

**BWC Board of Directors**  
**Thursday, June 26, 2008, 9:30 AM**  
**William Green Building**  
**Neil Schultz Conference Center**  
30 W. Spring St., 2<sup>nd</sup> Floor (Mezzanine)  
Columbus, OH 43215

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Members Present: William Lhota, Chairman  
James Harris, Vice Chairman  
Alison Falls  
Philip Fulton  
James Matesich  
Larry Price  
David Caldwell  
Robert Smith  
Ken Haffey  
James Hummel  
Charles Bryan

Members Absent: None

**CALL TO ORDER**

Mr. Lhota called the meeting to order at 9:30 am. All members were present. Mr. Lhota introduced each director individually.

**PUBLIC FORUM – PROVIDER ISSUES**

Mr. Lhota emphasized openness and transparency with regard to public forums and the Board of Directors. Such transparency is characterized by verbal discussion, and serves as invaluable guidance to protect stakeholders from loss, as well as benefit the citizens of Ohio in general. It was noted that Bureau staff followed up with everyone that spoke at the April 2008 public forum. Today's public forum shall focus on benefit plans, scope of coverage and rehabilitation, as well as reimbursement method and effective delivery of managed care.

Speakers were pre-registered for five minute presentations. The forum was additionally videotaped, and incorporated into the minutes. Mr. Lhota sincerely thanked everybody for attending and contributing to the forum. Mr. Lhota noted that it is important for the Board to hear from people, and requested that written remarks be sent to the Board.

**RECESS:**

Mr. Lhota recessed the meeting at 11:20 am.

**BWC Board of Directors**  
**Friday, June 27, 2008, 8:00 AM**  
**William Green Building**  
**Neil Schultz Conference Center**  
30 W. Spring St., 2<sup>nd</sup> Floor (Mezzanine)  
Columbus, OH 43215

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Members Present: William Lhota, Chairman  
James Harris, Vice Chairman  
Charles Bryan  
Alison Falls  
Philip Fulton  
James Hummel  
James Matesich  
Robert Smith  
Kenneth Haffey  
Larry Price  
David Caldwell

Members Absent: None

Others Present: John Williams, Assistant Attorney General

**CALL TO ORDER**

Mr. Lhota reconvened the meeting at 8:00 am.

**ROLL CALL**

Roll call was taken and all members were present.

**MINUTES OF MAY 30, 2008 MEETING**

Upon motion of Mr. Harris, seconded by Mr. Hummel, the three sets of minutes for May, 2008 were approved unanimously.

**AGENDA**

Mr. Lhota announced that subsequent to the Governance Committee report, there shall be discussion and approval of the 2009 calendar, as well as changes for 2008.

Motion was made by Mr. Price, and seconded by Mr. Matesich, that the Board of Directors enter into executive session for the purpose of discussing pending litigation. Roll call was taken and the motion passed 11-0. The Board entered executive session at 9:05 am.

Motion was made by Mr. Bryan, seconded by Ms. Falls, as follows: that the Board of Directors end executive session and reconvene in public meeting. Roll call was taken, and the motion passed 11-0. The Board reconvened at 9:25 am.

## **COMMITTEE REPORTS**

### **Actuarial Committee:**

Presentation was made by the committee chairman, Mr. Bryan. He reported that the committee discussed the comprehensive rating plan report that was presented by the Bureau. The report was included, and is incorporated into the minutes. Mr. Bryan introduced motion that was essentially a two part motion, with the first part focusing on approving the plan to improve experience rating, and the second part focusing on the private employer credibility table. Discussion was made by the Board concerning this matter. Mr. Matesich expressed concern over pieces of information yet to be discovered by Deloitte and the external consultant. However, the discussion as led by Mr. Fulton tempered his concerns, as it is clear that the Board will be able to address new pieces of information as they arise. Mr. Price indicated that the Bureau staff did an outstanding job in obtaining stakeholder input and supplying information. The report and supporting documentation is laced with references to workers' compensation system stakeholders. It clearly illustrates accountability on the part of the Board and the Bureau staff and notes that outreach to the stakeholders has been done.

Motion was made by Mr. Bryan, and seconded by Mr. Smith, as follows: that the Bureau Board of Directors consents to the Administrator's recommendation relating to the development of the elements of a comprehensive rating plan, and that the Board of Directors approve changes to the private employer credibility table of Rule 4123-17-05.1 of the Administrative Code. This motion consents to the Administrator proceeding with the development of the elements of the comprehensive rating plan as presented at the actuarial committee. The Administrator shall provide the Board with periodic updates on the development of the rating plan, and shall present to the Board any rule changes relating to the plan at the appropriate times during the development of the plan. In addition, the motion consents to the amendment of Rule 4123-17-05.1, "credibility and maximum value of a loss," to be effective July 1, 2009, applicable to the payroll reporting period of July 1, 2009, through June 30, 2010, with a maximum credibility of 77 per cent, as provided in the appendix to the rule. Roll call was taken and the motion passed 11-0.

There will be a more complete report on MIRA II for the next meeting to permit additional testing and use of the system.

### **Audit Committee:**

Presentation was made by the committee chair, Kenneth Haffey. Motion was made by Mr. Haffey, and seconded by Mr. Fulton, as follows: that the Bureau of Workers Compensation Board of Directors approve the Administrator's Recommendation to amend Rule 4123-6-16 of the Administrative Code, "Dispute Resolution for HPP Issues," relating to the time for the Bureau to issue an order after an independent medical examination. This motion

consents to the Administrator amending Rule 4123-6-16 as presented at the Audit Committee. Roll call was taken, and the motion passed 11-0.

Tracy Valentino, Chief of Fiscal and Planning, made a presentation on the fiscal year 2009 administrative budget. Motion was made by Mr. Haffey, seconded by Mr. Harris, as follows: that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendation for the fiscal year 2009 annual administrative budget. This motion consents to a fiscal year 2009 budget of \$308.8 million dollars for the operation of the Bureau of Workers' Compensation and the Bureau of Workers' Compensation Board of Directors as presented at the Audit Committee. Roll call was taken, and the motion passed 11-0.

Mr. Haffey reported that Joe Bell, Chief of Internal Audit, presented the fiscal 2009 audit plan, which is a comprehensive plan. Mr. Haffey noted that Joe Montgomery, from the Office of the Inspector General, made a presentation in executive session regarding personnel matters. Finally, Tom Stevens, Bureau Data Security Supervisor, made a presentation to the Audit Committee on computer privacy.

#### **Investment Committee:**

Presentation was made by committee chair, Mr. Smith. Mr. Smith reported that the committee discussed a brochure regarding the Investment Policy Statement. Although some additional edits need to be done to the document, it will be useful as a reference tool regarding the Bureau's Investment Policy Statement. The committee also discussed the RFQ that had been issued for a commingled passive index fund manager for the Public Work-Relief Employers' Fund and the Marine Industry Fundfund. There was discussion with regard to Mercer Consulting conducting further investigation and fact finding with respect to alternatives in addition to Barclays and State Street.

Motion was made by Mr. Smith, seconded by Ms. Falls, as follows: that the Workers' Compensation Board of Directors adopt and approve the recommendation of the Investment Committee to delay the issuance of requests for proposals ("RFPs") for commingled passive indexed investment managers, previously approved by the Board in May 2008, for the reasons set forth in the memorandum of the Bureau's Chief Investment Officer dated June 13, 2008, and to allow consideration of revisions to the Statement of Investment Policy and Guidelines. Roll call was taken and the motion passed 11-0.

Finally, Mr. Smith reported that the committee heard a report by Mercer Consulting regarding the First Quarter 2008 Performance Report. The committee had requested a few formatting changes for future reports from Mercer.

#### **Governance Committee:**

Presentation was made by the committee chair, Ms. Falls. The committee discussed the self assessment process for the Board. This process demonstrates leadership and commitment to continuous self improvement on the part of the Board. The Governance Committee is recommending that Ron O'Keefe, the Board's fiduciary counsel, shall guide

the Board through this process. There is a fourteen question survey to be completed by every director on the Board.

Motion was made by Ms. Falls, seconded by Mr. Matesich, as follows: that the Workers' Compensation Board of Directors adopt the recommendation of the Governance Committee and approve the Board self-assessment process and form. Roll call was taken and the motion passed 11-0.

Discussion was made of the schedule of mandatory reports for the Board and the Administrator. It is important that this schedule receives a high level of attention. A high level of attention will be accomplished, in part, by assigning oversight of reports to specific committees. The committees will be responsible for working with appropriate Bureau staff and setting time tables for completion of the reports. In addition, the Governance Committee will make amendments to the Governance Guidelines during the annual review of that document to reflect this process. Motion was made by Ms. Falls, seconded by Mr. Smith, as follows: that the Workers' Compensation Board of Directors adopt the recommendation of the Governance Committee and approve the schedule and process for the various committees to oversee completion of the mandatory reports of the Board of Directors. Roll call was taken and the motion passed 11-0.

Discussion was made of the educational programs for the Board by Marsha Ryan, Bureau Administrator. The Board has committed a great deal of time to the educational programs, and there have been many favorable comments regarding the educational programs.

Discussion was made of committee membership. Ms. Falls reported that the role of the Governance Committee on committee membership is to advise and consult the Board Chair with respect to assignments. During the Governance Committee, some changes to committee assignments were discussed.

Chairman Lhota asked whether the Board would entertain a motion regarding committee assignments as follows: that the Workers' Compensation Board of Directors approve the following new committee assignments: for the Audit Committee, add Director Harris and Director Matesich; for the Actuarial Committee, add Director Caldwell and remove Director Harris; for the Governance Committee, add Director Hummel and Director Price, and designate Director Price as the new Vice Chair. In all other respects, the committee assignments as previously approved by the Board will remain the same. The motion was made by Mr. Smith, seconded by Mr. Bryan. Roll call was taken and the motion passed 11-0.

## **Calendar**

Changes and modifications were made to the Board of Director and Board Committee meeting calendar for the years 2008 and 2009. For December 2008, the Board moved its meetings to December 17 and December 18. For the year 2009, the Board moved its meetings for February to the 19 and 20; for March, to the 19 and 20; for April, to the 29 and 30; for July, to the 30 and 31; for October, to the 29 and 30; and in December, to the 16 and 17.

## **MONTHLY FINANCIAL REPORT**

Tracy Valentino, Chief of Fiscal and Planning, presented to the Board. A handout was included, and is incorporated by reference into the minutes. Discussion was made of all relevant financial statements included in the written materials referred to herein. Mr. Bryan verified with Ms. Valentino that the net operating loss of almost one billion dollars through May 31, 2008, accumulated over the entire year thus far. Ms. Valentino indicated that this was not unexpected, based upon premiums and discounting reserves. Discussion of this issue in conjunction with investment income ensued. Ms. Falls directed comments to actual figures on page four of the handout, in reference to prior year figures on page three. In June of 2007 there were 2.3 billion in net assets. In May of 2008; there is nearly 2.4 billion in net assets. Mr. Matesich inquired as to whether there can be an evaluation of unusual operating expenses. Ms. Valentino stated yes. Mr. Haffey discussed normalization of figures. Mr. Bryan discussed premium collection in arrears. Ms. Valentino stated that private employers pay premiums six months in arrears, whereas public employers pay premiums one year in arrears.

## **ADMINISTRATOR BRIEFING**

Ms. Ryan discussed the provision of Senate Bill 323 to provide mine safety funding to the Department of Natural Resources. The Bureau will be working with the Department of Natural Resources on mine safety rules and will also attempt to identify opportunities for the Bureau's Division of Safety and Hygiene to work on mine safety projects. There will further be the establishment of audit standards for the funding.

