 127th General Assembly through House Bill 100 (HB 100) validated what nine previous actuarial studies identified: That much of the imbalance in Ohio's workers' compensation rates can be attributed to a program that is unique to Ohio, the group rating system.

Over the past three years, BWC has been engaged in an effort to bring actuarial soundness to its rate-making, reducing volatility, and incorporating insurance industry principles into the rate-setting process.

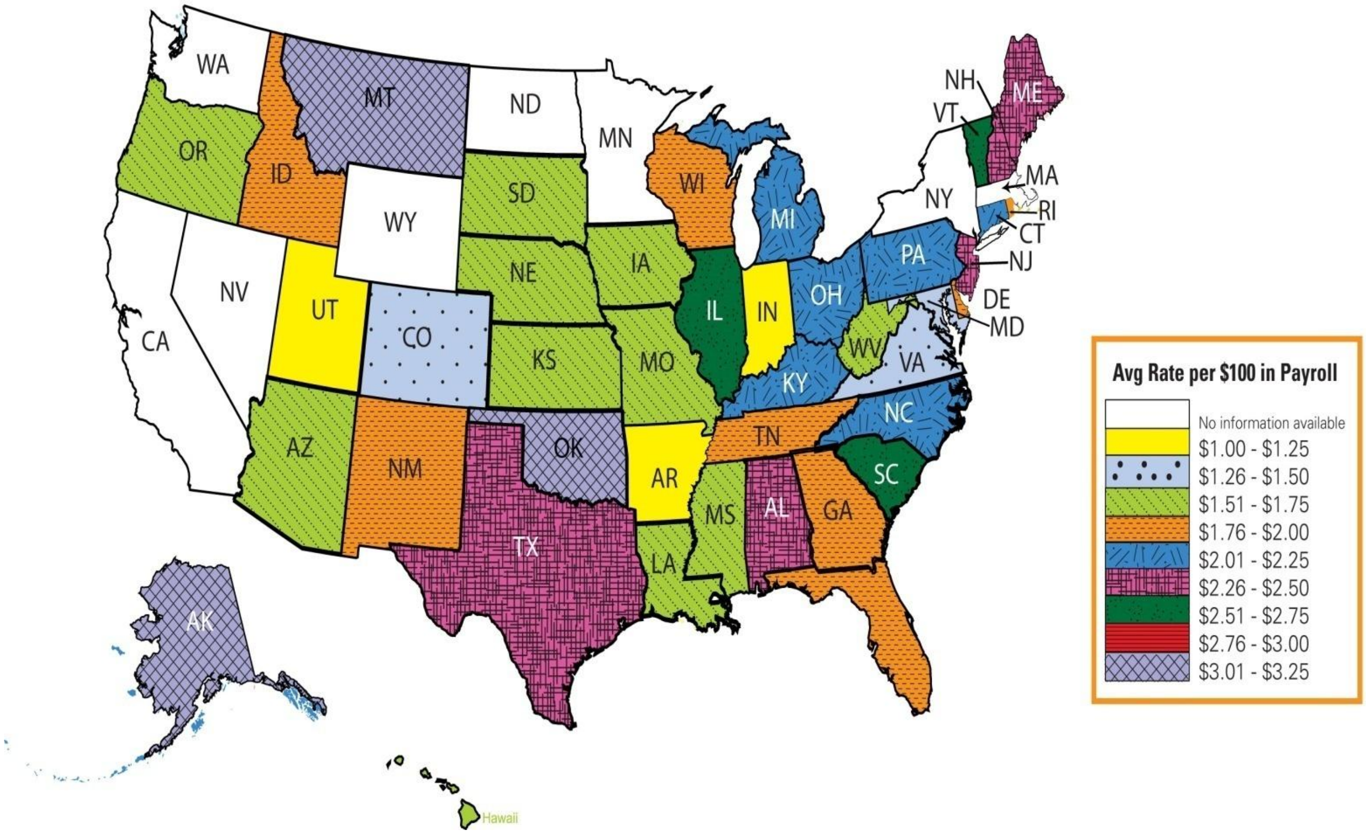
While the concept of grouping similarly-risked companies together to obtain a lower rate is a sound one, Ohio's program resulted in some employers enjoying large, unwarranted discounts, while others were forced to support those discounts by paying higher rates. Eventually the group system resulted in a large disparity in the rates between group and non-group employers. This disparity was exemplified just a few years ago when many group-rated employers were receiving discounts as high as 95% on their workers' compensation premiums.

