BWC Board of Directors

Friday, September 26, 2008, 8:00 a.m.
William Green Building
Neil Schultz Conference Center
30 West Spring Street, 2nd Floor (Mezzanine)
Columbus, Ohio 43215

Members Present: William Lhota, Chairman
Charles Bryan,
David Caldwell
Alison Falls,
Kenneth Haffey
James Harris
James Hummel
Thomas Pitts
Larry Price
Robert Smith

Members Absent: Jim Matesich

CALL TO ORDER

Mr. Lhota called the meeting to order at 8 a.m.

ROLL CALL

Roll call was taken by the scribe. All members were present except for Mr. Matesich.

AUGUST 28, 2008, AUGUST 29, 2008 MEETING MINUTES

Motion was made by James Harris, seconded by Charles Bryan, to approve the minutes, with changes as follows: on page two of the August 28 minutes in the reconvening section, to read: "following a roll call vote, all members were present including Mr. Caldwell." With regard to the August 29 minutes, to read: upon motion by Mr. Price, seconded by Caldwell, the resolution regarding Mr. Philip Fulton was approved 11-0. Further, with regard to motions and amendments concerning Rule 4123-6-08 the minutes should read: "following discussion, all movers and seconders agreed to withdraw all motions and amendments." Roll call was taken and the motion to approve the minutes passed 10-0.

The meeting agenda was reviewed. It was determined that there was no need for executive session. The Directors agreed that the chairman would be permitted to recess the meeting as needed.

COMMITTEE REPORTS:

ACTUARIAL COMMITTEE
Charles Bryan presented three motions from the Actuarial Committee. The first addressed the statutory requirement that the Board submit an actuarial study to the legislature on proposed legislation that would have a "measurable financial impact on the workers' compensation system". At the time BWC is notified of pending legislation, the BWC will convene a committee consisting of the Chief Operation Officer, the Legislative Liaison, the WCC liaison, Legal Counsel and the Chief Actuarial Office to consider the level of analysis and the appropriate response. If this committee determines that a detailed actuarial analysis is necessary, they will engage the consulting actuaries.

Motion was made by Mr. Bryan, seconded by Mr. Hummel as follows: that the Workers' Compensation Board of Directors should adopt the recommendation of the Actuarial Committee for Actuarial Analysis of legislation as outlined in the memorandum of the Bureau's Chief Actuarial Officer dated September 15, 2008. Roll call was taken and the motion passed 10-0.

There was a second reading of the reserve analysis by Oliver Wyman, with consideration of assumptions and methods on an ongoing basis.

Motion was made by Mr. Bryan, seconded by Mr. Hummel, as follows: that the Workers' Compensation Board of Directors should adopt and approve the release of the actuarial reserve audit to the Workers' Compensation Council and the standing committees of the House of Representatives and the Senate with primary responsibility for Workers' Compensation legislation. Roll call was taken and the motion passed 10-0.

Motion was made by Mr. Bryan, and seconded by Mr. Hummel as follows: that the Workers' Compensation Board of Directors should adopt the recommendation of the Actuarial Committee to approve the Bureau's proposed adjudicating committee policy. Roll call was taken and the motion passed 10-0.

There was a first reading of the public employer rates. A report was made by John Pedrick, Chief Actuarial Officer, concerning staffing. Progress with regard to group rating procedures was also discussed.

AUDIT COMMITTEE
Kenneth Haffey presented the Audit Committee report. The committee discussed audit matters in executive session with external auditor Joe Patrick of Schneider Downs. The audit report will be filed with the State Auditor on September 30, 2008. Comments concerning the executive quarterly summary are being cleared. There was a first reading of an inpatient hospital fee schedule by Bob Coury, Chief of Medical Services and Compliance. There was a second reading of rules pertaining to fire fighting. Motion was made by Mr. Haffey, seconded by Mr. Pitts, as follows: that the Bureau of Workers' Compensation Board of Directors should approve the Administrator's recommendations on the five year rule review of seven fire fighting safety rules of chapter 4123:1-21 of the Administrative Code. The motion consents to the Administrator amending the seven fire fighting rules of Chapter 4123:1-21 as presented at the Audit Committee. Roll call was taken and the motion passed 10-0.

Due to a client relationship Mr. Haffey recused himself, and left the board table during a discussion of provider fee schedules. The discussion was led by Mr. Smith. Mr. Haffey did not participate. Mr. Lhota noted that based upon research, it has been determined that with nine directors present, five votes would be needed to approve motions. Motion was made by Mr. Smith, seconded by Mr. Bryan, as follows: that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendation to amend rule 4123-6-08 of the Administrative code, "Bureau Fee Schedule," to adopt the provider fee schedule effective January 1, 2009. The motion consents to the Administrator amending rule 4123-6-08 and enacting appendix A to the rule as presented at the Audit Committee. Motion was made by Mr. Harris, seconded by Mr. Caldwell, to amend the motion as follows: to strike the language "Administrator's recommendation" and instead adopt the "other approach" noted in BWC's recommendations. Roll call was taken on the motion, as amended and passed 9-0.

Marsha Ryan, Bureau Administrator, indicated there was a discussion of approaches for changes in fee schedules. There is more information to be developed, taking into consideration board concern over decreasing fees. The Bureau shall continue to examine performance measures and fee schedules. Larry Price commended Ms. Ryan and the Bureau staff for the excellent materials prepared with respect to conversion factors. Mr. Price was impressed with the fair compromise he believed the materials to represent. Mr. Harris commended the Bureau staff, emphasizing his appreciation for Ms. Ryan's explanation and comments. Mr. Lhota noted that he would have supported the original recommendation, but is now prepared to vote for the motion as amended. Mr. Smith supported the amendment, but would like to see benchmarking. Mr. Pitts stated this sends providers the message that Bureau intends to provide them fair compensation. Roll call was taken on the motion as amended and passed 9-0.

After the vote, Mr. Haffey returned to the board table.

INVESTMENT COMMITTEE

Mr. Smith presented the Investment Committee report. Mr. Smith noted that there was a full discussion of a number of issues that would be reflected in the Investment Committee minutes. Mercer Consulting discussed the practice of setting investment objectives, as well as the importance of diversification and active versus passive management. The BWC portfolio is down 3.7% for the month to date; however, this is good under the current market conditions, and compares favorably with the state pension funds. There have been some realized and unrealized losses with BWC's passive management approach to investment in stocks and bonds.

GOVERNANCE COMMITTEE

Ms. Falls presented the Governance Committee report. Discussion was made of Administrator Ryan's objectives for 2008 and 2009. Discussion was made of the governor's flexible performance agreement and board objectives, including measurable goals and objectives. The Board supports Administrator Ryan in whatever way we can to help her achieve the performance goals. The key principles are restoration of operational excellence. The committee concurs with the 2009 performance objectives. Motion was made by Ms. Falls, seconded by Mr. Price, as follows: that the Workers' Compensation Board of Directors adopt the recommendation of the Governance Committee and approve the new objectives for the Administrator for the evaluation period 2008-2009. Roll call was taken and the motion passed 10-0. Discussion of the calendar was made, as the Board is moving towards the annual review of Committee charters and the Governance Guidelines.

MONTHLY FINANCIAL REPORT:

The enterprise report was presented by Tracy Valentino, Chief of Fiscal and Planning. Ms. Valentino noted in the top half of page three of the Enterprise report, explaining changes to beginning numbers, and the impact of these adjustments. The official audit report release by the Auditor of State should be during November 2008.

Ms. Valentino and Mr. Bryan discussed operating expense adjustments. There was further discussion of all financial statements included in the enterprise reporting package. Ms. Falls inquired as to what money market fund cash is invested in. Ms. Valentino indicated JP Morgan. Mr. Haffey commended Ms. Valentino on the enhanced reporting and highlighting of the most important information contained within the enterprise reporting.

NET ASSET POLICY:

A power point presentation on this topic is incorporated by reference into the minutes. Ms. Ryan introduced Ray Mazzotta, Chief Operating Officer, and John Pedrick, Chief Actuarial Officer, as the presenters on developing a net asset policy. The presentation included information from last month's report from Deloitte, especially the information concerning a funding ratio. It was noted that examples in the presentation were intended to be merely examples, and not representative of actual data, with no particular policy implication. There is no assumption that there is only one answer. The presentation focused on connecting concepts, financial metrics, and the consequences and implications of decisions. Financial soundness and operational soundness was emphasized. Mr. Pedrick discussed leverage ratios, noting small changes in liabilities can lead to large changes in net assets. Ms. Falls inquired about different measures of leverage. Mr. Mazzotta and Mr. Pedrick discussed the different measures at length. Mr. Bryan inquired as to whether or not the Bureau has ever been in a negative net asset position. The answer is yes, according to Mr. Pedrick. In order to eliminate an actuarial deficit, there must be a loading of rates as a deficit reduction factor. Mr. Pitts inquired as to whether external factors were considered. Mr. Pedrick and Mr. Mazzotta noted yes. Discussion was made of the variables involved in the analysis which are unique to the Bureau. Mr. Price inquired as to whether the Bureau was taking on greater risk than its peers. Mr. Mazzotta indicated yes. Mr. Price inquired as to whether the risk levels for investment were taken into consideration with respect to premium stability. Mr. Smith replied that the ongoing evaluation of investment policy considers premium stability. Mr. Pitts emphasized the importance of greater stability in rate making. Mr. Pedrick indicated that this analysis is designed to achieve greater stability in rate making. Ms. Falls and Mr. Pedrick discussed correlating assets and liabilities.

There was discussion of slippage and judicial rulings as it pertained to the net asset analysis. There was further discussion of events that could have a negative impact on the balance sheet. Mr. Pedrick discussed the possibility of catastrophic events and its potential impact on liabilities and reserves. There was continued discussion of Deloitte recommendations with regard to the funding ratio. Ms. Falls inquired as to what confidence factor was utilized for risk model results. Mr. Pedrick stated that a specific confidence factor was not used. Examples utilized a confidence factor range from between ninety five percent and ninety seven and one half percent. Mr. Smith noted that 1.25 funding ratio was good ratio risk assessment. Ms. Falls emphasized the importance of a high level of confidence in assets in order to pay future claims. A robust discussion of risk modeling continued. Mr. Mazzotta noted that the biggest driver of reduced costs is fewer claims. Safety programs can drive down rates. Ms. Falls would like to see a comparative analysis between the Bureau, the Washington State Fund, and a couple of property & casualty insurers. Discussion was made of the Bureau funding ratio history from 2000 to 2008. Mr. Smith confirmed that this information has been shared with Mercer Consulting. Mr. Pedrick indicated that targeting analysis in the middle area achieves balance in the analysis. Ms. Falls noted that modeling is a tool; the focus needs to be on policy issues. Modeling is needed for an entire set of assumptions and a timeframe. It is important to focus on key assumptions and the timeframe and less on managing the results of the model.

Mr. Lhota recessed the meeting at 9:50 am. The meeting was reconvened at 10:05 am.

ADMINISTRATOR BRIEFING:
Ms. Ryan briefly discussed the windstorm from last week. Some bureau offices experienced temporary power outages and closures but minimum damage. The Bureau internal response, led by Tina Kielmeyer, Chief of Customer Services, to the storm was excellent. Ms. Ryan discussed the success of Workers Compensation University, and thanked Mr. Pitts and Mr. Hummel for their participation and attendance at Workers' Compensation University. Total attendance at the 6 events was five thousand one hundred. The number of sites this year represented a reduced number of locations, and there were increased online course offerings.

Ms. Ryan discussed the regulatory reform forums. The legislative staff had arranged for a meeting with Clark Price of the Ohio Society of CPA's. It was an excellent meeting. There were relatively few comments on workers' compensation during the forums, with the few concerns raised arising out of matters from some time ago. The Ombuds attended the meeting as well. Briefs were filed in the *San Allen* case September 19, 2008, in the Cuyahoga Court of Common Pleas. Personnel changes were briefly discussed: Tom Woodruff is serving as the Interim Director of the Self Insured Department, and the Bureau's new Medical Director, Dr. Robert Balchick, was in attendance at the meeting. Mr. Price requested discussion of the self insured forum. Mr. Price noted that it provided opportunities to address complaints within the system, as well as an opportunity to follow up on concerns raised at the forum with respect to claims and the employer services division of the BWC.

Ms. Ryan highlighted achievements of the Special Investigations Unit. Based upon an allegation of signature forgery, the unit investigated a third party administrator, Burk & Associates with respect to the allegation. The results of the investigation were turned over to the Attorney General's office, where an officer of the firm entered a guilty plea to charges. The unit's pursuit of this form of fraud lends credibility and fairness to the Bureau's process for pursuing all forms of fraud against the system. Ms. Ryan mentioned another case whereby the unit successfully obtained a $100,000.00 repayment for a provider inappropriately billing the Bureau. The Special Investigations Unit handles a broad spectrum of fraud matters. Mr. Haffey inquired as to the staffing of the unit. Ms. Ryan noted that it has been stable and is a hard working group. Mr. Harris commended Ms. Ryan's report. Mr. Pitts inquired about the new compliance unit. Ms. Ryan noted that its' focus is on the forensic evaluation of compliance prior to actions reaching the level of fraud having been committed. Mr. Pitts noted that the self insured forum was extremely valuable, and appreciate participant comments. Mr. Lhota noted that all forums were available on DVD.

ADJOURNMENT

Upon motion by Mr. Smith, seconded by Mr. Caldwell, the Board adjourned at 10:25 am. Roll call was taken, and the motion passed 10-0.

Prepared by: Thomas Woodruff, Staff Counsel

BWC Legislative Report
Gregg Paul and Laura Abu-Absi

Legislative Report
BWC Board of Directors
October 2008

<u>Senate and House Session Schedule:</u>
November 12, 13, 18, 19
November 20 (if needed)
December 2, 3, 9, 10, 16, 17
December 4 (Committee Hearings)
December 11, 18 (if needed)

<u>Pending Legislation in the 127th General Assembly—Active bills</u>

SB 332 (Senator Roberts-D-Trotwood)—Charter/Community Schools-BWC premium arrearage

- To prohibit community school sponsors from renewing contracts with charters that owe money to BWC. Sponsors must confirm no arrearage exist prior to renewal of contract. Sponsors must request balance from BWC and schools found to have arrearages of more than one year would be suspended.

HB 461 (Rep. Batchelder-R-Medina)/ SB287 (Senator Stivers-R-Columbus)—Expand 15K Medical Only Program

- Creates a deductible program for the first $15,000 of every claim. The intent is to eliminate the first $15,000 of any injury from an employer's experience rating.
    - The sponsors cite stats used in our group rating materials in terms of premium increases and their negative impact on employers to demonstrate need for the program.
- Would have all $15K program claims managed by the MCO's and would enable employers to use BWC's fee schedule.
    - In the current $15K medical-only program, employers completely bypass the BWC system, working directly with medical providers
    - This would be an increased administrative burden on BWC
    - The sponsors cite the fact that currently, claims in the $15K medical-only program are the only state fund claims in any BWC program that cannot have their claims managed by the MCOs.

HB 431 (Rep. Patton-R-Strongsville) Presumes emergency workers incur disease while on duty

- Provides that a firefighter or EMS who is disabled as a result of cancer or certain contagious or infectious diseases is presumed for purposes of laws governing workers' compensation and the Ohio Police and Fire Pension Fund to have incurred the disease while performing official duties.

HB 456 (Raussen-R-Springdale) Healthcare Reform – Ohio C.A.R.E.

- The bill creates two BWC discount programs as an incentive to employers to implement wellness measures for their employees:
    - Up to a 15% discount, for up to three years, for qualifying employers who offer a qualifying health insurance plan to employees that previously did not offer such a plan.
    - Up to a 5% discount, for up to three years, for qualifying employers who offer a health and wellness program for their employers.
    - Employers eligible for both programs may receive up to a 20% premium discount on top of any other BWC premium discounts they are already receiving.
- The bill creates the Office of Pharmaceutical Purchasing Coordination (OPPC) within the Department of Administrative Services (DAS.)

- All BWC pharmaceutical purchases would be made through this office unless written documentation were provided to DAS demonstrating that BWC was able to obtain prescriptions at the cost by which OPPC would obtain them.

Joint Legislative Regulatory Reform Task Force
Sen. Keith Faber (R-Celina)-Chairman
Rep. Jim Zehringer (R-Fort Recovery)-Vice Chairman.
Sen. Tom Niehaus (R-New Richmond)
Sen. Capri Cafaro (D-Hubbard)
Rep. Steve Reinhard (R-Bucyrus)
Rep. Jay Goyal (D-Mansfield).

The task force is to travel the state in the coming months and gather input on how to improve the interaction between government, business, and the regulatory climate in Ohio.

Previous hearings:

August 13, 2008—1st Hearing--Columbus
September 4, 2008—2nd Hearing—West Chester—AK Steel headquarters
September 16, 2008— 3rd Hearing--London—Farm Science Review
October 2, 2008—4th Hearing—Mansfield—Gorman-Rupp Company
October 8, 2008—5th Hearing—Brecksville—Brecksville Human Services Center
October 8, 2008—6th Hearing—Warren—Trumbull Campus of Kent State University
October 14, 2008—7th Hearing—Lima—Ford Training Center, Lima Engine Plant
October 15, 2008—8th Hearing—Rio Grande—University of Rio Grande

Upcoming hearing:

October 23, 2008—Final Hearing--Statehouse

Workers' Compensation Council—Rep. Bill Batchelder—Chair

Scheduled meeting:

October 29, 2008—Room 313—Statehouse—Deloitte to present comprehensive review Phase 1 and 2.

Enacted legislation currently under rule development:

SB 334 (Sen. Faber-R-Celina)--Interstate Jurisdiction
Summary: Prohibits injured workers from double-recovery on claims in multiple jurisdictions for same injury (Ohio and another state.) To provide interstate workers' compensation for Ohio employers. To provide for the segregation of payrolls. Provides BWC Administrator the discretionary and contingency authority to make charges to the surplus fund. Prohibits Workers' Compensation Council from reviewing this legislation.

- Legislation effective 9/11/2008
- Rule-making process currently underway with BWC staff and stakeholders

HB 397/SB 290 (Rep. Szollosi-D-Oregon, Senator Wagoner-R-Ottawa Hills) Eliminates concurrent jurisdiction.
Summary: Exempts workers covered under federal Longshore and Harbor Workers' Compensation Act (FLHWCA) from state coverage unless it is elected by the employer.

- All provisions of HB 397 added to HB 562 Budget Corrections Omnibus Amendment
- Provisions of new law effective 9/24/08
- Rule-making process currently underway with BWC staff and stakeholder

Enterprise Report

October 2008

OCSEA 2535 PRINTING Printed within BWC

Ohio Bureau of Workers' Compensation

Enterprise Report

BWC's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The statements are prepared using the accrual basis of accounting and the economic resources measurement focus.

Statement of Operations
This statement reports operating revenues and expenses, as well as net investment revenues for the current fiscal year to date, projected, and prior fiscal year to date. A combining schedule for the statement of operations presents the current fiscal year to date revenue and expenses by fund. *Pages 5 and 6.*

Statement of Investment Income
This statement provides information on the sources of investment income, changes in investment fair value, and investment expenses. Information is presented for the current fiscal year to date, projected, and prior fiscal year to date. *Page 7.*

Administrative Cost Fund Budget Summary
This statement reports actual fiscal year to date administrative expenses and budget compared to the budget for the fiscal year and prior fiscal year to date expenses for BWC. The fiscal year budget is also compared to the agency appropriation. *Pages 8 and 9.*

State Insurance Fund Administrative Expense Summary
This statement reports administrative expenses that are permitted to be paid from the State Insurance Fund for the current and prior fiscal year to date along with the remaining open encumbrances for each of the contracts. *Page 10.*

Statement of Cash Flows
This statement presents cash flows from operating, capital and related financing activities, and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash and cash equivalents *Page 11.*

Statement of Net Assets
This statement presents information reflecting BWC's assets, liabilities, and net assets. Net assets represent the amount of total assets less liabilities. This statement would be referred to as a balance sheet in the private sector. A combining schedule presents this information by fund. *Pages 12 and 13.*

Financial Performance Metrics
Financial ratios reflecting BWC's performance are presented here. These financial ratios are insurance industry recognized financial metrics. *Page 14.*

Operational Performance Metrics
Measures reflecting BWC's operational performance are presented here. *Pages 15 through 17.*

Performance Metrics Glossary
Glossary provides definitions and information on calculations for each performance metric. *Page 18.*

September Financial Analysis

BWC's net assets decreased by $923 million in September 2008 resulting in net assets of $1.6 billion at September 30, 2008 compared to $2.5 billion at August 31, 2008.

($ in millions)	**Fiscal YTD** Aug. 31, 2008	**Month Ended** Sept. 30, 2008	**Fiscal YTD** Sept. 30, 2008
Operating Revenues	$364.7	$181.5	$546.2
Operating Expenses	483.5	240.0	723.5
Operating Transfer Out to ODNR	(1.7)	–	(1.7)
Net Operating Gain (Loss)	(120.5)	(58.5)	(179.0)
Net Investment Income	120.1	(864.4)	(744.3)
Increase (Decrease) in Net Assets	(0.4)	(922.9)	(923.3)
Net Assets End of Period	$2,502.8	$1,579.9	$1,580.0

- Net premium and assessment income of $174 million, net of $1 million in provision for uncollectibles, along with other income of $8 million resulted in operating revenues of $181 million in September. Other income is primarily penalties billed to private employers for the late filing and payment of premiums that were due on August 31.
- Premium and assessment income in September included reductions of $16 million from safety council participation credits granted to over 6,000 employers. Eligible employers participating in BWC's Safety Council Program earned a 2% premium discount.
- Benefits and compensation adjustment expenses of $232 million along with other expenses of $8 million resulted in operating expenses of $240 million in September 2008.
- The $947 million decrease in portfolio market value in September exceeded interest and dividend income of $83 million for the month, resulting in a net investment loss of $864 million for the month after investment expenses.
- Premium and assessment collections were $155 million in September or approximately $52 million more than projected. This favorable variance is timing related as the last day (Aug. 31) for private employers to timely make premium payments fell on a holiday weekend.
- Claim payments issued in September were $164 million, including $20 million in claim settlements.