Ms. Ryan updated the Board on Governor Strickland's procurement reform effort. By working with the Department of Administrative Services, state agencies are expected to save the state of Ohio thirty-five to seventy million dollars.

Ms. Ryan discussed provider fee schedules. In evaluating the fee schedules, numerous variables have been evaluated. Bureau staff has looked at \$310 million in annual payments. Medicare reimbursement methodology is being reviewed. In July of 2008, the Bureau plans to post recommended changes on its website for public comment. There will be a full discussion at the Board meeting in August of 2008 regarding the proposed fee schedule. Mr. Bryan inquired as to whether the Bureau's fee schedule can be compared to the fee schedules of private insurers and Medicare. Robert Coury, Chief of Medical Services and Compliance, provided an explanation of the Bureau fee schedule. Mr. Coury noted that the Bureau pays, in a rough estimate, approximately 140%, on average, of what Medicare pays. Primarily, this difference is a result of the additional administrative costs to providers associated with Ohio due process requirements. Mr. Coury has looked at the fee schedules of other third party payers, including other monopolistic workers' compensation states. Additionally, Mr. Coury has evaluated the fee schedules of private payers that have been willing to disclose their fee schedules. Mr. Coury will continue to compile information for future Board meetings.

Ms. Ryan thanked Mr. Hummel for attending the MIRA II implementation meeting with John Pedrick, Chief Actuarial Officer. Also in attendance at the meeting with Fair Isaac

were members of the General Assembly and various stakeholders. Implementation will be July 1, 2008.

Ms. Ryan reported that Mark Lay's sentencing is scheduled for next week. Memorandums regarding sentencing have been submitted by the attorneys for Lay and the prosecuting attorney.

At the July 2008 Board and committee meetings, there shall be discussion of financial projections, the budget, MIRA II implementation, the Mercer educational session, and a Deep Dive on self insurance. In addition, the Bureau is planning to conduct a public forum on self insurance in September 2009.

## **DEEP DIVE**

James Barnes, Chief Legal Officer, made a presentation to the Board regarding the Adjudicating Committee process, and the recent Kaizen event that led to substantial improvement in the adjudication process for handling employer premium disputes. A power point presentation was included, and is incorporated into the minutes. Ms. Ryan introduced Mr. Barnes and explained that the redesign of the Adjudication Committee procedure was from the process perspective.

Kaizen is a process improvement methodology, designed to be utilized in a much shorter timeframe than traditional process improvement methodologies. RC 4123.291 provides the legal basis for the creation of the Adjudicating Committee. This Committee renders decisions that impact an employer's premiums and/or risk experience. The right to a hearing before the Committee ensures that employers receive due process. Decisions of the Committee may be appealed to the Administrator's Designee for further hearing. James Barnes serves as the Administrator's Designee in those hearings. RC 4123.291 further provides for the Board of Directors to set policy for the Adjudicating Committee, based upon recommendations by the Actuarial Committee. House Bill 100 also requires the Board of Directors to set specific criteria for manual overrides. The Bureau is the first state agency in Ohio to conduct a Kaizen event. BWC is in the process of finalizing proposed policies for review and approval by the Board at its September 2008 meeting.

The Kaizen event has led to dramatic operational improvement. Team-based energy and creativity has driven immediate process improvement, and has led to increased ownership of the process, implementation, and core process value. Ms. Falls inquired as to why employer protests have increased over the past few years. Mr. Barnes indicated that multiple variables have contributed to this, including no dividends in recent years, the condition of the economy, and group rating issues. Mr. Price addressed the issue of setting hearings within sixty days of the protest. There was a discussion of the timeliness and consistency of decisions. Many issues with timeliness are beyond the Bureau's control. There was further detailed, in depth discussion of process improvement and metrics for measuring such improvement. Ms. Falls inquired as to who initially addresses the issues that employers may raise. Mr. Barnes indicated that Employer Services initially addresses the issues.

Mr. Haffey inquired as to whether there was discussion amongst employees at the Bureau concerning the improvement of the program. Mr. Barnes indicated yes. Mr. Fulton would like to see a copy of the protest form. Mr. Fulton further inquired as to whether the HPP Alternative Dispute Resolution process would undergo a Kaizen event. Ms. Ryan answered that this is under consideration, as are other programs. Ms. Ryan discussed the core group for the Kaizen event. Mr. Harris inquired as to whether the process aspect was a factor in choosing the Adjudicating Committee for this purpose. Ms. Ryan indicated yes.

Don Berno, Board Liaison, distributed to the Directors a draft of the new Board of Directors informational brochure, which incorporated their comments. The next Board meeting is scheduled for July 25, 2008.

### **ADJOURNMENT**

Upon motion by Mr. Bryan, seconded by Mr. Matesich, the Board adjourned at 10:30 am. Roll call was taken and the motion passed 11-0.

Minutes taken by Tom Woodruff, Bureau Staff Counsel

# **Enterprise Report**

July 2008

# Financial 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.*

## **Performance Metrics**

Financial ratios reflecting BWC's performance are presented here. These financial ratios are insurance industry recognized financial metrics. *Pages 14 and 15.*

## June Financial Analysis

BWC's net assets decreased by \$139 million in June 2008 resulting in net assets of \$2.2 billion at June 30, 2008 compared to \$2.4 billion at May 31, 2008.

<i>(\$ in millions)</i>	<b>Fiscal YTD</b> May 31, 2008	<b>Month Ended</b> June 30, 2008	<b>Fiscal YTD</b> June 30, 2008
Operating Revenues	\$2,010	\$281	\$2,291
Operating Expenses	2,842	249	3,091
Net Operating Gain (Loss)	(832)	32	(800)
Net Investment Income	888	(171)	717
Increase (Decrease) in Net Assets	56	(139)	(83)
Net Assets End of Period	\$2,362	\$2,223	\$2,223

- o Premium and assessment income of \$295 million was reduced by a \$14 million provision for uncollectible accounts receivables resulting in operating revenues of \$281 million in June 2008.
- o Private employer accrual to actual adjustments for the July 1, 2007 to December 31, 2007 policy period added \$89 million to premium income in June. These adjustments are a result of estimating premiums for the coverage period with actual premiums reported six months in arrears.
- o Benefits and compensation adjustment expenses of \$240 million along with other expenses of \$9 million resulted in operating expenses of \$249 million in June 2008.
- o The \$257 million reduction in portfolio market value during June exceeded interest and dividend income of \$88 million for the month, resulting in a net investment loss of \$171 million for the month after investment expenses.
- o Premium collections in June were \$25 million, an expected decline from the \$241 million collected in May.
- o Claim payments issued in June were \$172 million. Included in June claim payments are \$5 million in payments resulting from the Ohio Hospital Association (OHA) lawsuit disputing fee schedules that were not adopted through the Ohio Revised Code Chapter 119 rules process. A total of \$33 million has been paid in settlement of this lawsuit with an estimated \$40 million remaining to be paid.

## Fiscal Year-to-Year Comparisons

BWC's total net assets have decreased by \$83 million for fiscal 2008 resulting in net assets of \$2.2 billion compared to \$2.4 billion at June 30, 2007.

<i>(\$ in millions)</i>	<b>Fiscal YTD</b> June 30, 2008	<b>Projected FYTD</b> June 30, 2008	<b>Fiscal YTD</b> June 30, 2007
Operating Revenues	\$2,291	\$2,557	\$4,289
Operating Expenses	3,091	3,598	2,768
Net Operating Gain (Loss)	(800)	(1,041)	1,521
Net Investment Income	717	589	911
Increase (Decrease) in Net Assets	(83)	(452)	2,432
Net Assets End of Period	\$2,223	\$1,854	\$2,306

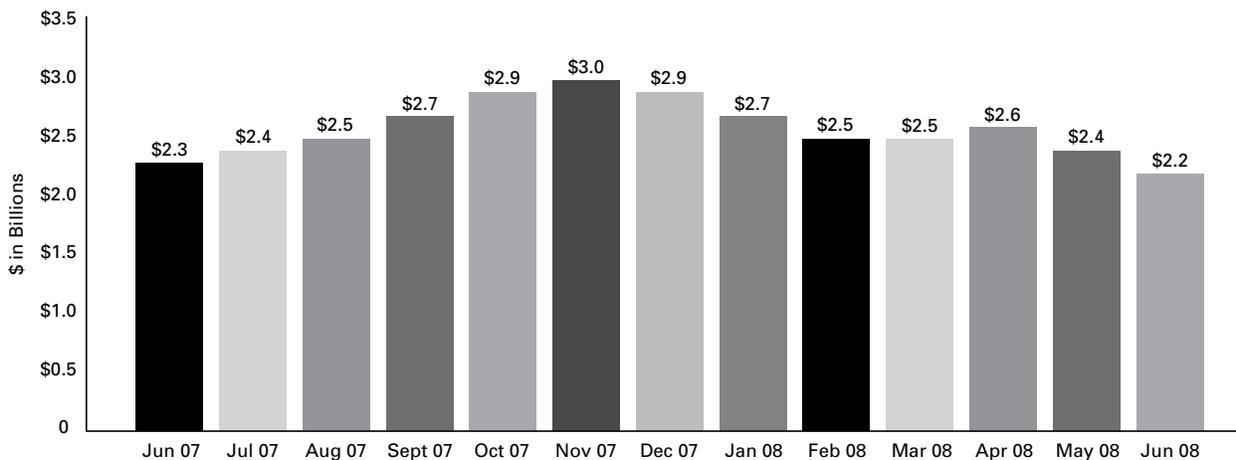
- o BWC's operating revenues for fiscal year 2008 were \$2.3 billion, a decrease of \$2.0 billion compared to fiscal year 2007. Included in fiscal year 2007 operating revenues is a one-time accounting change of \$1.9 billion resulting from statutory changes related to the Disabled Workers' Relief Fund (DWRP).

- o Premium and assessment income is 9 percent less than projected primarily due to lower than expected losses for state agency and self-insured employer groups.
- o BWC's operating expenses for fiscal 2008 were \$3.1 billion, an increase of \$323 million or 11.7 percent from fiscal year 2007.
- o Benefit and compensation adjustment expenses have increased by \$327 million in fiscal year 2008. This increase is comprised of a \$222 million increase in the change in reserves for compensation and compensation adjustment expenses and a \$108 million increase in claim payments.
- o Reserves for compensation and compensation adjustment expenses are discounted at 5.0 percent at June 30, 2008 and June 30, 2007.
- o Increased claim settlements and payments resulting from the OHA lawsuit are major factors in the \$108 million increase in claim payments. Settlement activities should generate long-term savings by lessening future claim payments.
- o Favorable payment trends and a lowering of the reserves for compensation and compensation adjustment expenses, based on the latest projections prepared by BWC's actuarial consultants have resulted in operating expenses, being 14 percent less than projected.
- o BWC's net investment income for fiscal year 2008 totaled \$717 million, comprised of \$877 million of interest and dividend income and \$146 million decline in portfolio fair market value reduced by \$14 million of investment expenses.
- o Cash provided by operating activities continues to trend higher than the prior fiscal year-to-date. Premium collections have increased as a result of the 3.9% private employer premium rate increase that first impacted collection patterns in January 2007. Disbursements in fiscal year 2007 include \$45 million in payments made in settlement of the Santos subrogation case.

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

- o Cash disbursements will continue to increase as payments are made to settle the remaining \$40 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.
- o At this time, BWC's actuarial consultants do not expect significant changes to the June 30, 2008 projected reserves for compensation and compensation adjustment expenses.