Our mission through rate reform is to ensure each employer pays the rate that matches the risk it brings to the workers' compensation system – not one cent more. We took action and can now say that all employers, both group and non-group, are much closer to paying the right rate.

With lower, more actuarially correct rates, more than half of Ohio's private employers are seeing premium rate reductions of more than 25 percent. These employers are saving a collective $139 million in premiums this year as compared to last year.

The early results of rate reform show significant positive movement on both an absolute and comparative basis:

- Base rates have dropped by more than 25% since 2007;
- Even with reductions in discounts for group members to more appropriate levels, only 10% of all employers saw a premium increase greater than 5% in the last reporting period;
- 432 of the 500 largest state funds employers saw a premium decrease;
- 441 of the 532 Ohio manual classifications have seen a decrease in their base rates;
- Employers in 73 of Ohio's 88 counties have seen a net reduction in their rates;
- On a weighted payroll basis, Ohio ranks 17th from the highest in the country - down from 3rd only a few years ago;
- When considering benefits delivered in relation to rates charged to employers, Ohio would rank in the nation's top five.



BWC Actuarial Division 2009 Ohio rates, NCCI most recent filings

Claim Frequency and Safety

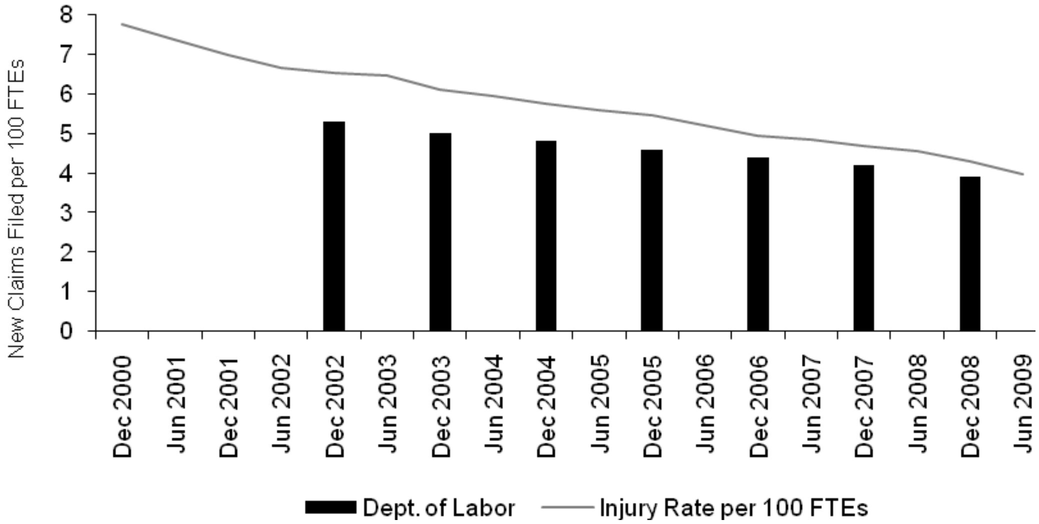
Ohio Workers' Compensation Claim Frequency Environment

Ohio, like all other jurisdictions, continues to experience decreasing trends in claims frequency.

Following this national trend, in fiscal year 2009 there were 118,855 allowed state-fund claims compared to 143,199 for fiscal year 2008. Over the past decade, there has been a significant reduction in compensable workers' compensation claims.

The effect of recent economic conditions warrants further consideration of its effect on claim frequency. While high unemployment undoubtedly impacts the numbers of full-time employees in the workforce, its effect as explanation of reduced claim frequency is minimal when considering injury rates per 100 full time employees.

