

**BWC Board of Directors**  
**Friday, July 25, 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  
David Caldwell  
Larry Price

Members Absent: None

Others Present: John Williams, Assistant Attorney General; Ron O'Keefe,  
Fiduciary Counsel

**CALL TO ORDER**

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

**ROLL CALL**

Roll call was taken and all members were present.

**MINUTES OF JUNE 26, 2008 MEETING AND JUNE 27, 2008 MEETING**

Upon motion of Mr. Bryan, seconded by Mr. Harris, the two sets of minutes for June were approved unanimously by roll call vote.

**AGENDA**

Mr. Lhota announced that the next order of business would be executive session, and that a break should be inserted into the agenda. Mr. Price raised a point of personal privilege and asked to be excused from a portion of the meeting.

Motion was made by Mr. Caldwell, and seconded by Ms. Falls, as follows: that the Board of Directors enter into executive session for the purpose of discussing pending litigation, personnel matters and security matters. Roll call was taken and the motion passed 11-0. The Board entered executive session at 8:05 am.

Motion was made by Mr. Bryan, seconded by Mr. Harris, as follows: that the Board of Directors end executive session and reconvene in public meeting. Roll call was taken, and the motion passed 10-0. The Board reconvened at approximately 9:30 am. Mr. Price excused himself during the Executive Session.

## **COMMITTEE REPORTS**

### **Actuarial Committee:**

Presentation was made by the committee chairman, Mr. Bryan. Mr. Bryan presented one action item. Tom Sico, Assistant General Counsel, discussed thirteen general rating rules, contained in Chapter 4123-17. In general such rules are exempt from public hearing and the five year rule review. The aforementioned thirteen rules, however, are not. Of the thirteen rules, ten are to remain unchanged, and three are to be changed.

Motion was made by Mr. Bryan, seconded by Mr. Matesich, as follows: that the Bureau of Worker's Compensation Board of Directors approve the Administrator's recommendations on the five year rule review of thirteen rules of Chapter 4123-17 of the Administrative Code. The motion consents to the Administrator retaining ten rules without change, and amending rules 4123-17-01, 4123-17-10, and 4123-17-27 as presented and amended at the Actuarial Committee on July 21, 2008. Roll call was taken and the motion passed 10-0.

Discussion was made of the Oliver Wyman reserves report education session. At the August meetings, there shall also be a Deloitte report and reserves review. A decision will be made whether to approve the report. Ms. Falls inquired as to when the Oliver Wyman recommendation will be available. John Pedrick, Chief Actuarial Officer, indicated in about two weeks. Mr. Bryan noted that he will be meeting with the Chairman of the Workers' Compensation Council next month to discuss coordination of the actuarial reviews that the Board and the Council must both perform.

### **Audit Committee:**

Presentation was made by the committee chair, Mr. Haffey. The committee had considered changes to the HPP MCO Open Enrollment Rule. After some discussion at the committee, revisions were made to the language of rule. The revisions were presented to the committee, which approved the resulting language.

Motion was made by Mr. Haffey, seconded by Mr. Fulton as follows: that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendation to amend Rule 4123-6-05.2 of the Administrative Code, "Employer Access to the HPP-employer Enrollment and Selection of MCO," relating to the time for open enrollment following an MCO merger. The motion consents to the Administrator amending rule 4123-6-05.2 as presented at the Audit Committee. Roll call was taken and the motion passed 10-0.

Presentation was made at the committee meeting by Robert Coury, Chief of Medical Services and Compliance, with regard to provider fee reimbursement schedules, to be introduced this meeting, with comments to be received, processed, and given to Mr. Coury, and reported on at the August 2008 meeting. Judy Brabb, Manager of Medical Policy, collaborated on this work as well. Tracy Valentino, Chief of Fiscal and Planning, and Ray Mazzotta, Chief Operating Officer, provided financial projections and proposed budgets. There was an external audit update for fiscal year ending June 30, 2008, based on Mr. Haffey's discussion with Joe Patrick of Schneider Downs.

The first phase of the fiscal year end audit concluded with no significant issues. Joe Bell, Chief of Internal Audit, provided an office of Budget and Management update. With regard to Schneider Downs, Mr. Bryan inquired as to whether the actuarial firm Pinnacle reviews the reserves for Schneider Downs, and whether Pinnacle's work could be provided to the Actuarial Committee. Ms. Valentino answered that Pinnacle does work with Schneider Downs. Although their work has not been provided historically to the Actuarial Committee, Ms. Valentino will attempt to arrange that it be provided at a future meeting. Mr. Matesich requested that if this information is available, it be provided at a joint Actuarial and Audit Committee Meeting.

**Investment Committee:**

Presentation was made by committee chair, Mr. Smith. Discussion was made of options for investment with regard to the Public Work Relief Employees' Compensation Fund and the Marine Industry Fund. Education topics for future Investment Committee meetings were further discussed.

**Governance Committee:**

Presentation was made by the committee chair, Ms. Falls. Discussion was made of the self assessment process for the Board. This process demonstrates leadership and a commitment to continuous improvement on the part of the Board. Ron O'Keefe, fiduciary counsel, guided the Board through this process and assisted with the compilation and summary of the results. There was a fourteen question survey that has been completed by every director on the Board. A summary of the director responses was discussed. The overall score was 4.6 out of 5, illustrating a high level of strength and satisfaction. Response was one hundred percent. A report was included and incorporated into the minutes by reference. Recommendations for improvement were included. According to Mr. O'Keefe this was a useful exercise in corporate governance. The process was thorough, beneficial, and illustrative of a best practice for governance.

Motion was made by Ms. Falls, seconded by Mr. Hummel, as follows: that the Workers' Compensation Board of Directors adopt the recommendation of the Governance Committee and approve the Summary of Director Responses of the Workers' Compensation Board of Directors' Self-Assessment. Roll call was taken and the motion passed 10-0.

Discussion was made of the education calendar for fiscal year 2009, including long range planning. Compliance with House Bill 100 was emphasized. Motion was made by Ms. Falls and seconded by Mr. Harris, as follows: that the Workers' Compensation Board of Directors approve and adopt the education calendar for the Board for fiscal year 2009 in the form submitted and amended as recommended by the Governance Committee. Roll call was taken and the motion passed 10-0.

Don Berno, Board Liaison, Peggy Concilla, Workers' Compensation Council Liaison, and Ann Shannon, BWC Legal Counsel, were congratulated for their work on the compilation of mandatory report deadlines. The document was reviewed and will be distributed to all committees for follow up.

The next Governance Committee meeting shall be September 25, 2008 at 8:00 AM. The 9:00 am to 11:00 am time slot shall usually be set aside on Thursdays for the Governance Committee meetings. However, in September the Governance Committee meeting will precede the public forum that has been scheduled for that day.

Mr. Lhota recessed the meeting at 10:00 am for a fifteen minute break. Mr. Lhota reconvened the meeting at 10:15 am.

## **DEEP DIVE**

David Boyd, Director, Self Insured Department, made a presentation on the self insurance program. An executive summary is incorporated by reference, as well as a power point presentation. Mr. Boyd provided an overview of the mandates of RC 4123.35. The discussion included a wide variety of topics including underwriting, auditing, self insured medical only, and self insured bankruptcy.

Discussion was further made of application and renewal, self insured review panel and audits of self insuring employers. Mr. Hummel raised concerns with regard to noncompliance audits. With noncompliance, there are recommendations for change made, follow up in six months, with a plan of action to implement. If implementation of changes does not occur, self insuring status may be revoked. Discussion was made of the self insured complaint process. Ms. Falls and Mr. Matesich raised issues concerning claimant knowledge of the process, as well as internal employer complaint processes. The Administrator's Designee for hearing such complaints is Joy Bush, Executive Director, Employer Management Services. The self insuring employer evaluation board hears unresolved complaints, as provided for by RC 4123.352 and OAC 4123-19-13.

Mr. Price returned to the meeting at 10:45 am.

Mr. Smith raised the issue of evaluating the self insured complaint process. Mr. Harris inquired as to whether claimants are aware that they may file complaints. There was further inquiry as to what the Bureau does concerning outreach to claimant organizations. Mr. Boyd indicated that members of his department speak at various union meetings throughout the year to try to help raise awareness. Mr. Caldwell raised the issue as to whether or not it should be mandatory for employers to post notices regarding claimants' rights under the self-insured process. Mr. Sico stated it could probably be made mandatory by administrative rule.

Discussion was made of the self insured employer guaranty fund. The fund provides compensation payments in the event a self insured employer either defaults or becomes bankrupt. Mr. Fulton inquired as to the case load of the teams assigned to these claims, in comparison to the caseload of a state fund team. Mr. Boyd will gather data related to this inquiry. Discussion was made of self insured employer assessments and calculations of said assessments. Letters of credit and bankruptcy collections were discussed as well. Mr. Hummel inquired as to whether there was a flow of employers from self insurance to state fund. Mr. Boyd indicated that this is rare. Mr. Matesich inquired as to cost savings associated with self insurance. Mr. Boyd indicated that the savings may be four to one. Mr. Fulton inquired as to whether current self insured employers assist in any way with the evaluation of applications for self insurance. Mr. Boyd responded no. Mr. Pedrick discussed the dynamics of self insurance costs. Self insurance costs have different pricing dynamics from state fund. Mention was made of the Deloitte study and recommendations that will be made regarding self-insurance.

Presentation was made by Bill Holt of Chrysler LLC. The presentation was from the self insuring employer's perspective. Mr. Holt stated that self insurance was a privilege, not a right, and discussed the responsibilities of self insuring employers. The major benefit of self insurance is the opportunity for an employer to handle their own claims. The self insurance guaranty fund is a big issue. Mr. Caldwell voiced concerns over abuses in the self insurance system. For example, if a claim is denied many claimants do not know they can appeal. Mr. Price is concerned about

this as well. Mr. Lhota mentioned that the September 2008 public forum will address self insurance issues.

### **MONTHLY FINANCIAL REPORT**

Ms. Valentino presented the financial statements, which are incorporated into the minutes by reference. It was noted that the June 30, 2008 statements contain unaudited figures. There is a format change to the financial statements. The report is now the Enterprise Report. The new report shall serve as a vehicle for operational reporting. Ms. Falls assisted with the development of the new format. All financial statements were discussed. Mr. Matesich complimented the Bureau staff on the new reporting. Ms. Valentino indicated that Barb Ingram, Director of Accounting, played an integral role in the preparations for the new format.