**Net Assets**



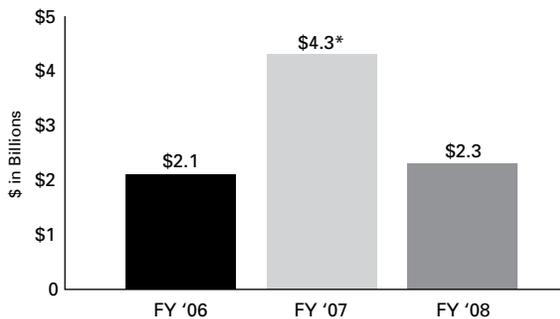
# Statement of Operations

Fiscal year to date June 30, 2008

(in millions)

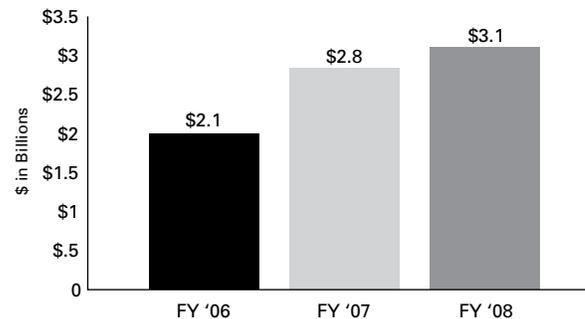
	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
<b>Operating Revenues</b>					
Premium & Assessment Income	\$2,371	\$2,621	\$(250)	\$2,454	\$(83)
Assessment Income due to Statutory Change	–	–	–	1,876	(1,876)
Provision for Uncollectibles	(97)	(78)	(19)	(58)	(39)
Other Income	17	14	3	17	–
<b>Total Operating Revenue</b>	<b>2,291</b>	<b>2,557</b>	<b>(266)</b>	<b>4,289</b>	<b>(1,998)</b>
<b>Operating Expenses</b>					
Benefits & Compensation Adj. Expense	2,994	3,503	509	2,667	327
Other Expenses	97	95	(2)	101	(4)
<b>Total Operating Expenses</b>	<b>3,091</b>	<b>3,598</b>	<b>507</b>	<b>2,768</b>	<b>323</b>
<b>Net Operating Gain (Loss)</b>	<b>(800)</b>	<b>(1,041)</b>	<b>241</b>	<b>1,521</b>	<b>(2,321)</b>
<b>Net Investment Income</b>	<b>717</b>	<b>589</b>	<b>128</b>	<b>911</b>	<b>(194)</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$(83)</b>	<b>\$(452)</b>	<b>\$369</b>	<b>\$2,432</b>	<b>\$(2,515)</b>

Operating Revenues

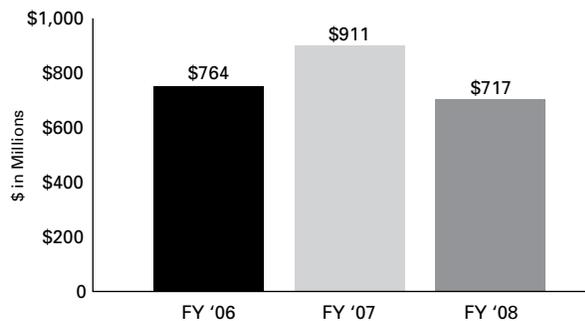


\*Significant increase is a result of a statutory change impacting DWRP.

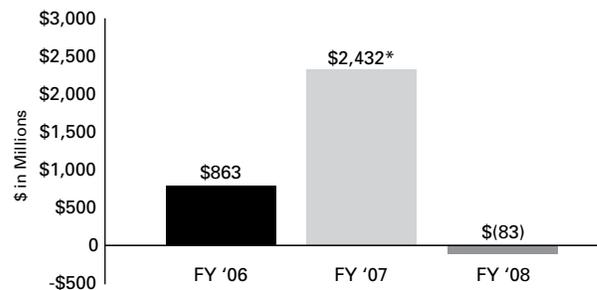
Operating Expenses



Net Investment Income



Change in Net Assets



\*Significant increase is a result of a statutory change impacting DWRP.

# Statement of Operations – Combining Schedule

Fiscal year to date June 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
<b>Operating Revenues:</b>								
Premium & assessment income	\$1,845,789	\$148,767	\$1,250	\$118	\$786	\$1,019	\$373,849	\$2,371,578
Provision for uncollectibles	(84,820)	(3,685)	–	–	(8)	227	(8,404)	(96,690)
Other income	10,592	–	–	–	–	–	5,968	16,560
<b>Total operating revenues</b>	<b>1,771,561</b>	<b>145,082</b>	<b>1,250</b>	<b>118</b>	<b>778</b>	<b>1,246</b>	<b>371,413</b>	<b>2,291,448</b>
<b>Operating Expenses:</b>								
Benefits & compensation adj expenses	2,552,676	140,109	1,153	546	608	594	299,063	2,994,749
Other expenses	20,396	114	35	2	41	3	75,388	95,979
<b>Total operating expenses</b>	<b>2,573,072</b>	<b>140,223</b>	<b>1,188</b>	<b>548</b>	<b>649</b>	<b>597</b>	<b>374,451</b>	<b>3,090,728</b>
Net operating income (loss) before operating transfers out	(801,511)	4,859	62	(430)	129	649	(3,038)	(799,280)
Operating transfers out	(3,179)	–	–	–	–	–	3,179	–
<b>Net operating income (loss)</b>	<b>(804,690)</b>	<b>4,859</b>	<b>62</b>	<b>(430)</b>	<b>129</b>	<b>649</b>	<b>141</b>	<b>(799,280)</b>
<b>Investment Income:</b>								
Investment income	800,584	56,938	12,059	812	596	2,061	3,739	876,789
Bonds - realized & unrealized gains (losses)	404,844	12,484	3,159	50	36	–	–	420,573
Equities - realized & unrealized gains (losses)	(528,822)	(31,068)	(7,035)	–	–	–	–	(566,925)
Total realized & unrealized capital gains (losses)	(123,978)	(18,584)	(3,876)	50	36	–	–	(146,352)
Investment manager & Operational fees	(13,058)	(241)	(112)	–	–	–	–	(13,411)
Gain (loss) on disposal of fixed assets	–	–	–	–	–	–	(219)	(219)
Total non-operating revenues, net	663,548	38,113	8,071	862	632	2,061	3,520	716,807
<b>Increase (decrease) in net assets (deficit)</b>	<b>(141,142)</b>	<b>42,972</b>	<b>8,133</b>	<b>432</b>	<b>761</b>	<b>2,710</b>	<b>3,661</b>	<b>(82,473)</b>
<b>Net assets (deficit), beginning of period</b>	<b>2,080,045</b>	<b>800,185</b>	<b>171,741</b>	<b>18,295</b>	<b>13,802</b>	<b>6,208</b>	<b>(784,730)</b>	<b>2,305,546</b>
<b>Net assets (deficit), end of period</b>	<b>\$1,938,903</b>	<b>\$843,157</b>	<b>\$179,874</b>	<b>\$18,727</b>	<b>\$14,563</b>	<b>\$8,918</b>	<b>\$(781,069)</b>	<b>\$2,223,073</b>

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 June 30, 2008

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
<b>Investment Income</b>					
Bond Interest	\$786,839,608	\$744,400,000	\$42,439,608	\$730,163,905	\$56,675,703
Dividend Income-Domestic & International	63,525,320	58,300,000	5,225,320	26,433,826	37,091,494
Money Market/Commercial Paper Income	17,493,053	12,480,000	5,013,053	24,421,784	(6,928,731)
Misc. Income (Corp actions, settlements)	4,310,539	3,600,000	710,539	11,129,451	(6,818,912)
Private Equity	4,621,179	700,000	3,921,179	15,881,357	(11,260,178)
Securities Lending Income, net of fees	—	—	—	3,730,215	(3,730,215)
Total Investment Income	<u>876,789,699</u>	<u>819,480,000</u>	<u>57,309,699</u>	<u>811,760,538</u>	<u>65,029,161</u>
<b>Realized &amp; Unrealized Capital Gains and (Losses)</b>					
Bonds - Net realized gains (losses)	(85,728,368)	—	(85,728,368)	(45,931,874)	(39,796,494)
Bonds - Net unrealized gains (losses)	<u>506,301,187</u>	<u>(433,000,000)</u>	<u>939,301,187</u>	<u>(10,149,796)</u>	<u>516,450,983</u>
Subtotal - bonds	<u>420,572,819</u>	<u>(433,000,000)</u>	<u>853,572,819</u>	<u>(56,081,670)</u>	<u>476,654,489</u>
Stocks - Net realized gains (losses)	35,761,561	—	35,761,561	1,235,949	34,525,612
Stocks - Net unrealized gains (losses)	<u>(551,441,948)</u>	<u>215,700,000</u>	<u>(767,141,948)</u>	<u>115,845,923</u>	<u>(667,287,871)</u>
Subtotal - stocks	<u>(515,680,387)</u>	<u>215,700,000</u>	<u>(731,380,387)</u>	<u>117,081,872</u>	<u>(632,762,259)</u>
Net gain (loss) - PE	<u>(51,245,062)</u>	—	<u>(51,245,062)</u>	<u>48,159,135</u>	<u>(99,404,197)</u>
<b>Change in Portfolio Value</b>	<u>(146,352,630)</u>	<u>(217,300,000)</u>	<u>70,947,370</u>	<u>109,159,337</u>	<u>(255,511,967)</u>
<b>Investment Manager &amp; Operational Fees</b>	<u>(13,410,528)</u>	<u>(12,784,000)</u>	<u>(626,528)</u>	<u>(9,489,706)</u>	<u>3,920,822</u>
<b>Net Investment Income</b>	\$717,026,541	\$589,396,000	\$127,630,541	\$911,430,169	\$(194,403,628)

# Administrative Cost Fund Expense Analysis

June 2008

- o BWC Administrative Cost Fund expenses are approximately \$29 million (9%) less than budgeted and approximately \$8 million (2.6%) less than fiscal year 2007. The savings are a result of the change in leadership that occurred in the first half of the fiscal year. The appointment of a new administrator and a new Board of Directors led to a delay in the prioritization and implementation of strategic initiatives as BWC developed more defined strategic goals focusing on communications, cost reduction, customer service, revenue capture and internal controls and documentation.

In addition to the changes in leadership, the initiation of hiring and equipment controls by the Office of Budget and Management resulted in delays associated with replacement of staff and purchases of equipment. These controls require BWC to carefully evaluate and justify staff replacement and equipment needs.

- o These events also caused the BWC Administrative Cost fund fiscal year 2008 budget to be \$10 million (3%) less than appropriated by the General Assembly.