Fiscal Year–to–Year Comparisons

BWC's total net assets have decreased by $923 million for fiscal year–to–date 2009 resulting in net assets of $1.6 billion compared to $2.7 billion at September 30, 2007.

($ in millions)	**Fiscal YTD** Sept. 30, 2008	**Projected FYTD** Sept. 30, 2008	**Fiscal YTD** Sept. 30, 2007
Operating Revenues	$546	$549	$615
Operating Expenses	723	799	846
Operating Transfer Out to ODNR	(2)	(2)	–
Net Operating Gain (Loss)	(179)	(252)	(231)
Net Investment Income	(744)	262	595
Increase (Decrease) in Net Assets	(923)	10	364
Net Assets End of Period	$1,580	$2,513	$2,669

- o BWC's operating revenues for fiscal year-to-date 2009 were $546 million, a decrease of $69 million compared to fiscal year-to-date 2008. This is primarily due to lower accruals for unbilled premiums receivable because of lower than expected losses for state agency and self-insured employer groups and the Disabled Workers' Relief Fund. Changes in the safety council discount program resulted in premium reductions that were almost $13 million less than the prior fiscal year. This year employers were eligible to earn a 2% premium discount for participation and a 2% performance bonus for reducing either frequency or severity of claims by 10% or more below the previous year, or maintaining both frequency and severity at the previous year's level. The participation discounts were posted in September and the performance bonuses are expected to be posted in December. Last fiscal year, employers were eligible to earn a 4% premium discount for participation in the safety council discount program.

- o Premium and assessment income is 3% or $17 million less than projected.

- o Benefit and compensation adjustment expenses have decreased by $121 million in fiscal year 2009 due to a decrease in the change in reserves for compensation and compensation adjustment expenses.

- o Claim payments have increased by almost $1 million for fiscal year–to–date 2009 compared to the same period in fiscal year 2008. The increase is primarily due to increases of $7 million in medical, $3 million in percent permanent partial disability, and $2 million in permanent total disability payments, and minor increases in other benefit types. These increases were partially off–set by a $13 million decrease in settlement payments.

- o Benefit and compensation adjustment expenses are $76 million or almost 10% less than projected due to lower than projected disbursements for claims and claims adjustment expenses.

- o BWC's net investment loss for fiscal year–to–date 2009 totaled $744 million, comprised of a $1 billion decline in portfolio fair market value partially off–set by $277 million of interest and dividend income net of $936 thousand in investment expenses.

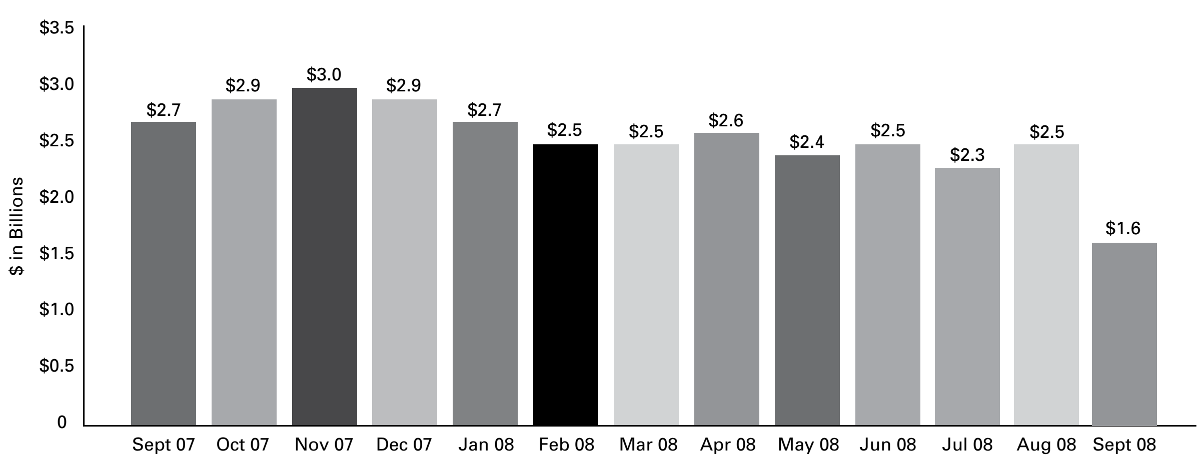
- o Cash used by operating activities is trending higher than prior fiscal year and projections. Fiscal year–to–date 2009 premium collections are $17 million higher and cash disbursements for claims are $4 million lower than the prior fiscal year. Fiscal year–to–date premium collections are 5% higher than projected while disbursements for claims are 4.5% lower than projected.

Conditions expected to affect financial position or results of operations include:

- o The impact of the increasingly unsettled financial markets has continued into October. The estimated decline in the net market value of BWC's investment portfolio through October 15, 2008 was over $1 billion.

- o Cash disbursements will increase as payments are made to settle the remaining $37 million liability resulting from the Ohio Hospital Association lawsuit disputing fee schedules that were not adopted through the Ohio Revised Code Chapter 119 rules process.

Net Assets

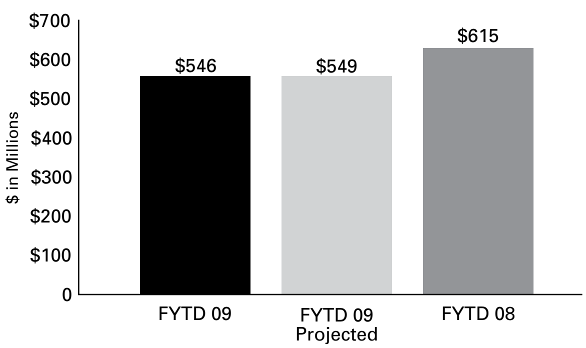


Statement of Operations

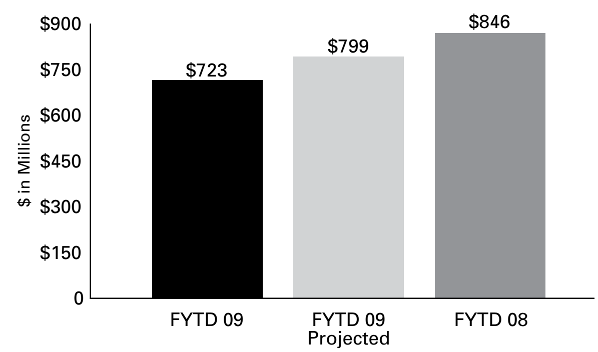
Fiscal year to date September 30, 2008

(in millions)	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
Operating Revenues					
Premium & Assessment Income	$551	$568	$(17)	$628	$(77)
Provision for Uncollectibles	(13)	(26)	13	(21)	8
Other Income	8	7	1	8	–
Total Operating Revenue	546	549	(3)	615	(69)
Operating Expenses					
Benefits & Compensation Adj. Expense	700	776	76	821	(121)
Other Expenses	23	23	–	25	(2)
Total Operating Expenses	723	799	76	846	(123)
Operating Transfers	(2)	(2)	–	–	(2)
Net Operating Gain (Loss)	(179)	(252)	73	(231)	52
Net Investment Income	(744)	262	(1,006)	595	(1,339)
Increase (Decrease) in Net Assets	$(923)	$10	$(933)	$364	$(1,287)

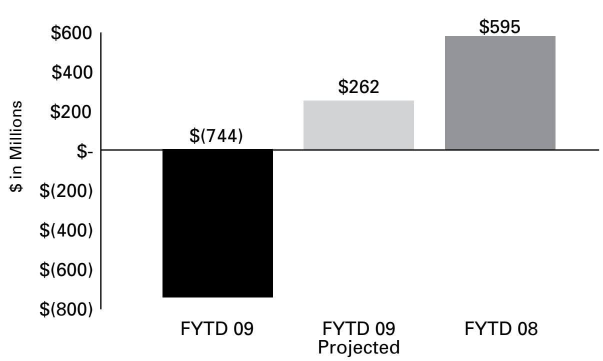
Operating Revenues



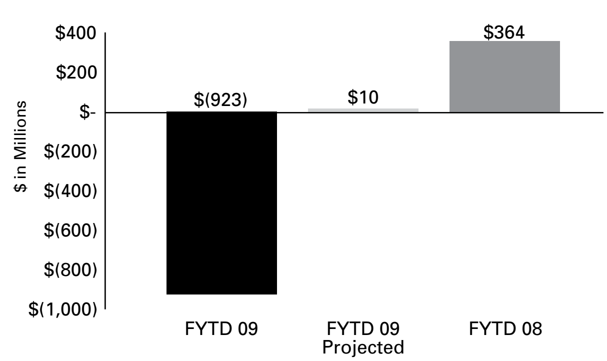
Operating Expenses



Net Investment Income (Loss)



Change in Net Assets



Statement of Operations – Combining Schedule

Fiscal year to date September 30, 2008

(in thousands)

	State Insurance Fund Account	Disabled Workers' Relief Fund Account	Coal–Workers Pneumoconiosis Fund Account	Public Work Relief Employees' Fund Account	Marine Industry Fund Account	Self–Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Totals
Operating Revenues:								
Premium & Assessment Income	$424,067	$33,464	$771	$57	$207	$(129)	$92,680	$551,117
Provision for Uncollectibles	(6,656)	770	–	–	–	(40)	(7,259)	(13,185)
Other Income	6,985	–	–	–	–	–	1,318	8,303
Total Operating Revenues	424,396	34,234	771	57	207	(169)	86,739	546,235
Operating Expenses:								
Benefits & Compensation Adj Expenses	591,219	32,708	236	135	156	3,390	72,801	700,645
Other Expenses	5,821	62	14	–	47	1	16,937	22,882
Total Operating Expenses	597,040	32,770	250	135	203	3,391	89,738	723,527
Net Operating Income (Loss) before Operating Transfers Out	(172,644)	1,464	521	(78)	4	(3,560)	(2,999)	(177,292)
Operating Transfers Out	(485)	–	(1,745)	–	–	–	485	(1,745)
Net Operating Income (Loss)	(173,129)	1,464	(1,224)	(78)	4	(3,560)	(2,514)	(179,037)
Investment Income:								
Investment Income	253,027	18,131	3,840	126	94	308	1,114	276,640
Bonds – Realized & Unrealized Gains (Losses)	(677,835)	(49,599)	(10,472)	–	–	–	–	(737,906)
Equities – Realized & Unrealized Gains (Losses)	(260,224)	(17,822)	(4,074)	–	–	–	–	(282,120)
Total Realized & Unrealized Capital Gains (Losses)	(938,059)	(67,421)	(14,546)	–	–	–	–	(1,020,026)
Investment Manager & Operational Fees	(825)	(70)	(41)	–	–	–	–	(936)
Gain (Loss) on Disposal of Fixed Assets	–	–	–	–	–	–	(13)	(13)
Total Non–Operating Revenues, Net	(685,857)	(49,360)	(10,747)	126	94	308	1,101	(744,335)
Increase (Decrease) in Net Assets (Deficit)	(858,986)	(47,896)	(11,971)	48	98	(3,252)	(1,413)	(923,372)
Net Assets (Deficit), Beginning of Period	2,206,922	848,727	179,339	19,350	13,431	8,919	(773,399)	2,503,289
Net Assets (Deficit), End of Period	$1,347,936	$800,831	$167,368	$19,398	$13,529	$5,667	$(774,812)	$1,579,917

This report shows operating activity for each of the funds administered by BWC.

The deficit net assets for the Administrative Cost Fund is a result of recognizing the actuarially estimated liabilities for loss adjustment expenses while funding for ACF is on a pay–as–you–go basis.

Statement of Investment Income

Fiscal year to date September 30, 2008

(in thousands)	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
Investment Income					
Bond Interest	$255,798	$190,473	$65,325	$170,838	$84,960
Dividend Income–Domestic & International	17,655	17,250	405	11,817	5,838
Money Market/Commercial Paper Income	2,519	2,440	79	5,968	(3,449)
Misc. Income (Corp Actions, Settlements)	668	900	(232)	1,625	(957)
Private Equity	–	–	–	4,479	(4,479)
Securities Lending Income, Net of Fees	–	–	–	–	–
Total Investment Income	276,640	211,063	65,577	194,727	81,913
Realized & Unrealized Capital Gains and (Losses)					
Bonds – Net Realized Gains (Losses)	(50,096)	–	(50,096)	(85,222)	35,126
Bonds – Net Unrealized Gains (Losses)	(687,810)	–	(687,810)	422,701	(1,110,511)
Subtotal – Bonds	(737,906)	–	(737,906)	337,479	(1,075,385)
Stocks – Net Realized Gains (Losses)	(51,840)	–	(51,840)	44,796	(96,636)
Stocks – Net Unrealized Gains (Losses)	(230,280)	51,750	(282,030)	11,494	(241,774)
Subtotal – Stocks	(282,120)	51,750	(333,870)	56,290	(338,410)
Net Gain (Loss) – PE	–	–	–	7,929	(7,929)
Change in Portfolio Value	(1,020,026)	51,750	(1,071,776)	401,698	(1,421,724)
Investment Manager & Operational Fees	(936)	(1,200)	264	(1,414)	(478)
Net Investment Income	$(744,322)	$261,613	$(1,005,935)	$595,011	$(1,339,333)

Administrative Cost Fund Expense Analysis

September 2008

- o BWC Administrative Cost Fund expenses are approximately $11.6 million (14%) less than budgeted and approximately 5% more than last fiscal year.
- o Changes in payroll within divisions varied due to vacant management positions that were filled in fiscal year 2009, vacancies resulting from the fiscal year 2008 Early Retirement Incentive, hiring controls implemented by OBM and positions moving due to reorganization.
- o The timing of the receipt of invoices for payment in fiscal year 2009 caused actual expenditures to be less than the amount budgeted through September. The Statewide implementation of the OAKS accounting system in fiscal year 2008 caused a delay in processing invoices in 2008.
- o Restrictions implemented for all state agencies concerning the purchase of equipment led to BWC closely evaluating equipment needs and the reduction of equipment purchases.
- o Positions not yet filled led to a reduction in the fiscal year 2009 budget as of September. The payroll budget will be increased as employees are hired.
- o BWC's current fiscal year 2009 budget is approximately $23.9 million (7%) less than appropriated by the General Assembly.

Administrative Cost Fund Budget Summary

As of September 30, 2008

Expense Description	FTE's	Actual FY09	Budgeted FYTD09	FYTD09 Variance	FYTD09 Percentage Variance	FY09 Budget	FYTD08 Expenses	Increase (Decrease) in FY09	FYTD09 Percentage Variance
Payroll									
BWC Board of Directors	14	243,588	243,897	309	0.13%	850,150	105,169	138,419	131.62%
Workers' Comp Council	1	28,669	28,669	0	0.00%	54,053	0	28,669	
BWC Administration	6	203,538	203,538	0	0.00%	802,190	123,784	79,754	64.43%
Customer Service	1,498	29,845,162	29,871,471	26,309	0.09%	112,049,132	31,820,196	(1,975,034)	-6.21%
Medical	139	3,125,080	3,127,348	2,268	0.07%	12,135,847	2,883,458	241,622	8.38%
Special Investigations	132	3,015,619	3,016,753	1,134	0.04%	11,412,607	3,025,028	(9,409)	-0.31%
Fiscal and Planning	66	1,285,225	1,304,471	19,246	1.48%	4,905,203	1,209,660	75,565	6.25%
Actuarial	19	442,369	441,222	(1,147)	-0.26%	1,686,294	408,257	34,112	8.36%
Investments	10	307,978	308,446	468	0.15%	1,318,931	261,023	46,955	17.99%
Infrastructure & Technology	312	8,024,525	8,078,969	54,444	0.67%	30,629,292	7,955,481	69,044	0.87%
Legal	77	1,756,925	1,756,925	0	0.00%	6,663,605	1,679,637	77,288	4.60%
Communications	31	768,181	767,210	(971)	-0.13%	2,826,731	743,723	24,458	3.29%
Human Resources	67	1,481,324	1,481,735	411	0.03%	5,656,668	962,375	518,949	53.92%
Internal Audit	13	349,707	350,039	332	0.09%	1,348,548	426,761	(77,054)	-18.06%
Ombuds Office	10	138,362	138,675	313	0.23%	635,135	88,076	50,286	57.09%
Early Retirement Expenses		0	0	0	0.00%	0	51,656	(51,656)	-100.00%
Total Payroll	2,395	51,016,252	51,119,368	103,116	0.20%	192,974,386	51,744,284	(728,032)	-1.41%
Personal Services									
Information Technology		1,852,896	3,337,508	1,484,612	44.48%	13,502,331	1,377,913	474,983	34.47%
Legal - Special Counsel		42,152	393,211	351,059	89.28%	1,564,843	0	42,152	
Legal - Attorney General		1,003,658	1,111,022	107,364	9.66%	4,444,085	0	1,003,658	
Other Personal Services		1,027,050	2,538,429	1,511,379	59.54%	7,740,119	649,340	377,710	58.17%
Total Personal Services		3,925,756	7,380,170	3,454,414	46.81%	27,251,378	2,027,253	1,898,503	93.65%
Maintenance									
William Green Rent		504,537	521,437	16,900	3.24%	18,904,714	579,422	(74,885)	-12.92%
Other Rent and Leases		4,303,297	4,861,083	557,786	11.47%	12,996,444	4,342,722	(39,425)	-0.91%
Software and Equipment Maintenance and Repairs		4,905,272	4,819,170	(86,102)	-1.79%	19,180,723	2,600,574	2,304,698	88.62%
Inter Agency Payments		566,847	1,315,034	748,187	56.89%	4,336,452	922,712	(355,865)	-38.57%
Communications		1,046,680	1,804,513	757,833	42.00%	6,977,919	672,565	374,115	55.63%
Safety Grants and Long Term Care Loan		727,893	1,500,000	772,107	51.47%	6,000,000	341,154	386,739	113.36%
Supplies and Printing		316,350	717,865	401,515	55.93%	3,186,593	259,359	56,991	21.97%
Other Maintenance		703,728	939,150	235,422	25.07%	3,756,883	873,133	(169,405)	-19.40%
Total Maintenance		13,074,604	16,478,252	3,403,648	20.66%	75,339,728	10,591,641	2,482,963	23.44%
Equipment		18,609	4,732,051	4,713,442	99.61%	9,680,856	282,055	(263,446)	-93.40%
Total Administrative Cost Fund Expenses		68,035,221	79,709,841	11,674,620	14.65%	305,246,348	64,645,233	3,389,988	5.24%

Total Agency Appropriation	329,210,479
Budget to Appropriation Variance	23,964,131
Percentage Variance	7.28%

State Insurance Fund
Administrative Expense Summary

As of September 30, 2008

	Actual FYTD 2009	Encumbrance Balance	FYTD Actual & Encumbrance	Encumbrance Closing Date	Actual FYTD 2008
Investment Administrative Expenses					
UBS Securities LLC	$0	$1,224,547	$1,224,547	6/30/08	$464,610
Wilshire Associates Inc.	0	0	0	2/24/08	163,250
JP Morgan Chase - Performance Reporting	21,750	61,984	83,734	6/30/08	0
Mercer Investment Consulting	79,166	442,327	521,493	6/30/09	0
Other Investment Expenses	50,369	402,640	453,009	6/30/08	36,895
	151,285	2,131,498	2,282,783		664,755
Actuarial Expenses					
Oliver Wyman	347,144	1,160,313	1,507,457	12/31/09	217,723
Deloitte Consulting LLP	1,085,109	464,985	1,550,094	12/31/08	0
AON Risk Consultants	0	0	0		263,599
	1,432,253	1,625,298	3,057,551		481,322
Ohio Rehabilitation Services	605,407	0	605,407	6/30/09	0
TOTAL	$2,188,945	$3,756,796	$5,945,741		$1,146,077

The above expenses are paid from the non-appropriated State Insurance Fund.

The investment administrative expense are included in the investment expenses reported on the statement of investment income on page 7.

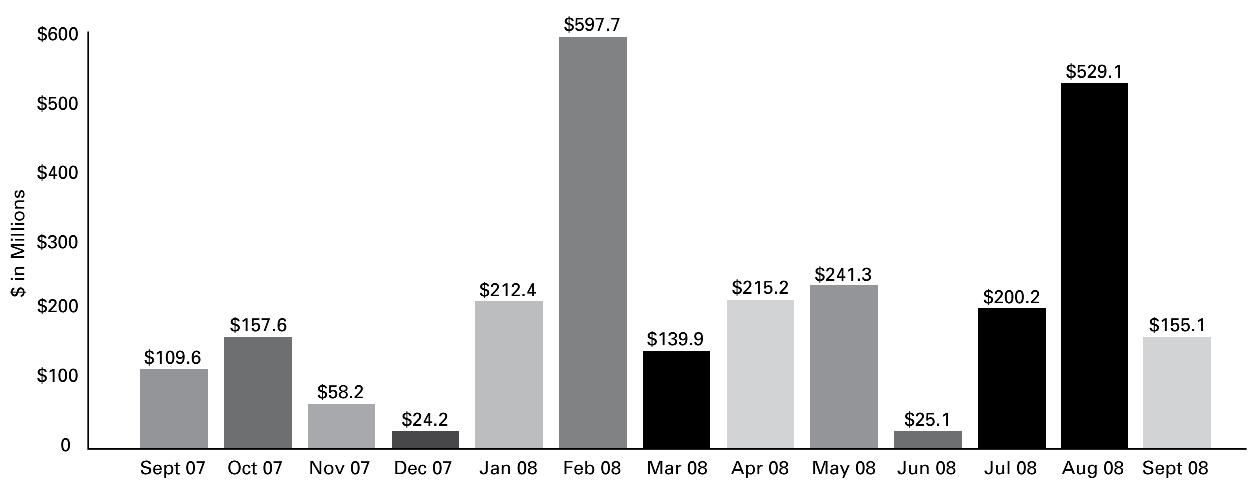
The encumbrance balance is the amount remaining on the contract and may extend beyond the end of this fiscal year.