### **ADMINISTRATOR BRIEFING**

Marsha Ryan, Bureau Administrator, stated her appreciation of the Board's patience with the appointment process for nominations to fill Board vacancies. Mr. Fulton, Mr. Hummel, and Mr. Price's appointments of one year terms have expired. However, they continue to serve in their positions until expiration of 60 days, or new appointments are made. Although there have been several attempts by the Workers' Compensation Board of Directors Nominating Committee to meet, they have not been able to have a quorum. The Workers' Compensation Board of Directors Nominating Committee shall meet July 29, 2008 with a quorum present, to move forward with the appointment process. Ms. Ryan noted that it is important that the appointment process begin several months prior to the expiration of director terms, which will be part of recommendations that she will be making.

Ms. Ryan discussed the creation of the employer compliance unit. The unit's purpose is to pursue employers failing to obtain or pay for coverage. The unit represents a new dedication to compliance, and will rigorously pursue delinquent employers. Ms. Ryan discussed the ongoing liquidation of the coin fund. There was brief discussion of a review of topics for actuarial review by Mr. Pedrick.

Ms. Ryan further discussed a formal stakeholder process to be put in place to handle difficult issues, in particular, group rating. There will be work teams for this. In addition, the Bureau is seeking to hire a consultant for this. Ms. Ryan announced that Leo Genders, Chief Information Officer, will be leaving the Bureau to pursue another professional opportunity. Ms. Ryan wished him well, and thanked him for his service and contribution to the Bureau. A statement containing the Governor's position on the paid sick leave proposals was distributed to the Directors.

A Workers' Compensation University discussion was led by Ryan Rekestis of the Communications Department. Discussion was made of improvements to the program, as well as additions to the curriculum. The Directors were invited to attend.

Mr. Harris complimented the Bureau staff on taking action with noncomplying employers. Mr. Fulton complimented the Bureau's outreach with regard to group rating matters and its evolution.

Mr. Price noted that had he been present for the entire meeting, he would have voted in favor of all motions that were before the Board.

### **ADJOURNMENT**

Upon motion by Mr. Caldwell, seconded by Mr. Bryan, the Board adjourned at 12:30 pm. Roll call was taken and the motion passed 11-0.

Minutes taken by Tom Woodruff, Bureau Staff Counsel



## MEMORANDUM

**DATE:** November 20, 2007  
**TO:** William J. Lhota, Chairman, Board of Directors, Ohio Bureau of Workers' Compensation  
**FROM:** F. Ronald O'Keefe, Esq., Hahn Loeser & Parks LLP  
**SUBJECT:** Overview - Fiduciary Duties of Members of the Board of Directors

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Purpose: The recently-formed Board of Directors (the "Board") of the Ohio Bureau of Workers' Compensation ("BWC") has retained fiduciary counsel. The Board Chairman has requested that fiduciary counsel make a presentation to the Board regarding the fiduciary responsibilities of the BWC Board members.

Fiduciary Responsibilities Defined: A fiduciary has been defined as "a person having a duty, created by his undertaking, to act *primarily for the benefit of another* in matters connected with his undertaking."<sup>1</sup> The monies paid into the worker's compensation fund "constitute a trust fund for the benefit of employers and employees."<sup>2</sup> The members of the BWC Board each have the duties of a trustee with respect to the workers' compensation fund. A trustee must exercise "such care and skill as a man of ordinary prudence would exercise in dealing with his own property" and that, if a "trustee has greater skill than that of a man of ordinary prudence, he is under a duty to exercise such skill."<sup>3</sup>

- Fiduciary Standards of Conduct: The members of the BWC Board are obligated by law to adhere to the highest standards of judgment and care when making decisions or taking actions that may affect the financial integrity and soundness of the workers' compensation fund.<sup>4</sup>
- Oversight Responsibilities: In addition to observing fiduciary standards of conduct with respect to making decisions and taking actions, the BWC directors are charged with oversight responsibility of the BWC and its Administrator.

Discussion and Analysis: In order to properly discharge their fiduciary responsibilities, Directors should be guided by three primary considerations with respect to matters that come before the Board:

- The provisions of Ohio law that directly impact the Board’s activities.
- The duty of loyalty to protect the workers’ compensation fund and to act in the interests of all the stakeholders of the BWC, taken as a whole, and.
- The duty of care in ensuring that all Board decisions and actions are the result of an informed deliberative process in which the significant information items relevant to the proposed decision or action are identified and considered by the Board.

Discussion and Analysis:

1. Ohio Law.

- Under Ohio law, the Board is charged with a number of responsibilities.
- The paramount responsibility of the Board is to “safeguard and maintain the solvency” of the workers’ compensation fund. In this connection, Ohio law requires the Administrator to “fix and maintain, with the advice and consent of the Board, for each class of occupation or industry, the lowest possible rates of premium consistent with the maintenance of a solvent state insurance fund and the creation and maintenance of a reasonable surplus.”<sup>5</sup>
- Further, Ohio law requires the Administrator to “adopt rules, with the advice and consent of the Board, governing rate revisions, the object of which shall be to an equitable distribution of loses among the several classes of occupation or industry,” and, in this connection, to develop “fixed and equitable rules controlling the rating system, which rules shall conserve to each risk the basic principles of workers’ compensation insurance.”<sup>6</sup>
- Other significant statutory duties of the Board include establishing the overall administrative policy for the BWC and reviewing the progress of the BWC in meeting its cost and quality objectives.<sup>7</sup>

2. Duty of Loyalty.

- The duty of loyalty is observed by the Directors by keeping in the forefront the Board’s legal duties with respect to the interests of the workers’ compensation fund and all the stakeholders of the BWC, taken as a whole.
- An important element of the duty of loyalty is the requirement that the fiduciary act in “good faith,” which means making an honest effort to put one’s own interests aside with respect to the consideration of, and taking action on, a particular matter.

- The duty of loyalty is of particular importance to members of the BWC Board. In carrying out their responsibilities, each Board member must separate themselves from whatever relationships they may have to the constituency that brought that member to the Board, and focus solely on his or her fiduciary responsibilities as a Board member to the BWC and the fund administered by the BWC.
- If a Board member believes that his or her personal interests in a particular matter are so compelling that the Board member cannot, in good conscience, act in “good faith” with respect to that matter, then the Board member should decline to participate in taking action on such matter. By exercising recusal under these circumstances, that Board member is, in fact, carrying out his or her fiduciary responsibilities by not breaching the duty of loyalty.

### 3. Duty of Care.

- Directors may discharge their duty of care in the context of decisions to be made by the Board by doing whatever is reasonably prudent, under the circumstances, to obtain and review information relevant to the matter at hand and examine in sufficient detail, and with the aid of the appropriate resources, the significant relevant factors with respect to that matter.
- Where the responsibility of the Board involves the actions and proposed actions of the Administrator which are to be undertaken with the Board’s “advice and consent” under the applicable statute, the Board should consider the specific standards imposed by law on the Administrator, and should generally be guided by the preservation of the solvency of the BWC fund, while considering what is fair and equitable to all BWC stakeholders.<sup>8</sup>
- In fulfilling its oversight responsibilities, it is imperative that the Board be reasonably well informed regarding the matters of significance affecting the BWC and the fund.
- In this connection, case law precedent regarding board oversight responsibilities has held that the Board has the responsibility to make certain that internal information and reporting systems are in place within the BWC to provide timely, accurate information sufficient to allow the Board to reach informed judgments concerning the matters before it, including compliance by the BWC with the laws that govern it and evaluating the progress of the BWC in meeting its cost and quality objectives.<sup>9</sup>
- The duty of care requires that the Board devote an appropriate amount of time for assimilation and deliberation among its members regarding the information obtained with respect to the matter under consideration. The appropriate amount of time for

deliberation, however, will have to be balanced on a case-by-case basis against the need for prompt action with respect to the matter under consideration.

Please advise if you require any further information or clarification with respect to the items set forth in this memorandum. The advice set forth herein is provided with respect to the specific purpose set forth above, and is intended solely for the use of the Board and its Committees.

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<sup>1</sup> *Haluka v. Baker*, 66 Ohio App. 308, 312 (1941) [Emphasis in original.]

<sup>2</sup> Ohio Revised Code Section 4123.30.

<sup>3</sup> Restatement (Second) of Trusts, Section 174 (1959).

<sup>4</sup> Ohio Attorney General Opinion No. 89-033 (1989).

<sup>5</sup> Ohio Revised Code Section 4123.34 [preamble].

<sup>6</sup> Ohio Revised Code Section 4123.34 (B).

<sup>7</sup> Ohio Revised Code Section 4121.12 (F) (1, 2).

<sup>8</sup> Ohio Revised Code Section 4123.29 (A) (2).

<sup>9</sup> *Stone v. Ritter*, 911 A.2d 362 (Del. 2006), citing *In Re Caremark Int'l Inc. Derivative Litigation.*, 698 A.2d 959, 971 (Del. Ch. 1996)

# **Enterprise Report**

August 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.*

## July Financial Analysis

BWC's net assets decreased by \$181 million in July 2008 resulting in net assets of \$2.0 billion at July 31, 2008 compared to \$2.2 billion at June 30, 2008.

<i>(\$ in millions)</i>	<b>Fiscal YTD</b> July 31, 2008
Operating Revenues	\$192
Operating Expenses	239
Operating Transfer Out	(2)
Net Operating Gain (Loss)	(49)
Net Investment Income (Loss)	(132)
Increase (Decrease) in Net Assets	(181)
Net Assets End of Period	\$2,042

- o Premium and assessment income of \$201 million was reduced by a \$9 million provision for uncollectible accounts receivable resulting in operating revenues of \$192 million in July 2008.
- o Benefits and compensation adjustment expenses of \$232 million along with other expenses of \$7 million resulted in operating expenses of \$239 million in July 2008.
- o The \$224 million reduction in portfolio market value during July exceeded interest and dividend income of \$92 million for the month, resulting in a net investment loss of \$132 million for the month after investment expenses.
- o A transfer of \$1.7 million was made to the Ohio Department of Natural Resources - Mine Safety Program. This transfer was made in accordance with the rule approved by the Board in May to provide funding of no more than \$5.5 million to the Mine Safety Program during the first 12 months of the program.
- o Premium collections in July were \$200 million, an expected increase from the \$25 million collected in June as private employers pay premiums for the January to June policy period. Employers choosing our future date option have increased by 46 percent this reporting period. The future date option allows employers to report their payroll and defer payment to a date they select up to the August 31 filing deadline.
- o Claim payments issued in July were \$166 million, including \$27 million in settlements.