# Administrative Cost Fund Budget Summary

As of June 30, 2008

Expense Description	FTE's	Actual 08 FY08	Budgeted FYTD08	FYTD08 Variance	FYTD08 Percentage Variance	FY08 Budget	FYTD07 Expenses	Increase (Decrease) in FY08	FYTD08 Percentage Variance
<b>Payroll</b>									
BWC Board of Directors	13	809,017	808,033	(984)	-0.12%	808,033	0	809,017	100.00%
Workers' Comp Council	0	0	0	0		0	0	0	
BWC Administration	6	630,263	630,263	0	0.00%	630,263	335,534	294,729	87.84%
Customer Service	1,507	118,741,353	119,120,417	379,064	0.32%	119,120,417	117,544,344	1,197,009	1.02%
Medical	132	10,495,934	10,499,930	3,996	0.04%	10,499,930	10,610,328	(114,394)	-1.08%
Special Investigations	146	11,240,594	11,251,157	10,563	0.09%	11,251,157	10,827,429	413,165	3.82%
Fiscal and Planning	65	4,787,108	4,738,935	(48,173)	-1.02%	4,738,935	4,117,938	669,170	16.25%
Actuarial	19	1,560,561	1,572,073	11,512	0.73%	1,572,073	1,130,425	430,136	38.05%
Investments	10	1,005,090	1,007,405	2,315	0.23%	1,007,405	915,204	89,886	9.82%
Information Technology	314	29,058,417	29,044,267	(14,150)	-0.05%	29,044,267	28,209,857	848,560	3.01%
Legal	75	6,203,721	6,203,721	0	0.00%	6,203,721	6,139,912	63,809	1.04%
Communications	36	2,770,428	2,770,812	384	0.01%	2,770,812	3,081,628	(311,200)	-10.10%
Human Resources	69	5,233,149	5,236,546	3,397	0.06%	5,236,546	5,784,642	(551,493)	-9.53%
Internal Audit	14	1,481,543	1,479,938	(1,605)	-0.11%	1,479,938	1,848,265	(366,722)	-19.84%
Ombuds Office	7	409,710	409,501	(209)	-0.05%	409,501	460,996	(51,286)	-11.13%
Early Retirement Expenses		780,793	780,793	0	0.00%	780,793	858,192	(77,399)	-9.02%
<b>Total Payroll</b>	<b>2,413</b>	<b>195,207,681</b>	<b>195,553,791</b>	<b>346,110</b>	<b>0.18%</b>	<b>195,553,791</b>	<b>191,864,694</b>	<b>3,342,987</b>	<b>1.74%</b>
<b>Personal Services</b>									
Information Technology		14,440,776	18,589,657	4,148,881	22.32%	18,589,657	15,957,147	(1,516,371)	-9.50%
Legal - Special Counsel		1,613,734	2,202,500	588,766	26.73%	2,202,500	1,611,313	2,421	0.15%
Legal - Attorney General		4,099,303	4,444,085	344,782	7.76%	4,444,085	4,023,297	76,006	1.89%
Other Personal Services		4,334,101	5,304,202	970,101	18.29%	5,304,202	5,043,400	(709,299)	-14.06%
<b>Total Personal Services</b>		<b>24,487,914</b>	<b>30,540,444</b>	<b>6,052,530</b>	<b>19.82%</b>	<b>30,540,444</b>	<b>26,635,157</b>	<b>(2,147,243)</b>	<b>-8.06%</b>
<b>Maintenance</b>									
William Green Rent		20,237,720	20,436,600	198,880	0.97%	20,436,600	19,873,510	364,210	1.83%
Other Rent and Leases		10,484,342	14,179,670	3,695,328	26.06%	14,179,670	12,523,675	(2,039,333)	-16.28%
Software and Equipment Maintenance and Repairs		14,993,916	17,956,739	2,962,823	16.50%	17,956,739	14,209,108	784,808	5.52%
Inter Agency Payments		3,474,666	5,956,680	2,482,014	41.67%	5,956,680	4,823,162	(1,348,496)	-27.96%
Communications		3,664,013	7,306,065	3,642,052	49.85%	7,306,065	7,038,930	(3,374,917)	-47.95%
Safety Grants and Long Term Care Loan		3,683,829	6,000,000	2,316,171	38.60%	6,000,000	3,547,545	136,284	3.84%
Supplies and Printing		2,224,813	3,753,901	1,529,088	40.73%	3,753,901	3,218,337	(993,524)	-30.87%
Other Maintenance		3,178,006	3,460,089	282,083	8.15%	3,460,089	3,480,222	(302,216)	-8.68%
<b>Total Maintenance</b>		<b>61,941,305</b>	<b>79,049,744</b>	<b>17,108,439</b>	<b>21.64%</b>	<b>79,049,744</b>	<b>68,714,489</b>	<b>(6,773,184)</b>	<b>-9.86%</b>
<b>Equipment</b>									
		7,735,353	13,333,028	5,597,675	41.98%	13,333,028	10,048,977	(2,313,624)	-23.02%
<b>Total Administrative Cost Fund Expenses</b>		<b>289,372,253</b>	<b>318,477,007</b>	<b>29,104,754</b>	<b>9.14%</b>	<b>318,477,007</b>	<b>297,263,317</b>	<b>(7,891,064)</b>	<b>-2.65%</b>

Total Agency Appropriation 328,956,361  
 Budget to Appropriation Variance 10,479,354  
 Percentage Variance 3.19%

# State Insurance Fund

## Administrative Expense Summary

As of June 30, 2008

	Actual FYTD 2008	Encumbrance Balance	FYTD Actual & Encumbrance	Encumbrance Closing Date	Actual FYTD 2007
<b>Investment Administrative Expenses</b>					
UBS Securities LLC	\$5,094,342	\$1,224,547	\$6,318,889	6/30/08	\$1,386,111
Wilshire Associates Inc.	480,368	0	480,368	2/24/08	693,359
JP Morgan Chase – Performance Rptg	242,305	14,734	257,039	6/30/08	201,865
Mercer Investment Consulting	151,527	521,493	673,020	6/30/09	0
Other Investment Expenses	<u>257,636</u>	<u>308,860</u>	<u>566,496</u>	6/30/08	<u>483,727</u>
	6,226,178	2,069,634	8,295,812		2,765,062
<b>Actuarial Expenses</b>					
Oliver Wyman	829,051	1,507,457	2,336,508	12/31/09	482,782
Deloitte Consulting LLP	580,255	1,550,095	2,130,350	12/31/08	0
AON Risk Consultants	263,599	0	263,599	6/30/07	0
Pinnacle Actuarial Resources	<u>0</u>	<u>0</u>	<u>0</u>		<u>92,731</u>
	1,672,905	3,057,552	4,730,457		575,513
<b>Ohio Rehabilitation Services</b>	<u>605,407</u>	<u>605,407</u>	<u>1,210,814</u>	6/30/09	<u>1,193,181</u>
<b>Total</b>	<b>\$8,504,490</b>	<b>\$5,732,593</b>	<b>\$14,237,083</b>		<b>\$4,533,756</b>

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.

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

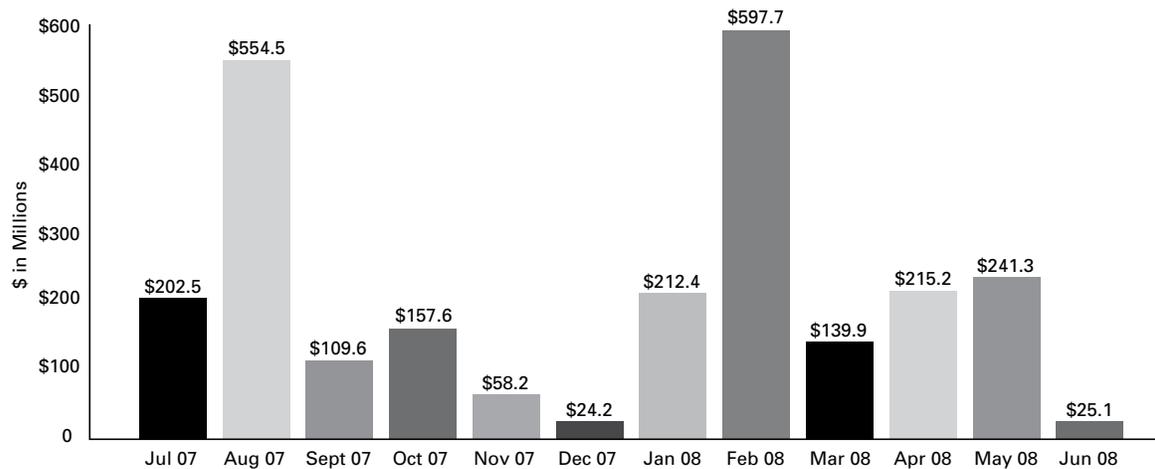
# Statement of Cash Flows

Fiscal year to date June 30, 2008

(in millions)

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
<b>Cash flows from operating activities:</b>					
Cash receipts from premiums	\$2,538	\$2,577	\$(39)	\$2,366	\$172
Cash receipts - other	33	19	14	31	2
Cash disbursements for claims	(2,238)	(2,241)	3	(2,122)	(116)
Cash disbursements for other	(464)	(401)	(63)	(522)	58
Net cash provided (used) by operating activities	(131)	(46)	(85)	(247)	116
<b>Net cash flows from capital and related financing activities</b>	(29)	(20)	(9)	(25)	(4)
<b>Net cash provided (used) by investing activities</b>	203	(65)	268	406	(203)
<b>Net increase (decrease) in cash and cash equivalents</b>	43	(131)	174	134	(91)
<b>Cash and cash equivalents, beginning of period</b>	328	328	-	194	134
<b>Cash and cash equivalents, end of period</b>	\$371	\$197	\$174	\$328	\$43

## Premium and Assessment Receipts



# Statement of Net Assets

As of June 30, 2008

(in millions)

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
<b>Assets</b>					
Bonds	\$13,724	\$13,603	\$121	\$13,329	\$395
Stocks	3,164	3,401	(237)	2,633	531
Private Equities	12	–	12	456	(444)
Cash & Cash Equivalents	<u>371</u>	<u>197</u>	<u>174</u>	<u>328</u>	<u>43</u>
Total Cash and Investments	17,271	17,201	70	16,746	525
Accrued Premiums	4,650	4,747	(97)	4,724	(74)
Other Accounts Receivable	185	236	(51)	171	14
Investment Receivables	281	183	98	371	(90)
Other Assets	<u>118</u>	<u>112</u>	<u>6</u>	<u>122</u>	<u>(4)</u>
<b>Total Assets</b>	<u>\$22,505</u>	<u>\$22,479</u>	<u>\$26</u>	<u>\$22,134</u>	<u>\$371</u>
<b>Liabilities</b>					
Reserve for Compensation and Compensation Adj. Expense	\$19,838	\$20,325	\$487	\$19,271	\$567
Accounts Payable	39	61	22	54	(15)
Investment Payable	130	–	(130)	253	(123)
Other Liabilities	<u>275</u>	<u>239</u>	<u>(36)</u>	<u>250</u>	<u>25</u>
<b>Total Liabilities</b>	<u>20,282</u>	<u>20,625</u>	<u>343</u>	<u>19,828</u>	<u>454</u>
<b>Net Assets</b>	\$2,223	\$1,854	\$369	\$2,306	\$(83)