Statement of Cash Flows

Fiscal year to date September 30, 2008

(in millions)	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
Cash Flows from Operating Activities:					
Cash Receipts from Premiums	$884	$840	$44	$867	$17
Cash Receipts - Other	7	7	–	5	2
Cash Disbursements for Claims	(531)	(556)	25	(535)	4
Cash Disbursements for Other	(118)	(115)	(3)	(112)	(6)
Net Cash Provided (used) by Operating Activities	242	176	66	225	17
Net Cash Flows from Noncapital Financing Activities	(2)	(1)	(1)	–	(2)
Net Cash Flows from Capital and Related Financing Activities	(3)	(2)	(1)	(4)	1
Net Cash Provided (used) by Investing Activities	(9)	5	(14)	89	(98)
Net Increase (Decrease) in Cash and Cash Equivalents	228	178	50	310	(82)
Cash and Cash Equivalents, Beginning of Period	378	378	–	328	50
Cash and Cash Equivalents, End of Period	$606	$556	$50	$638	$(32)

Premium and Assessment Receipts



Statement of Net Assets

As of September 30, 2008

(in millions)	Actual	Prior Yr. Actual	Year to Year Increase (Decrease)
Assets			
Bonds	$13,278	$13,454	$(176)
Stocks	2,913	3,066	(153)
Private Equities	2	376	(374)
Cash & Cash Equivalents	606	638	(32)
Total Cash and Investments	16,799	17,534	(735)
Accrued Premiums	4,087	4,432	(345)
Other Accounts Receivable	326	273	53
Investment Receivables	194	301	(107)
Other Assets	117	120	(3)
Total Assets	21,523	22,660	(1,137)
Liabilities			
Reserve for Compensation and Compensation Adj. expense	$19,577	$19,534	$43
Accounts Payable	53	68	(15)
Investment Payable	67	154	(87)
Other Liabilities	246	235	11
Total Liabilities	19,943	19,991	(48)
Net Assets	$1,580	$2,669	$(1,089)

Statement of Net Assets – Combining Schedule

As of September 30, 2008

(in thousands)

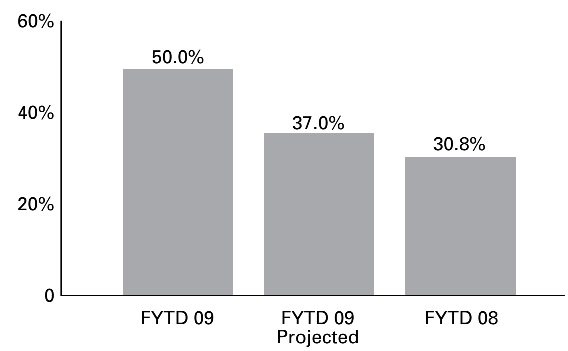
	State Insurance Fund Account	Disabled Workers' Relief Fund Account	Coal–Workers Pneumoconiosis Fund Account	Public Work Relief Employees' Fund Account	Marine Industry Fund Account	Self–Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Eliminations	Totals
Assets									
Bonds	$12,213,573	$ 879,623	$ 184,263	$ –	$ –	$ –	$ –	$ –	$13,277,459
Stocks	2,687,192	184,062	41,972	–	–	–	–	–	2,913,226
Private Equities	1,997	–	–	–	–	–	–	–	1,997
Cash & Cash Equivalents	492,263	9,664	2,013	22,714	17,091	56,850	5,631	–	606,226
Total Cash & Investments	$15,395,025	$ 1,073,349	$ 228,248	$ 22,714	$ 17,091	$ 56,850	$ 5,631	$ –	$16,798,908
Accrued Premiums	1,681,738	1,536,585	–	235	–	664,639	203,973	–	4,087,170
Other Accounts Receivable	251,808	26,121	23	–	–	(1,571)	49,997	–	326,378
Interfund Receivables	12,729	69,388	552	28	25	1,694	98,077	(182,493)	–
Investment Receivables	176,843	13,976	3,066	42	31	100	–	–	194,058
Other Assets	25,854	22	–	–	–	–	90,761	–	116,637
Total Assets	$17,543,997	$ 2,719,441	$ 231,889	$ 23,019	$ 17,147	$ 721,712	$ 448,439	$ (182,493)	$21,523,151
Liabilities									
Reserve for Comp and Comp Adj. expense	$15,788,064	$ 1,901,789	$ 62,793	$ 3,612	$ 3,203	$ 713,796	$ 1,103,876	$ –	$19,577,133
Accounts Payable	52,478	–	–	–	–	–	500	–	52,978
Investment Payable	60,297	5,605	899	–	–	–	–	–	66,801
Interfund Payables	168,900	11,146	85	9	104	2,249	–	(182,493)	–
Other Liabilities	126,322	70	744	–	311	–	118,875	–	246,322
Total Liabilities	16,196,061	1,918,610	64,521	3,621	3,618	716,045	1,223,251	(182,493)	19,943,234
Net Assets	$ 1,347,936	$ 800,831	$ 167,368	$ 19,398	$ 13,529	$ 5,667	$ (774,812)	$ –	$ 1,579,917

Financial Performance Metrics

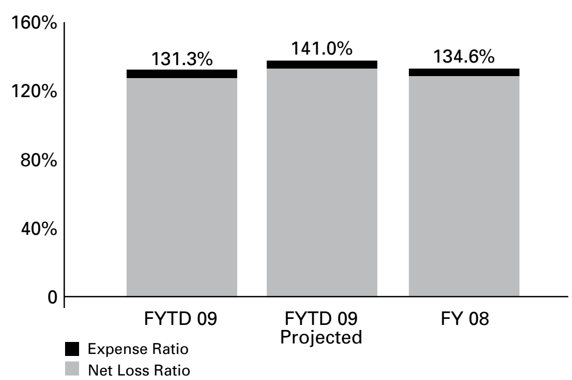
	Actual FY09 As of 9/30/08	Projected FY09 As of 9/30/08	Actual FY08 As of 9/30/07	Target
Loss Ratio	105.3%	112.1%	112.0%	
LAE Ratio – MCO	8.5%	9.5%	7.7%	
LAE Ratio – BWC	13.3%	15.3%	11.0%	
Net Loss Ratio	127.1%	136.9%	130.7%	120.0%
Expense Ratio	4.2%	4.1%	3.9%	5.0%
Combined Ratio	131.3%	141.0%	134.6%	125.0%
Net Investment Income Ratio	50.0%	37.0%	30.8%	
Operating Ratio (Trade Ratio)	81.3%	104.0%	103.8%	100.0%
Operating Cashflow Ratio	183.2%	157.6%	166.6%	118.0%
Total Reserves to Net Assets	12 to 1	8 to 1	7 to 1	7 to 1
Investments to Loss Reserves	85.8%	90.4%	89.8%	110.0%
Equities to Net Assets	1.84 to 1	1.29 to 1	1.15 to 1	
Bonds to Net Assets	8.4 to 1	5.5 to 1	5.0 to 1	

Target measures represent long–term goals for the agency. Business practices, peer group results, and historical data were considered in the establishment of the targets.

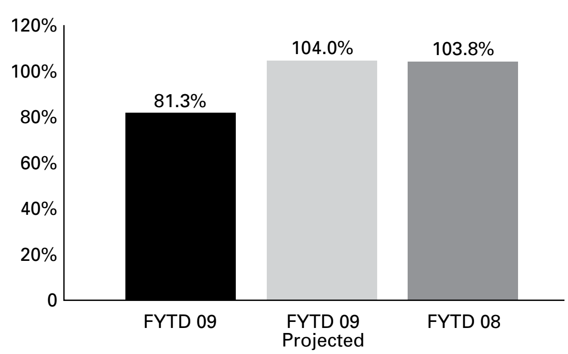
Investment Income Ratio



Combined Ratio

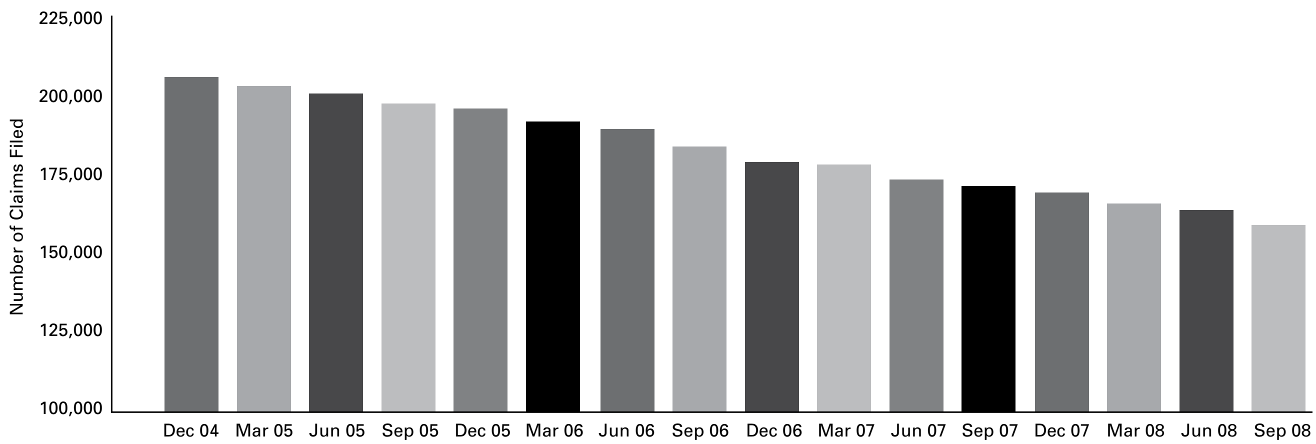


Operating Ratio

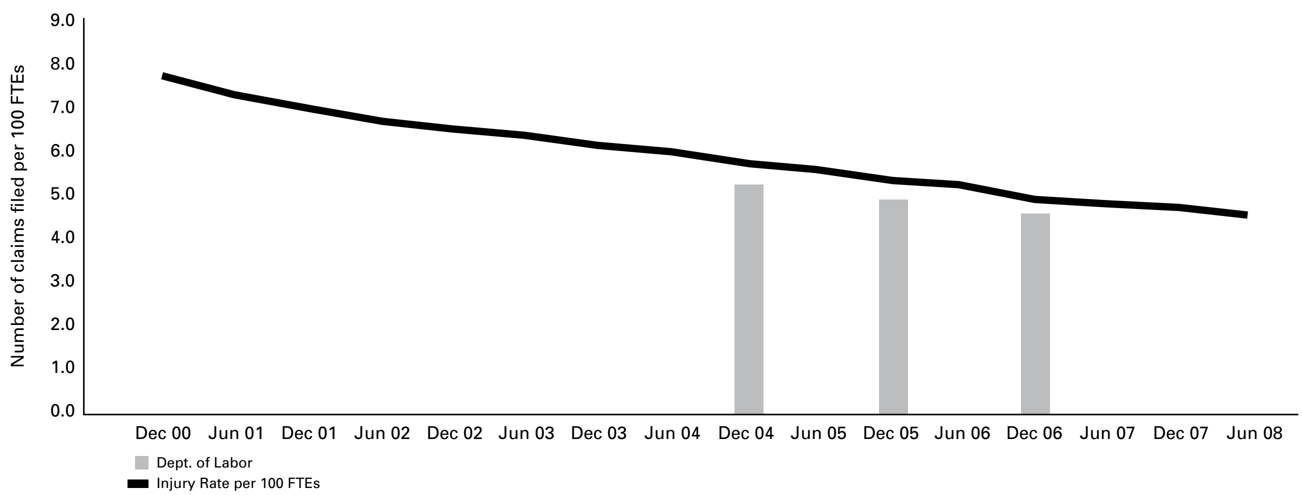


Operational Performance Metrics

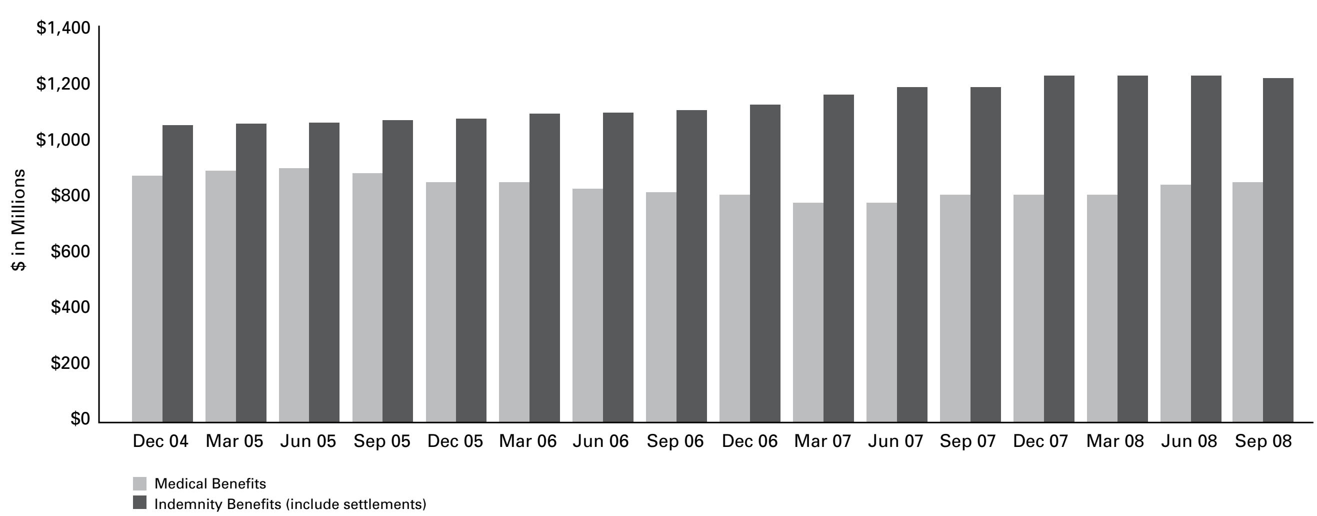
New Claims Filed - *Twelve months ended*



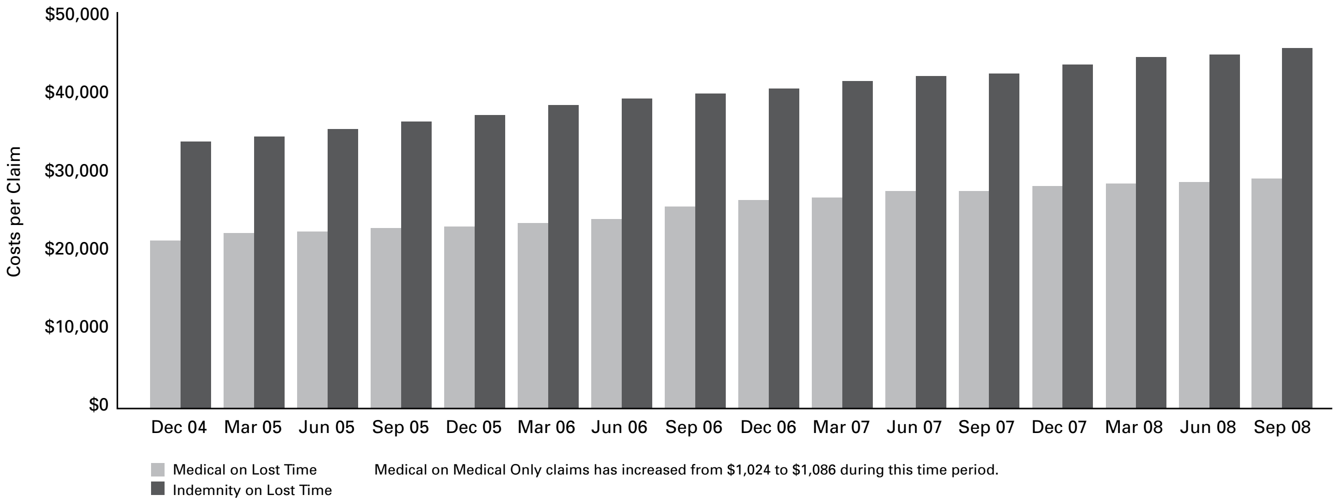
Frequency - *Reported semi-annually*



Benefit Payments - *Twelve months ended*

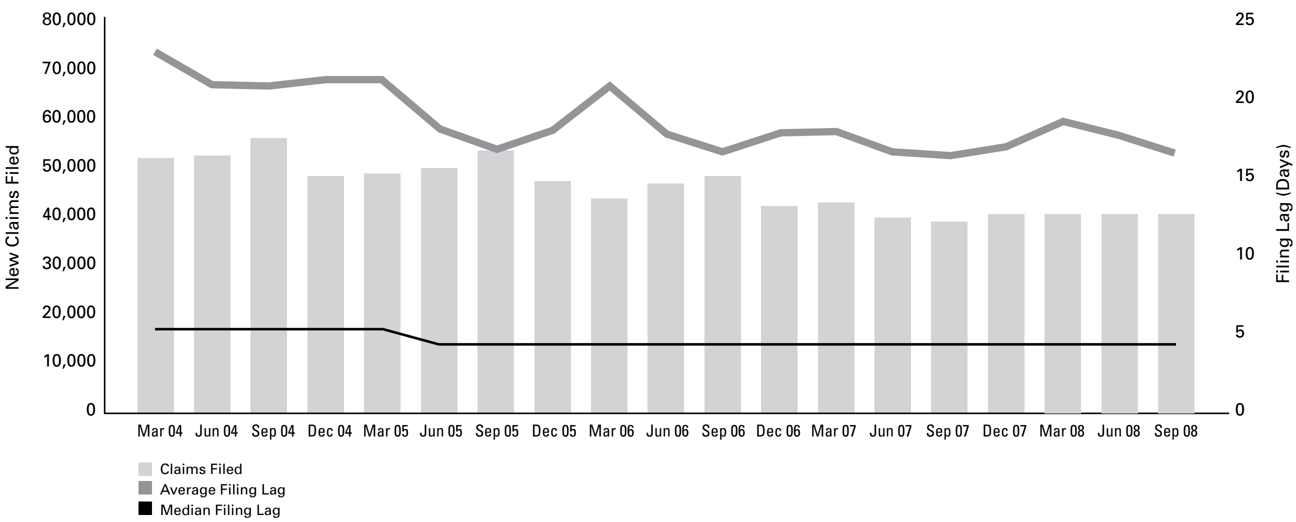


Severity

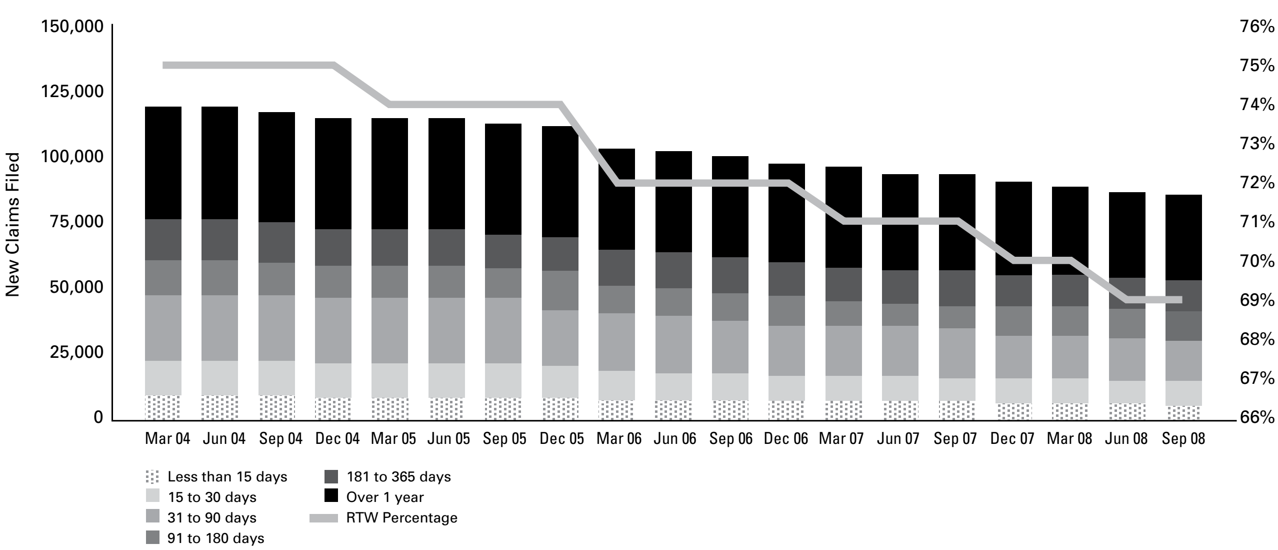


Medical on Medical Only claims has increased from $1,024 to $1,086 during this time period.