Frequency - *Reported semi-annually*



Researchers are asking, "What's driving the claim frequency trend in Ohio and other jurisdictions?" . The National Council on Compensation Insurance, Inc (NCCII) recently published a research brief on this topic. NCCI cites the following as factors influencing claim frequency:

- Global competition and advancement in automation, technology, and production, such as the following:
    - Increased use of robotics
    - Increased use of modular design and construction techniques
    - Increased use of power-assisted processes
    - Advances in ergonomic design
    - Proliferation of cordless tools
- The business cycle (e.g., economic expansions can result in hiring less-experienced workers)
- Demographics (older workers tend to have fewer workplace injuries)
- More and better job training
- Continued emphasis on workplace safety
- Improved fraud deterrents

Despite a national decline in claims frequency, costs for compensation continue to escalate; partly due to the life of a claim. Nationally, claims have dropped over the last 14 years on average just over 3% annually, while the average cost per claim has increased about 8%. (NCCI 2009 State of the Line Report)

BWC Safety Effectiveness

Accident prevention is one of the cornerstones of BWC's business philosophy. BWC provides a value-added service to Ohio businesses with the intent of helping them keep their workers safe. State fund and self insured employers benefit by receiving, at no additional cost, expert safety consulting, training, and education services.

Overview of BWC's occupational safety and health services statistics by policy type, Fiscal Year 2009.

Service Type	Private employers	Public employers	State agencies	Self-insured	Total
Training and education	3,795	242	31	214	4,282
Safety congress	1,837	331	-	329	2,497
Safety council	7,725	906	13	448	9,093
Video library	1,435	187	18	152	1,792
Specialized field consulting services	4,239	462	38	309	5,048
OSHA on-site	654	N/A	N/A	N/A	654
PERRP*	N/A	911	N/A	N/A	911
Total Services	19,685	3,039	100	1,452	24,277

*= Public Employer Risk Reduction Program calendar year 2008 figures.
^ = 9,971 employees completed safety training through this service;
** = A total number of 94 Safety Intervention Grants were awarded to 90 employers.

BWC also provides grant and loan programs to help employers purchase safety equipment and implement drug-free workplace programs. In FY 09, 1,633 employers participated in BWC grant and loan programs, receiving more than $3.9 million.

Improving Safety at BWC

While the environmental factors previously stated may have contributed to the drop in claims, we believe that the safety incentives of BWC and employers have also influenced these positive trends.

BWC continues to develop collaborative opportunities with employer groups and research entities to expand its safety services and reach. Today, BWC is engaged in safety research and prevention initiatives with the Ohio Manufacturing Association, Ohio Restaurant Association, Ohio Department of Transportation, National Institute for Occupational Safety and Health, Occupational Safety and Health Administration, and the Ohio Staffing and Search Association.

To underscore the importance of safety programming, BWC is bringing to market new rating programs like the Drug-Free Safety Program, the large and small deductible programs, and retrospective rating programs. Each of these options includes an emphasis on accident prevention and safety.

Conning Research & Consulting, a noted insurance industry consulting firm, in its recently released study of state insurance funds titled “Workers’ Compensation State Funds, Evolution of a Competitive Force, 2009” commented on page 5 that “…*the primary mission of state funds is support of their local economies. This includes not only promoting fair access to insurance, but also the maintenance of a safe and productive workforce. Their ability to provide effective loss prevention and control services and link the outcomes directly to insured costs has helped state funds succeed in their mission*.”

The Claims Process

BWC is responsible for administering workers’ compensation benefits for more than 262,000 employers (FY09) covered by the state insurance, marine and black lung funds. In FY09, there were over 1.3 million statutorily open claims eligible for workers’ compensation benefits.

Eighteen managed care organizations (MCOs), selected by each respective employer, provide medical management services in conjunction with BWC, who make all claim allowance and disability determinations.