## Fiscal Year-to-Year Comparisons

BWC's total net assets have decreased by \$181 million for fiscal year-to-date 2009 resulting in net assets of \$2.0 billion compared to \$2.4 billion at July 31, 2007.

<i>(\$ in millions)</i>	<b>Fiscal YTD</b> July 31, 2008	<b>Projected FYTD</b> July 31, 2008	<b>Fiscal YTD</b> July 31, 2007
Operating Revenues	\$192	\$199	\$198
Operating Expenses	239	270	217
Operating Transfer Out	(2)	(1)	-
Net Operating Gain (Loss)	(49)	(72)	(19)
Net Investment Income	(132)	87	124
Increase (Decrease) in Net Assets	(181)	15	105
Net Assets End of Period	\$2,042	\$2,238	\$2,410

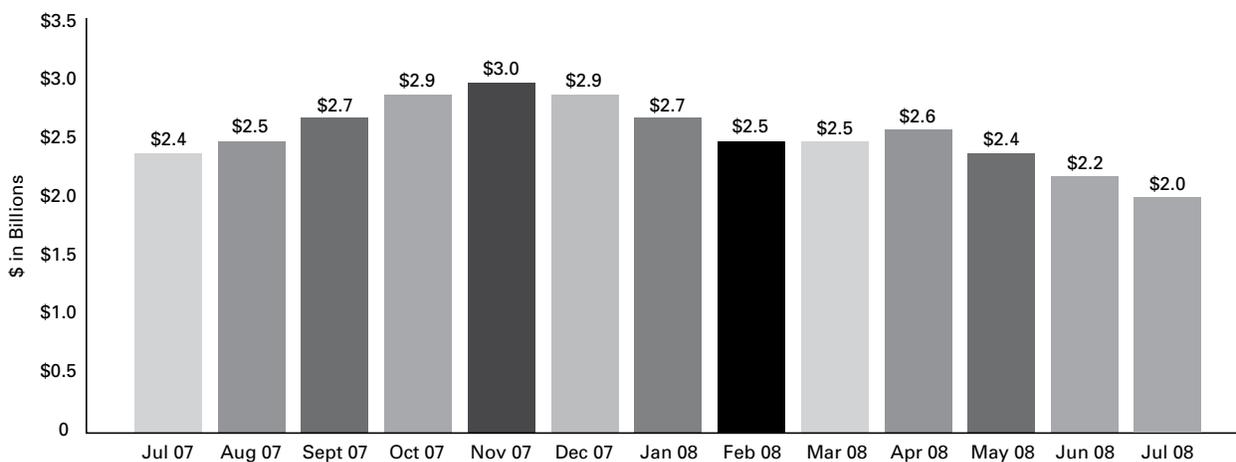
- o BWC's operating revenues for fiscal year-to-date 2009 were \$192 million, a decrease of \$6.0 million compared to fiscal year-to-date 2008.

- o Premium and assessment income is on target with the projections for this period.
- o Benefit and compensation adjustment expenses have increased by \$26 million in fiscal year 2009 due to an increase in the change in reserves for compensation and compensation adjustment expenses.
- o Claim payments have increased by \$1.5 million or almost 1 percent for fiscal year-to-date 2009 compared to the same period in fiscal year 2008. The increase is due to an \$824 thousand increase in medical payments and a \$667 thousand increase in indemnity payments.
- o BWC's net investment loss for fiscal year-to-date 2009 totaled \$132 million, comprised of \$92 million of interest and dividend income and \$224 million decline in portfolio fair market value reduced by \$259 thousand of investment expenses.
- o Cash used by operating activities is trending higher than the prior fiscal year-to-date but is \$4 million less than projected. Fiscal year-to-date 2009 premium collections are \$3 million lower while cash disbursements for claims are \$6 million higher.

**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. No settlement payments were made to hospitals during July. Discussions have been taking place with several hospitals and we expect to receive releases soon.
- o Changes in the reserves for compensation and compensation adjustment expenses will be updated at the conclusion of the actuarial audit and receipt of new reserve projections from BWC's actuarial consultants.

**Net Assets**



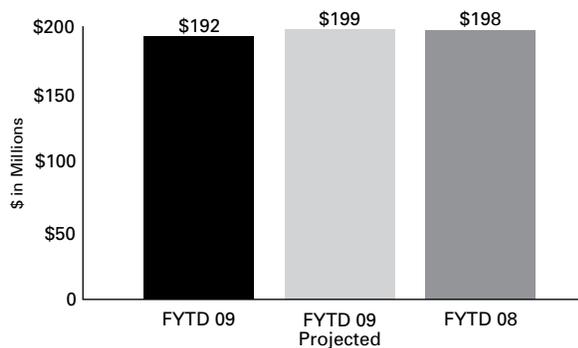
# Statement of Operations

Fiscal year to date July 31, 2008

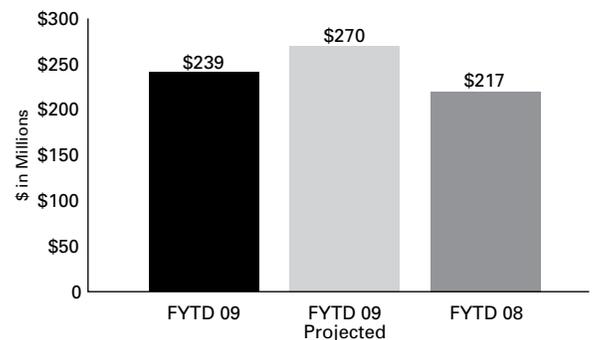
(in millions)

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
<b>Operating Revenues</b>					
Premium & Assessment Income	\$201	\$201	\$ -	\$198	\$3
Provision for Uncollectibles	(9)	(2)	(7)	-	(9)
Other Income	-	-	-	-	-
<b>Total Operating Revenue</b>	<b>192</b>	<b>199</b>	<b>(7)</b>	<b>198</b>	<b>(6)</b>
<b>Operating Expenses</b>					
Benefits & Compensation Adj. Expense	232	261	29	206	26
Other Expenses	7	9	2	11	(4)
<b>Total Operating Expenses</b>	<b>239</b>	<b>270</b>	<b>31</b>	<b>217</b>	<b>22</b>
<b>Operating Transfers</b>	<b>(2)</b>	<b>(1)</b>	<b>(1)</b>	<b>-</b>	<b>(2)</b>
<b>Net Operating Gain (Loss)</b>	<b>(49)</b>	<b>(72)</b>	<b>23</b>	<b>(19)</b>	<b>(30)</b>
<b>Net Investment Income</b>	<b>(132)</b>	<b>87</b>	<b>(219)</b>	<b>124</b>	<b>(256)</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$(181)</b>	<b>\$15</b>	<b>\$(196)</b>	<b>\$105</b>	<b>\$(286)</b>

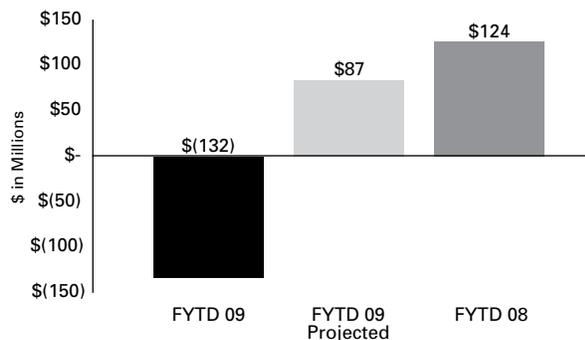
Operating Revenues



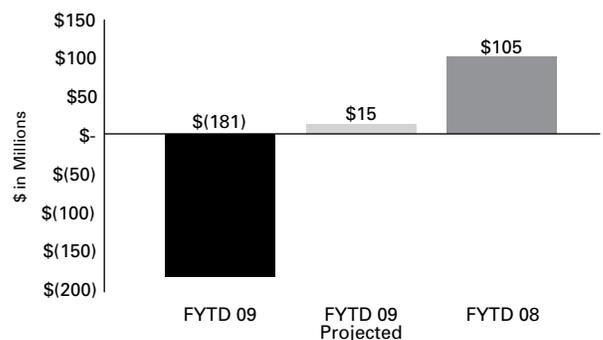
Operating Expenses



Net Investment Income



Change in Net Assets



# Statement of Operations – Combining Schedule

Fiscal year to date July 31, 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	\$157,440	\$11,870	\$ -	\$19	\$61	\$(71)	\$30,635	\$199,954
Provision for Uncollectibles	(1,227)	(1,461)	-	-	-	331	(6,150)	(8,507)
Other Income	(99)	-	-	-	-	-	171	72
<b>Total Operating Revenues</b>	<b>156,114</b>	<b>10,409</b>	<b>-</b>	<b>19</b>	<b>61</b>	<b>260</b>	<b>24,656</b>	<b>191,519</b>
<b>Operating Expenses:</b>								
Benefits & Compensation Adj Expenses	198,171	11,669	94	35	22	(106)	22,227	232,112
Other Expenses	2,094	31	4	-	2	-	5,136	7,267
<b>Total Operating Expenses</b>	<b>200,265</b>	<b>11,700</b>	<b>98</b>	<b>35</b>	<b>24</b>	<b>(106)</b>	<b>27,363</b>	<b>239,379</b>
Net Operating Income (Loss) before Operating Transfers Out	(44,151)	(1,291)	(98)	(16)	37	366	(2,707)	(47,860)
Operating Transfers Out	(37)	-	(1,745)	-	-	-	37	(1,745)
<b>Net Operating Income (Loss)</b>	<b>(44,188)</b>	<b>(1,291)</b>	<b>(1,843)</b>	<b>(16)</b>	<b>37</b>	<b>366</b>	<b>(2,670)</b>	<b>(49,605)</b>
<b>Investment Income:</b>								
Investment Income	84,234	6,069	1,283	42	31	105	324	92,088
Bonds – Realized & Unrealized Gains (Losses)	(180,189)	(12,812)	(2,676)	-	-	-	-	(195,677)
Equities – Realized & Unrealized Gains (Losses)	(25,618)	(1,905)	(446)	-	-	-	-	(27,969)
Total Realized & Unrealized Capital Gains (Losses)	(205,807)	(14,717)	(3,122)	-	-	-	-	(223,646)
Investment Manager & Operational Fees	(226)	(24)	(10)	-	-	-	-	(260)
Gain (Loss) on Disposal of Fixed Assets	-	-	-	-	-	-	-	-
Total Non-Operating Revenues, Net	(121,799)	(8,672)	(1,849)	42	31	105	324	(131,818)
<b>Increase (Decrease) in Net Assets (Deficit)</b>	<b>(165,987)</b>	<b>(9,963)</b>	<b>(3,692)</b>	<b>26</b>	<b>68</b>	<b>471</b>	<b>(2,346)</b>	<b>(181,423)</b>
<b>Net Assets (Deficit), Beginning 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>
<b>Net Assets (Deficit), End of Period</b>	<b>\$1,772,916</b>	<b>\$833,194</b>	<b>\$176,182</b>	<b>\$18,753</b>	<b>\$14,631</b>	<b>\$9,389</b>	<b>\$(783,415)</b>	<b>\$2,041,650</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 July 31, 2008