Claim Filing Lag



Return to work

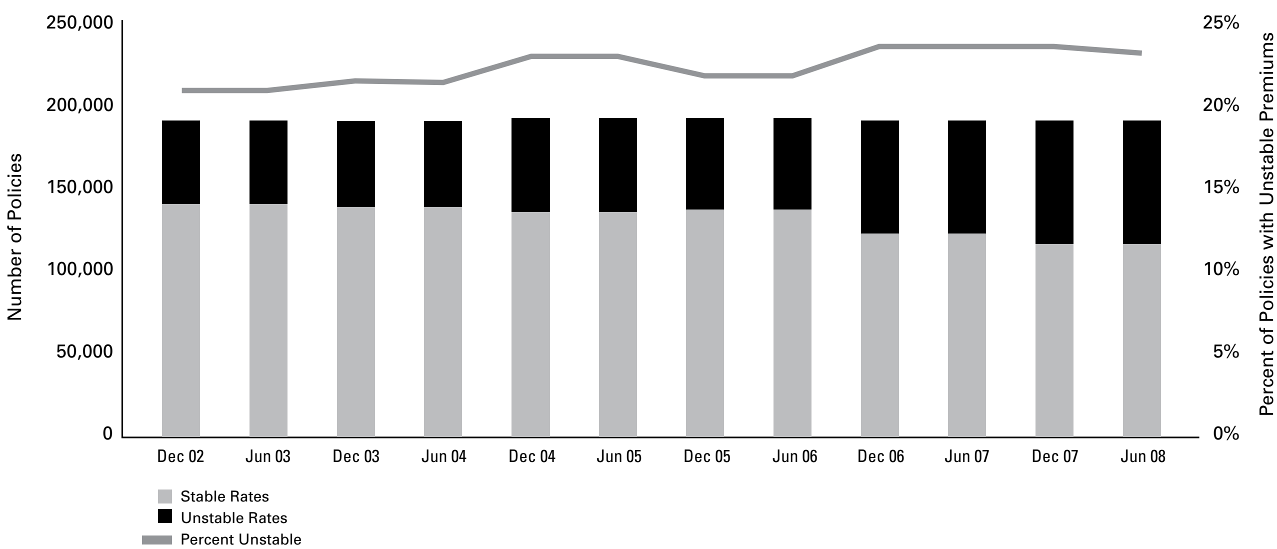


Aggregate Reported Payroll – *Twelve Months Ending*

($ in millions)	Private	PEC	PES	Black Lung	Marine
Dec 2002	$82,400	$17,611	$5,823	$64	$3
Jun 2003	$83,090	$17,611	$5,924	$51	$4
Dec 2003	$83,304	$18,022	$6,005	$59	$4
Jun 2004	$83,741	$18,022	$6,076	$73	$3
Dec 2004	$85,492	$18,545	$6,184	$84	$3
Jun 2005	$86,530	$18,545	$6,266	$82	$4
Dec 2005	$87,902	$18,594	$6,388	$87	$4
Jun 2006	$90,414	$18,594	$6,524	$98	$5
Dec 2006	$91,830	$18,946	$6,654	$98	$5
Jun 2007	$93,636	$18,946	$6,788	$100	$4
Dec 2007	$94,890	$19,427	$6,914	$107	$4
Jun 2008	$95,027	$19,427	$7,032	$117	$5

PEC employers report payroll only once per year, while other employers report twice per year. Therefore, the same PEC payroll is presented twice in each fiscal year in the above table.

Premium Stability



Performance Metrics Glossary

Loss Ratio
Measures loss experience – Compensation benefit expenses divided by premium and assessment income.

LAE Ratio
Measures loss adjustment experience – Loss adjustment expenses divided by premium and assessment income.

Net Loss Ratio
Measures underlying profitability or total loss experience – Sum of the loss ratio and the LAE ratios.

Expense Ratio
Measures operational efficiency – Other administrative expenses divided by premium and assessment income.

Combined Ratio
Measures overall underwriting profitability – Sum of net loss and expense ratios.

Net Investment Income Ratio
Measures the investment income component of profitability – Interest and dividend income less investment expenses divided by premium and assessment income. This ratio does not include realized or unrealized capital gains and losses.

Operating Ratio
Measures overall profitability from underwriting and investing activities – Combined ratio less net investment income ratio.

Operating Cash Flow Ratio
Measures the relationship between operating receipts and disbursements – Collections from operating activities (premiums, interest and dividends net of investment expenses) divided by operating disbursements.

Total Reserves to Net Assets
Measures the relationship between future claims and claim adjustment liabilities and net assets – Total reserves divided by premium and assessment income.

Investments to Loss Reserves
Measures the relationship of the investment portfolio to total reserves – Total cash and investments dividend by total loss reserves.

Equities to Net Assets
Measures the exposure of net assets to BWC's investment in equities – Equities divided by net assets.

Bonds to Net Assets
Measures the exposure of net assets to BWC's investment in bonds – Bonds divided by net assets.

New Claims Filed
Measures the number of new State Insurance Fund claims filed for rolling twelve month periods measured quarterly.

Frequency
Measures the number of injuries reported per 100 workers covered by the State Insurance Fund updated semi-annually.

Benefit Payments
Measures the dollar amount of medical and indemnity payments for rolling twelve month periods updated quarterly.

Severity
Measures the average cost of medical and indemnity expenses per lost time claim.

Claim Filing Lag
Measures the average and median number of days from the date of injury to the date of claim filing.

Return to Work Rates
Measures the percentage of injured workers who have returned to work relative to the claim population eligible to return to work.

Aggregate Reported Payroll
Measures reported payroll by employer type for a rolling twelve month period, updated semi-annually.

Premium Stability
Measures the number of employers whose premium rate changed more than 5 percent and total premium changed more than $500 from the prior year.

NCCI Holdings, Inc.

2008 State of the Line

Analysis of Workers Compensation Results

By Dennis C. Mealy, FCAS, MAAA, Chief Actuary, National Council on Compensation Insurance, Inc.

The workers compensation insurance industry experienced another year of mostly solid results in 2007. The 99% calendar year combined ratio was the second straight year of underwriting profits for the line. In our search of the last 30 years or so of available history, we could find no other back-to-back years of underwriting profits for workers compensation. Although the underwriting results remain at near record levels, we continue to note that the low interest rate environment, combined with the modest performance of the equity markets, has left the line with post-tax returns on surplus that are far below record levels and barely returning the industry's cost of capital after the significant payments of federal income taxes. However, the calendar year net written premium declined for the private carriers for the first time in eight years. It was the second straight year of premium declines for the line, inclusive of the state funds.

Workers compensation insurance prices accelerated their declines in 2007. Significant reductions continued in California and Florida, as the reforms in those states favorably impacted costs and improved marketplace conditions. The favorable frequency trends continued and—along with payroll increases,—were more than enough to offset medical and indemnity claim cost increases. This resulted in bureau loss cost and rate filings that generally were downward last year, with a couple of notable exceptions. In addition, carrier discounting from bureau loss costs and rates increased as the marketplace reacts to the favorable results of recent years.

In a cyclical "long tail" business such as workers compensation insurance, we always need to be aware of the challenges that are impacting the business:

- Medical cost increases, although moderating somewhat in the last couple of years, are still the major issue putting upward pressure on costs
- Low investment yields, with the potential of a stagnant stock market, mean that combined ratios need to be at or near historic lows for insurers to earn an adequate return on capital
- The fluid political landscape in many states and at the federal level will put additional pressure on reforms
- The current underwriting cycle is past its cyclical peak

NCCI's short-term view of the line remains optimistic. However, the long-term outlook is cautionary due to the uncertainties that continue to face the business.

The workers compensation calendar year combined ratio was 99% in 2007, a 6-point deterioration from 2006. Our search of the historic results indicates that this could be the first time in memory that the workers compensation line has produced an underwriting profit for two consecutive years. (The results from 1995–1996 came very close to duplicating that feat.) The 2007 accident year combined ratio is 92%. On an accident year basis, the current underwriting cycle peaked in 2006, with an 84% combined ratio, more than a 55-point improvement since 1999.

Our estimates of the reserve position of the private carriers improved to about a $2 billion deficiency at year-end 2007. After consideration of the allowable discounting of the indemnity reserve of lifetime pension cases, the reserve position is full adequacy. This is in sharp contrast to the $21 billion deficiency at year-end 2001. Achieving reserve adequacy is one of the major accomplishments for the industry in the last five years.

As we pointed out last year, we must take into account the significant impact of California on the countrywide numbers. Excluding California would increase the calendar year combined ratio by about 5 points to over 104%. Excluding California from the accident year combined ratio would raise it from 92% to about 97%.

Frequency continued its downward path, but at a slower rate than the last couple of years. For NCCI states, the frequency change for 2007 was –2.5%. The prior two years had very large frequency decreases of almost 7%. The 2.5% decrease in 2007 is closer to the longer-term trend for the frequency decline. Our research indicates that the economic slowdown should put additional downward pressure on frequency. Data from the Bureau of Labor Statistics indicates that incident rates have declined in each of the last four recessions.

Although the underwriting results are excellent and the bottom line financial performance is good, we continue to watch several challenges facing workers compensation insurers.

Medical costs continue to increase faster than wages, even though the increases seem to have tempered a bit in 2007. Many states continue to look for ways to control medical costs in their workers compensation systems. Medical costs are 59% of total losses in NCCI states with many states in the 65%–70% range. The increased interest in medical benefits and costs is creating demand for ever more medical data to analyze the cost drivers of medical. To meet that demand, the NCCI Board of Directors approved a new Call for detailed medical transactions last fall after extensive discussions and input from many of our member companies. This Call will allow NCCI to continue to provide the highest quality evaluations of system reform proposals and legislation. As of this writing, NCCI has priced about 100 bills and legislative proposals in the 2007 legislative sessions, with about 25% of those dealing with medical benefits.

A year ago, the Federal Reserve had raised short-term interest rates to about 5.25%, up from 1% in 2004. However, with the bursting of the housing "bubble" and its fallout effects on our financial system and the broader economy, the Fed has again cut short-term rates significantly.

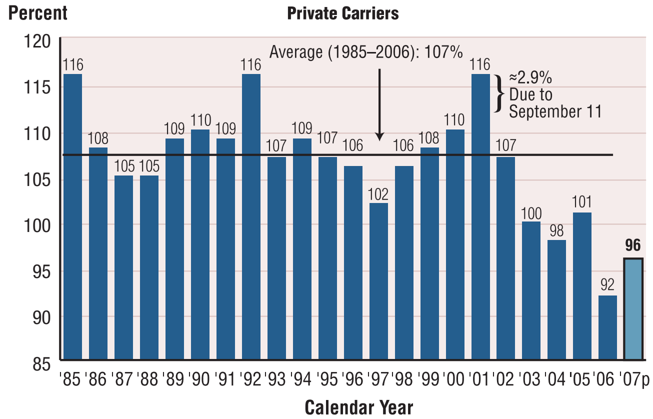
As of this writing, longer-term rates have also responded: 10-year US treasuries have a yield of 3.7%, which is a point lower than a year ago. This means that interest rates are again at historic lows and will be continuing to impact the yields on the insurance industry's portfolio of high quality income investments. Lower investment yields mean combined ratios need to stay at or near historic lows to earn the cost of capital in workers compensation insurance. So far, the industry seems to have escaped significant write-downs of its investment portfolio due to the subprime mortgage market.

The political landscape remains fluid in many states and nationally. The elections this fall will likely be as pivotal as those in 2006 in terms of the political sentiments of the country. Although NCCI legislative pricing activity has quieted down a bit from a year ago, we are likely to see significantly increased interest in workers compensation after the new legislatures are seated next January. There continues to be interest in revisiting issues that have been implemented in past reform efforts.

In some states, there have been legal challenges to recent reforms that are working their way through the process. For instance, a key provision of the 2003 Florida reforms dealing with claimant attorney fees will likely be decided by the Florida supreme court this summer. If this section of the reform is overturned, it could have a major impact on the effectiveness of the 2003 reforms that have significantly contributed to a 50% reduction in rates since they were enacted. Given the relatively good results posted for workers compensation insurers and the property/casualty industry, some parties may feel that now is an opportune time to review benefit levels and past reforms, to the potential detriment of efficiently running and well-balanced workers compensation systems.

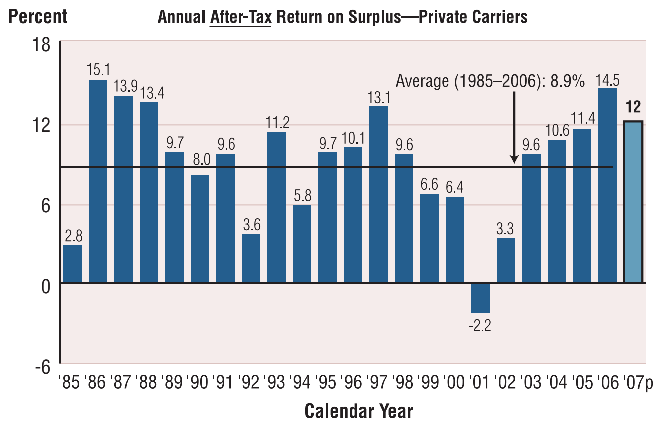
Congress passed the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA) late last year, which extended the program for seven years. Hopefully, this will give policymakers, the business community, and the insurance industry some time to breathe and reflect a bit before having to take up the topic again. Although the extension was important to all the lines of insurance that it covers, workers compensation has

Exhibit 1 Property/Casualty Industry Calendar Year Net Combined Ratios



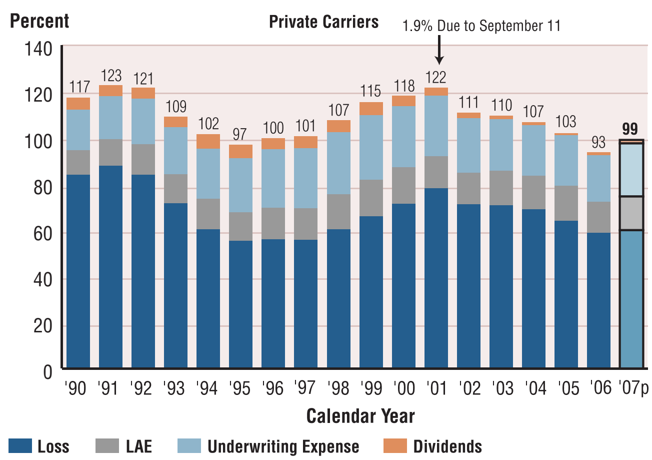
p Preliminary
Source: 1985–2006, A.M. Best Aggregates & Averages; 2007p, ISO

Exhibit 2 Property/Casualty Industry Return on Surplus



p Preliminary
Source: 1985–2006, A.M. Best Aggregates & Averages; 2007p After-Tax Income, ISO;
2007p Surplus, 2006 A.M. Best Aggregates & Averages + 2007 ISO contributions to surplus
Note: After-tax return on average surplus, excluding unrealized capital gains

Exhibit 3 Workers Compensation Calendar Year Combined Ratio—Will History Repeat Itself?



p Preliminary
Source: 1990–2006, A.M. Best Aggregates & Averages; 2007p, NCCI

unique characteristics that made it critically important for this line. Those differences include the inability to exclude terrorism from coverage and the fact that the residual markets must insure the terrorism exposure for employers not in the voluntary market.

A more detailed discussion of the workers compensation market follows a brief overview of the total property/casualty industry results. The results discussed are averages of all states and carriers; they can vary significantly from state to state and company to company.

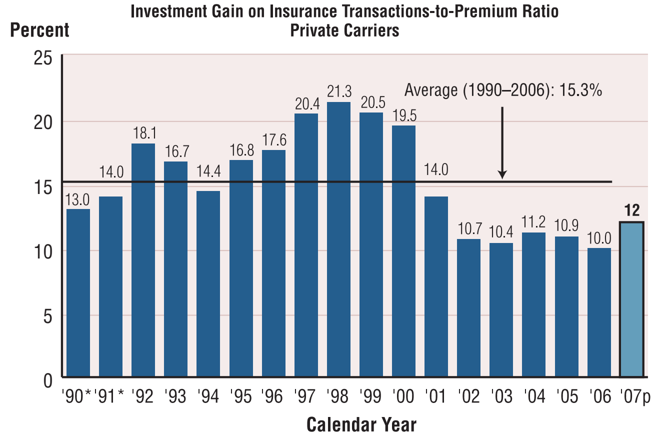
PROPERTY/CASUALTY INDUSTRY RESULTS

In 2007, the property/casualty insurance industry had another good year, posting a combined ratio of 96% (Exhibit 1). This was the second straight year of underwriting profits. The continued lack of significant catastrophes contributed to this result. However, storm clouds could be on the horizon, with the industry posting the first decline in net written premium in at least 50 years.

The industry earned a 12% after-tax return on surplus in 2007 (Exhibit 2). However, with the significant decline in interest rates over the last few years, the excellent combined ratio did not translate into the after-tax return on surplus that one might have expected based on historical relationships between the combined ratio and after-tax return. For instance, in 1993 the after-tax return on surplus was 11.2% but the combined ratio that year was 107. Today's low interest rate environment, which has persisted for several years, means that a lower combined ratio must be achieved to earn an adequate return on surplus. Also contributing to the need for lower combined ratios is the decline of the premium-to-surplus ratio over the last 20 years as the market recognized the increased catastrophic exposure, both natural and man-made, that the industry must insure. This reduces the leverage effect of positive underwriting results on the return on surplus.

The property/casualty insurance industry's surplus reached a record high of $521 billion at year-end 2007, up $32 billion from 2006. The increase in surplus is down significantly from the $61 billion in 2006, mainly due to lower underwriting profits ($19 billion in 2007 versus $31 billion in 2006) and a significant reduction in unrealized capital gains (a $0.5 billion loss in 2007 versus a $21 billion gain in 2006). The premium-to-surplus ratio dropped to 0.85:1, a level not seen since year-end 1998 near the peak of the stock market bubble of the late 1990s.

Exhibit 4 **Workers Compensation Investment Returns Remain Below Historical Average**



p Preliminary
*Adjusted to include realized capital gains to be consistent with 1992 and after
Investment Gain on Insurance Transactions includes Other Income
Source: 1990–2006, A.M. Best Aggregates & Averages; 2007p, NCCI

WORKERS COMPENSATION CALENDAR YEAR RESULTS

NCCI's preliminary analysis indicates that the workers compensation combined ratio for private carriers was 99% for 2007, up from 93% in 2006 (Exhibit 3). This is the second straight year of underwriting gains for the line, and it may be the first time in modern history that has happened. It does mark the end of five years of consistently improving combined ratios and indicates that the underwriting cycle has peaked.

The change in the combined ratio breaks down as follows:

- The loss ratio increased a bit more than a point to 60%
- The loss adjustment expense ratio is up a point to 14.6% of premium
- The underwriting expense ratio to premium rose 3 points to 23%
- The dividend ratio remains about 1% of premium

The underwriting expense ratio change is worth a couple of additional comments. From 2003 until 2005, the underwriting expense ratio had been hovering around 22%. Then in 2006 it took an unexpected drop of 2 points to 20%. For 2007, the underwriting expense ratio returned to a more normal level, up a point from the levels seen between 2003 and 2005, due to the decreased premium base.

Once again, California has a significant impact on these countrywide numbers for workers compensation private carriers. If California were excluded, the combined ratio for the remainder of the country would be about 104%, somewhat less remarkable than the 99% including that state. Results continue to be favorable in California, although not as favorable as a couple of years ago.

The investment gain associated with workers compensation insurance transactions is about 12% of premium, up a bit from the 10% we have been seeing in recent years (Exhibit 4). The level remains down dramatically from the late 1990s, when interest rates were higher and the stock market produced large gains. The increase this year is due to larger WC reserves in relation to WC premium as a result of the continued reserve strengthening of recent years, and falling premium. This fact, combined with a 14% increase in the property/casualty industry's investment income and realized gains, results in an increase in the investment gain ratio to premium for workers compensation.

Combining the underwriting gain with the investment gains, the result is a Pre-Tax operating gain of 13% (Exhibit 5). After including the investment gain on surplus and paying federal income taxes, the workers compensation industry earned about its cost of capital for the second straight year.

WORKERS COMPENSATION NET WRITTEN PREMIUM

Net written premiums for workers compensation, including the state funds, continued to decline in 2007, dropping almost 6% to $43 billion (Exhibit 6). The private carriers also lost premium in 2007, dropping about 3% to $37.5 billion. The opening of the West Virginia marketplace to private carriers on July 1, 2008 will offer some opportunity to write premium that previously has not been available under the monopolistic fund system.

ACCIDENT YEAR RESULTS

Analyzing experience on an accident year basis can provide additional insights about the underlying performance of "long tail" lines like workers compensation without the distortions of prior year reserve adjustments.

The workers compensation insurance industry experienced its fifth consecutive year of underwriting gains on an accident year basis. NCCI estimates the combined ratio for Accident Year 2007 at 92% (Exhibit 7). On an accident year basis, the current underwriting cycle peaked in 2006 at a combined ratio of 84%. Since Accident Year 1999 (the bottom of the cycle), the combined ratio declined more than 55-points to the low point in 2006. Much of the improvement in the accident year combined ratios resulted from significant increases in carrier pricing since 1999 and the reforms in California and Florida. If we exclude California from the 2007 accident year combined ratio, we estimate that it becomes about 97% for the rest of the country.

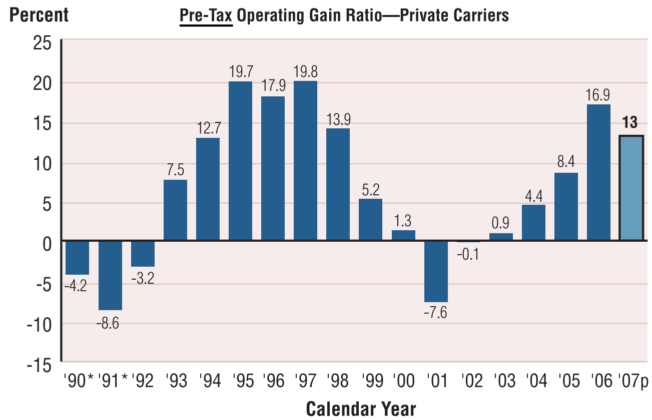
RESERVE POSITION IMPROVES AGAIN

The private carrier reserve position improved yet again in 2007. NCCI's estimate of the reserve position for the private carriers as of December 2007 shows a very slight $2 billion deficiency (Exhibit 8). This is a $2 billion improvement from 2006. After allowing for the permissible discounting of the indemnity reserves for lifetime pension cases, the reserve position becomes slightly more than adequate. Our analysis shows that the industry has made substantial progress on its reserve position over the last six years, eliminating a $21 billion inadequacy. With the cycle turning, the industry will need to work hard to keep its reserve position solid.