In FY09, benefits paid to injured workers totaled nearly $2 billion; just slightly less than the $2.1 billion paid the previous fiscal year. In FY09, medical only claims comprised $834 million, while compensation payments made up $1.1 billion. Employer premium and assessment amounted to $2.4 billion this fiscal year.

First Report of Injury (FROI) / Claim Filing

Early notification of a workers’ compensation claim is foundational for a good claim outcome. The first report of injury (FROI) can be submitted by hardcopy, telephone, fax, or online and initiates the claims investigation and determination activities that provide indemnity payments and medical care to the injured worker, and reimbursement to health care providers.

Additionally, early notification affords BWC and the employer’s MCO the ability to effectively assess the medical condition, ensure quality health care is provided, and allocate appropriate case management resources to facilitate a safe and speedy return to work and normal life.

Ohio BWC FROI Environment

Under Ohio law, any individual may report a work-related injury, death or occupational disease claim to BWC. Employers must report such claims to BWC within seven days of becoming aware of the work-related injury, death or occupational disease. The overwhelming majority of workers’ compensation claims are filed by health care providers who provide emergency medical treatment immediately following the occupational accident.

BWC FROI Effectiveness

FROI timing measures the average number of days between the date of injury and the date the claim is filed with BWC. FROI timing under the HPP has demonstrated strong continuous improvement over time.

Improving FROI at BWC

While unique in comparison to other jurisdictions, which require the employer, or policy holder to report new injuries, there are some advantages to be realized by provider reporting.

Key Events	Key Dates	Ideal Timeframe
1. Injury/illness occurs 2. Injured Workers reports injury/illness to employer 3. Employee seeks treatment 4. Employer notifies carrier 5. Carrier/TPA enters claim into system 6. Carrier/TPA makes contacts	- Date of Injury/Illness - Date of Employee Report to Employer -Date of Initial Treatment - Date Employer Notifies Carrier - Date Claim Entered - Date Claim Activity Begins	24 to 48 hours
Ohio 1. Injury/illness occurs 2. Employer notified 3. Employee seeks treatment 4. Physician reports injury to MCO 5. MCO receives, verifies information and reports injury to BWC 6. BWC receives and notifies employer	- Date of Injury/Illness - Date of Employee Report to Employer Date of Initial Treatment - Date of Report to MCO - Date BWC Received - Date BWC Notifies Employer	48 to 72 hours

[1]

Claim Determination

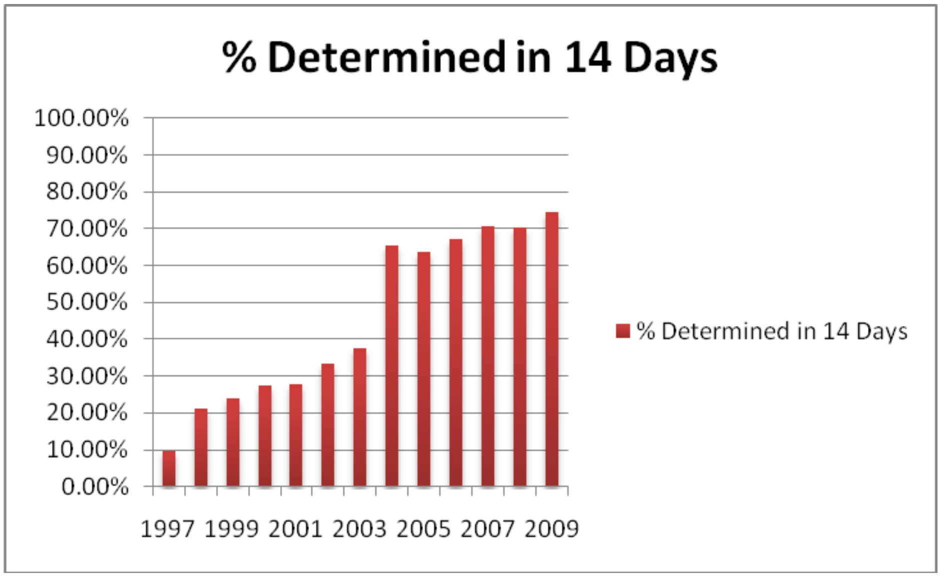
Ohio BWC Claim Determination Environment

Following notification that a workplace injury has occurred, BWC begins investigation of the claim. Ohio law requires that within 7 days of being notified of an accident BWC must put all parties on notice that a new workers' compensation claim has been received. Ohio law also requires that BWC make an initial claim determination with 28 days of this notice.