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
<b>Investment Income</b>					
Bond Interest	\$86,850,081	\$63,491,000	\$23,359,081	\$58,119,451	\$28,730,630
Dividend Income—Domestic & International	4,627,069	5,750,000	(1,122,931)	1,634,880	2,992,189
Money Market/Commercial Paper Income	548,753	813,200	(264,447)	1,200,993	(652,240)
Misc. Income (Corp Actions, Settlements)	62,528	300,000	(237,472)	546,281	(483,753)
Private Equity	—	—	—	1,860,819	(1,860,819)
Securities Lending Income, Net of Fees	—	—	—	—	—
<b>Total Investment Income</b>	<u>92,088,431</u>	<u>70,354,200</u>	<u>21,734,231</u>	<u>63,362,424</u>	<u>28,726,007</u>
<b>Realized &amp; Unrealized Capital Gains and (Losses)</b>					
Bonds - Net Realized Gains (Losses)	(1,584,345)	—	(1,584,345)	(17,680,511)	16,096,166
Bonds - Net Unrealized Gains (Losses)	<u>(194,090,851)</u>	—	<u>(194,090,851)</u>	<u>165,465,665</u>	<u>(359,556,516)</u>
Subtotal - Bonds	<u>(195,675,196)</u>	—	<u>(195,675,196)</u>	<u>147,785,154</u>	<u>(343,460,350)</u>
Stocks - Net Realized Gains (Losses)	(2,889,179)	—	(2,889,179)	821,515	(3,710,694)
Stocks - Net Unrealized Gains (Losses)	<u>(27,810,600)</u>	<u>17,250,000</u>	<u>(45,060,600)</u>	<u>(81,130,460)</u>	<u>53,319,860</u>
Subtotal - Stocks	<u>(30,699,779)</u>	<u>17,250,000</u>	<u>(47,949,779)</u>	<u>(80,308,945)</u>	<u>49,609,166</u>
Net Gain (Loss) - PE	<u>2,728,902</u>	—	<u>2,728,902</u>	<u>(7,071,565)</u>	<u>9,800,467</u>
<b>Change in Portfolio Value</b>	<u>(223,646,073)</u>	<u>17,250,000</u>	<u>(240,896,073)</u>	<u>60,404,644</u>	<u>(284,050,717)</u>
<b>Investment Manager &amp; Operational Fees</b>	<u>(259,291)</u>	<u>(340,000)</u>	<u>80,709</u>	—	<u>259,291</u>
<b>Net Investment Income</b>	<u>\$(131,816,933)</u>	<u>\$87,264,200</u>	<u>\$(219,081,133)</u>	<u>\$123,767,068</u>	<u>\$(255,584,001)</u>

# Administrative Cost Fund Expense Analysis

July 2008

- o BWC Administrative Cost Fund expenses are approximately \$6 million (21%) less than budgeted and approximately the same as fiscal year 2008. Changes in payroll within divisions varied due to vacant management positions that were filled in 2009, vacancies resulting from the 2008 Early Retirement Incentive and positions moving due to reorganization.
- o The change in the fiscal year leads to a significant number of payments for the previous fiscal year in the current month. Much of the activity in July is the preparation of purchase orders for the current fiscal year. Special counsel fees will resume when the Attorney General completes assignments. The first payment for William Green rent and Attorney General fees will be made in September 2008.
- o Positions not yet filled led to a reduction in the fiscal year budget as of July. Payroll will be increased as employees are hired.
- o BWC's current fiscal year 2009 budget is approximately \$22.7 million (6.9%) less than appropriated by the General Assembly.

# Administrative Cost Fund Budget Summary

As of July 31, 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
<b>Payroll</b>									
BWC Board of Directors	13	85,082	85,185	103	0.12%	824,870	12,377	72,705	587.42%
Workers' Comp Council		0	0	0		30,728	0	0	0.00%
BWC Administration	6	87,467	87,467	0	0.00%	812,151	47,732	39,735	83.25%
Customer Service	1,506	12,908,763	12,928,600	19,837	0.15%	113,885,007	13,812,053	(903,290)	-6.54%
Medical	144	1,226,356	1,226,362	6	0.00%	10,943,657	1,267,501	(41,145)	-3.25%
Special Investigations	130	1,300,626	1,301,073	447	0.03%	11,404,097	1,293,110	7,516	0.58%
Fiscal and Planning	66	544,238	545,811	1,573	0.29%	4,784,451	505,832	38,406	7.59%
Actuarial	19	188,987	188,987	0	0.00%	1,749,928	168,912	20,075	11.88%
Investments	10	131,072	131,228	156	0.12%	1,354,463	101,108	29,964	29.64%
Information Technology	314	3,455,804	3,460,888	5,084	0.15%	30,942,292	3,291,428	164,376	4.99%
Legal	75	751,032	751,032	0	0.00%	6,646,569	723,255	27,777	3.84%
Communications	34	337,102	337,102	0	0.00%	2,850,128	325,031	12,071	3.71%
Human Resources	69	632,063	631,915	(148)	-0.02%	5,686,281	416,301	215,762	51.83%
Internal Audit	14	156,557	156,751	194	0.12%	1,500,732	187,391	(30,834)	-16.45%
Ombuds Office	9	56,968	57,280	312	0.54%	608,647	39,372	17,596	44.69%
Early Retirement Expenses		0	0	0	0.00%	0	0	0	0.00%
<b>Total Payroll</b>	<b>2,409</b>	<b>21,862,117</b>	<b>21,889,681</b>	<b>27,564</b>	<b>0.13%</b>	<b>194,024,001</b>	<b>22,191,403</b>	<b>(329,286)</b>	<b>-1.48%</b>
<b>Personal Services</b>									
Information Technology		55,484	1,107,075	1,051,591	94.99%	13,486,024	0	55,484	
Legal - Special Counsel		0	130,185	130,185	100.00%	1,562,187	0	0	0.00%
Legal - Attorney General		0	1,111,022	1,111,022	100.00%	4,444,085	0	0	0.00%
Other Personal Services		30,262	921,817	891,555	96.72%	7,416,381	47,756	(17,494)	-36.63%
<b>Total Personal Services</b>		<b>85,746</b>	<b>3,270,099</b>	<b>3,184,353</b>	<b>97.38%</b>	<b>26,908,677</b>	<b>47,756</b>	<b>37,990</b>	<b>79.55%</b>
<b>Maintenance</b>									
William Green Rent		0	0	0	0.00%	20,686,500	0	0	0.00%
Other Rent and Leases		58,729	614,344	555,615	90.44%	11,156,933	44,153	14,576	33.01%
Software and Equipment Maintenance and Repairs		397,717	1,612,499	1,214,782	75.34%	19,426,703	192,614	205,103	106.48%
Inter Agency Payments		102,879	243,514	140,635	57.75%	4,014,750	9,313	93,566	1004.68%
Communications		353,216	547,813	194,597	35.52%	6,977,919	281,177	72,039	25.62%
Safety Grants and Long Term Care Loan		36,808	0	(36,808)		6,000,000	0	36,808	
Supplies and Printing		67,166	229,121	161,955	70.69%	3,186,593	35,578	31,588	88.79%
Other Maintenance		267,544	318,535	50,991	16.01%	3,756,883	344,230	(76,686)	-22.28%
<b>Total Maintenance</b>		<b>1,284,059</b>	<b>3,565,826</b>	<b>2,281,767</b>	<b>63.99%</b>	<b>75,206,281</b>	<b>907,065</b>	<b>376,994</b>	<b>41.56%</b>
<b>Equipment</b>									
		1,645	731,047	729,402	99.77%	10,349,296	13,863	(12,218)	-88.13%
<b>Total Administrative Cost Fund Expenses</b>		<b>23,233,567</b>	<b>29,456,653</b>	<b>6,223,086</b>	<b>21.13%</b>	<b>306,488,255</b>	<b>23,160,087</b>	<b>73,480</b>	<b>0.32%</b>

Total Agency Appropriation 329,210,479  
 Budget to Appropriation Variance 22,722,224  
 Percentage Variance 6.90%

# State Insurance Fund

## Administrative Expense Summary

As of July 31, 2008

	Actual FYTD 2009	Encumbrance Balance	FYTD Actual & Encumbrance	Encumbrance Closing Date	Actual FYTD 2008
<b>Investment Administrative Expenses</b>					
UBS Securities LLC	\$0	\$1,224,547	\$1,224,547	6/30/2008	\$0
Wilshire Associates Inc.	0	0	0	2/24/2008	0
JP Morgan Chase - Performance Reporting	0	14,734	14,734	6/30/2008	0
Mercer Investment Consulting	0	600,659	600,659	6/30/2009	0
Other Investment Expenses	0	308,860	308,860	6/30/2008	0
	0	2,148,800	2,148,800		0
<b>Actuarial Expenses</b>					
Oliver Wyman	179,506	1,327,951	1,507,457	12/31/2009	58,033
Deloitte Consulting LLP	479,698	1,070,396	1,550,094	12/31/2008	0
AON Risk Consultants	0	0	0		263,599
	659,204	2,398,347	3,057,551		321,632
<b>Ohio Rehabilitation Services</b>	605,407	0	605,407	6/30/2009	0
<b>TOTAL</b>	<b>\$1,264,611</b>	<b>\$4,547,147</b>	<b>\$5,811,758</b>		<b>\$321,632</b>

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

The investment administrative expenses 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.