# Statement of Net Assets – Combining Schedule

As of June 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
<b>Assets</b>									
Bonds	\$12,618,730	\$912,448	\$192,343	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 13,723,521
Stocks	2,917,641	201,010	45,810	–	–	–	–	–	3,164,461
Private Equities	12,584	–	–	–	–	–	–	–	12,584
Cash & Cash Equivalents	<u>260,173</u>	<u>8,535</u>	<u>2,537</u>	<u>22,540</u>	<u>16,712</u>	<u>56,554</u>	<u>3,686</u>	<u>–</u>	<u>370,737</u>
Total Cash and Investments	15,809,128	1,121,993	240,690	22,540	16,712	56,554	3,686	–	17,271,303
Accrued Premiums	2,019,016	1,672,476	–	177	–	676,887	280,740	–	4,649,296
Other Accounts Receivable	156,014	20,979	–	29	–	1,143	6,418	–	184,583
Interfund Receivables	12,436	52,890	1	98	69	628	81,951	(148,073)	–
Investment Receivables	256,081	21,705	3,768	41	31	103	–	–	281,729
Other Assets	<u>25,497</u>	<u>22</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>92,914</u>	<u>–</u>	<u>118,433</u>
<b>Total Assets</b>	<b>\$18,278,172</b>	<b>\$2,890,065</b>	<b>\$244,459</b>	<b>\$22,885</b>	<b>\$16,812</b>	<b>\$735,315</b>	<b>\$465,709</b>	<b>\$(148,073)</b>	<b>\$22,505,344</b>
<b>Liabilities</b>									
Reserve for Compensation and Compensation Adj. Expense	\$15,911,969	\$2,025,999	\$62,266	\$4,145	\$2,050	\$723,032	\$1,109,008	\$ –	\$19,838,469
Accounts Payable	38,708	–	–	–	–	–	97,287	–	135,995
Investment Payable	118,322	10,078	1,496	–	–	–	–	–	129,896
Interfund Payables	133,861	10,743	75	13	16	3,365	–	(148,073)	–
Other Liabilities	<u>136,409</u>	<u>88</u>	<u>748</u>	<u>–</u>	<u>183</u>	<u>–</u>	<u>40,483</u>	<u>–</u>	<u>177,911</u>
<b>Total Liabilities</b>	<b>16,339,269</b>	<b>2,046,908</b>	<b>64,585</b>	<b>4,158</b>	<b>2,249</b>	<b>726,397</b>	<b>1,246,778</b>	<b>(148,073)</b>	<b>20,282,271</b>
<b>Net Assets</b>	<b>\$1,938,903</b>	<b>\$843,157</b>	<b>\$179,874</b>	<b>\$18,727</b>	<b>\$14,563</b>	<b>\$8,918</b>	<b>\$(781,069)</b>	<b>\$ –</b>	<b>\$2,223,073</b>

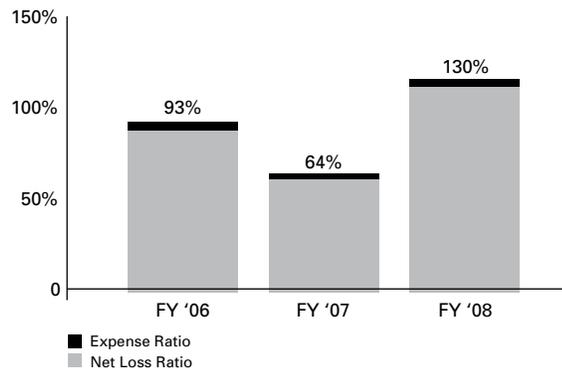
# Performance Metrics

	Actual FY08 As of 6/30/08	Projected FY08 As of 6/30/08	Actual FY07 As of 6/30/07	Target
Loss Ratio	105.4%	109.1%	46.9%	
LAE Ratio - MCO	8.1%	11.0%	3.8%	
LAE Ratio - BWC	12.8%	13.6%	10.9%	
<b>Net Loss Ratio</b>	<b>126.3%</b>	<b>133.7%</b>	<b>61.6%</b>	<b>120.0%</b>
Expense Ratio	4.0%	3.6%	2.3%	5.0%
<b>Combined Ratio</b>	<b>130.3%</b>	<b>137.3%</b>	<b>63.9%</b>	<b>125.0%</b>
Net Investment Income Ratio	36.4%	30.8%	18.5%	
<b>Operating Ratio (Trade Ratio)</b>	<b>93.9%</b>	<b>106.5%</b>	<b>45.4%</b>	<b>100.0%</b>
<b>Operating Cashflow Ratio</b>	<b>126.5%</b>	<b>128.3%</b>	<b>114.2%</b>	<b>118.0%</b>
<b>Total Reserves to Net Assets</b>	<b>8.9 to 1</b>	<b>11 to 1</b>	<b>8.4 to 1</b>	<b>7 to 1</b>
<b>Investments to Loss Reserves</b>	<b>87.1%</b>	<b>84.6%</b>	<b>86.9%</b>	<b>110.0%</b>
<b>Equities to Net Assets</b>	<b>1.4 to 1</b>	<b>1.8 to 1</b>	<b>1.1 to 1</b>	
<b>Bonds to Net Assets</b>	<b>6.2 to 1</b>	<b>7.3 to 1</b>	<b>5.8 to 1</b>	

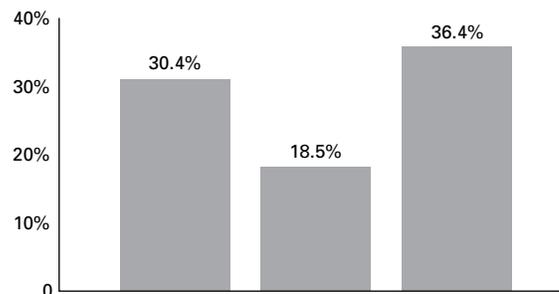
Target measures represent long-term goals for the agency. Business practices, peer group results, and historical data were considered in the establishment of the targets.

FY 07 ratios have been significantly impacted by a statutory change in accounting for the Disabled Workers' Relief Fund that increased premium and assessment income by \$1.9 billion.

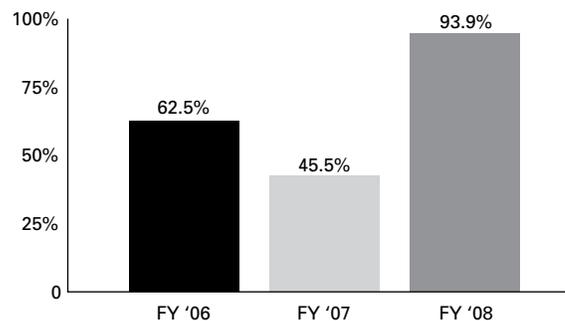
**Combined Ratio**



**Investment Income Ratio**



**Operating Ratio**



# 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.



Printed within BWC

**BWC Board of Directors**  
**Executive Summary**  
**Self Insured Deep Dive**  
David Boyd, Director  
Self Insured Department

The SI Deep Dive will discuss the entire self insured department operations, self insured employer monitoring and oversight, underwriting factors, assessment methodology, and other related self insured topics.

The history of self insurance will be presented along with what self insurance is.

The requirements of becoming self insured will be discussed at a high level indicating the employer must be financially and administratively able to support a SI program.

Next, I will discuss the requirements of a self insured employer once it becomes self insured, touching on claim payment responsibilities, SI claim adjudication, and employer filing requirements. I'll also discuss how BWC monitors SI claim administration and injured worker complaints.

The presentation will then move to discuss how to apply for self insurance, what documentation is required, how the application process is underwritten, and how SI employers are annually evaluated.

The self insured department conducts audits of SI employers and I will discuss how we audit SI employer claims and paid compensation reporting.

The Board will then hear SI statistical information that includes the number of self insured employers, numbers of SI claims, and the amount of paid benefits. I'll then continue presenting statistical information on audit results as it relates to claim audits and injured worker complaints.

The discussion will then move to discussing the cost factors of self insurance which will include factors such as claim costs, self insured assessments, guaranty fund costs, and other related costs.

Finally, I'll discuss the recent recommendations from Deloitte Consulting. Those recommendations include evaluation of the selection criteria used to grant self insurance, evaluating and implementing a new funding mechanism for the self insured guaranty fund, and to rate SI employers that return to the state insurance fund to ensure proper premium collection.



# Self-insurance Deep Dive

David E. Boyd  
director, self-insurance department  
July 25, 2008



- Department overview
- Eligibility
- Program oversight
- Claims management of defaulting self-insuring (SI) employers

# Department overview

- Authority to administer their own workers' comp claims
  - Enabling statute - Ohio Revised Code 4123.35
  - Established 1913
  - SI employers pay benefits directly to injured employees and service providers
- Same rules and regulations as state-fund employers
- Pay administrative cost assessments
- File annual report of paid compensation





## Department overview

- Underwriting
  - New SI applications
  - Renewal applications
  - SI mandatory assessments
- Auditing
  - SI claim audits
  - Paid compensation audits
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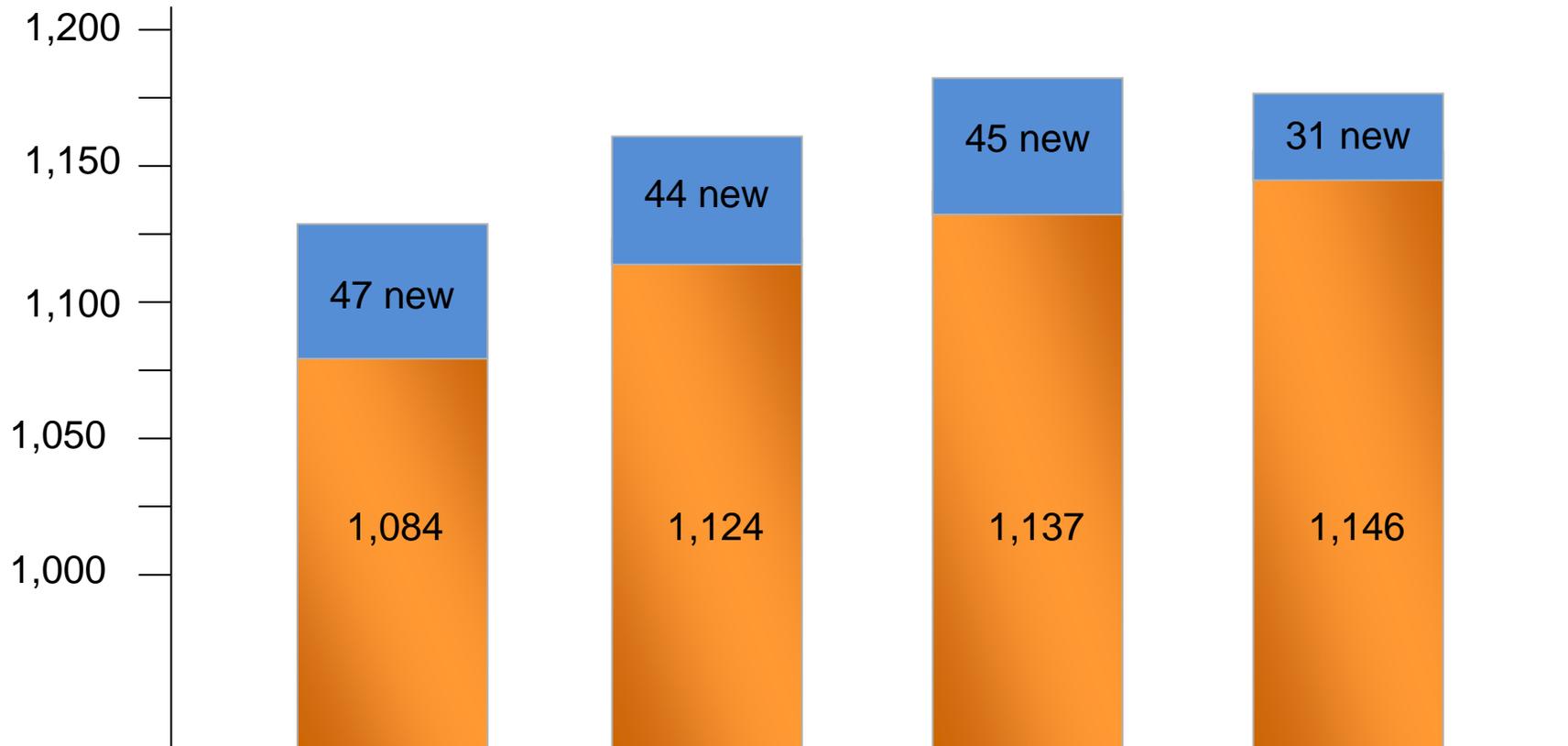