BWC Claim Determination Effectiveness

Despite statutory mandates that require new claim determinations be made within 28 days, Ohio BWC has established much more aggressive determination performance measures. In FY09 nearly 75% of new claims were determined within 14 days.

[1] Del. 2.6 at Page 21



Improving Claim Determinations at BWC

Driving down claim determination timing continues to be a priority. In 2004, BWC realized significant decreases due to the development of an automated claims adjudication system for minor, medical only claims. Through the use of technology, the system now evaluates each incoming new claim against a set of 48 distinct adjudication rules that determines jurisdiction, coverage and compensability. When all criteria are successfully met the system will issue the claim determination. Today, over 30% of all claims are successfully auto adjudicated.

Managed Care, Medical Treatment and Pricing

Ohio BWC Managed Care Environment – As mentioned earlier, the Legislature directed BWC and stakeholder groups to join together to form the Health Partnership Program in 1993, which led to the system we have today. BWC implemented HPP in March 1997.

Managed Care and Treatment Authorization - The medical management component of a claim is not a parallel process with claim allowance, but a concomitant one which includes the services of the 18 independent MCOs that contract with BWC to provide the medical management and claims support for workers' compensation claims.

BWC makes the claim allowance decision. The MCO is primarily responsible for the medical management and cost-containment services designed to promote the delivery of high quality, cost effective medical care that focuses on minimizing the physical, emotional and financial impact of the injury, and a safe and timely return to work. BWC requires the MCOs to use evidenced based medical guidelines, the Official Disability Guidelines (ODG) as published by the Work Loss Data Institute, in its treatment authorization decisions.[2] The MCO is also responsible for managing treatment authorization disputes through an ADR process.

Collaboration is required, between all parties, to assess, plan, facilitate and advocate for options and services that meet an injured worker's health needs through communication and the use of all available resources to promote quality cost-effective outcomes.

Benefit Plan and Pricing – BWC sets the available benefits that can be provided to injured workers by rule and policy. In addition, it sets the fee schedule pricing through rule-making.

MCOs can, and are encouraged, to negotiate with provider networks for additional pricing discounts. Under law they may not receive any of the provider discounts.

BWC Managed Care Effectiveness[3]

Workers' compensation Medical Fee Schedules are used in 42 of the 50 states. In setting Benefit Plan Pricing, BWC uses industry standard best practices including Medicare based prospective payment models. BWC currently uses an RVS (Relative Value Scale) approach to its fee schedule based on Medicare's RBRVS (Resource-Based Relative Value Scale), a noted leading practice. Jurisdictional comparisons of fee schedules to Medicare demonstrate significant range in the overall ratio of workers' compensation medical fee schedules to Medicare. Generally, the overall threshold ratio identified by NCCI ratio is 140%, with those states below 140% "low", and those states above 140%, "high".

BWC has made changes to existing fee schedules to address low values in reimbursement schedules and access concerns identified by customers and research organizations like the WCRI.

Service Group CPT	BWC Current Percent of Medicare	BWC Proposed Percent of Medicare	NCCI Benchmark	WCRI Benchmark
Anesthesia	239%	227%	Not Available	155%
Surgery	200%	200%	139%-255%	206%
Radiology	148%	142%	114%-259%	182%
Physical Medicine	134%	132%	63%-125%	126%
General Medicine	117%	132%	89%-118%	123%

Around the time of and after the Deloitte Report release date, the following fee schedule implementations were executed by BWC consistent with the above mentioned best practices: Medical Providers and Services - February 19, 2009, Updated November 16, 2009; Hospital Inpatient - February 1, 2009; Hospital Outpatient - January 2011; Ambulatory Surgical Centers - April 1, 2009; Vocational Rehabilitation Services - February 2010.