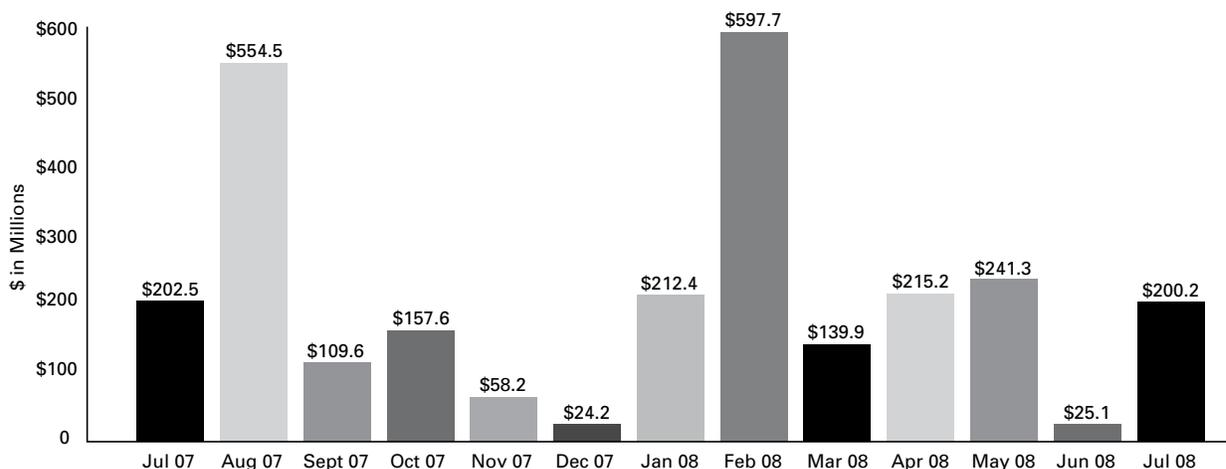
# Statement of Cash Flows

Fiscal year to date July 31, 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	\$200	\$200	\$ –	\$203	\$(3)
Cash Receipts - Other	2	2	–	2	–
Cash Disbursements for Claims	(179)	(184)	5	(173)	(6)
Cash Disbursements for Other	(44)	(43)	(1)	(44)	–
<b>Net Cash Provided (used) by Operating Activities</b>	(21)	(25)	4	(12)	(9)
<b>Net Cash Flows from Noncapital Financing Activities</b>	(2)	(1)	(1)	–	(2)
<b>Net Cash Flows from Capital and Related Financing Activities</b>	–	–	–	–	–
<b>Net Cash Provided (used) by Investing Activities</b>	18	1	17	72	(54)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(5)	(25)	20	60	(65)
<b>Cash and Cash Equivalents, Beginning of Period</b>	371	371	–	328	43
<b>Cash and Cash Equivalents, End of Period</b>	\$366	\$346	\$20	\$388	\$(22)

## Premium and Assessment Receipts



# Statement of Net Assets

As of July 31, 2008

(in millions)

	Actual	Prior Yr. Actual	Year to Year Increase (Decrease)
<b>Assets</b>			
Bonds	\$ 13,607	\$13,421	\$ 186
Stocks	3,149	2,560	589
Private Equities	3	427	(424)
Cash & Cash Equivalents	<u>366</u>	<u>388</u>	<u>(22)</u>
Total Cash and Investments	17,125	16,796	329
Accrued Premiums	4,638	4,750	(112)
Other Accounts Receivable	220	180	40
Investment Receivables	326	413	(87)
Other Assets	<u>118</u>	<u>120</u>	<u>(2)</u>
<b>Total Assets</b>	<u>22,427</u>	<u>22,259</u>	<u>168</u>
<b>Liabilities</b>			
Reserve for Compensation and Compensation Adj. expense	\$ 19,886	\$19,301	\$ 585
Accounts Payable	55	67	(12)
Investment Payable	182	231	(49)
Other Liabilities	<u>262</u>	<u>250</u>	<u>12</u>
<b>Total Liabilities</b>	<u>20,385</u>	<u>19,849</u>	<u>536</u>
<b>Net Assets</b>	\$ 2,042	\$2,410	\$(368)

# Statement of Net Assets – Combining Schedule

As of July 31, 2008

(in thousands)

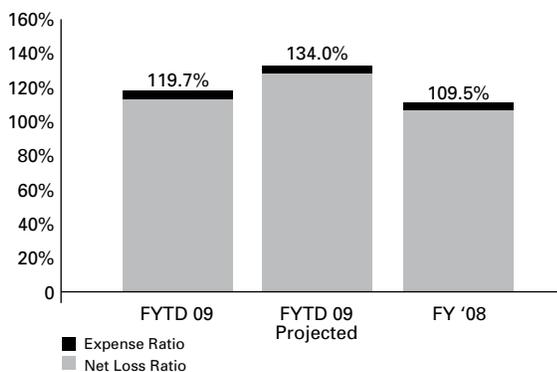
	State Insurance Fund Account	Disabled Workers' Relief Fund Account	Coal-Workers Pneumoconiosis Fund Account	Public Work Relief Employees' Fund Account	Marine Industry Fund Account	Self-Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Eliminations	Totals
<b>Assets</b>									
Bonds	\$12,513,855	\$ 902,850	\$ 190,554	\$ –	\$ –	\$ –	\$ –	\$ –	\$13,607,259
Stocks	2,904,042	199,201	45,411	–	–	–	–	–	3,148,654
Private Equities	3,216	–	–	–	–	–	–	–	3,216
Cash & Cash Equivalents	<u>252,828</u>	<u>11,574</u>	<u>1,384</u>	<u>22,666</u>	<u>16,792</u>	<u>55,696</u>	<u>4,581</u>	<u>–</u>	<u>365,521</u>
Total Cash and Investments	\$15,673,941	\$1,113,625	\$ 237,349	\$ 22,666	\$ 16,792	\$ 55,696	\$ 4,581	\$ –	\$17,124,650
Accrued Premiums	2,026,511	1,673,599	–	196	–	670,235	267,573	–	4,638,114
Other Accounts Receivable	166,104	23,167	(4)	29	–	7,441	23,642	–	220,379
Interfund Receivables	13,018	52,953	1	–	217	648	66,664	(133,501)	–
Investment Receivables	300,151	21,093	4,293	–	–	105	–	–	325,642
Other Assets	<u>26,066</u>	<u>22</u>	<u>–</u>	<u>42</u>	<u>31</u>	<u>–</u>	<u>92,044</u>	<u>–</u>	<u>118,205</u>
<b>Total Assets</b>	<u>\$18,205,791</u>	<u>\$2,884,459</u>	<u>\$ 241,639</u>	<u>\$ 22,933</u>	<u>\$ 17,040</u>	<u>\$ 734,125</u>	<u>\$ 454,504</u>	<u>\$(133,501)</u>	<u>\$22,426,990</u>
<b>Liabilities</b>									
Reserve for Comp and Comp Adj. expense	\$15,955,890	\$2,028,245	\$ 62,264	\$ 4,175	\$ 1,912	\$ 712,243	\$1,111,800	\$ –	\$19,876,529
Accounts Payable	53,477	–	–	–	–	–	1,182	–	54,659
Investment Payable	168,494	11,410	2,346	–	–	–	–	–	182,250
Interfund Payables	118,453	11,498	97	5	15	3,433	–	(133,501)	–
Other Liabilities	<u>136,561</u>	<u>112</u>	<u>750</u>	<u>–</u>	<u>337</u>	<u>–</u>	<u>124,937</u>	<u>–</u>	<u>262,697</u>
<b>Total Liabilities</b>	<u>16,432,875</u>	<u>2,051,265</u>	<u>65,457</u>	<u>4,180</u>	<u>2,409</u>	<u>724,736</u>	<u>1,237,919</u>	<u>(133,501)</u>	<u>20,385,340</u>
<b>Net Assets</b>	\$1,772,916	\$ 833,194	\$ 176,182	\$ 18,753	\$ 14,631	\$ 9,389	\$(783,415)	\$ –	\$2,041,650

# Performance Metrics

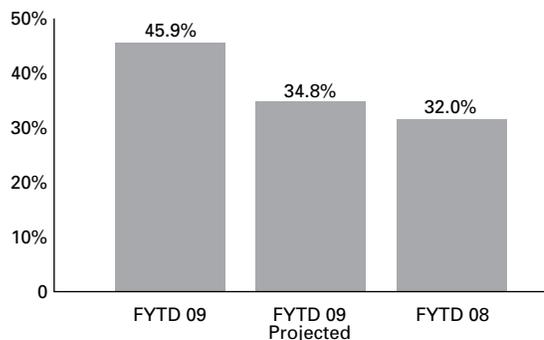
	Actual FY09 As of 7/31/08	Projected FY09 As of 7/31/08	Actual FY08 As of 7/31/07	Target
Loss Ratio	97.8%	106.9%	87.9%	
LAE Ratio - MCO	7.0%	7.0%	4.9%	
LAE Ratio - BWC	11.2%	15.9%	11.1%	
<b>Net Loss Ratio</b>	<b>116.1%</b>	<b>129.8%</b>	<b>103.9%</b>	<b>120.0%</b>
Expense Ratio	3.6%	4.3%	5.6%	5.0%
<b>Combined Ratio</b>	<b>119.7%</b>	<b>134.0%</b>	<b>109.5%</b>	<b>125.0%</b>
Net Investment Income Ratio	45.9%	34.8%	32.0%	
<b>Operating Ratio (Trade Ratio)</b>	<b>73.8%</b>	<b>99.2%</b>	<b>77.5%</b>	<b>100.0%</b>
<b>Operating Cashflow Ratio</b>	<b>130.2%</b>	<b>120.5%</b>	<b>119.2%</b>	<b>118.0%</b>
<b>Total Reserves to Net Assets</b>	<b>9.7 to 1</b>	<b>8.9 to 1</b>	<b>8 to 1</b>	<b>7 to 1</b>
<b>Investments to Loss Reserves</b>	<b>86.1%</b>	<b>87.0%</b>	<b>87.0%</b>	<b>110.0%</b>
<b>Equities to Net Assets</b>	<b>1.54 to 1</b>	<b>1.42 to 1</b>	<b>1.06 to 1</b>	
<b>Bonds to Net Assets</b>	<b>6.7 to 1</b>	<b>6.2 to 1</b>	<b>5.6 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.

