

Dollars & Sense

A comprehensive update on BWC finances as of June 30, 2007



Top news >>>

FY 2007 concludes successfully

As fiscal year 2007 comes to a close, the Ohio Bureau of Workers' Compensation (BWC) has established a solid foundation to continue building a system that is fair for its customers.

Some of the improvements include:

- a decline in overall medical costs of nearly six percent, including reductions in hospital, pharmacy and physician costs;
- a decrease in temporary total costs of more than four percent;
- a marginal decrease in other indemnity payment types, including death, percent permanent partial, and living maintenance benefits;
- an increase of less than one percent for permanent total disability benefits;
- an increase of nearly 33 percent in the number of settlements consummated;
- an overall return on investment of 6.8 percent for the State Insurance Fund (SIF) through March 31, 2007; and,
- a significant reduction in management costs for BWC's investment portfolio.

All of these trends played a critical role in enabling BWC to keep average base rates the same for private sector employers in the upcoming fiscal year.

Through June 30, BWC maintains combined net assets in excess of \$361 million for its seven funds, which is a gain of nearly one-half billion dollars relative to the overall deficit at the beginning of the fiscal year.

Total assets
As of June 30, 2007
\$20.6 billion

Total liabilities
As of June 30, 2007*
\$20.2 billion*

Net assets
As of June 30, 2007
\$361 million

*Total liabilities are unavailable and based on information-to-date



Trade combined ratio >>>

As of June 30, 2007

82.5%

The trade combined ratio is an indicator of the potential profitability of BWC's business. The trade combined ratio includes the impact of BWC's operating and investment revenues, and all related expenses.

Currently, BWC incurs expenses of approximately \$.83 for every \$1 it earns or collects.



Stabilizing Financials

Net assets

For the year, BWC finished with combined net assets of \$361 million after posting an overall operating loss of \$424 million. However, the SIF, which is the primary fund for employers, maintains net assets of approximately \$1.85 billion.

Fiscal year fund balances (in millions)

Fund	Balance
State Insurance Fund	\$1,849
Disabled Workers Relief Fund	(\$979)
Coal Workers Pneumoconiosis Fund	\$172
Public Work Relief Employees	\$17
Marine Industry Fund	\$14
Self-Insuring Employers Guaranty	\$6
Administrative Cost Fund	(\$718)

Source: BWC financial statements
Data are approximate



Improving Investments

Investments

For fiscal year 2007, BWC has generated approximately \$912 million in investment income. This represents an increase of approximately \$148 million relative to the previous fiscal year.

Overall, the SIF composite had a return of 5.3 percent for the past twelve months ending March 31, 2007, which equals the policy index. However, the overall return increased to 6.8 percent for July 1, 2005 through March 31, 2007, which is significantly higher than the policy index return of 2.4 percent. More than 78 percent of the portfolio is in fixed-income securities, with 17 percent in equities and 3 percent in private equity and alternative investments.

Additionally, BWC reported in May an annualized internal rate of return of 5.6 percent for its private equity portfolio for the year ending December 31, 2006. The agency is continuing its strategy to dispose of this asset class.



Controlling Costs

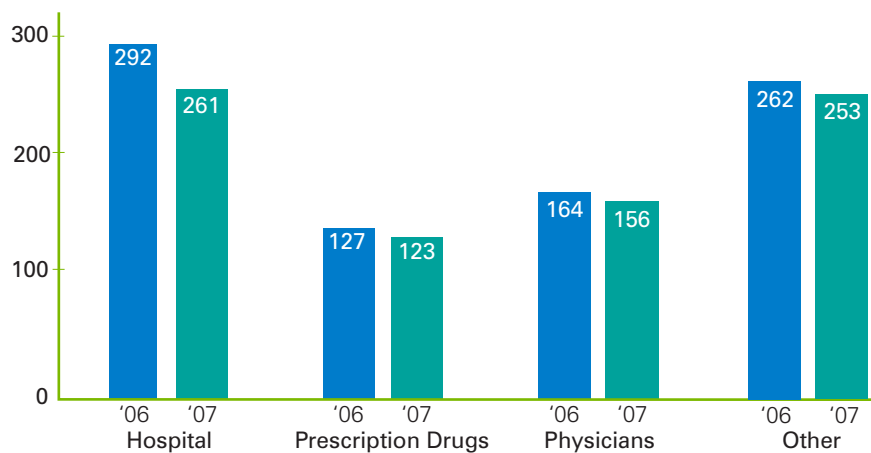
Medical costs

For the year, BWC reduced medical costs by approximately \$52 million. Hospital reductions had the greatest impact, though those improvements were augmented by decreases in virtually all other types of provider costs.

These savings are greater when factoring in the impacts of medical inflation. Had BWC's medical costs increased at a rate consistent with medical inflation, total payouts would have approached \$879 million, or \$84 million more than what's actually been paid.

Medical Payment Trends

(in millions)



Source: BWC Data Warehouse
Data are approximate

Of BWC's medical payments, approximately 76 percent are for workers who were injured prior to July 1, 2006. Additionally, approximately 28 percent of these expenses were for claims that were initially allowed prior to 2000; this represents a higher percentage of expenditures than medical claims costs incurred during the current fiscal year (24 percent).

Indemnity costs

Overall, BWC's indemnity costs increased six percent compared to the prior fiscal year. The biggest driver in 2007 was settlement costs, which increased 47 percent to approximately \$245 million. The total number of settlements also increased nearly 33 percent to 24,418. These activities should generate significant long-term savings by mitigating future payouts on claims.

Also, temporary total disability benefits declined by nearly four percent, likely as a result of more effective claims management. Additionally, benefit types such as death, permanent partial, and living maintenance declined slightly while permanent total disability benefits increased marginally.



Statement of Operations

➤➤ Fiscal year to date June 30, 2007

<i>(in millions)</i>	Actual	Projected	Variance	Prior Yr. Actual	Increase (Decrease)
Total Operating Revenues	\$ 2,348	\$ 2,493	\$ (145)	\$ 2,110	\$ 238
Total Operating Expenses	<u>2,772</u>	<u>3,057</u>	<u>285</u>	<u>2,011</u>	<u>761</u>
Net Operating Gain (Loss)	(424)	(564)	140	99	(523)
Net Investment Income	<u>912</u>	<u>428</u>	<u>484</u>	<u>764</u>	<u>148</u>
Increase (Decrease) in Net Assets	488	(136)	624	863	(375)
Net Assets Beginning of Period	<u>(127)</u>	<u>(127)</u>	<u>—</u>	<u>(990)</u>	<u>863</u>
Net Assets End of Period	\$ 361	\$ (263)	\$ 624	\$ (127)	\$ 488

This table reflects BWC's financial performance, including the amount of money we're earning (revenues), the amount of costs we are incurring (expenses), and our surplus position (net assets).

Actual – The amounts of revenue earned and expenses incurred for the given period

Projected – The estimated amount expected for the given period

Variance – The difference between the actual and projected amounts

Prior Year Actual – The amount of revenues earned and the expenses incurred for the given period

Increase (Decrease) – The difference between current year actual and prior year actual



Calendar ➤➤ of events

Workers Comp University

Sept. 6 — Chillicothe

Sept. 11 — Akron

Sept. 13 — Cleveland

Sept. 18 — Columbus

Sept. 20 — Cincinnati

Sept. 26 — Toledo

Oct. 3 — Dayton