[2] BWC's Use of ODG is a leading practice in medical utilization review (UR) and its UR requirements are consistent with URAC. (Del. 2.3 at Page 2, 18, 21)

[3] Del. 2.3 and 2.6

Medical payments in annual aggregate fall under the purview of the HPP. Since 2005, related expenses have trended positively, reflecting lower frequency of incoming claims and BWC's implementation of improved cost containment measures related to Pharmacy Benefit Management (PBM), Medical Fee Scheduling, and Diagnostic Related Grouping (DRG) for in-patient hospital stays. [4]

Utilization Review (UR) is a common workers' compensation strategy to ensure that treatment and its duration is appropriate. Ohio BWC is among 11 jurisdictions (OH, AL, DE, DC, IL, ME, NV, NY, TN, TX, WA) that have, to varying degrees, recognized the Utilization Review Accreditation Commission (URAC), a leading independent Utilization Review (UR) accreditation organization.

Further, consistent with Deloitte recommendations, BWC eliminated the duplicative BWC Alternative Dispute Resolution level effective November 2009.

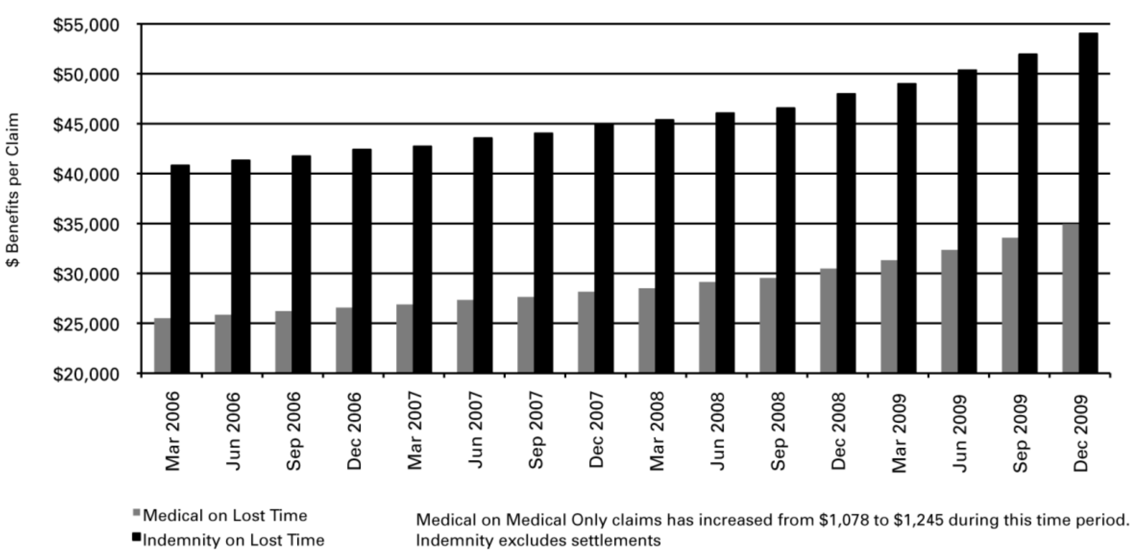
Improving Managed Care in Ohio [5]

Medical Severity Study - There are a variety of factors that converge to cause increasing average claim cost such as treatment authorization, return-to-work and utilization review. BWC is currently analyzing the underlying factors driving the increase.

Treatment Authorization Process Improvements – BWC's "Proactive Allowance" program is designed to accelerate approval of related diagnosis and expanded medical conditions, but still requires physicians of record (POR) to substantiate rationale to MCOs, which then submit to BWC for approval. We are currently working with the MCOs to expedite the process and initiate further efficiencies.

DODM replacement – DODM is the performance tool used to measure each MCO's effectiveness in return to work and its underlying managed care effectiveness. We are in the process of updating this measure to improve its effectiveness under current conditions.

