

BWC Testimony

House Bill 100

Acting Administrator/CEO Tina Kielmeyer

Wednesday, March 14, 2007

Chairperson Batchelder and members of the Insurance Committee, my name is Tina Kielmeyer, and I am the Acting Administrator and CEO for the Ohio Bureau of Workers' Compensation (BWC). I am here today to provide brief remarks on BWC's operational improvements as well as the proposed legislative changes associated with this bill.

Before I discuss those details, however, I think it's important to briefly comment on the challenges BWC has endured during the past two years. Without question, BWC failed to live up to the responsibilities of a government agency that's concerned about the social and economic standing of its customers. Mishandled, misguided investments, skyrocketing medical costs, and premium inequities have damaged our credibility and eroded trust in our relationships with Ohio's employers and injured workers.

In the last 18 months BWC has made numerous improvements, but we also realize that the road to recovery is long and many challenges still lie ahead. Let me take a moment to discuss these changes and provide some basic information on BWC's operations.

BWC is accountable to two primary customer groups – the workers and employers of Ohio. Our goal is to provide high quality workers' compensation and benefits to Ohio's injured workers while keeping premiums at the lowest possible rate for Ohio's businesses. Today, more than 280,000 businesses pay approximately \$2.1 billion in premiums and assessments. In exchange these employers receive workers' compensation insurance and a variety of value-added benefits aimed at keeping Ohio's workplaces safe.

Our success is determined by measuring three primary goals. First, we're fully focused on educating Ohio employers and their workers on preventing workplace injuries. The Division of Safety and Hygiene presented over 425 seminars last year on all aspects of workplace safety, and overall, BWC educated more than 20,000 Ohioans on various aspects of workplace safety. In addition, BWC employer and safety consultants visited

33,483 worksites last year to conduct risk assessments and to help keep Ohio's working men and women safe and healthy.

BWC's second measurement is its overall effectiveness in restoring health to Ohio's communities by responsibly and efficiently managing all workers' compensation claims. Of the 167,000 new claims received last year, nearly 87 percent return to work within seven days of their injury, and more than 155,000 of those workers were back at work within two months. This demonstrates BWC's effectiveness in helping injured Ohioans return to work quickly and safely while improving overall production within the state's business community.

Of additional importance is the overall financial health of BWC and our commitment to providing value and stabilizing costs for Ohio's small businesses. At the end of fiscal year 2005, BWC incurred expenses of \$1.21 for every dollar it earned through premiums or investment performance. By January 31, 2007, that number decreased to \$0.72 per dollar. These savings were driven by significant improvements in BWC's initial efforts to generate adequate and equitable premiums as well as a keen focus on controlling medical costs. Today, the agency remains fully-funded, and the State Insurance Fund maintains a surplus of \$1.9 billion.

Related to our financial health is BWC's investment strategy. In 2006, the agency sought to align its investment allocation with that of other workers' compensation insurers by reducing its overall exposure to equities and focusing on the safer, less volatile, fixed-income markets. BWC spent several months transitioning out of active management into a passive, fixed-income fund; however, this exhaustive process reduced management fees by 86 percent, which saved nearly \$36 million. Also, fixed-income investments generated \$253 million more in interest income during calendar year 2006 relative to the prior calendar year, helping to improve BWC's cash flow.

To protect our assets and our customers, a great deal of effort also went into strengthening internal controls and giving BWC's internal audit department unfettered

access to all areas of the agency. In 2006, we hired a Chief Internal Auditor and spent more than 32,000 man hours conducting and completing 37 audits. These reports are shared publicly with the Audit Committee of the Workers' Compensation Oversight Commission and posted on BWC's Web site each quarter.

Again, we recognize that BWC still has many improvements to make on the road to recovery. And we believe the legislative proposals in this budget will help us get there.

Now, let me take a moment to briefly discuss four additional requests in the proposed budget. As you know, OBM director Pari Sabety testified yesterday on the overall budget request, creating a new governance structure, establishing a Deputy Inspector General, and allowing for future assessments to be levied in the Disabled Workers' Relief Fund. Today, I will be discussing four additional technical requests that will help to establish greater equity in BWC's premium collection policies. As such, I would respectfully request our discussion today remain specific to these four items and BWC's operations in general.

The first change would allow the agency to lapse employers that fail to pay non-premium debts that exceed \$1,000. Employers can accrue non-premium related debts by violating specific safety requirements and not paying associated fines. BWC is currently required to maintain an active policy for employers with such debts. By avoiding their responsibilities to these debts, some employers are not paying their fair share and consequently gaining a competitive advantage on other businesses. This change will incentivize employers to pay all debts related to their policy and ensure greater equity within the system.

Similarly, BWC is requesting the authority to lapse policies for public employers that do not pay their workers' compensation premiums. Currently, public employers are exempt from paying premiums on time, resulting in \$3 million in overdue premiums from 157 public employers as of January 31, 2007. This debt causes undue burden on other public and private employers because the cost of this debt is absorbed by those who *do* pay their

premiums. BWC believes this is a necessary change to incentivize public employers to pay premiums on time and to provide equity between all employers paying into the State Insurance Fund.

A third proposed change deals with BWC's inability to reject incomplete policy applications submitted by businesses. Currently, an employer needs to only provide basic information in order to activate a policy; however, this can hinder BWC's ability to collect premiums or perform other routine business with these companies because basic demographic information is often missing. Enacting this legislative change would allow BWC the authority to draft rules, subject to JCARR approval, which specifically mandate minimum elements that must be completed before a policy is issued.

Lastly, BWC is requesting consideration of a legislative change that would clarify the agency's authority to charge an employer's experience for claim payments. A recent adverse court ruling reversed what is considered a standard insurance industry practice. As a result, BWC is prevented from charging claims costs to an employer's experience should it chooses to appeal that decision and until such time that all appeals are exhausted.

By law, BWC is still required to pay costs associated with that claim during the appeal process. Claims can sometimes last several years, which causes the cost of this claim to be unfairly amortized and forces all other State Insurance Fund employers to pay inflated premium costs.

Allowing BWC to charge an employer's experience after adjudication and during the appeal process will constitute a return to an industry standard. If the employer wins the appeal, that employer's experience will be credited for all costs associated with that claim. This change will make the process more actuarially sound, more aligned with an industry standard, and more equitable for all employers paying into the State insurance Fund.

In closing, I would again submit that while BWC has much work to do in restoring trust and transparency within the operation, it is taking steps to satisfy its customers. I believe our budget, along with the associated legislative proposals relating to equity and fairness, is an appropriate next-step in this effort. I am confident that with your support, and the changes yet to come, we can make BWC a national leader in workers' compensation.