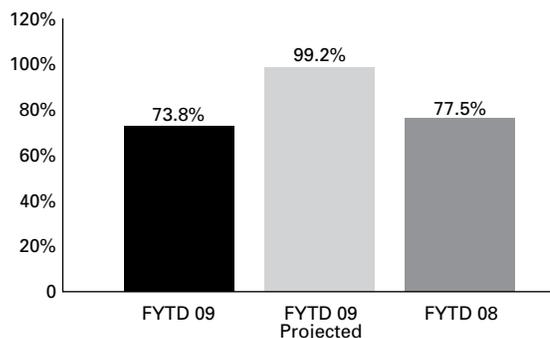
**Combined Ratio**



**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

**Executive summary**  
**FY 2009 Agency Strategic Goals and Operating Performance Metrics**

Marsha Ryan, Administrator  
Raymond Mazzotta, Chief Operating Officer  
Tracy Valentino, Chief Fiscal & Planning Officer

This review will provide the Board of Directors with an overview of the agency's primary strategic goals and performance metrics for Fiscal Year 2009. The purpose of the overview is to provide the Board of Directors with general information regarding the strategic goals and how these goals relate to BWC's agency priorities of customer service, communications, internal controls, income management and cost control. In addition, BWC management will be presenting operating performance metrics recommended for inclusion in the agency's Enterprise Report.

The strategic goals presented are those which have overarching impact on BWC operations, customers, and stakeholders. The results of these strategic efforts should be reflected in the results of the operating performance metrics.

The operating performance metrics identified include loss cost measures, premium measures and expense/efficiency measures. These will assist BWC management in identifying those factors that drive costs. Identifying and measuring cost drivers will enable BWC to benchmark performance with similar organizations and understanding cost drivers will aid in the decision making process.

# **Strategic Goals**

## **Fiscal Year 2009**

**Ohio Bureau of Workers' Compensation**  
**Raymond Mazzotta, Chief Operating Officer**  
**Tracy Valentino, Chief Fiscal & Planning Officer**

**August 29, 2008**

***Evaluate and implement employer premium programs in order to stabilize costs and improve equity between employers***

- ***HB 100 Comprehensive Study (Deloitte)***
- ***Experience Rating Plan***
- ***Group Rating Program Analysis***
- ***Performance Based Incentive Programs***
- ***Employer Compliance Initiative***

***Develop and implement strategies which will improve financial soundness and stability***

- ***BWC Investment Policy Review***
- ***Net Asset Strategy***
- ***Cost Allocation Methodology Analysis***

***Design and develop programs and processes to enhance medical services necessary to provide injured workers with prompt, cost effective, and efficient medical care***

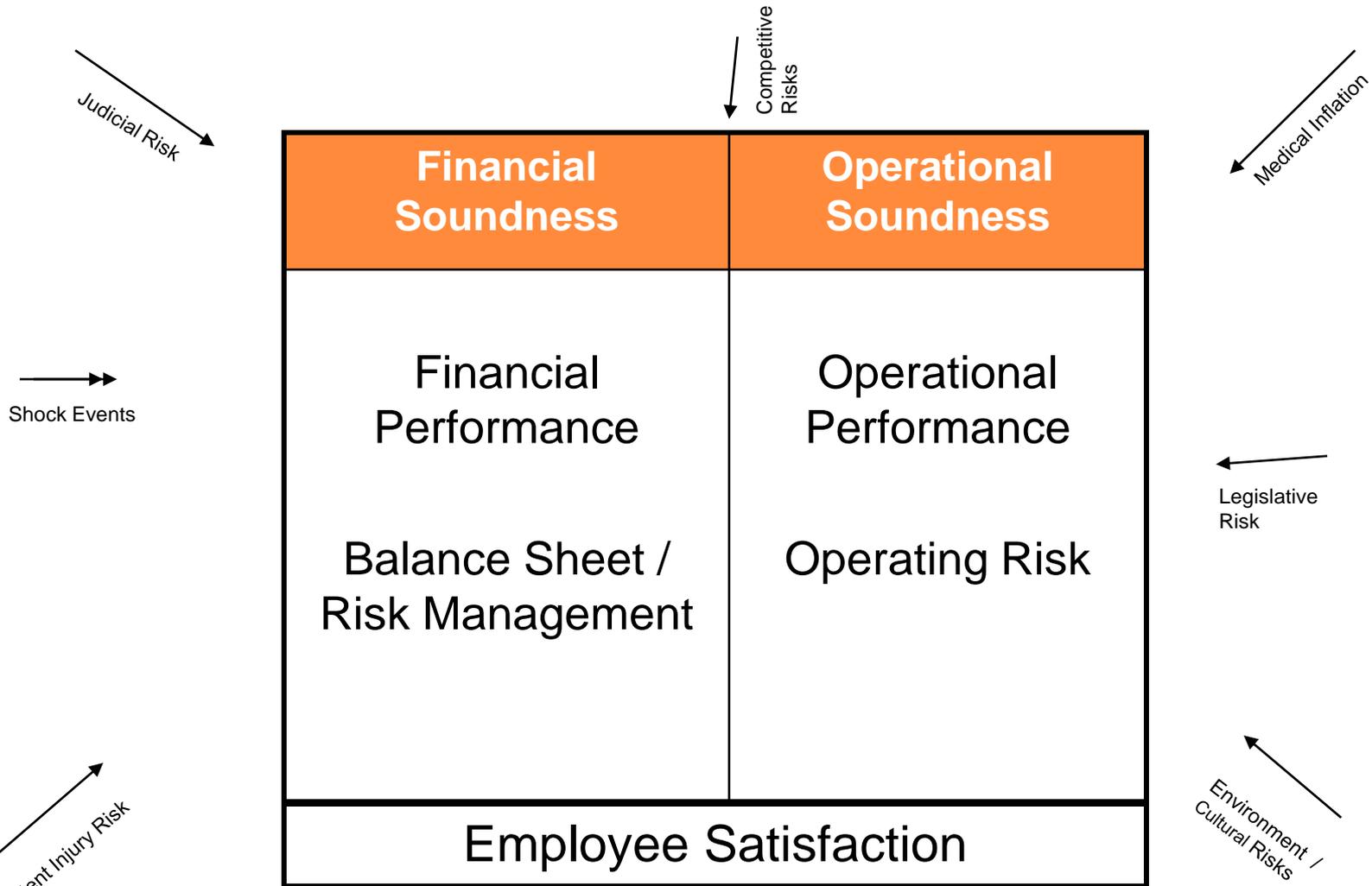
- ***Benefit Plan Design***
- ***Managed Care Process Evaluation***
- ***Medical Provider Network Review***
- ***Medical Bill Payment Process Analysis***

***Establish administrative processes and procedures that reflect our commitment to providing quality customer service that is efficient and economically sound***

- ***Fiscal Year 2010-2011 Biennial Budget***
- ***Shared Services Model***
- ***Green/Energy Saving Program***
- ***Safety Services Review***
- ***Process Mapping Initiative***

# Measuring Performance

# Enterprise Reporting Package



## *Four Primary Types of Operational Metrics*

- *Loss Cost Measures*
- *Expense/Efficiency Measures*
- *Premium Measures*
- *Other Potential Measures*

# Operational Metrics

## Loss Costs

- *New Claims Volume*
- *Frequency*
- *Benefit Payments*
- *Severity*
- *First Report of Injury*
- *Return to Work*
- *Duration of Disability*
- *Benefit Payment Segregation*

## Premium Costs

- *Premium Income by Employer Segment*
- *Aggregate Reported Payroll*
- *Premium Stability*

## Expense/Efficiency

- *Revenue per Employee*
- *Salary as a Percentage of Premium*
- *IT Costs per End User*
- *Finance Costs as a Percentage of Premium Income*
- *Human Resource Costs per Employee*

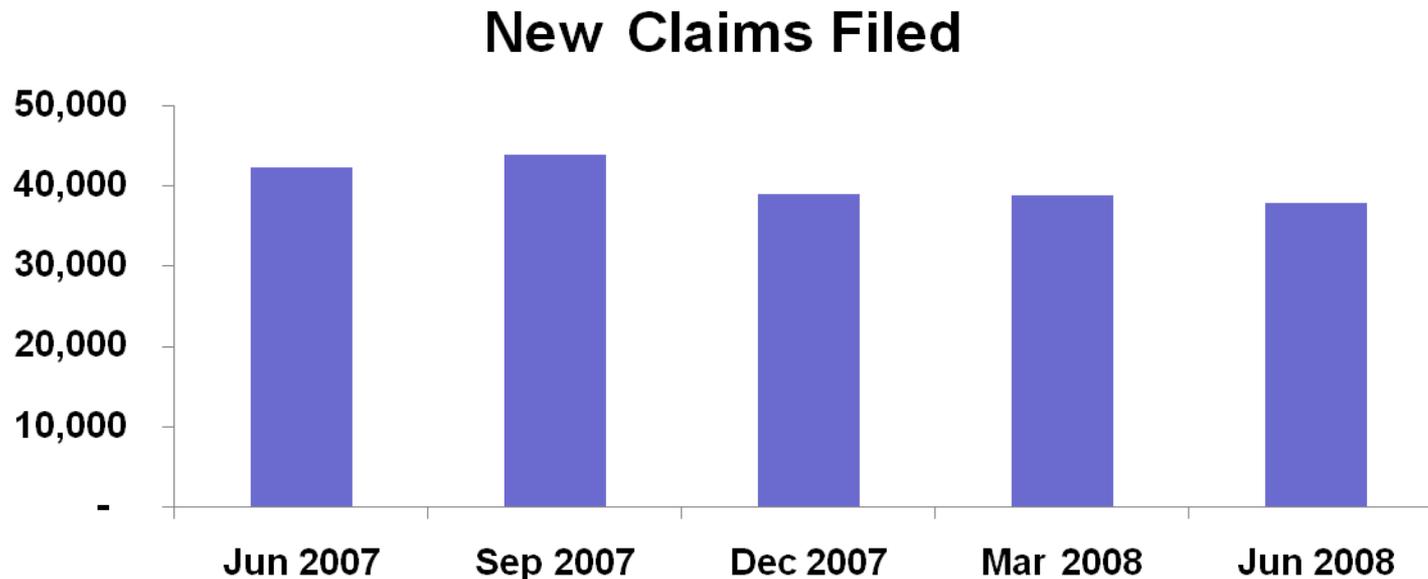
## Other Measures

- *Access/Quality of Care*
- *Customer Satisfaction*
- *Safety Service*
- *Employer Compliance*
- *Employee Satisfaction*