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# Growth of self-insurance

(Calendar year)



## Eligibility requirements for self-insurance

- 500 employees or BWC Administrator's discretion
- Strong financial ability
- Ohio claim administrator
- Ability to administer the self-insured program
- Annually file paid compensation reports
- Pay self-insured administrative cost assessments

## Applying for self-insurance

Initial Application by Employer for Authority to Pay Compensation etc., Directly (SI-6)

- 5 years of certified audited financials
- The Ohio Secretary of State Certificate of Good Standing (ORC 4123.35)
- Corporate organization chart
- Organizational plan for management of self-insured workers' compensation program
- Information about Ohio claim administrator
- 90-day approval process



# Renewal requirements

## Annual renewal

- BWC performs a financial evaluation each year
  - BWC may require additional security (ORC 4123.351)
- Demonstrate continued administrative and financial ability to manage self-insurance program
- Review most recent claims audit and complaint history



## Self-insured review panel

- Ohio Administrative Code 4123-19-14
- Conducts hearings for unresolved self-insuring employer disputes
  - Granting or denying an application for self-insurance
  - Non-renewal of self-insurance
  - Revocation of self-insurance
- Three-member panel appointed by BWC Administrator
- Panel issues written orders that SI employer may appeal to Administrator's designee

# Program oversight

## SI audits

- Claim audits
- Paid compensation audits

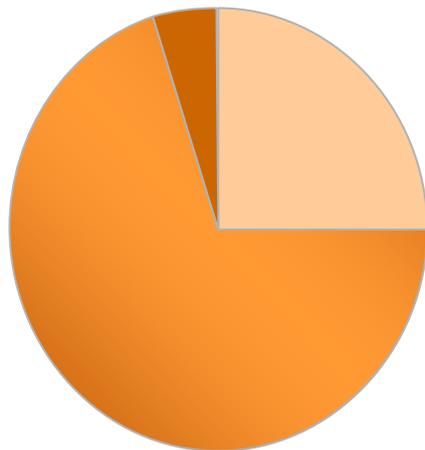
Injured worker complaints

Provider issues



# Claim audits

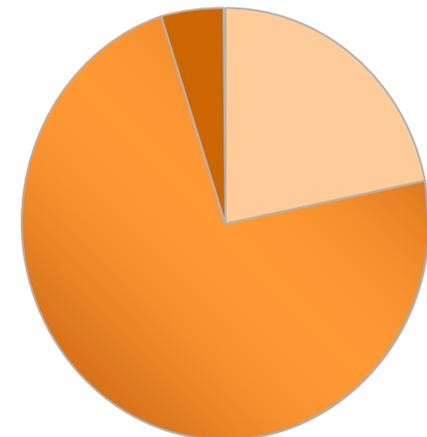
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## Top violations

- Late, non- or improper payment of comp
  - Wrong period, amount, etc.
- Not date-stamping medical bills
- Late or non-payment of medical bills
- Incorrect calculation of full weekly wage
- Late or not filing claim applications





## Injured worker complaint process

ORC 4123.35 requires that BWC receive and evaluate all complaints from injured workers against a self-insuring employer

### Self-insured department

- Provides allegation to SI employer for response (14 days to respond)
- SI auditor evaluates allegation and response, and issues a written finding to all parties

# Injured worker complaint process

## Administrator's designee

- Hears reconsideration requests from self-insured department complaint findings (21 days to appeal)
- Administrator's designee reviews complaint and issues a written response to SI department decision



## Self-insured employers evaluation board (SIEEB)

- ORC. 4123.352 and OAC 4123-19-13
- Hears all unresolved complaints and allegations of misconduct against a self-insuring employer
- Three members
  - Public member of the Industrial Commission, chairperson
  - Member of labor appointed by the governor with advice and consent of the Senate
  - Member of the Ohio Self-Insurers Association appointed by the Governor with advice and consent of the Senate
- At the injured worker's request, SIEEB may hear a complaint dismissed by BWC.
- May impose penalties up to \$10,000 per violation

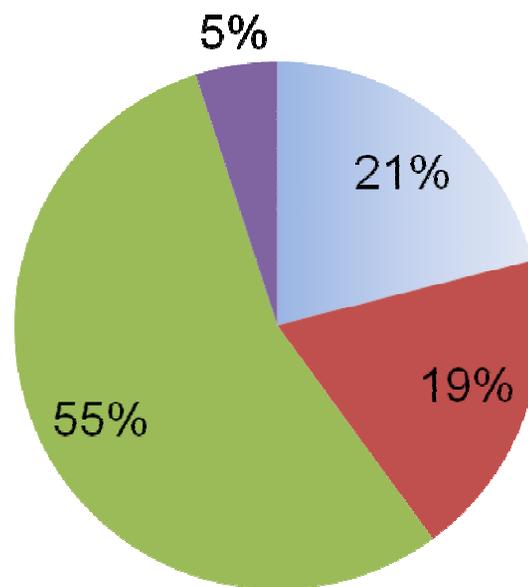




# Injured worker complaints

490 complaints filed in 2007

- Valid
- Invalid
- Dismissed/disputed matters (IC issues)
- Inquiries



# Injured worker complaints

## Most common complaints (2006-07)

- Compensation - late/failure to pay
  - Non-payment after hearing or unilateral termination
- Late/Non -payment of medical bills
- Failure to respond to info request
- Late/Failure to respond to treatment request
- Unfair independent medical exams



## Self-insured Employers' Guaranty Fund (SIEGF)

Provides for compensation and benefits from a default or bankruptcy. BWC assumes defaulting employers' claims, administers and pays claims



## Self-insured Employers' Guaranty Fund (SIEGF)

### Three assessments

- Maintain sufficient funds
- New SI employer
- High-risk SI employer



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Maintained at a minimum of 1.25 times the prior year's pay out

If fund is below 1.25 times, assess the minimum amount to all self-insuring employers to maintain sufficient funds.



# SIEGF assessments

## New SI employers

- All pay
- Once a year for three years
- 6% of the base-rated premium of the last two semiannual payroll reports for state fund.

### Example:

last two semiannual premium = \$1 million

6% \* \$1 million = \$60,000 per year

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## SIEGF assessments

### High-risk employer

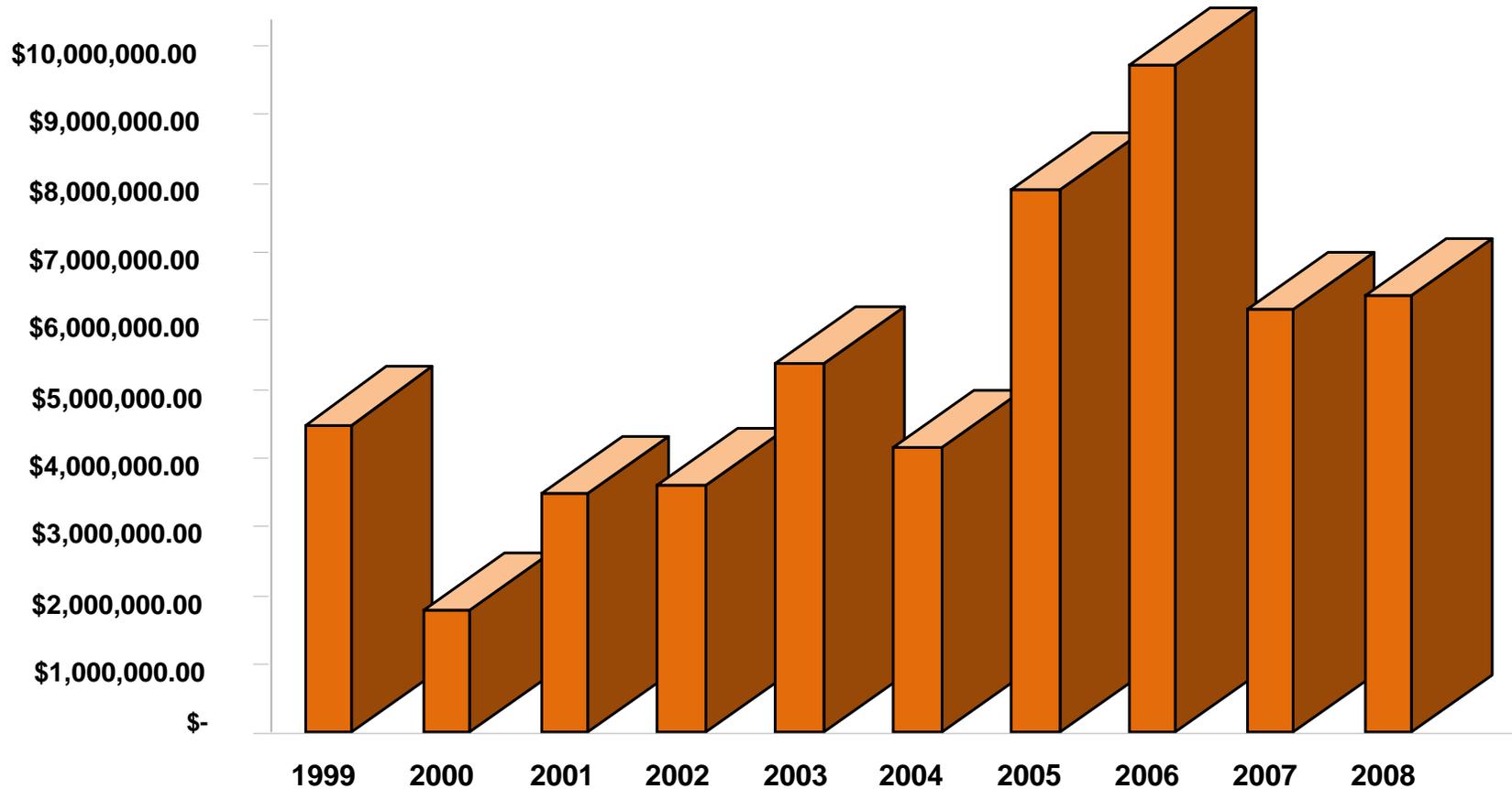
- Based on financial analysis
- Assessment is 6% of prior year's paid compensation