Severity



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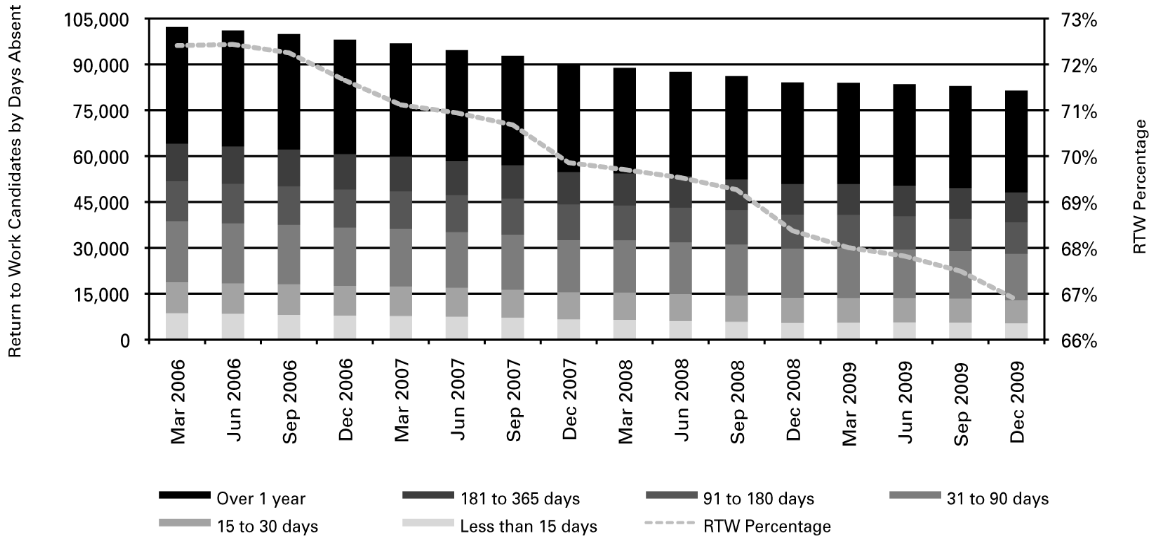
[4] Del 2.6 at Page 18
[5] Del 2.3 and 2.6
[6] Enterprise Report March 2010

Return to Work



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Transparency in Financial Reporting

The monthly Board financial reporting package (see attached Enterprise Report) presents financial results for the current period, projected results, and prior year results. In addition to looking at the raw numbers, ratios are calculated and used to analyze BWC's soundness. These ratios are presented for the current fiscal year to date, projected year to date, prior fiscal year to date, fiscal year-end forecast, and the last five fiscal year ends.

The ratios enable BWC to benchmark against its peers in the workers' compensation industry. BWC's insurance ratios have been calculated using information contained in BWC's audited financial statements prepared in accordance with generally accepted accounting principles (GAAP). Most private insurance carriers and some state insurance funds prepare financial statements on a statutory accounting basis (SAP). Comparisons of BWC's ratios to industry performance will not be a true apples-to-apples comparison. Major differences will be caused by the following:

- BWC discounts all reserves for compensation and compensation adjustment expenses while most insurance carriers either do not discount their reserves or discount on a very limited basis.
- BWC's investments are reported at fair value, with the change in fair value reported as an unrealized gain or loss in the statement of operations. SAP bonds are normally reported at amortized cost in the balance sheet, while stocks are reported at values published by the NAIC, which are generally fair values. Unrealized gain or loss is recognized through a charge to statutory surplus in the balance sheet.
- BWC's exclusive state fund status provides an advantage in that there are no commission, brokerage, or income tax expenses.
- BWC establishes rates at the lowest level possible in order to maintain a solvent State Insurance Fund. This is in contrast to private insurance carriers which must maintain surplus above levels established by state departments of insurance.