## New Claims Volume

**Definition:** Measures the number of new State Insurance Fund claims filed each quarter

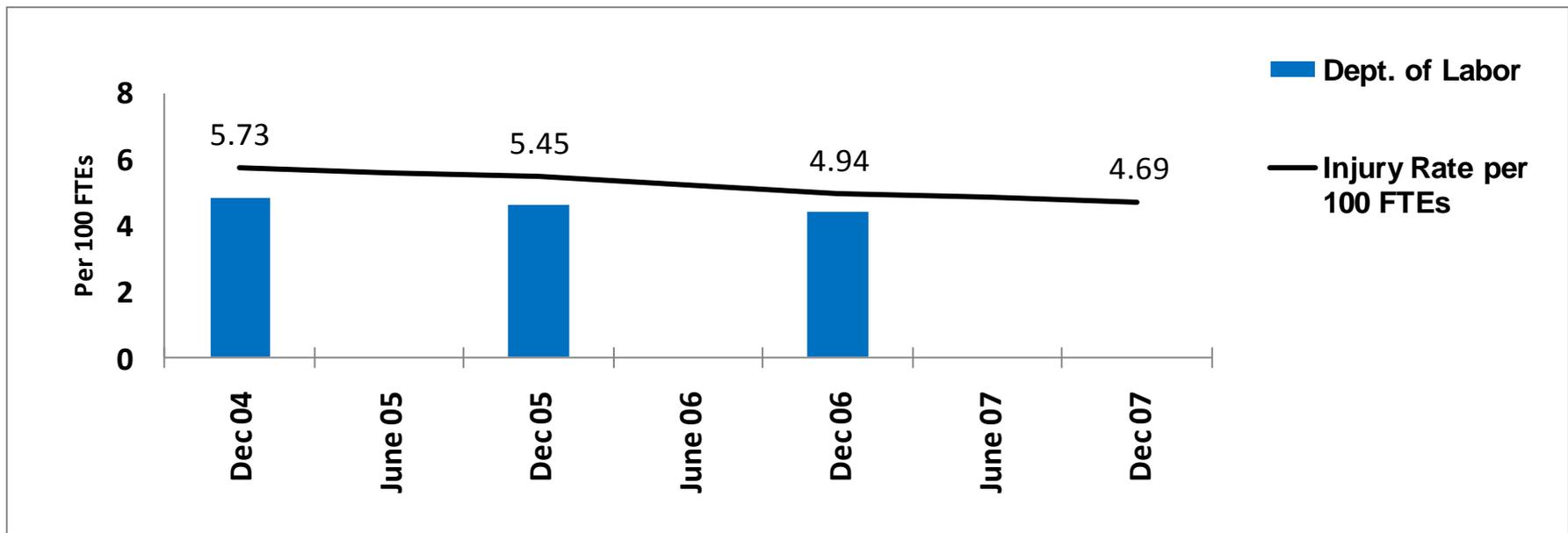
**Why important:** Identifies the volume of claims activity and the trends in the activity that impacts loss costs



## Frequency

**Definition:** Measures the number of injured workers per 100 workers covered by State Insurance Fund and the change from period to period

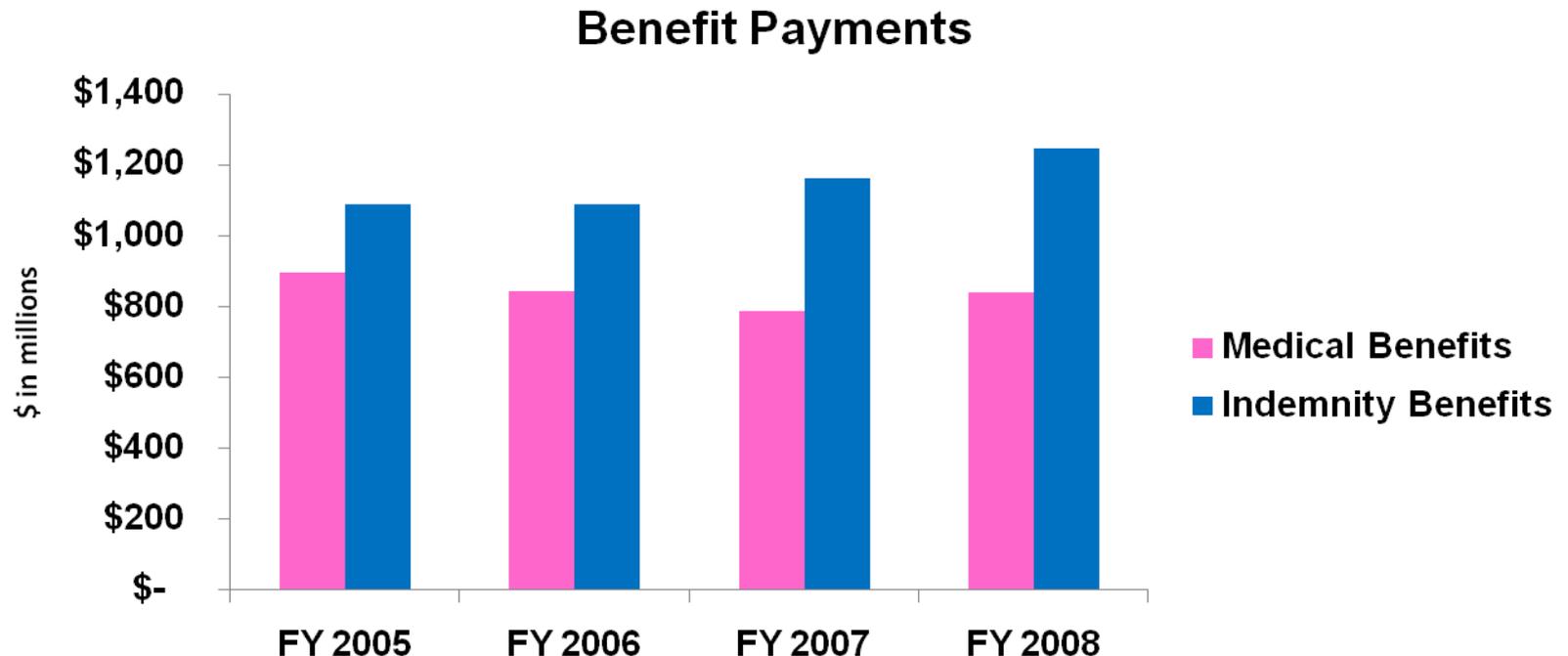
**Why important:** Identifies the volume of claims activity and the trends in the activity that impacts loss costs



## Benefit Payments

**Definition:** Measures the dollar amount of claim payments by type

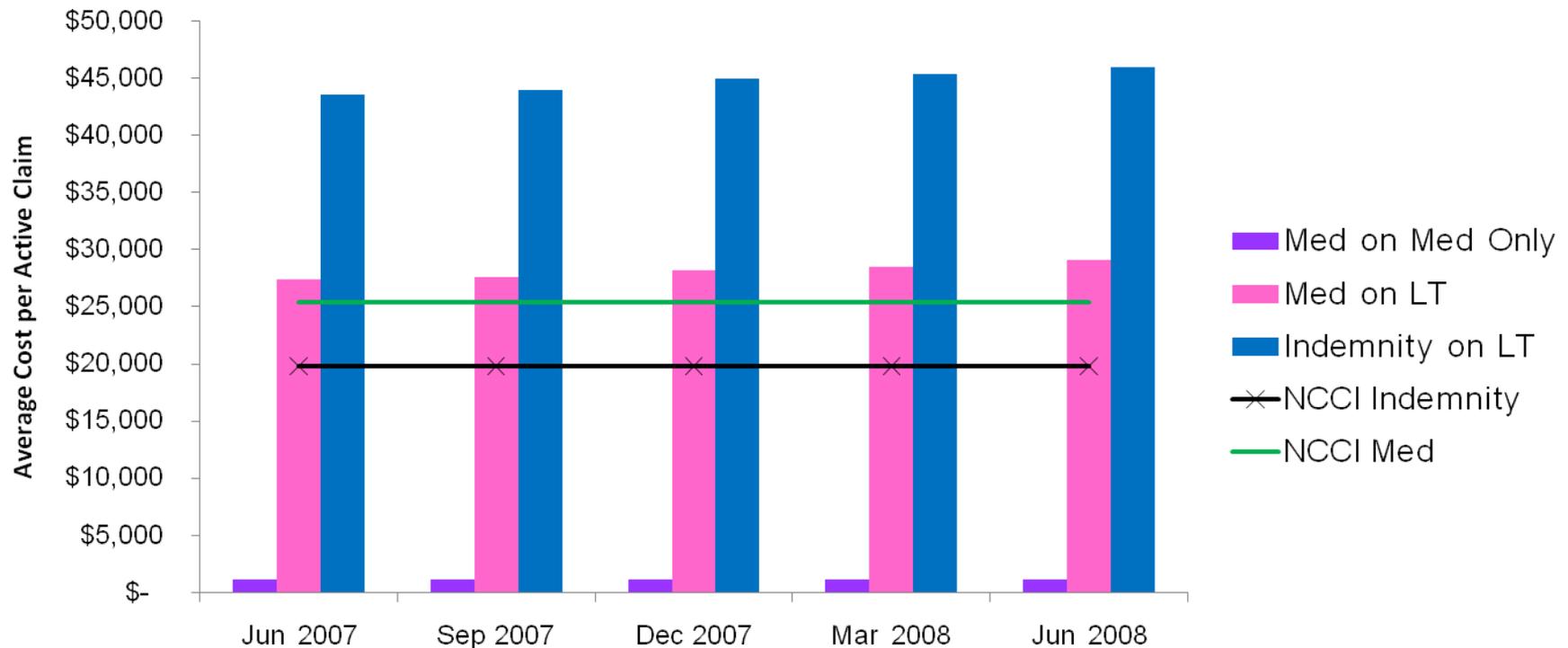
**Why important:** Identifies the costs associated with active claims and the trends in the types of claims related expenses