## SIEGF assessments and defaults

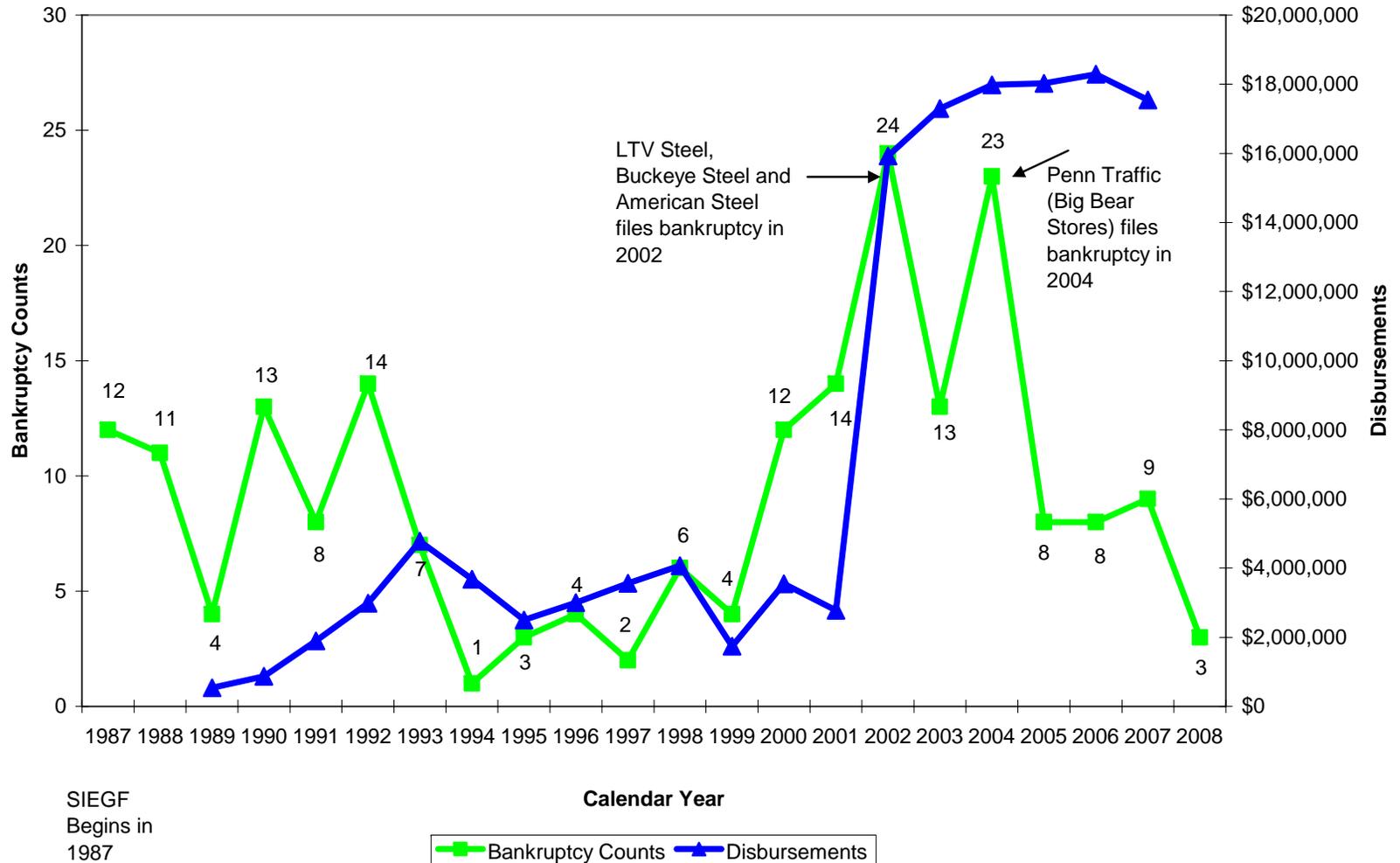
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Collections by BWC from securities posted by self-insured employers to secure claims

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Surplus fund	0.0450	0.0450	0
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<b>Total</b>	<b>0.2756</b>	<b>0.2687</b>	<b>+0.0069</b>

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- Evaluate the BWC rules, laws, policies and procedures for rating a self-insuring employer, who wants to return to the Ohio State Insurance Fund
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# Self-insurance Deep Dive

David E. Boyd  
director, self-insurance department  
July 25, 2008



- Department overview
- Eligibility
- Program oversight
- Claims management of defaulting self-insuring (SI) employers

## Department overview

- Authority to administer their own workers' comp claims
  - Enabling statute - Ohio Revised Code 4123.35
  - Established 1913
  - SI employers pay benefits directly to injured employees and service providers
- Same rules and regulations as state-fund employers
- Pay administrative cost assessments
- File annual report of paid compensation





## Department overview

- Underwriting
  - New SI applications
  - Renewal applications
  - SI mandatory assessments
- Auditing
  - SI claim audits
  - Paid compensation audits
- SI medical-only claims team
- SI bankrupt claims team
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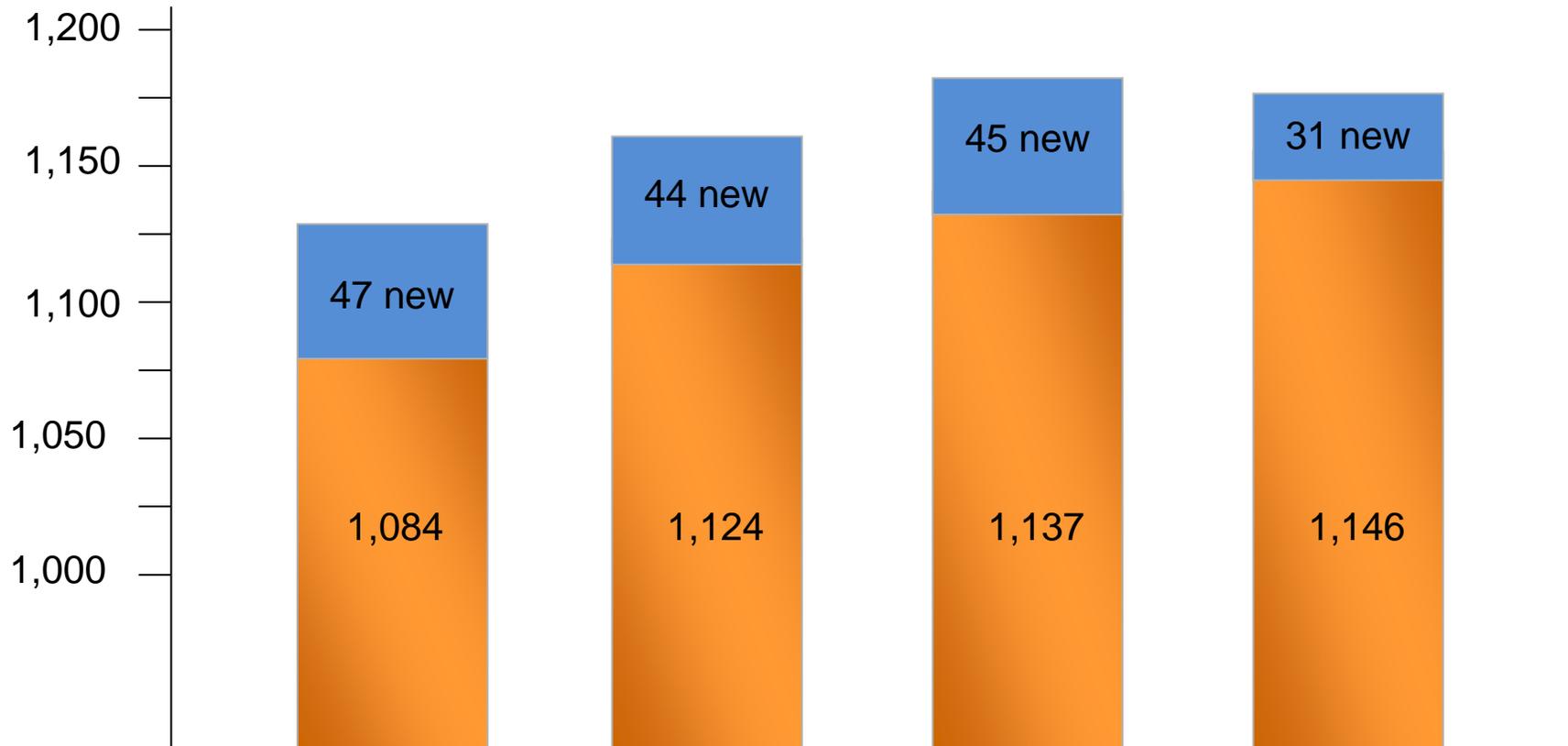


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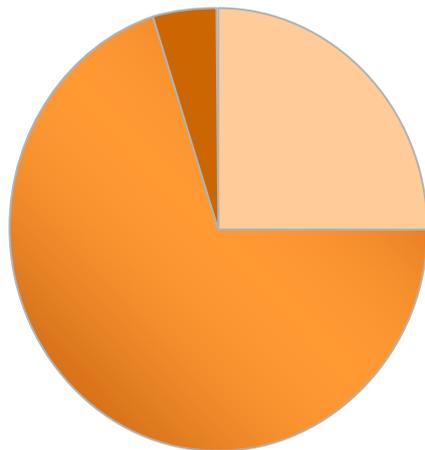
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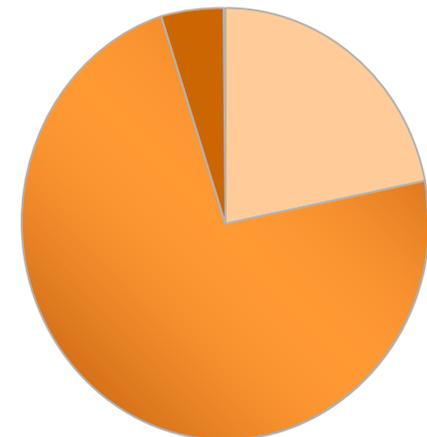
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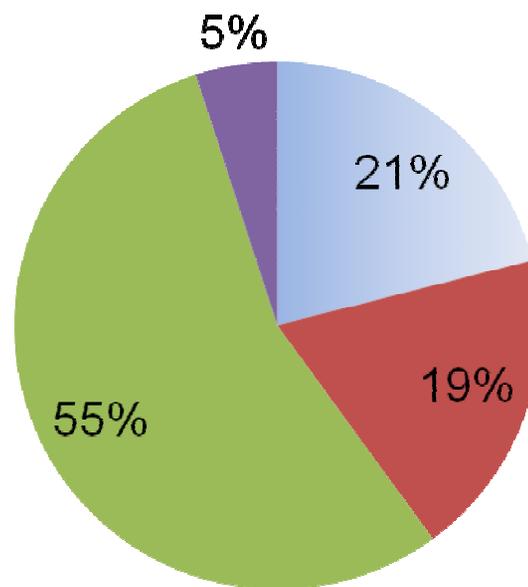