BUREAU RATE/LOSS COST CHANGES

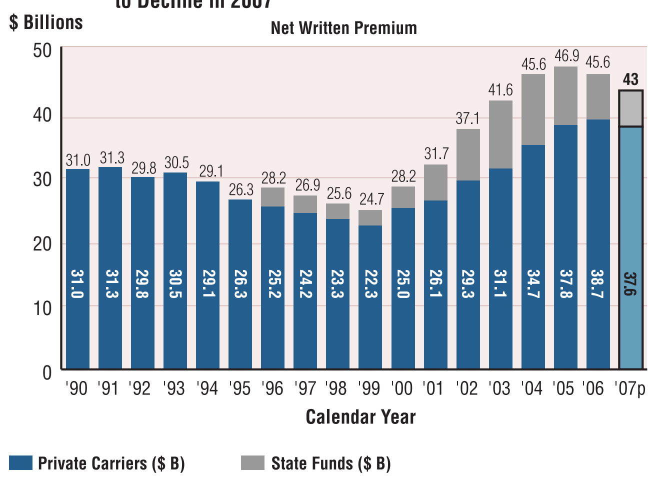
Exhibit 9 displays a history of bureau rate and loss cost changes since 2000. Excluding the impact of the California changes (which were heavily affected by significant systems problems and subsequent reform-related reductions), the average changes for the rest of the states are quite modest until 2007. For 2007 and 2008, we see some modest decreases for states other than California as the rapid frequency declines in recent years, combined with payroll growth,

Exhibit 5 Workers Compensation Results Declined



p Preliminary
*Adjusted to include realized capital gains to be consistent with 1992 and after
Operating Gain equals 1.00 minus (Combined Ratio less Investment Gain on Insurance Transactions and Other Income)
Source: 1990–2006, A.M. Best Aggregates & Averages; 2007p, NCCI

Exhibit 6 Workers Compensation Premium Continues to Decline in 2007



p Preliminary
Source: 1990–2006 Private Carriers, A.M. Best Aggregates & Averages, 2007p, NCCI
1996–2007p State Funds: AZ, CA, CO, HI, ID, KY, LA, MO, MT, NM, OR, RI, TX, UT Annual Statements
State Funds available for 1996 and subsequent

Exhibit 7 Accident Year Combined Ratio—Another Underwriting Gain in 2007

p Preliminary
Accident Year data is evaluated as of 12/31/07 and developed to ultimate
Source: Calendar Years 1998–2006, A.M. Best Aggregates & Averages; Calendar Year 2007p and Accident Years 1998–2007p, NCCI analysis based on Annual Statement data
Includes dividends to policyholders

more than offset loss severity increases resulting in declining bureau loss costs/rates in many states. The continued favorable experience in Florida after the 2003 reforms also contributed to the declines in the bureau values.

Carrier discounting from bureau loss costs/rates continued to increase, dropping 2 more points in 2007 to –4% in NCCI states (Exhibit 10).

INDEMNITY AND MEDICAL AVERAGE CLAIM COSTS

NCCI estimates that the average workers compensation indemnity claim cost increased 4% in 2007 (Exhibit 11). This is slightly lower than the 5% increase in 2006 and is only modestly higher than the change in average wage levels last year. In stable workers compensation systems, one would expect that the average change in indemnity claim costs would approximate the change in the average wage level. The exhibit shows that average indemnity cost increases have moderated in recent years (2002–2007) compared to the 1994–2001 era. From 1994–2001 the average annual increase in indemnity claim costs was over 7% versus the approximately 3% increase since then.

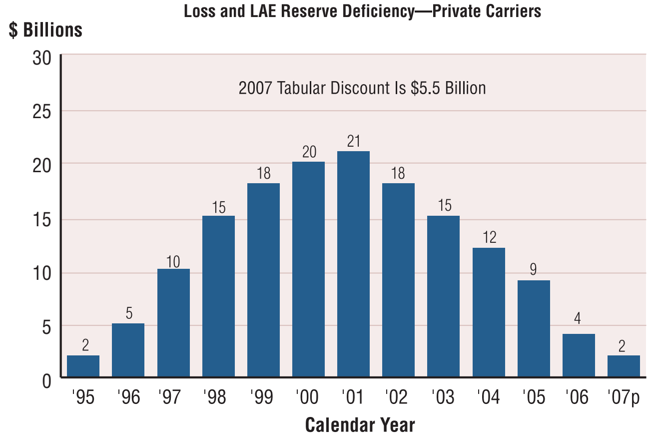
Medical average claim costs per lost time claim continued their upward march last year albeit at a somewhat slower pace than recent years (Exhibit 12). NCCI estimates that the change in average medical claim costs per lost time claim was up 6% in 2007. It is the lowest increase in average medical claims costs since 1995. Although 6% is the smallest increase in years, it is still outpacing the Medical CPI for 2007, which increased 4%. For NCCI states, medical benefits are getting very close to 60% of total losses, a milestone that likely will be reached in 2008.

CLAIM FREQUENCY CONTINUES TO DECLINE

Based on a preliminary analysis of data in NCCI states, the frequency of lost-time claims declined 2.5% in 2007 (Exhibit 13). This is a significant tempering of the near 7% declines for the prior two years and returns the decline in frequency closer to the historic average of a 3–4% decline per year. The reduction in the frequency decline in 2007 may have played a role in the reduction in the severities increases we saw above. If the drop in smaller claims was not as significant as the prior

Exhibit 8 **Workers Compensation Reserve Deficiencies Continue to Decline**

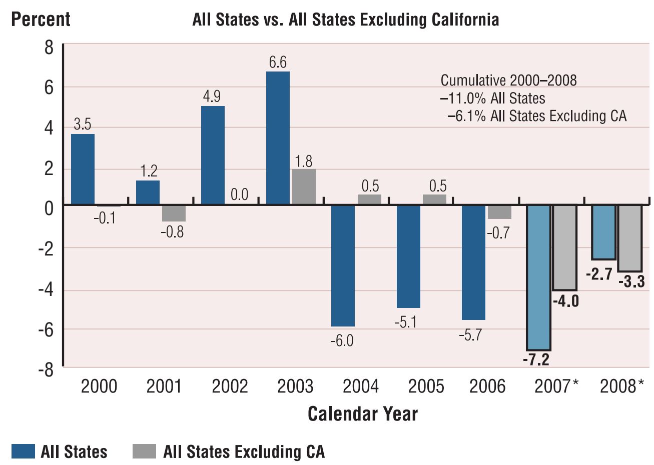
Loss and LAE Reserve Deficiency—Private Carriers



p Preliminary
Considers all reserve discounts as deficiencies
Loss and LAE figures are based on NAIC Annual Statement data for each valuation date and NCCI latest selections
Source: 1995–2007p, NCCI analysis

Exhibit 9 **Average Approved Bureau Rates/Loss Costs**

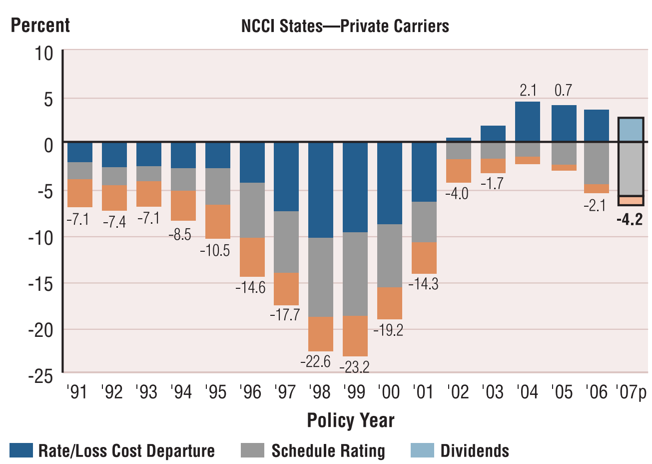
All States vs. All States Excluding California



* States approved through 4/11/08
Countrywide approved changes in advisory rates, loss costs, and assigned risk rates as filed by the applicable rating organization

Exhibit 10 **Impact of Discounting on Workers Compensation Premium**

NCCI States—Private Carriers



p Preliminary
NCCI benchmark level does not include an underwriting contingency provision
Dividend ratios are based on calendar year statistics
Based on data through 12/31/07 for the states where NCCI provides ratemaking services

two years, it would lower the increase in average severities we saw in 2007.

Our research indicates that the decline in claim frequency is a long-term phenomenon related to improved technology and competitive market forces and their application in the economy to create ever safer workplaces over time. However, some have speculated that the current economic slowdown could produce an increase in frequency as more workers lose their jobs. Exhibit 14 shows that for the last four recessions, frequency declines have continued and may have accelerated somewhat during each recession. NCCI will continue to analyze and monitor the frequency change closely to make sure that we are able to detect any changes in the recent pattern of decline.

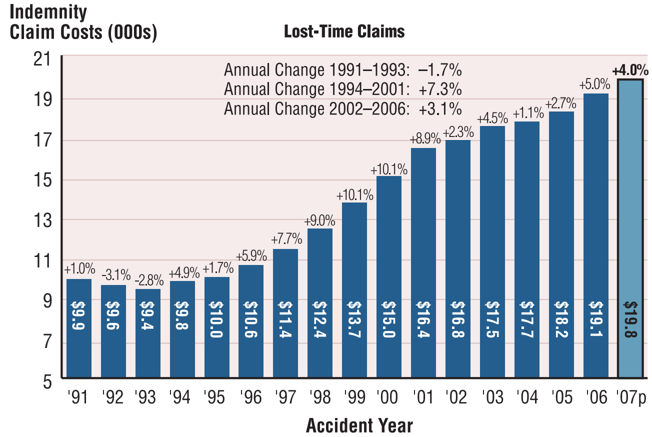
RESIDUAL MARKET UPDATE

Depopulation of the residual market continues at an accelerating pace in 2007 and 2008. Premiums have dropped to about $1 billion for Policy Year 2007, down from $1.2 billion in 2006 (Exhibit 15). Although most states are depopulating nicely, as one would expect at this point of the underwriting cycle, a few states continue to struggle to get their residual markets depopulating as rapidly as one would hope. Overall, the market share of the residual market pools serviced by NCCI for 2007 dropped to about 8%, down from about 10% in 2006. This is a great improvement from the 13% market share peak that was reached in 2004 in this cycle.

Up until recently, most of the businesses returning to the voluntary market were larger (greater than $10,000 of premium) policies. Beginning in 2007, we also are seeing a significant number of the smaller policies returning to the voluntary market. This is indicative of the healthy competition present in most states' workers compensation markets.

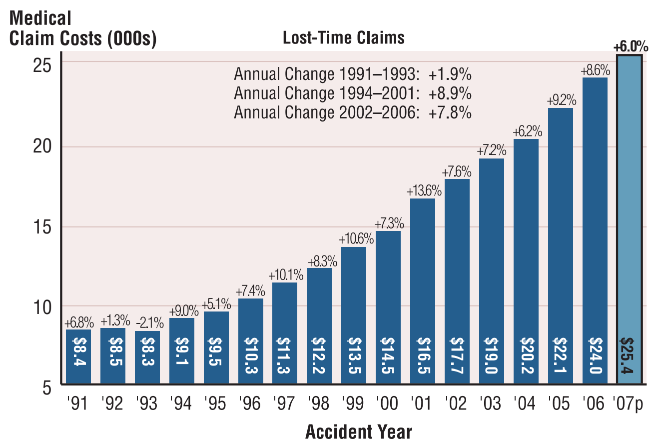
The combined ratio for the residual market pools continues the recent pattern of being in the 108%–112% range of recent years (Exhibit 16). The combined ratio is above our objective of self-funded residual markets; however, just four states contribute almost 90% of that underwriting loss, leaving most pools at or near our self-funded objective. We continue to strive for self-funded residual markets in states where NCCI files the rates for the residual market.

Exhibit 11 Workers Compensation Indemnity Claim Costs Growth Is Moderate



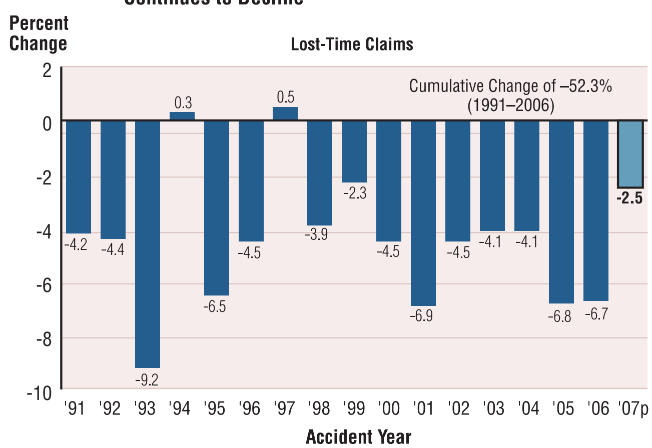
2007p: Preliminary based on data valued as of 12/31/07
1991–2006: Based on data through 12/31/06, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies

Exhibit 12 Workers Compensation Claim Cost Trends—Growth Continues in 2007



2007p: Preliminary based on data valued as of 12/31/07
1991–2006: Based on data through 12/31/06, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies

Exhibit 13 Workers Compensation Lost-Time Claim Frequency Continues to Decline



2007p: Preliminary based on data valued as of 12/31/07
1991–2006: Based on data through 12/31/06, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies

TERRORISM RISK INSURANCE PROGRAM REAUTHORIZATION ACT OF 2007 (TRIPRA)

Late in 2007, Congress reauthorized the Terrorism Risk Insurance Program for seven years with some modest changes (Exhibit 17). This should provide a little more certainty to the market than the two year extensions that had been the recent pattern of reauthorizations. The most significant change in TRIPRA from the prior version was the inclusion of domestic terrorism in the program.

As of this writing, NCCI is working with its catastrophe modeler to remodel the terrorism exposure, both to conform to TRIPRA parameters and to include the most up-to-date information on potential losses. Our plan is to make a national filing in our states in the second quarter of 2008 with a proposed effective date of September 1, 2008.

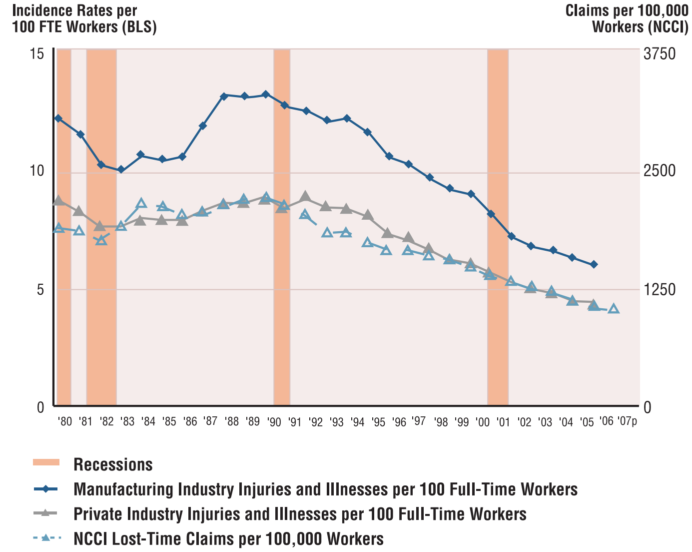
TOPICS OF CURRENT INTEREST

NCCI is in the midst of a review of the Experience Rating Plan. This is the first major review of the plan in over a decade. We will be examining all plan parameters, including the eligibility threshold. The extensive review will continue into 2010. Even though we have not extensively reviewed the plan in awhile, we do monitor its performance almost every year.

Exhibit 18 is a summary of our regular performance testing of the Plan. We divided the data into five groups of risks by the size of their experience modification. The group of bars on the left show that the manual loss ratios (before experience modifications are applied) are lowest for the risks with the lowest mods and highest for those with the highest mods. On the right, we display the loss ratios after the application of the experience modifications. In a perfect plan, we would expect the loss ratios for all these groups to be the same. As can be seen, they are virtually identical, indicating that the current plan is performing quite well.

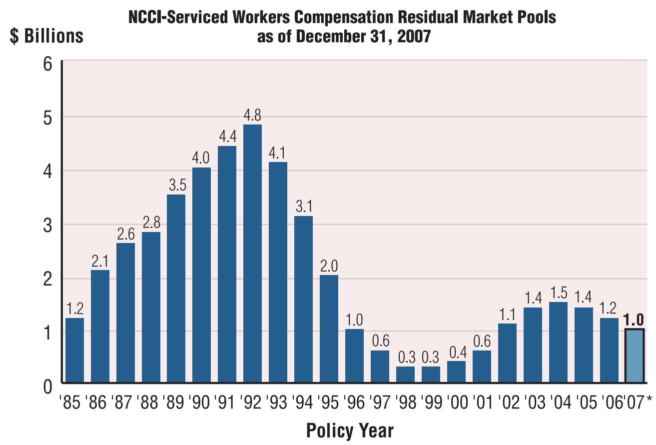
We are also in the middle of modifying our current class ratemaking methodologies. We expect to implement the most major changes to our class ratemaking methods in over 40 years in our 2009–2010 filing cycle. The changes impact the methods we currently use to develop losses as well as how we include a provision for large losses for each class. We are confident that the changes we are making will improve both the accuracy

Exhibit 14 Workplace Injury Incidence Rates Have Shown Declines in Last Four Economic Downturns



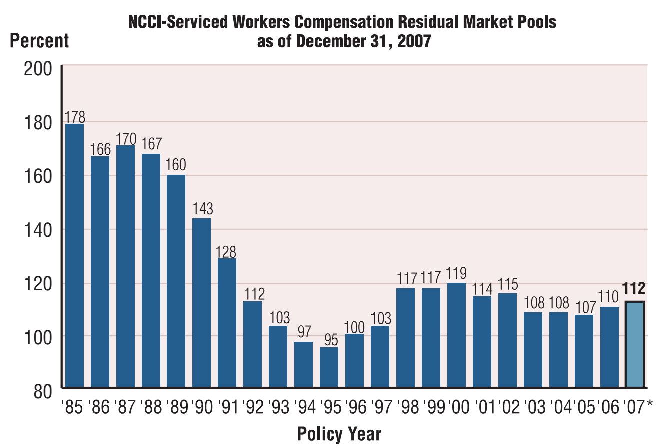
Source: US Department of Labor, Bureau of Labor Statistics (BLS), National Bureau of Economic Research, NCCI Frequency and Severity Analysis

Exhibit 15 Workers Compensation Residual Market Premium Volume Declines



* Incomplete policy year projected to ultimate

Exhibit 16 Workers Compensation Residual Market Combined Ratios



* Incomplete policy year projected to ultimate

and stability of our class rates and loss costs. Stay tuned for more information on these changes in the coming year as implementation gets closer.

LOOKING FORWARD

The workers compensation insurance industry had yet another solid year of financial performance in 2007. All major financial performance measures, continue to perform well. Calendar years underwriting results continue to show an underwriting gain for a second consecutive year. Accident year combined ratios, although increasing last year, still remain at near historically low levels. California favorably impacts the countrywide numbers by about 5 points. In addition, the bottom line financial results after investment income and federal income taxes, while still good, are only at or near historical averages due to the current environment of low interest rates and significant federal income taxes paid.

Other positive trends include:

- Residual markets are depopulating in most states
- Reserves appear adequate
- Frequency continues to decline
- The Federal Terrorism Risk Insurance Program was renewed for seven years

Areas of concern include:

- Medical costs
- Reform challenges
- Low investment returns
- Underwriting cycle

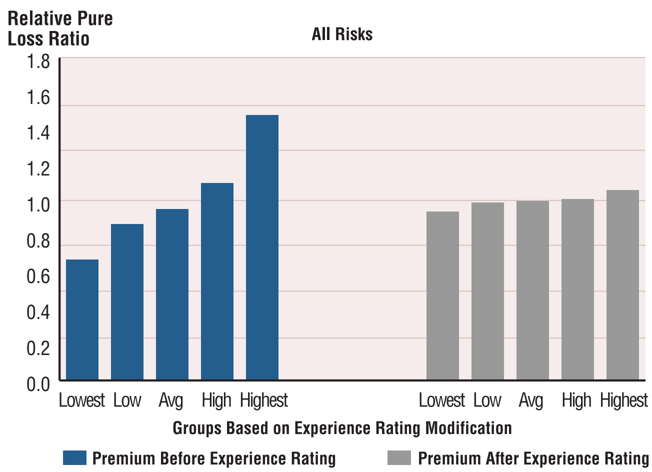
Our hope continues to be that low investment income and relatively stable loss costs will moderate this underwriting cycle compared to the last couple of cycles.

NCCI will continue to work with all of our stakeholders to help ensure that rates and loss costs are adequate, to provide unbiased quantification of the impacts of legislative reform proposals, and to strive for self-funded residual markets. In addition, we will continue to produce pertinent and timely research to help stakeholders understand current and emerging trends impacting workers compensation. All these objectives will help to maintain a healthy workers compensation insurance market that is able to deliver the promised benefits quickly, fairly, and efficiently to the injured worker and provide the proper incentives to have the safest workplaces possible.