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- Unlike private insurance carriers, BWC has a separate assessment for administrative costs. The administrative cost assessment is calculated on a pay-as-you-go basis, while liabilities are recognized as incurred. Consequently, the incurred compensation adjustment expenses are not fully funded.

To develop benchmarks, BWC obtained data from A.M. Best, a widely recognized rating agency dedicated to the insurance industry; from Ward Group, a widely recognized provider of insurance industry benchmarking, best practices and research studies; and from state fund financial statements of California, New York and Washington. BWC utilized the benchmarking data from the state funds and the A.M. Best composite, which consists of groups and companies for which more than 50% of their business is in the workers' compensation line, including six of the largest private workers' compensation carriers. Two of the most important ratios are the "Funding Ratio" and the "Net Leverage Ratio".

Funding Ratio

Definition: Provides an indication of financial strength and security by evaluating a company's funded assets in relation to its funded liabilities.

- The funding ratio for four of the six private companies is between 1.5 and 2.0; and
- Two private carriers maintain funding ratios over 2.0 and state funds maintain ratios from 1.0 to 1.5.
- The BWC Board adopted an initial range of 1.02 to 1.35 for FY10.

Net Leverage Ratio

Definition: Measures a company's exposure to pricing errors and errors in estimating its liabilities in relation to net assets. Premium income and reserves for compensation and compensation adjustment expenses are compared to net assets.

- Four of the six private carriers had a net leverage ratio of 4.0 or less; and
- State funds maintain net leverage ratios between 4 and 8.4.
- The BWC Board adopted a range of 3.0 to 8.0

The Enterprise Report is a comprehensive document that provides transparent details of BWC's financial position. The report is updated and published monthly, reviewed by management and the BWC Board of Directors and posted for the public on Ohiobwc.com following each Board meeting. Public posting guarantees that all stakeholders and interested parties can see where BWC is financially, at any given time. It also shows how we are performing in relation to our long term guidelines and enables the public to assess BWC's performance against long established insurance industry standards.

State Funds have matured since their early formation, and it is understandable that the outside world will judge them against the industry standards and best practices of the day. This awareness has enabled state funds to continue to play an important role in the national workers' compensation landscape.

The Conning Report

Conning Research & Consulting, in its recent study of state funds entitled "Workers' Compensation State Funds, Evolution of a Competitive Force, 2009" reached a number of significant conclusions:

- "Workers' compensation state funds write approximately 25% or $11.3 billion in net premiums written of the entire U.S. workers compensation market of $45 billion"; (page 5)
- "In many states, state funds are now the largest writers of workers' compensation…it is clear that state funds constitute a competitive force in the workers' compensation market"; (page 5)
- "State funds now write 50% or more of the market in 8 states, whereas this number was only 4 in 1997"; (page 8)
- "…the primary mission of state funds is support of their local economies. This includes not only promoting fair access to insurance, but also the maintenance of a safe and productive workforce. Their ability to provide effective loss prevention and control services and link the outcomes directly to insured costs, has helped state funds succeed in their mission."; (page 5)
- "Workers compensation remains a critical exposure to the business enterprise, responsible for nearly one-third of all property casualty cost of risk (insured and self-insured losses)"; (page 7)
- "State fund loss ratios are above those of the industry as a whole" (page 8); more of the dollar goes to paying claims costs;
- "State funds report lower expense ratios…" (page 9)
- "Over the past 10 years, state funds' loss reserves have been relatively more stable than the industry as a whole, especially during the hard market years 2001-2004."; (page 9)
- "Investment income for state funds has been strong. This may be due to what appears to be stronger reserve positions (as reflected in higher reserve-to-surplus ratios). Reserves for our sample of state funds also have shown more stability over the underwriting cycle." (page 9)
- "So while combined ratios for state funds are higher than the industry composite, superior investment income means that bottom-line results that are on a par with the industry as a whole." (page 9)

Our results to date are impressive. Ohio's base rates are the lowest they've been in years, our financial portfolio is strong and injured workers are receiving the professional medical care they need to return to the workplace. The agency is operating like a true, sound insurance business.