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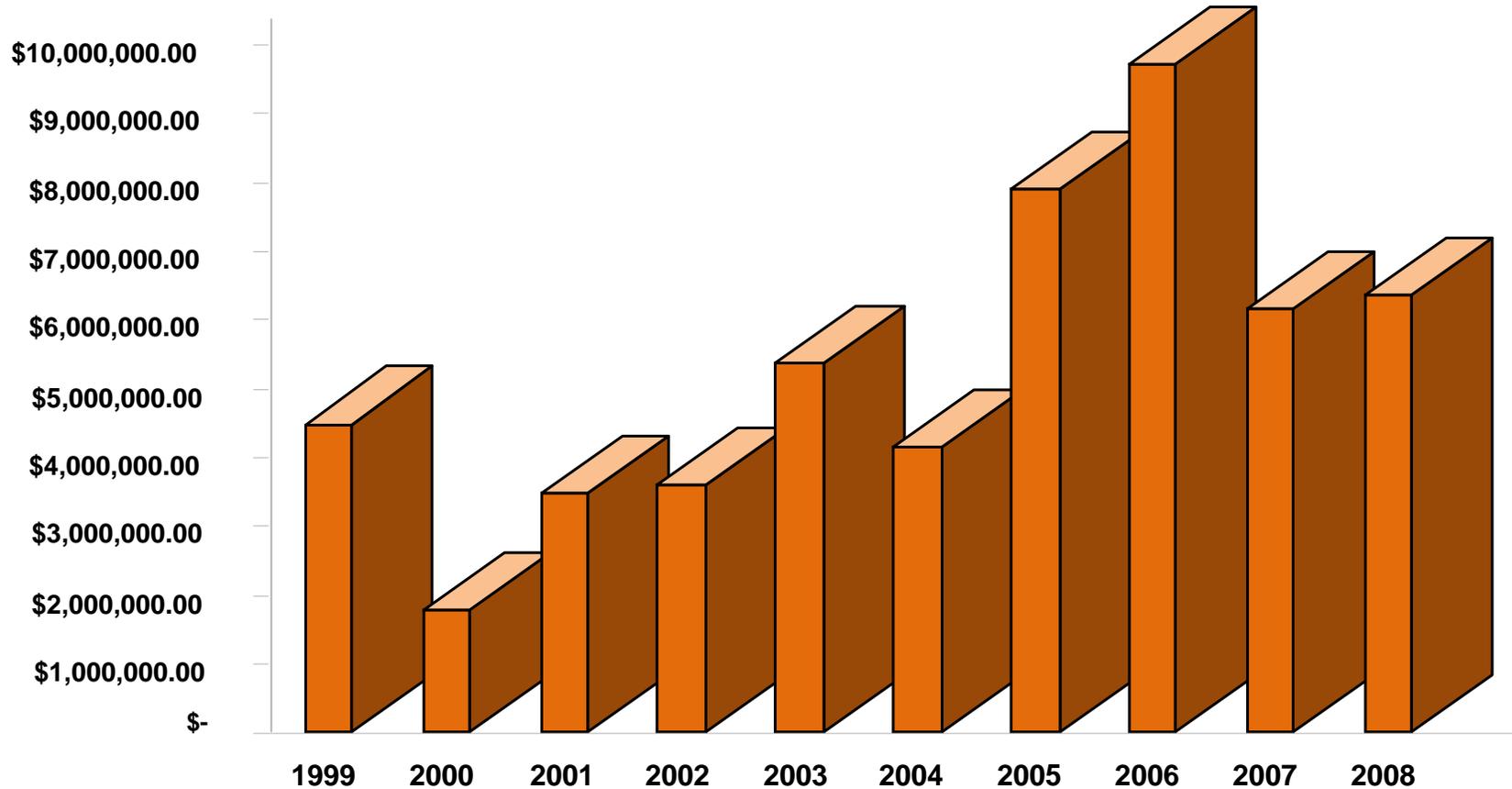
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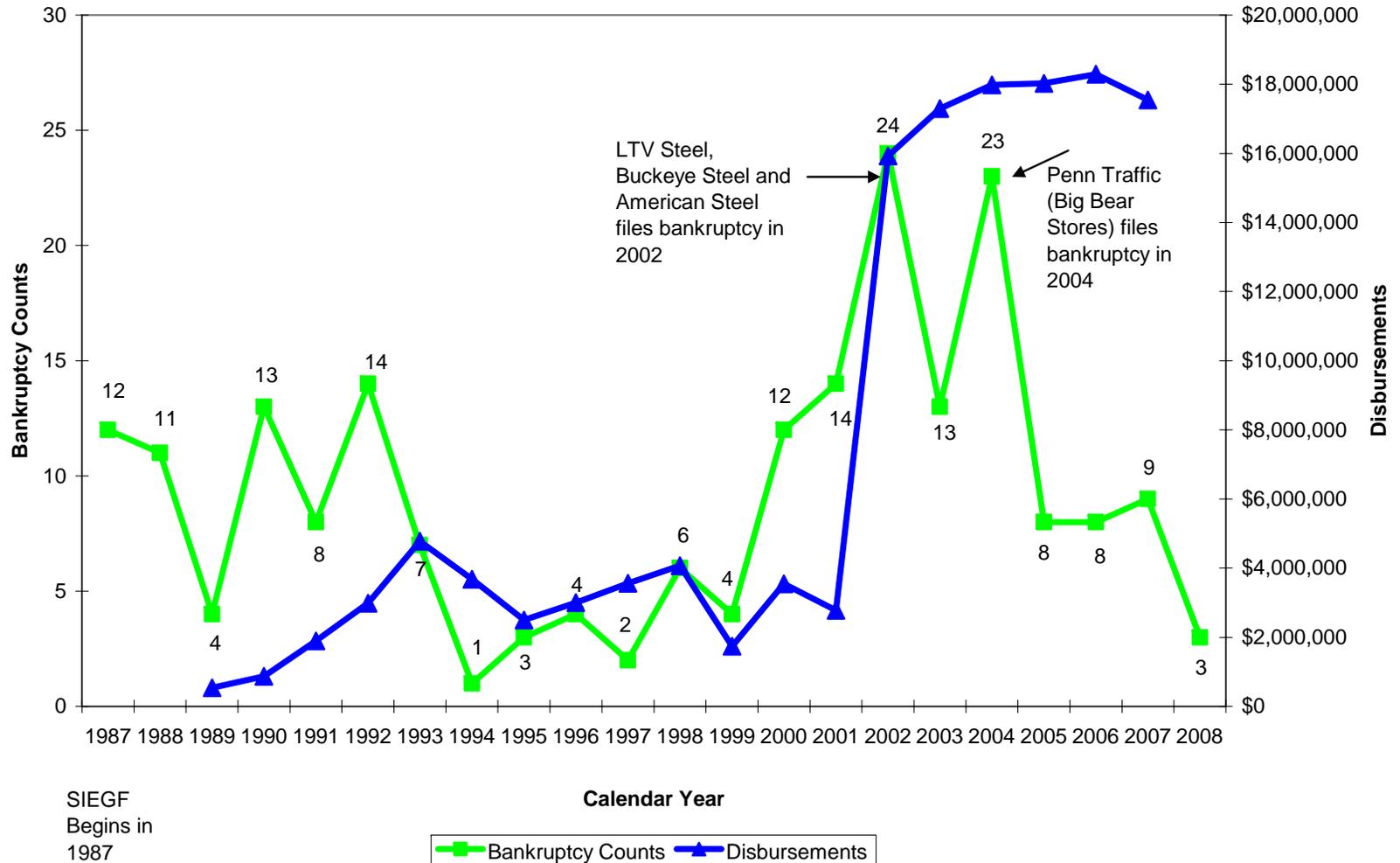
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## **BWC Legislative Report**

Gregg Paul and Laura Abu-Absi

### **SB 323 (Sen. Niehaus-R-New Richmond) Pneumoconiosis Fund –Transfer portion of interest for ODNR Mine Safety Program.**

Summary: Implement into law recommendations made by Underground Mine Safety Task Force. Allows BWC Administrator to transfer a portion of the Coal-Miners Pneumoconiosis Fund to ODNR's Mine Safety Fund. Requires Administrator to adopt rules.

- MIRA II date change amendment added to legislation by unanimous vote in committee
- Legislation approved unanimously (32- 0) by Senate on 5/7
- Proponent/Opponent/Interested Party Testimony in House Agriculture and Natural Resources Committee on 5/28. Voted out of committee unanimously
- Voted on by full House on 5/29. Passed unanimously (94-0).
- **Signed into law by Governor Strickland on 6/11. Effective immediately.**
- **BWC Board of Directors adopted rules to govern the transfer of interest to the Mine Safety Fund on 5/30.**
- **Emergency rules signed by Governor Strickland on 7/1**

### **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.

- Sponsor Testimony provided on 5/14 in Senate Insurance, Commerce and Labor Committee
- Proponent, Opponent, Interested Party testimony provided on 5/21/08 in Senate ICL.
- 3<sup>rd</sup> Hearing Testimony on 5/27 in Senate Insurance, Commerce and Labor Committee. Bill unanimously voted out of Senate same day.
- House Commerce and Labor Committee met on 5/28 to hear Sponsor Testimony and Proponent Testimony. Bill unanimously voted out of committee.
- On 5/29 House unanimously voted out legislation (93-0).
- **Signed into law by Governor Strickland on 6/11**
- **Effective on 9/11**

### **HB 397 (Rep. Szollosi-D)--Eliminates concurrent jurisdiction (Enacted into law as amendment to HB 562—Budget Corrections/Capital Appropriations**

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 Omnibus Amendment on 5/22/08 by House Finance and Appropriations Committee. BWC remains an interested party.**
- **HB 562 signed into law by Governor Strickland on 6/24**
- **Non-appropriation provisions effective on 9/24**

### **HB 562 (Hottinger-R-Newark)—Budget Corrections/Capital Appropriations**

- Contained HB 397's Longshore and Harbor Workers Compensation Act concurrent jurisdiction provisions (see immediately above)
- Increased spending authority under Line Item 855-610 from \$4,000,000 to \$6,500,000 in FY 09
- Eliminates BWC exemption under R.C. 125.02 to allow Department of Administrative (DAS) Services to establish contracts for supplies and services for the use of state agencies. (Permissive authority)
- Revises R.C. 125.01 to allow BWC to contract with DAS to authorize DAS to contract for telephone, other telecommunication, and computer services for state agencies

**HB 285 (R. McGregor-R-Springfield)—Waive fines or penalties for first time paperwork violations by small business.**

- **Signed by Governor Strickland on 6/17. Effective on 9/17**
- Legislation consistent with Executive Order 2008—04S Implementing Common Sense Business Regulation
- Definitions:
  - “Small Business”—same meaning as defined by the Code of Federal Regulations, Title 13, Chapter 1, Part 121
  - “Paperwork violations”—violation of any statutory or regulatory requirement in the Revised Code mandating the collection of information by a state agency or regulatory body.
  - “First-time offense”—first instance of a violation of the particular statutory or regulatory requirement mandating the collection of information by a state agency or regulatory body
- 6 exceptions that allow a state agency or regulatory authority to impose administrative fines or civil penalties on a small business for a paperwork violation that is a first time offense:
  - The violation has the potential to cause serious harm to the public interest as determined by a state agency or regulatory authority director
  - The violation involves a small business knowingly or willfully engaging in conduct that may result in a felony conviction
  - Failure to impose an administrative fine or civil penalty for the violation would impede or interfere with the detection of criminal activity
  - The violation is of a law concerning the assessment or collection of any tax, debt, revenue, or receipt
  - The violation presents a direct danger to the public health or safety, results in a financial loss to an employee as defined in section 4111.03 of the Revised Code, or presents the risk of severe environmental harm, as determined by the head of the agency or regulatory authority.
  - The violation is a failure to comply with a federal requirement for a program that has been delegated from the federal government to a state agency or regulatory authority and where the federal requirement includes a requirement to impose a fine.

**HB 181 (Setzer-R-Vandalia)—Law enforcement cooperation in missing children investigations.**

- **Signed by Governor Strickland on 6/12. Effective on 9/12**
- Law enforcement agency employees rendering services outside the territory of the political subdivision in which they are employed shall be entitled to participate in any indemnity fund established by their employer to the same extent as if they were rendering service within the territory of their employing political subdivision. Those law enforcement agency employees also shall be entitled to all the rights and benefits of Chapter 4123 to the same extent as if rendering within the territory of their employing political subdivision.

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

Summary: 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.
- Substitute introduced in committee on 5/15/08. BWC premium discount provisions remain in substitute bill.
- **No further hearings scheduled.**

## Legislative Developments

### **Workers' Compensation Council**

- Five non-legislative members appointed week of 5/5:
- **First meeting on 6/11**
- **Next meeting scheduled for 8/13**

### **MIRA II Technical Date Change** – BWC proposed legislative change

- Changes deadline to completely transition to MIRA II on or before June 30, 2008 to July 1, 2008
- Deadline to end MIRA I contract of June 30, 2008 would remain the same to show BWC is in line with the spirit of the law as intended and will not be using MIRA I longer than as originally provided.
- Added to SB 323 in Senate Environment and Natural Resources Committee on 5/7 by unanimous vote.
- SB 323 voted out of House on 5/29.
- **Signed by Governor Strickland on 6/11**
- **Date change effective immediately**