Exhibit 17 Terrorism Risk Insurance Provisions

Provision	Original (TRIA)	Extension (TRIEA)	Revision and Extension (TRIPRA)
Coverage	Most commercial lines (med mal, financial guaranty specifically excluded).	All current TRIA lines (except comm. auto, surety, prof. liability, farmowners, burglary and theft).	No new lines of insurance added. Eliminated distinction between foreign and domestic terrorism.
Retentions	7%–10%–15%	17.5%–20%	20%
Fed. Contrib./ Insurer Co-Pay	90%–10%	90%–10% (yr. 1) 85%–15% (yr. 2)	85%–15%
Federal Program Payment Trigger	$5M	$5M (yr. 1 thru 3/31/06) $50M (yr. 1 after 3/31/06) $100M (yr. 2)	$100M
Expiration	12/31/05	12/31/07	12/31/14

Exhibit 18 Experience Rating Plan Performance Testing



Note: Includes nationwide data for all experience rated risks with policy effective dates 01/01/03 thru 12/31/03 at Third Report

BWC FINANCIAL ESTIMATES
Employer Premium Savings

PUBLIC EMPLOYERS TAXING DISTRICTS						
POLICY YEAR	**RATE REDUCTION**	**RATE REDUCTION SAVINGS (000,000)**	**PREMIUM REDUCTION AMOUNT**	**PREMIUM REDUCTION SAVINGS (000,000)**	**REFUND (000,000)**	**TOTAL SAVINGS (000,000)**
1-1-1996	7.30%	$18	20%	$ 47		$ 65
1-1-1997	5.0%	$12	75%	$234		$246
1-1-1998	10.0%	$23				$ 23
1-1-1999	10.0%	$22	75%	$150		$172
1998 Refund					$287	$287
1-1-2000	0%					
2001 Refund					$180	$180
1-1-2001	3.7% Increase	$8.5 Increase	75%	$200		$191.5
1-1-2002	6.4% Increase	$15 Increase	50% + 25% Bonus	$210		$195
1-1-2003	12.1% Increase	$36 Increase	20%	$ 60		$24
1-1-2004	2.0% Increase	$ 6 Increase	20%	$ 61		$ 55
1-1-2005	2.0% Increase	$ 6 Increase				($6)
1-1-2006	1.0% Decrease	$ 4				$4
1-1-2007	3.2% Increase	$ 2 Increase				($2)
1-1-2008	0%					
TOTAL		**$5.5**		**$962**	**$467**	**$1,435**
Total Cumulative Rate Reduction	**9%**					

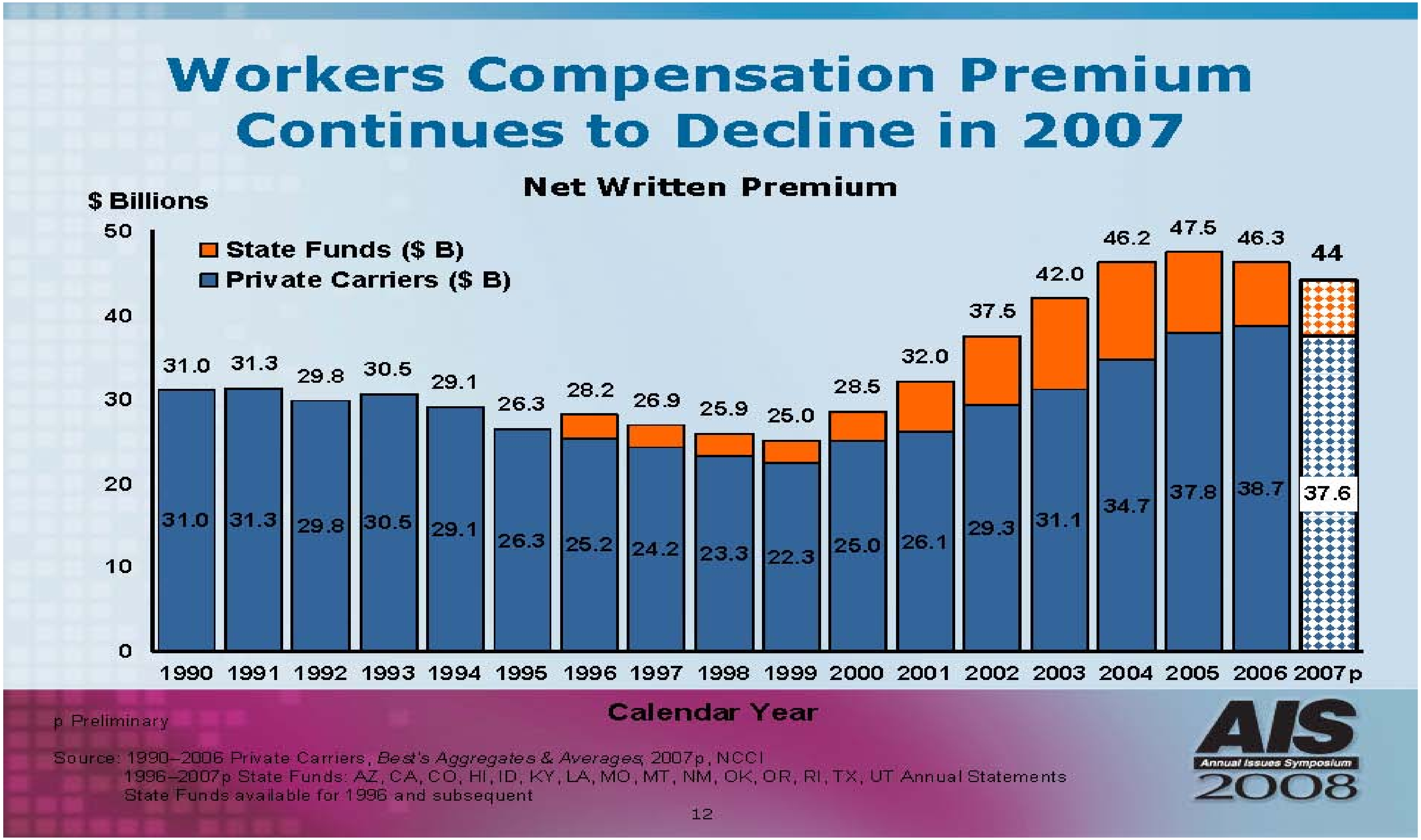
PRIVATE EMPLOYERS						
POLICY YEAR	**RATE REDUCTION**	**RATE REDUCTION SAVINGS (000,000)**	**PREMIUM REDUCTION AMOUNT**	**PREMIUM REDUCTION SAVINGS (000,000)**	**REFUND (000,000)**	**TOTAL SAVINGS (000,000)**
7-1-1995	7.3%	$121				$121
7-1-1996	6.0%	$ 92	20%	$348		$440
7-1-1997	15.0%	$247	75%	$1,284		$1,531
7-1-1998	6.0%	$ 80				$80
7-1-1999	3.0%	$ 40				$40
1-1-1999 to 6-30-1999			75%	$630		$630
7-1-1999 to 12-31-1999			75%	$622		$622
1998 Refund					$1,951	$1,951
7-1-2000	5.0%	$ 70				$70
7-1-2000 to 12-31-2000			75%	$640		$640
1-1-2001 to 6-30-2001			75%	$690		$690
7-1-2001	5.0%	$ 75				$75
7-1-2001to 12-31-2001			75%	$650		$650
1-1-2002 to 6-30-2002			75%	$650		$650
7-1-2002 to 6-30-2003	0	0				$0
7-1-2002 to 12-31-2002			75%	$600		$600
7-1-2003 to 6-30-2004	9% Increase	$130 Increase				($130)
7-1-2003 to 12-31-2003			20%	$170		$170
1-1-2004 to 6-30-2004			20%	$170		$170
7-1-2004 to 6-30-2005	2% Increase	$36 Increase				($36)
7-1-2004 to 12-31-2004			20%	$176		$176
7-1-2005 to 6-30-2006	4.4% Increase	$61 Increase				($61)
7-1-2006 to 6-30-2007	3.9% Increase	$30 Increase				($30)
TOTAL		**$468**		**$6,630**	**$1,951**	**$9,049**
Total Cumulative Rate Reduction	**26.5%**					
GRAND TOTAL						**$10,484**

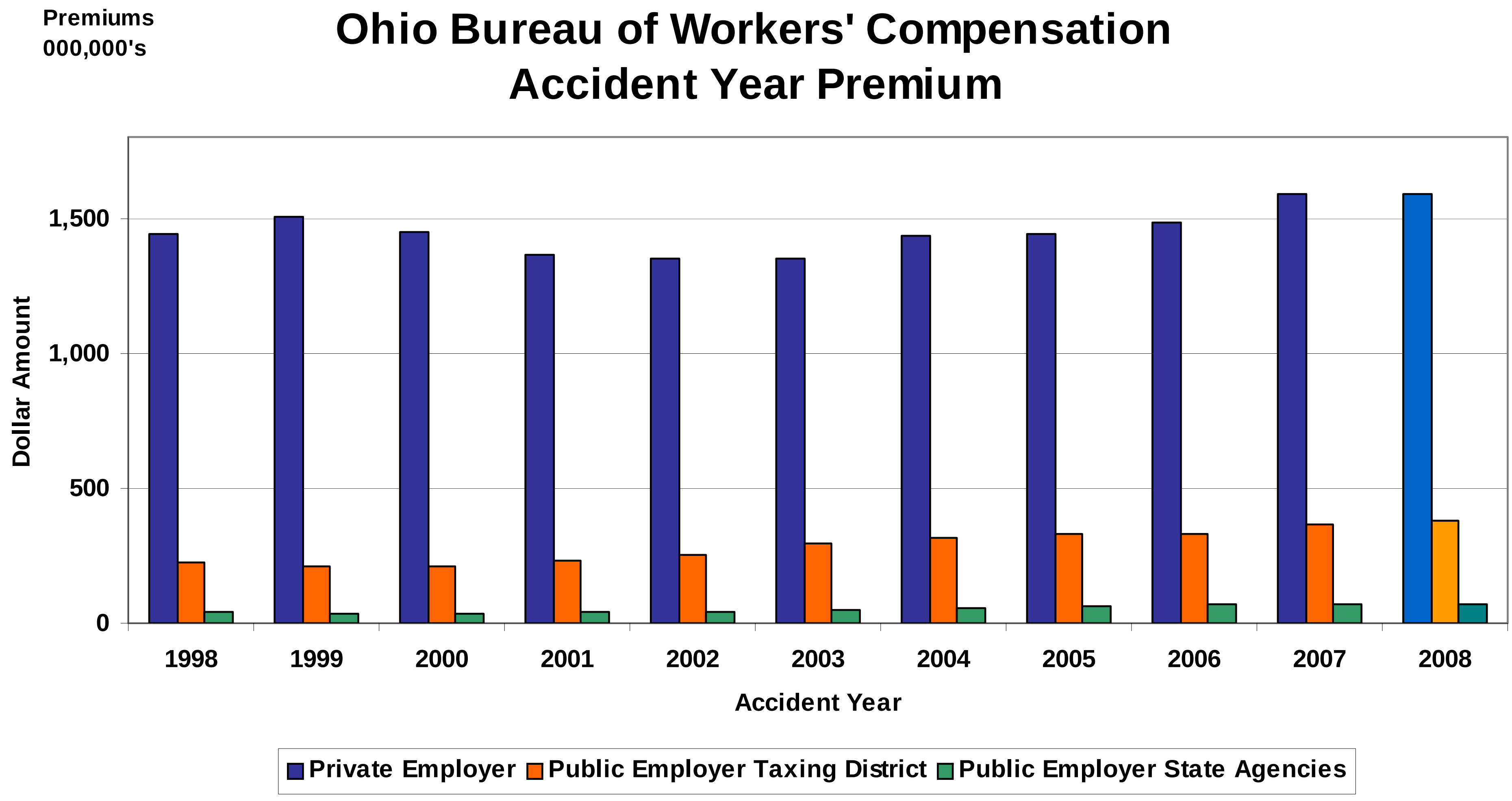
Dividend and Rebate Amounts reflect change in Retro Methodology (8/1999)
Prepared by: Actuarial Division

Ohio Bureau of Worker's Compensation Actuarial Committee

John R. Pedrick, FCAS, MAAA, Chief Actuarial Officer
Elizabeth G. Bravender, CPCU, Director of Actuarial

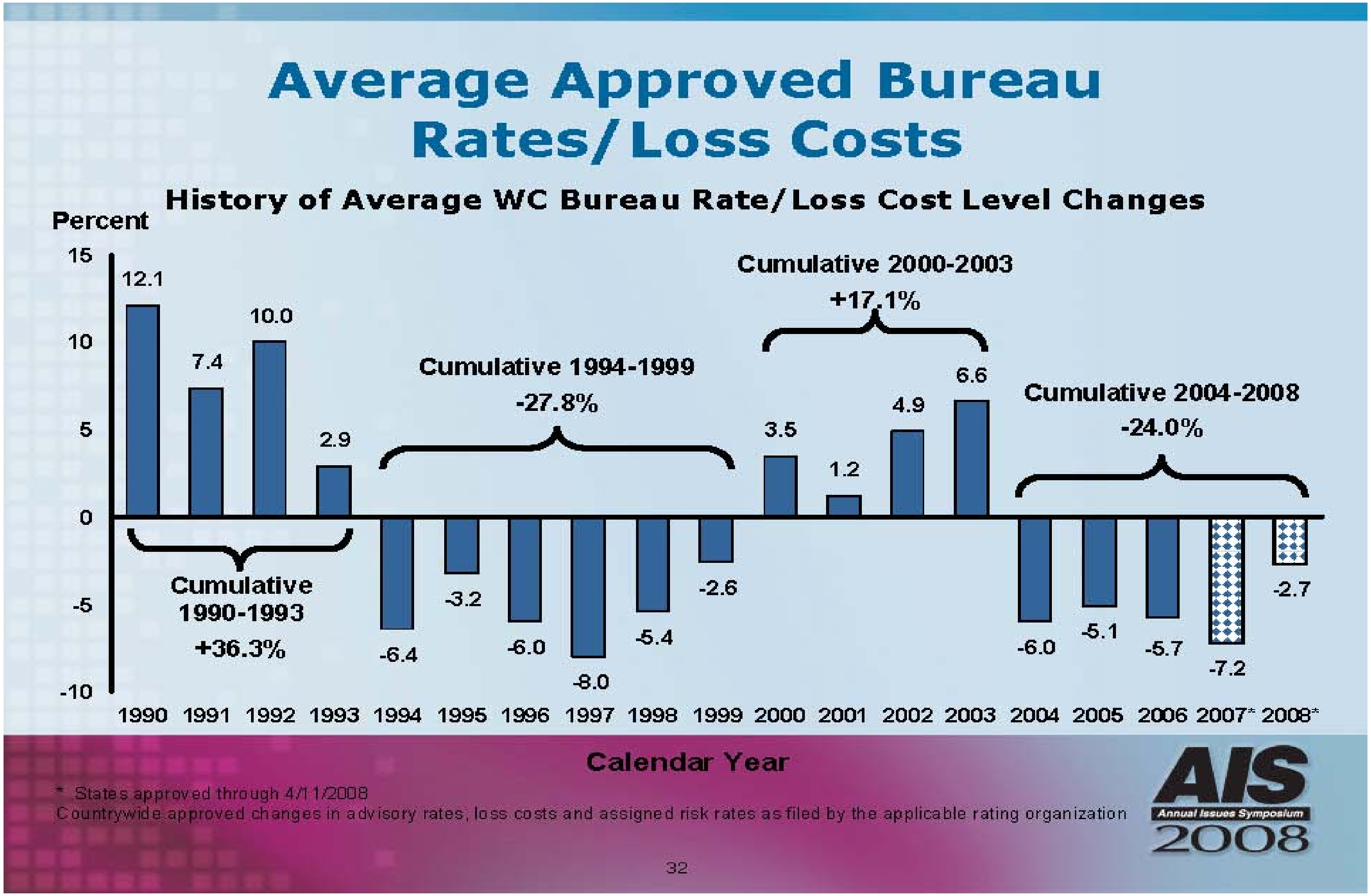
Ohio Bureau of Workers' Compensation



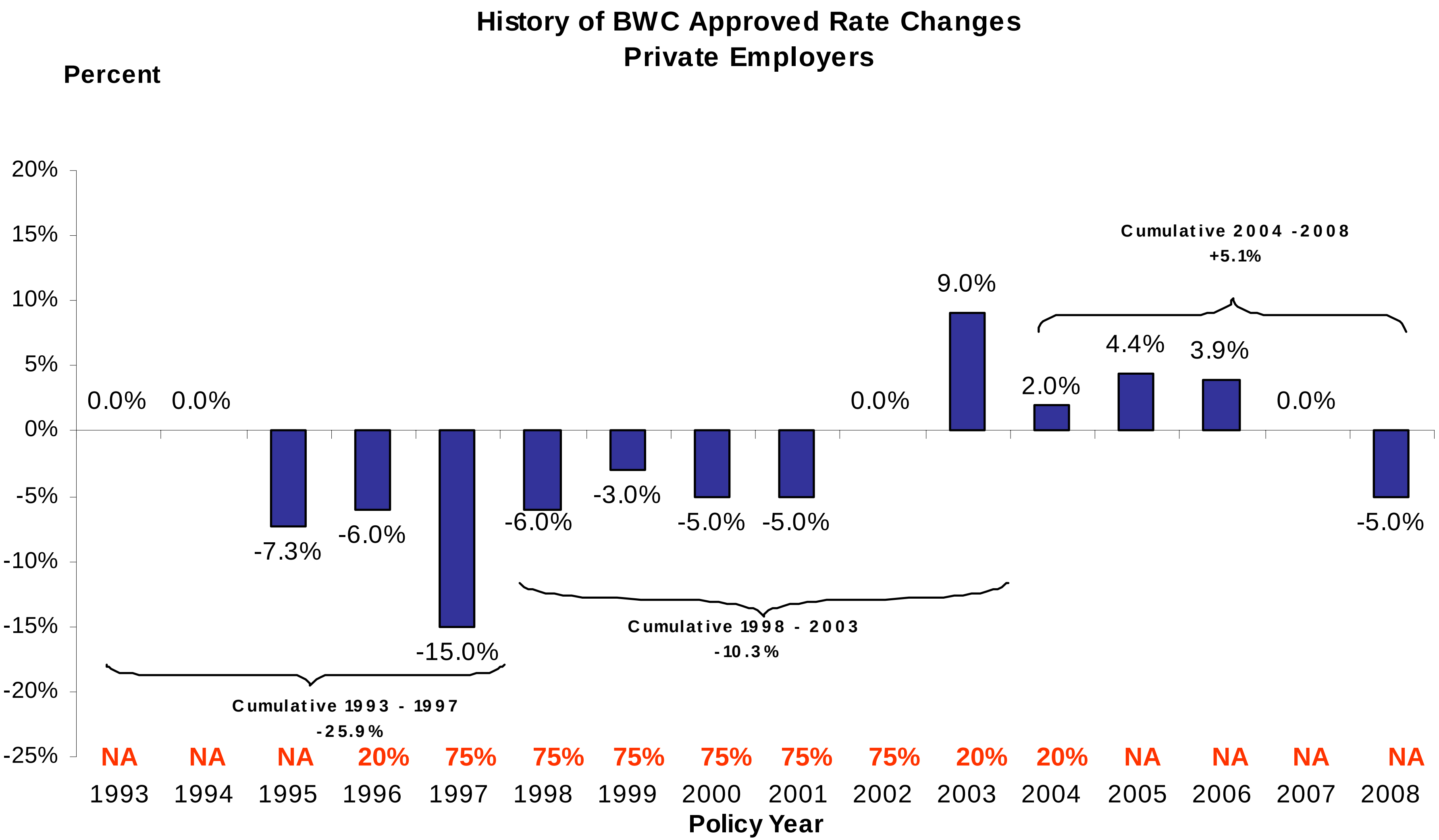

Premiums
000,000's
Ohio Bureau of Workers' Compensation
Accident Year Premium
Dollar Amount
1,500
1,000
500
0
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
Accident Year
Private Employer
Public Employer Taxing District
Public Employer State Agencies

Workers' Compensation Premium Drivers

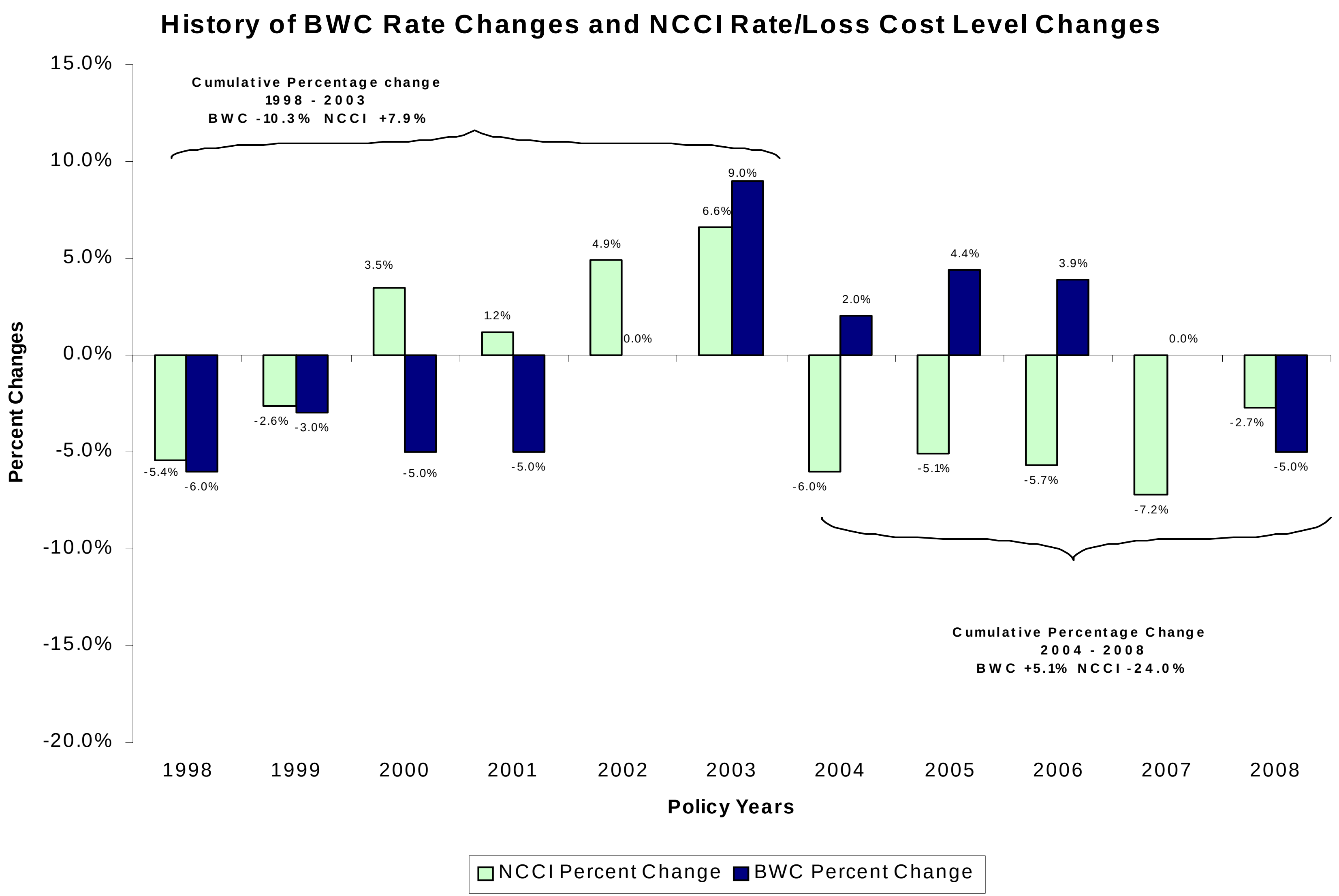
Ohio Bureau of Workers' Compensation



Ohio Bureau of Workers' Compensation

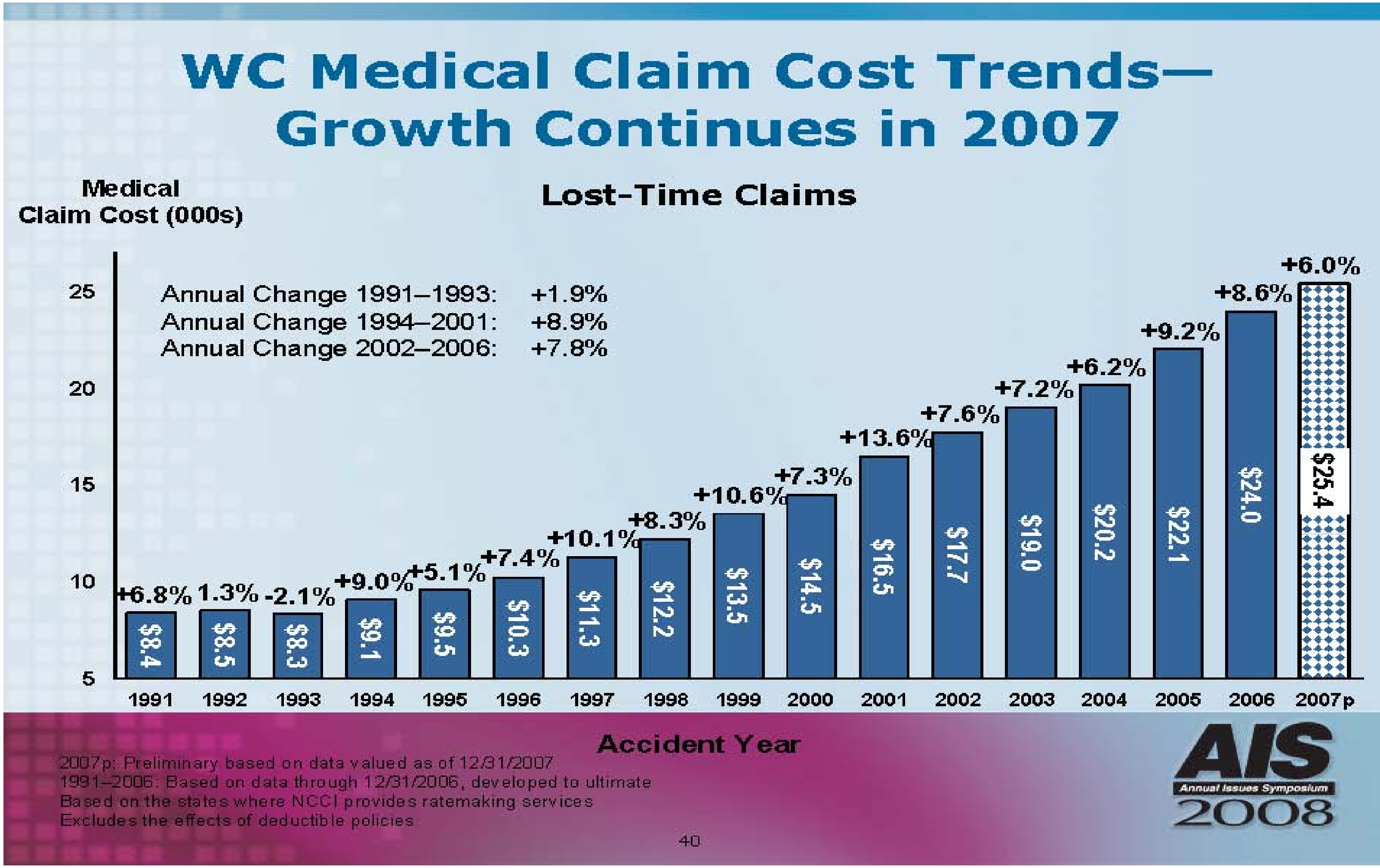


Red Font indicates dividend percents – see handout for details

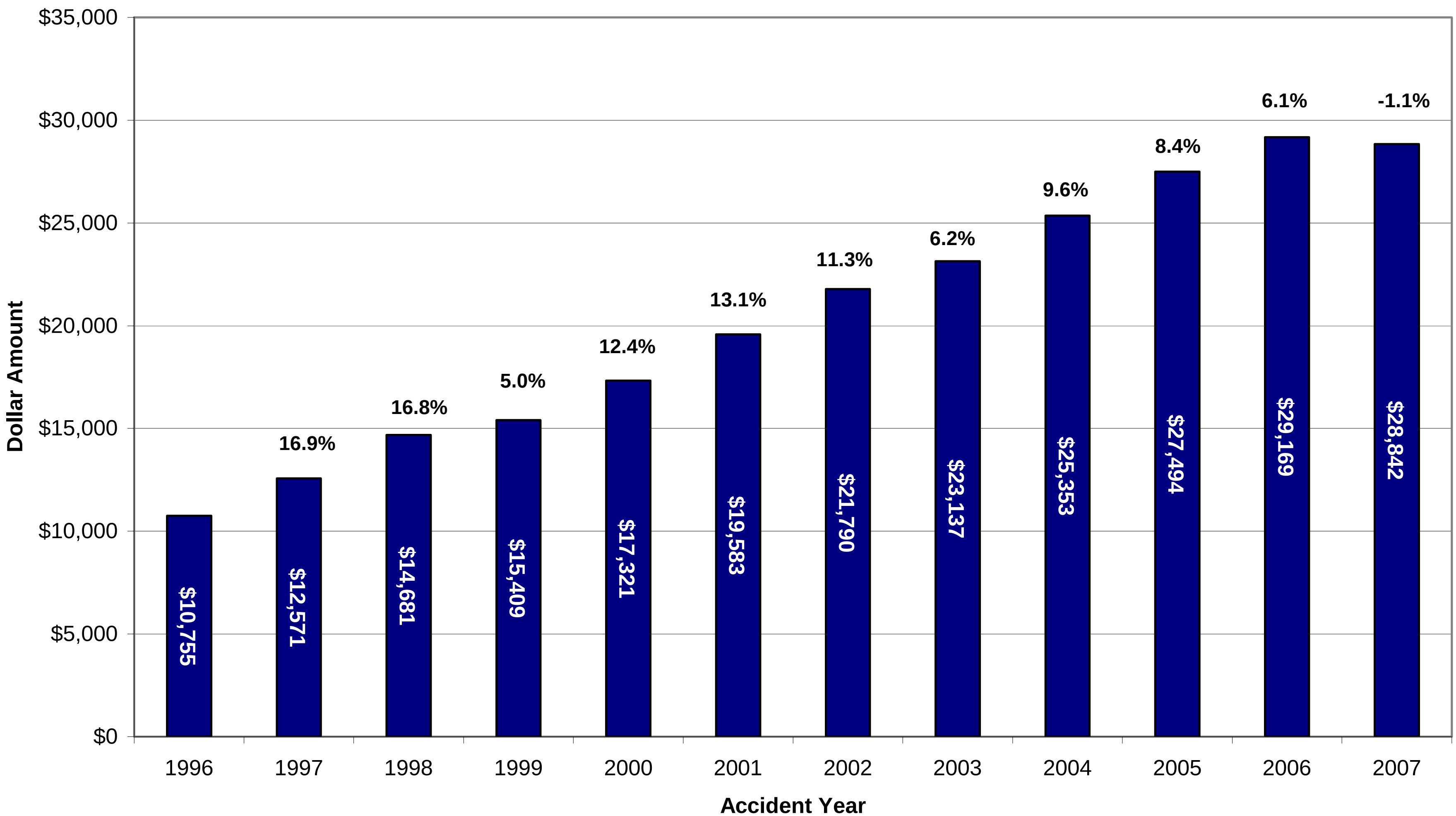


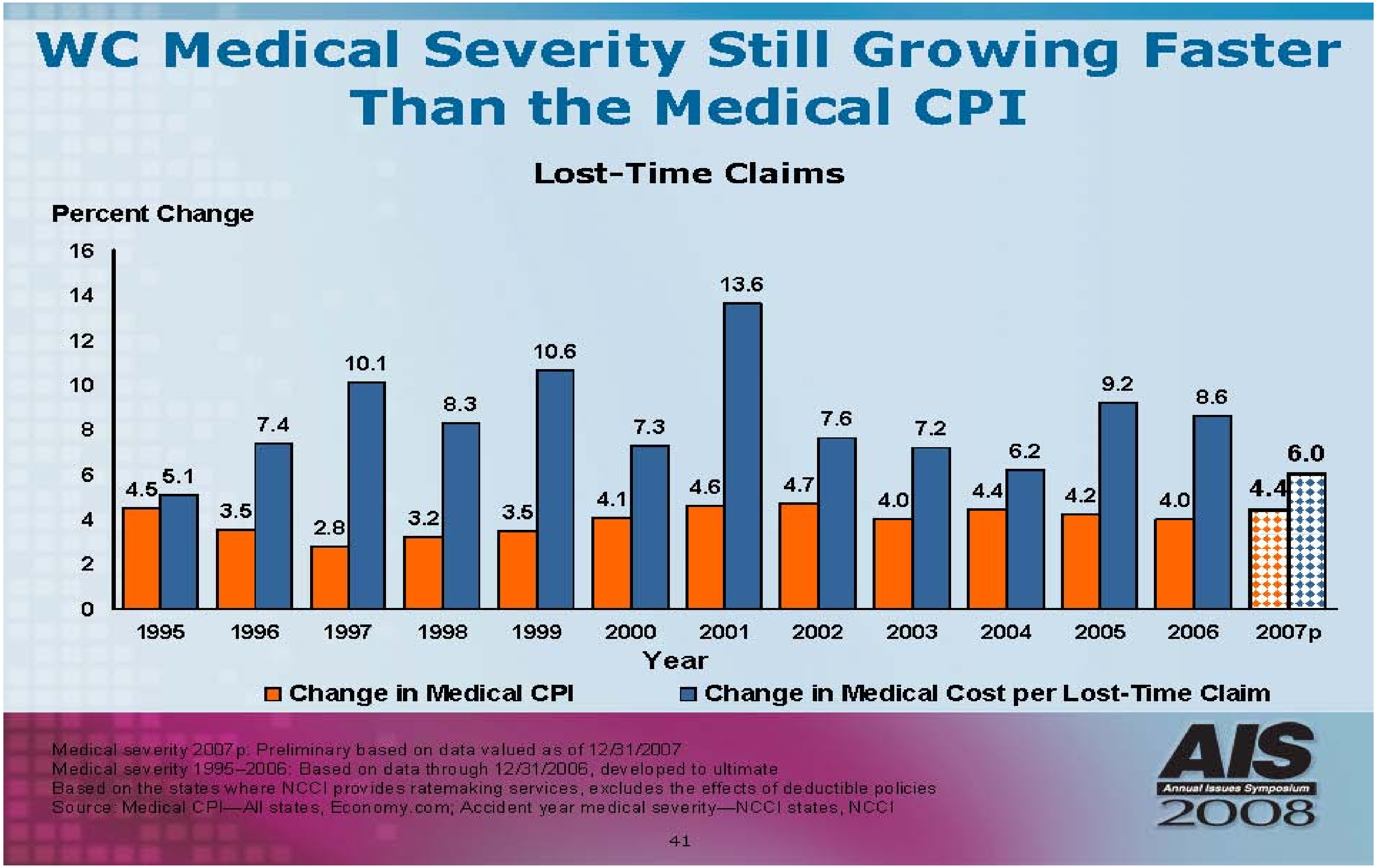
History of BWC Rate Changes and NCCI Rate/Loss Cost Level Changes
Cumulative Percentage change
1998 - 2003
BWC -10.3% NCCI +7.9%
15.0%
10.0%
5.0%
0.0%
-5.0%
-10.0%
-15.0%
-20.0%
Percent Changes
-5.4%
-6.0%
-2.6%
-3.0%
3.5%
-5.0%
1.2%
-5.0%
4.9%
0.0%
6.6%
9.0%
-6.0%
2.0%
-5.1%
4.4%
-5.7%
3.9%
-7.2%
0.0%
-2.7%
-5.0%
Cumulative Percentage Change
2004 - 2008
BWC +5.1% NCCI -24.0%
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
Policy Years
NCCI Percent Change
BWC Percent Change

Workers' Compensation Loss Drivers

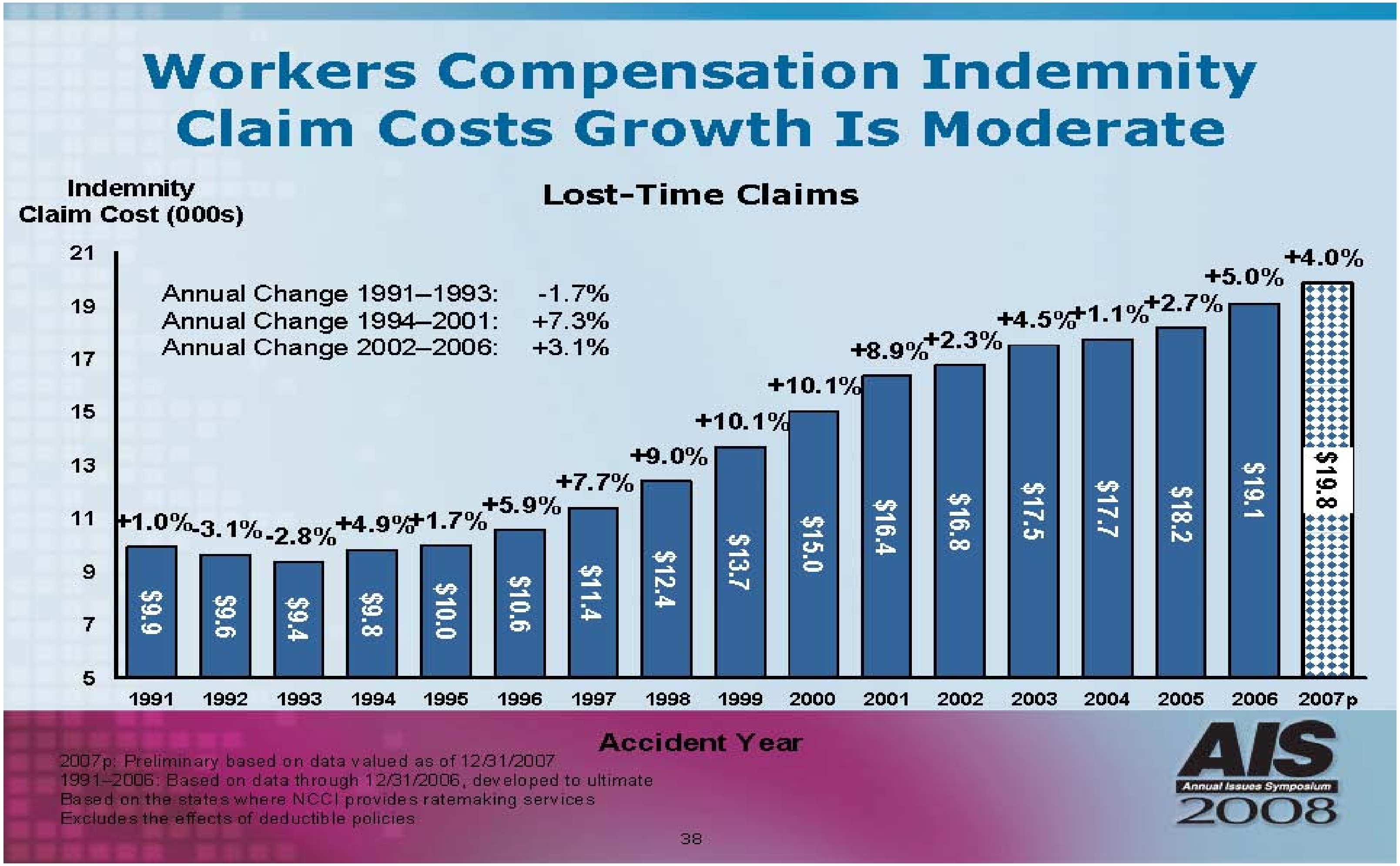

WC Medical Claim Cost Trends—
Growth Continues in 2007
Medical Claim Cost (000s)
Lost-Time Claims
Annual Change 1991–1993: +1.9%
Annual Change 1994–2001: +8.9%
Annual Change 2002–2006: +7.8%
25
20
15
10
5
+6.8%
1.3%
-2.1%
+9.0%
+5.1%
+7.4%
+10.1%
+8.3%
+10.6%
+7.3%
+13.6%
+7.6%
+7.2%
+6.2%
+9.2%
+8.6%
+6.0%
$8.4
$8.5
$8.3
$9.1
$9.5
$10.3
$11.3
$12.2
$13.5
$14.5
$16.5
$17.7
$19.0
$20.2
$22.1
$24.0
$25.4
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007p
Accident Year
2007p: Preliminary based on data valued as of 12/31/2007
1991–2006: Based on data through 12/31/2006, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies
40
AIS
Annual Issues Symposium
2008

Ohio Bureau of Workers' Compensation
Average Medical Cost per
Lost-Time Claim and Percentage Change



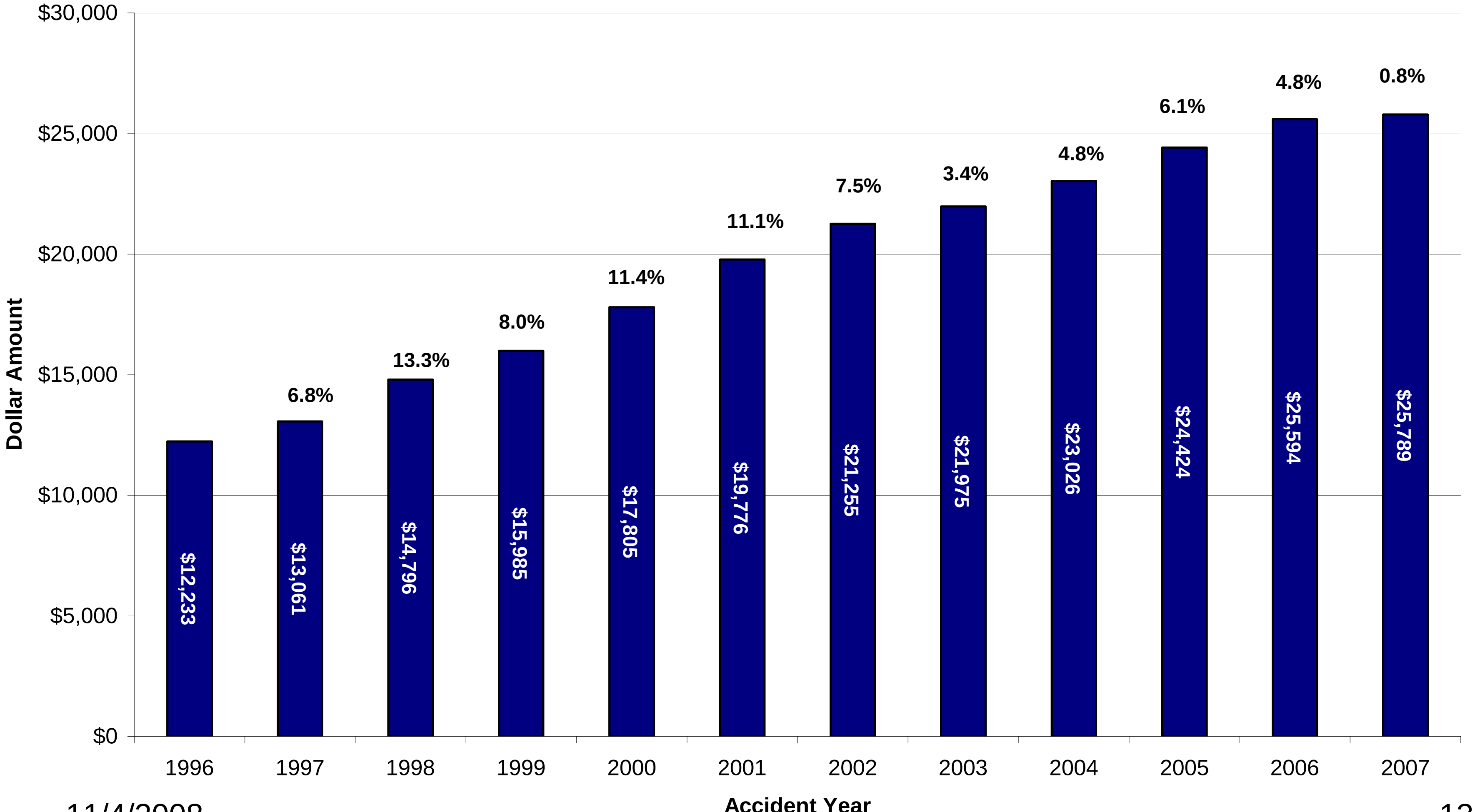

WC Medical Severity Still Growing Faster Than the Medical CPI
Lost-Time Claims
Percent Change
16
14
12
10
8
6
4
2
0
1995
4.5
5.1
1996
3.5
7.4
1997
2.8
10.1
1998
3.2
8.3
1999
3.5
10.6
2000
4.1
7.3
2001
4.6
13.6
2002
4.7
7.6
2003
4.0
7.2
2004
4.4
6.2
2005
4.2
9.2
2006
4.0
8.6
2007p
4.4
6.0
Year
Change in Medical CPI
Change in Medical Cost per Lost-Time Claim
Medical severity 2007p: Preliminary based on data valued as of 12/31/2007
Medical severity 1995–2006: Based on data through 12/31/2006, developed to ultimate
Based on the states where NCCI provides ratemaking services, excludes the effects of deductible policies
Source: Medical CPI—All states, Economy.com; Accident year medical severity—NCCI states, NCCI
41
AIS
Annual Issues Symposium
2008

Ohio Bureau of Workers' Compensation



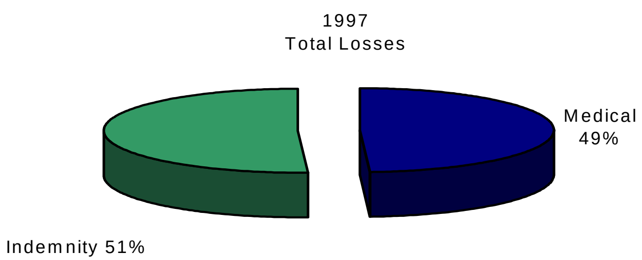
Ohio Bureau of Workers' Compensation

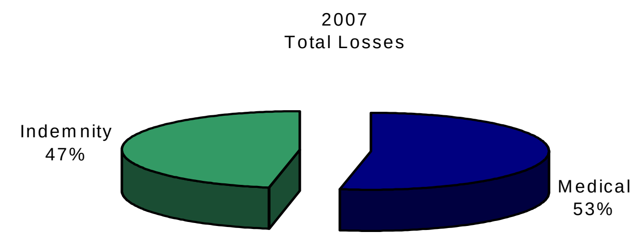
**Ohio Bureau of Workers' Compensation
Average Indemnity Cost Per
Lost-Time Claim and Percentage Change**



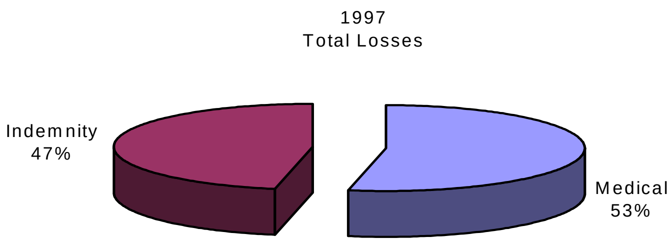
Ohio Bureau of Workers' Compensation

Ohio Bureau of Workers' Compensation Ratio of Discounted Indemnity and Medical Costs to Total Losses for Accident Years 1997 and 2007

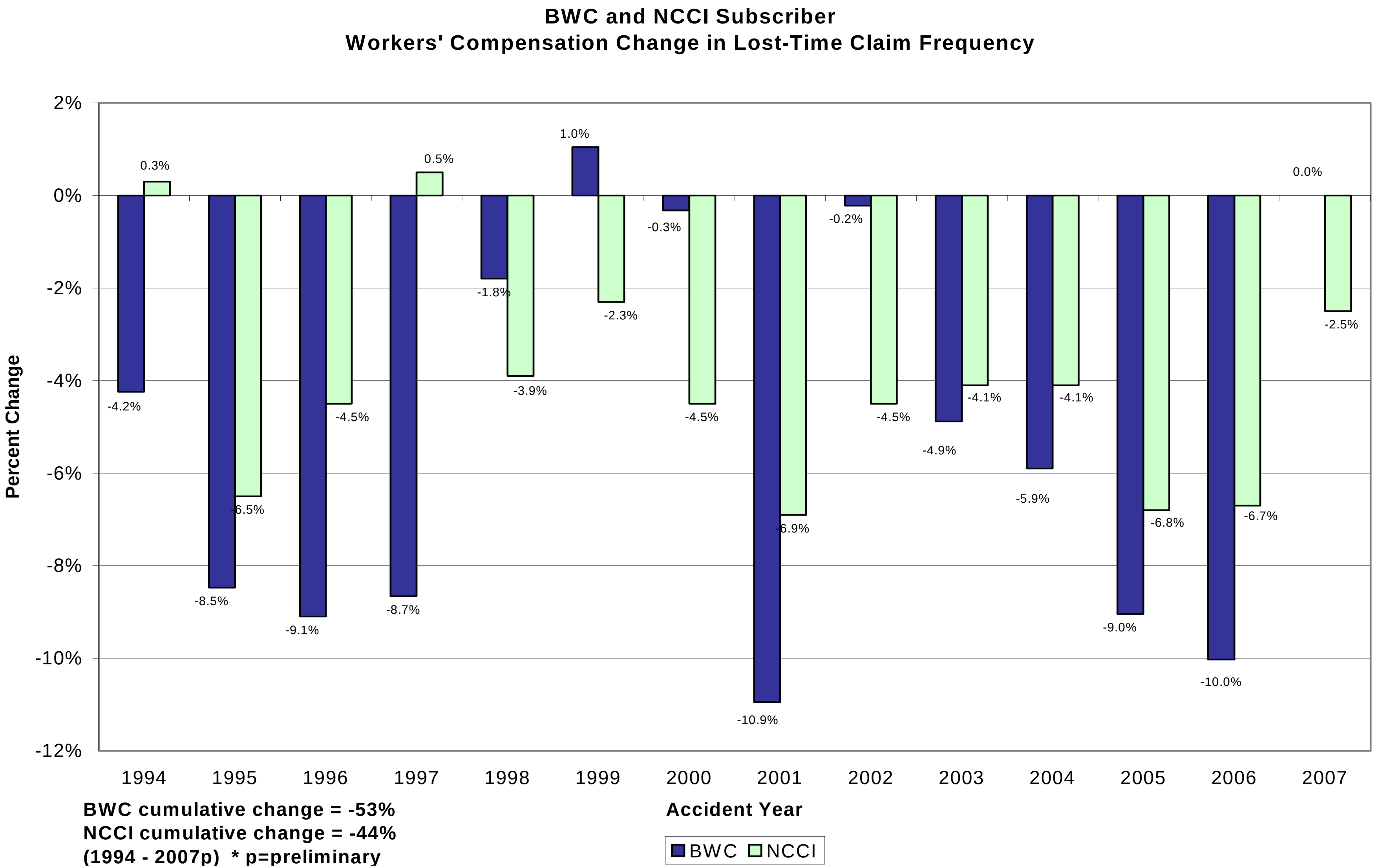




NCCI Ratio of Indemnity and Medical Costs to Total Losses for Accident Years 1997 and 2007

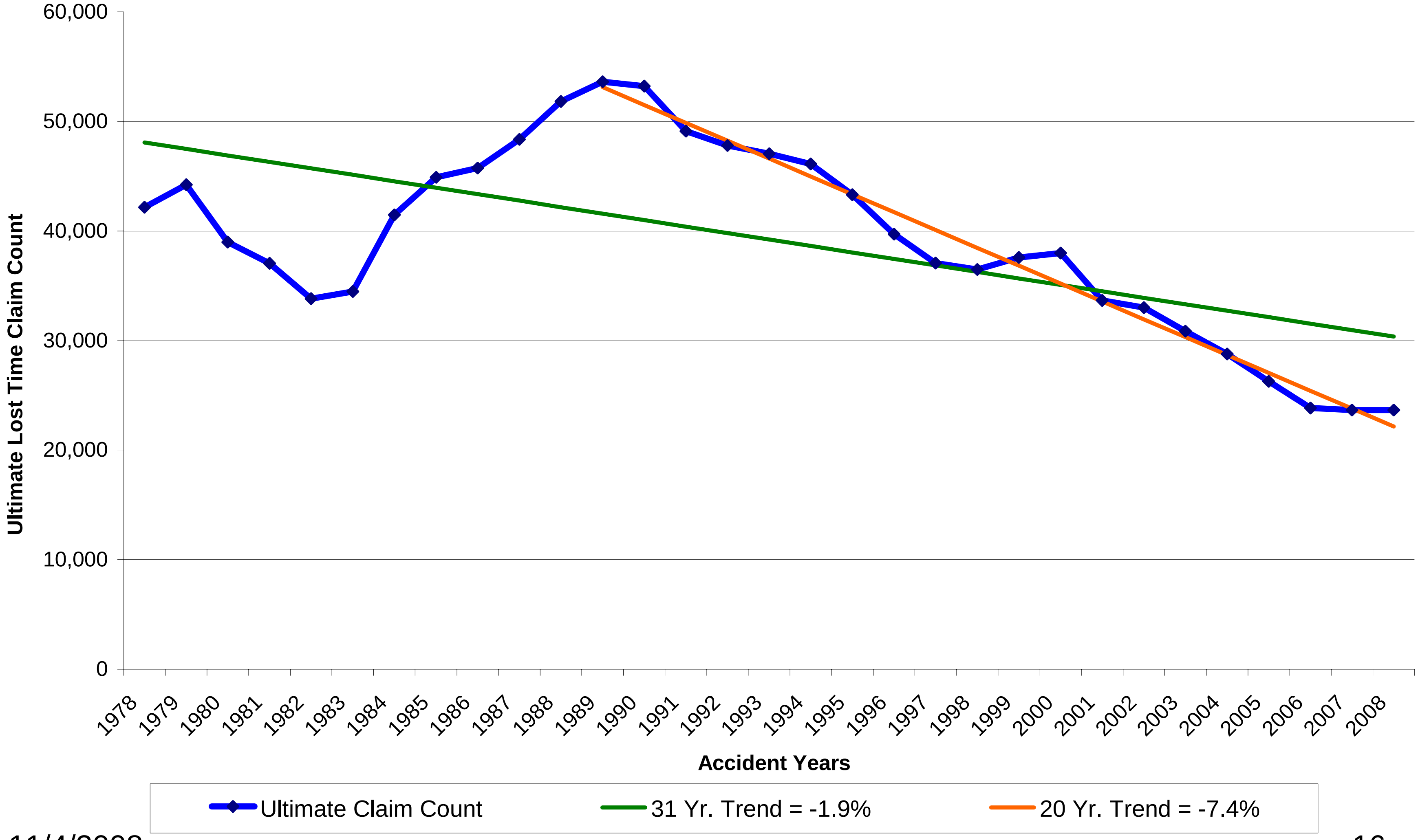


* NCCI Annual Issue Symposium 2008
* All Claims-NCCI States
* NCCI information for 1997 is based on date through 12/31/2006; 2007 is based on data through 12/31/2007
* BWC data is based on Private employer claim costs from the 6/30/2008 Actuarial Audit



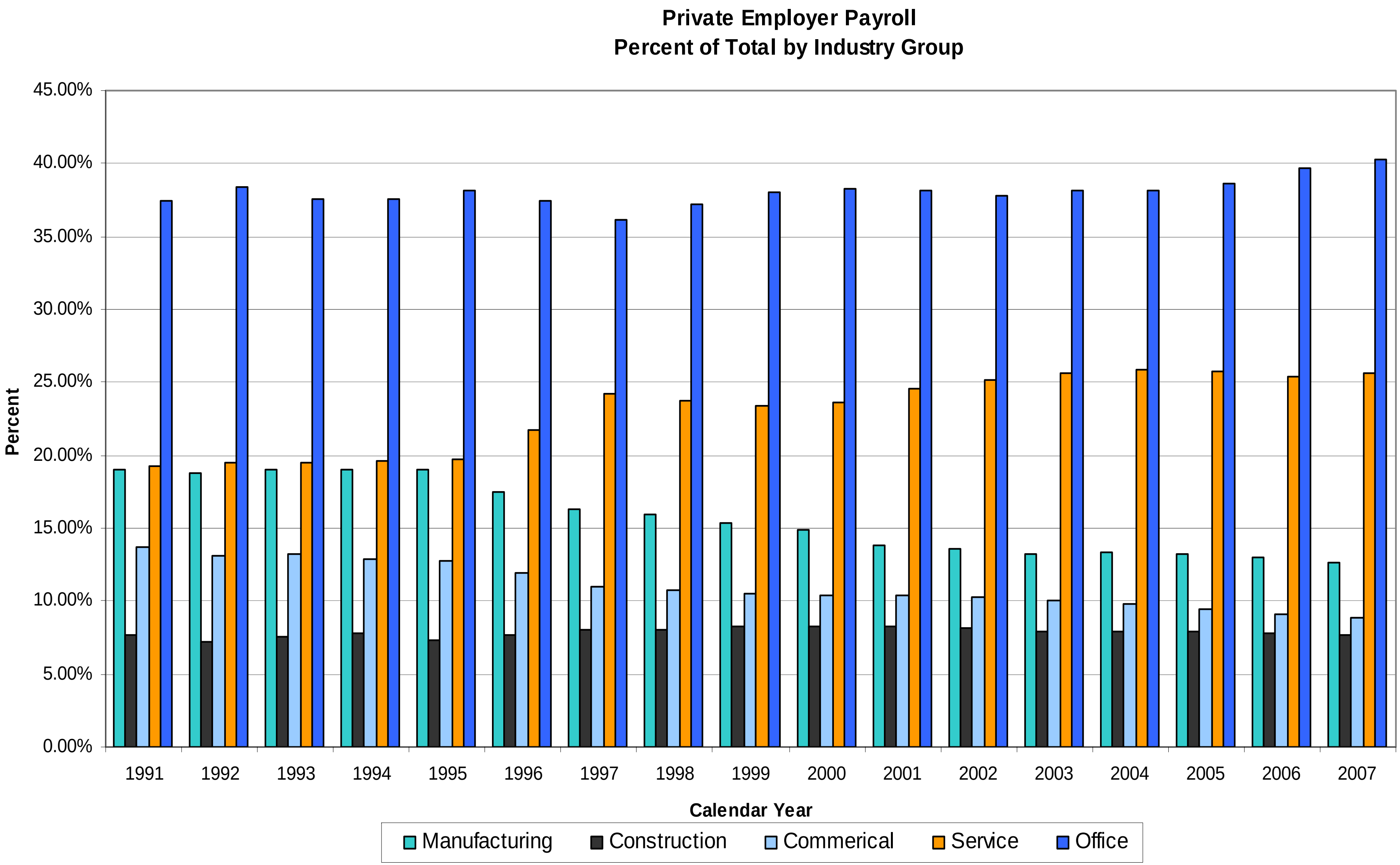
BWC cumulative change = -53%
NCCI cumulative change = -44%
(1994 - 2007p) * p=preliminary

Ohio BWC Ultimate Lost Time Claim Count



State of the Line

Ohio Bureau of Workers' Compensation



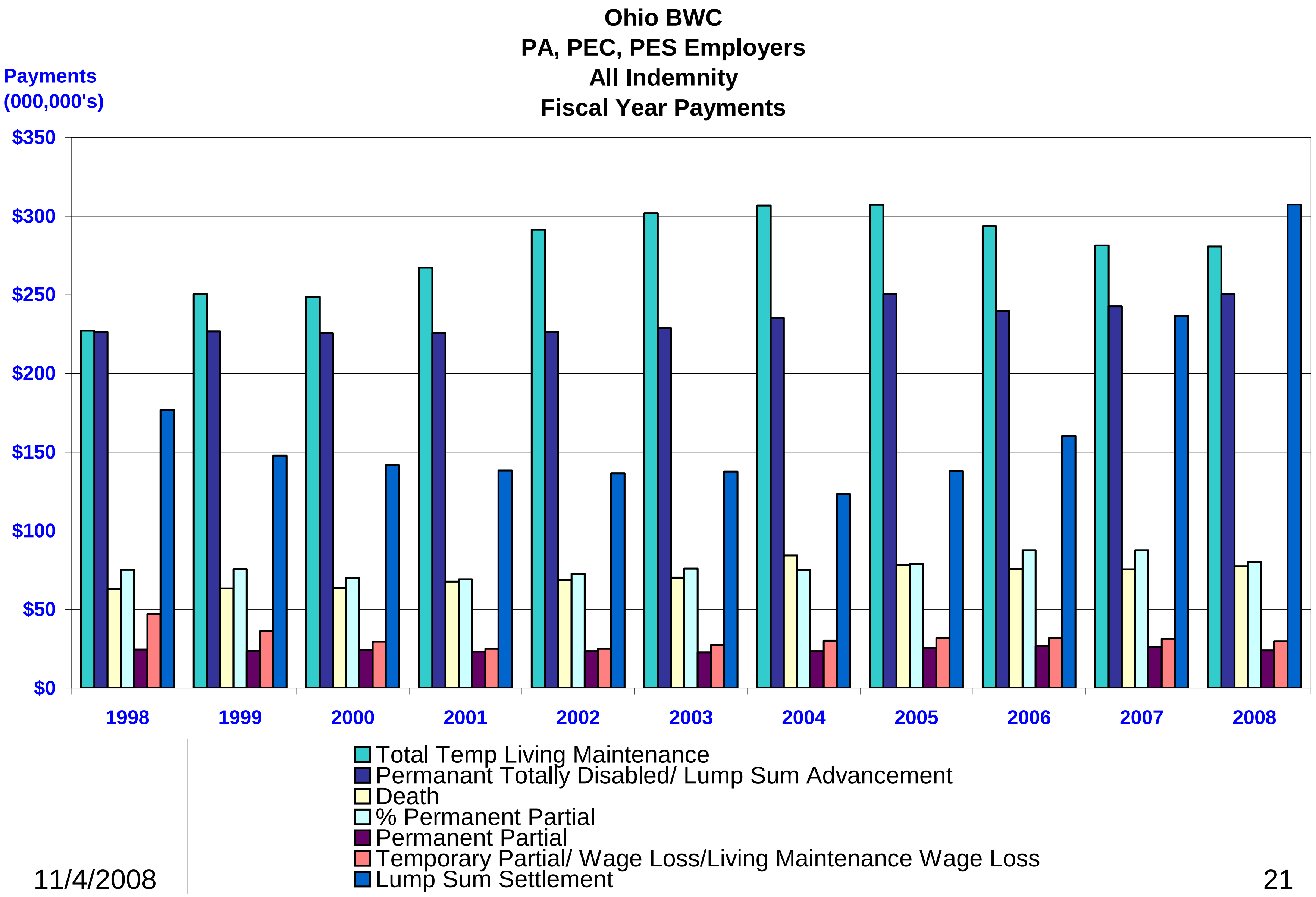
State	Policy Year	Allowed PTD Claims as a Percent of Total Claim Count
Illinois	4/03 to 3/04	0.3%
Indiana	7/03 to 6/04	0.1%
Kentucky	5/03 to 4/04	1%
Michigan	4/03 to 3/04	0.4%
Ohio	7/03 to 6/04	3.0%

Data is from the NCCI annual statistical bulletin

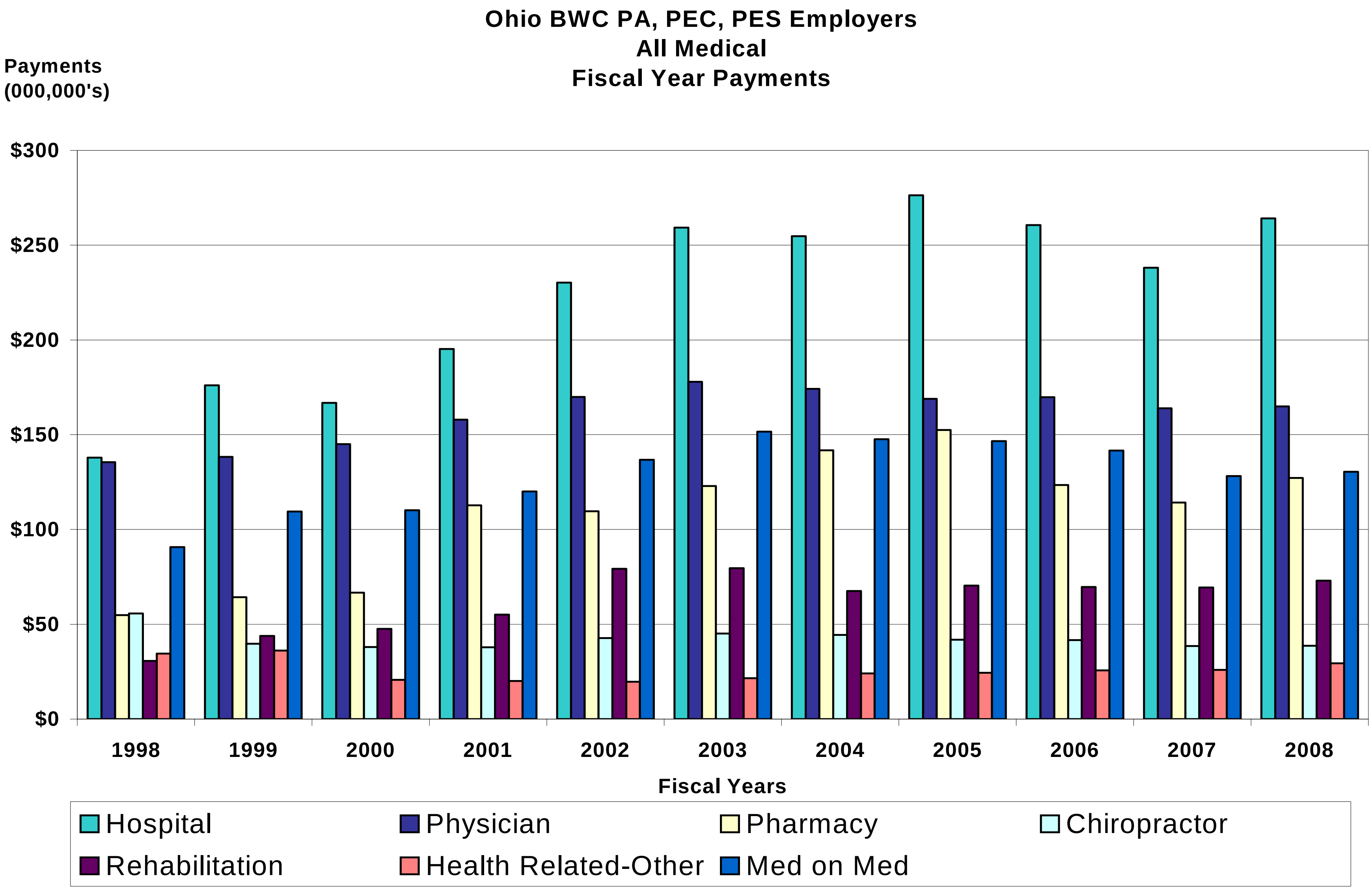
Policy Year	Allowed PTD Claims as a Percent of Total Claim Count
1998	2.3%
1999	2.5%
2000	2.6%
2001	2.6%
2002	2.7%
2003	3.0%
2004	3.2%
2005	3.4%

Ohio Workers' Compensation Historical Claim Payments

Ohio | Bureau of Workers' Compensation



Ohio Bureau of Workers' Compensation



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