# Severity

**Definition:** Measures the average cost of medical and indemnity expenses per medical only and lost time claim

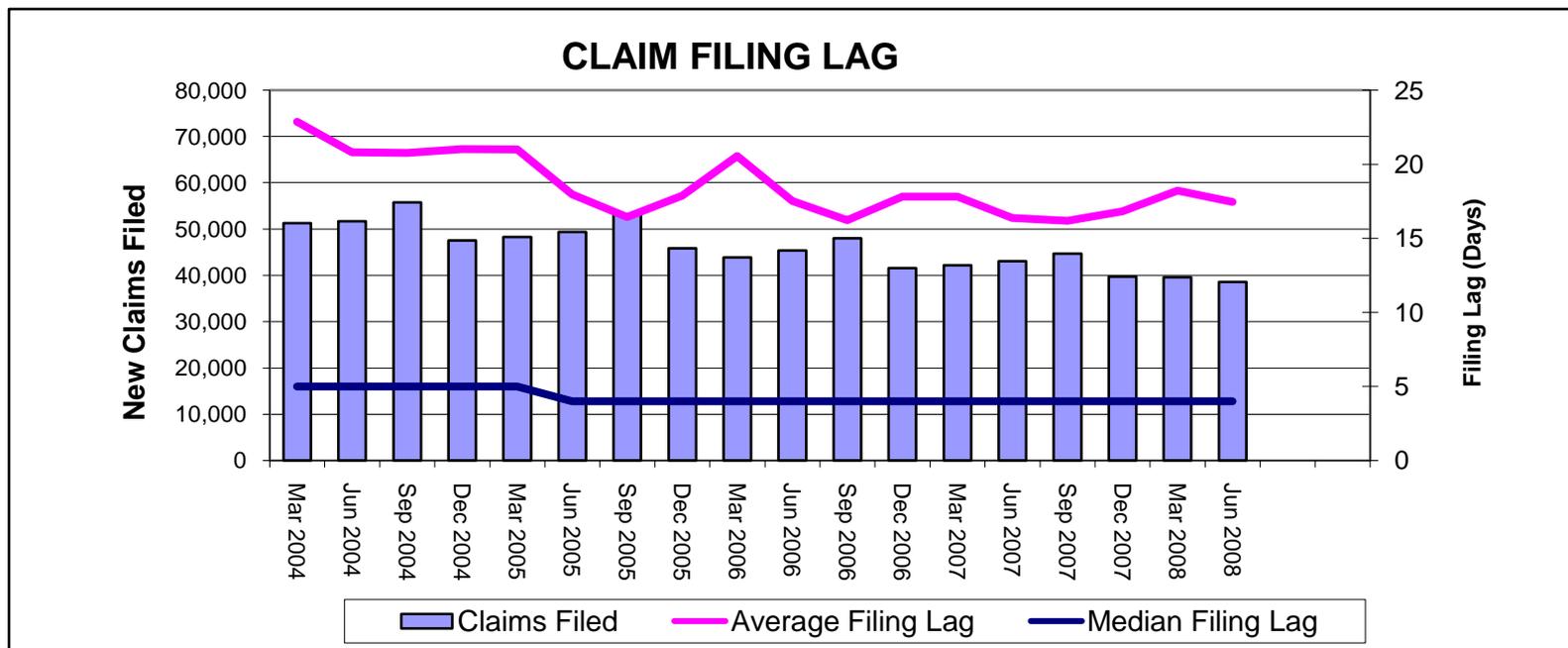
**Why important:** Identifies the costs associated with active claims and the trends in the types of claims related expenses



# Time between Injury to Claim Filing

**Definition:** Measures the median number of days from the date of injury to date of claim filing

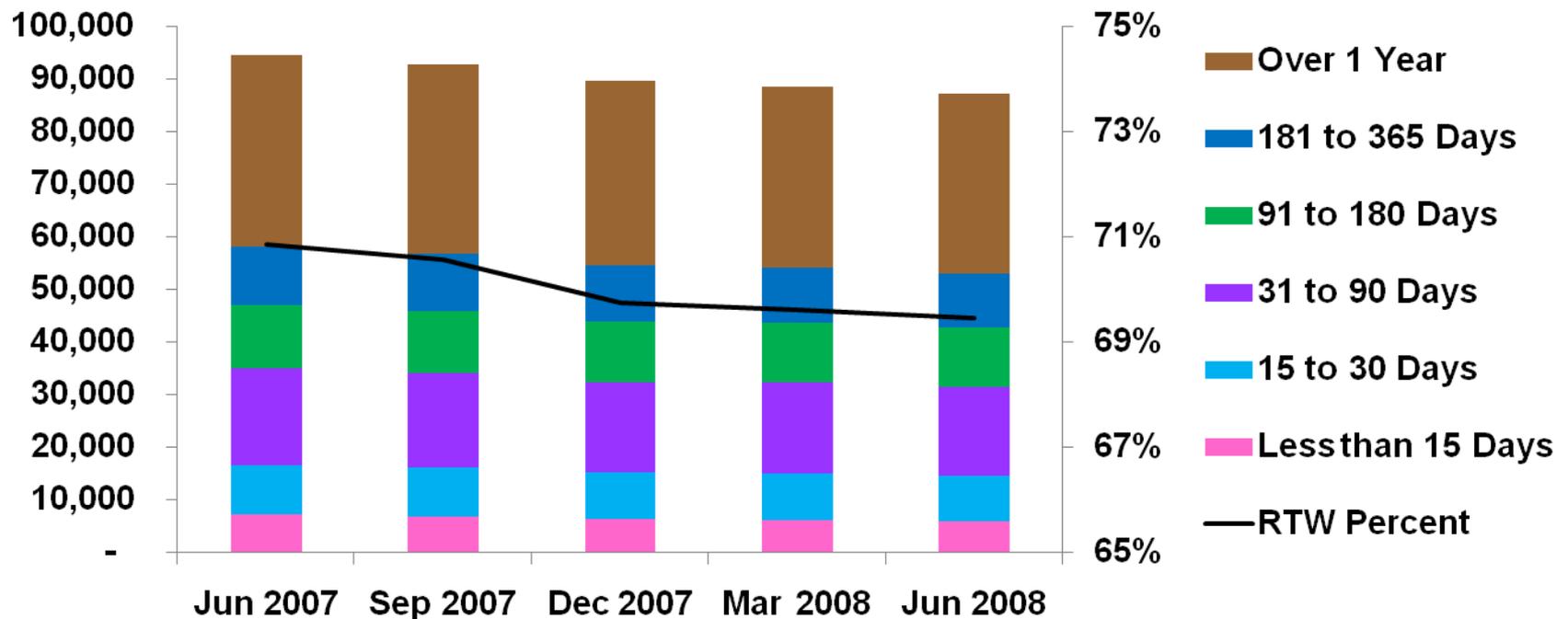
**Why important:** Early medical intervention assists in reducing the costs associated with an injury



# Return to Work Rates

**Definition:** Measures the percentage of injured workers who have returned to work relative to the claim population eligible to return to work

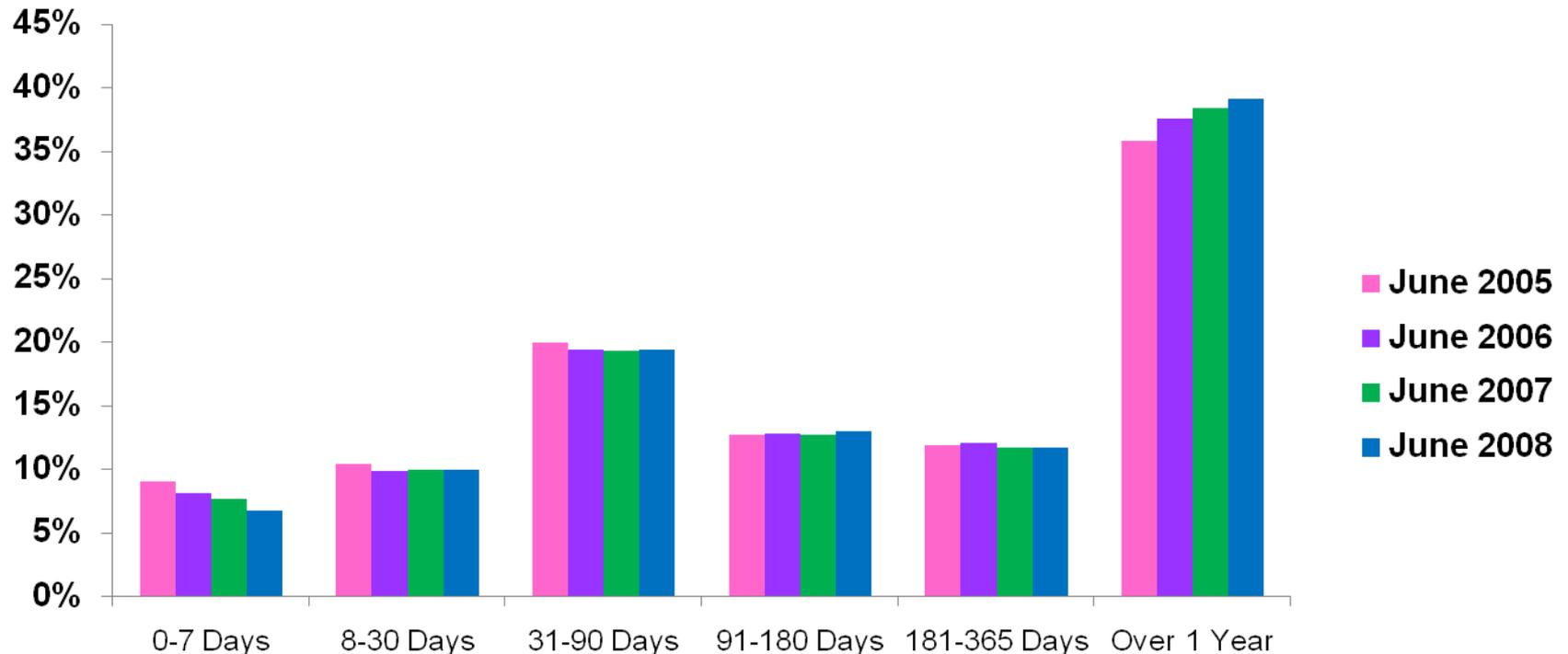
**Why important:** Early return to work reduces the cost associated with indemnity claims



# Duration of Disability

**Definition:** Measures the percentage of claims within defined ranges of calendar days missed as a result of a workplace injury using same claim population used in the return to work calculation

**Why important:** Length of disability is directly related to the overall cost of a claim



## Revenue by Employer Segment

**Definition:** Measures the revenue earned by each employer group and the changes in revenue levels

**Why important:** Provides information on trends associated with revenue

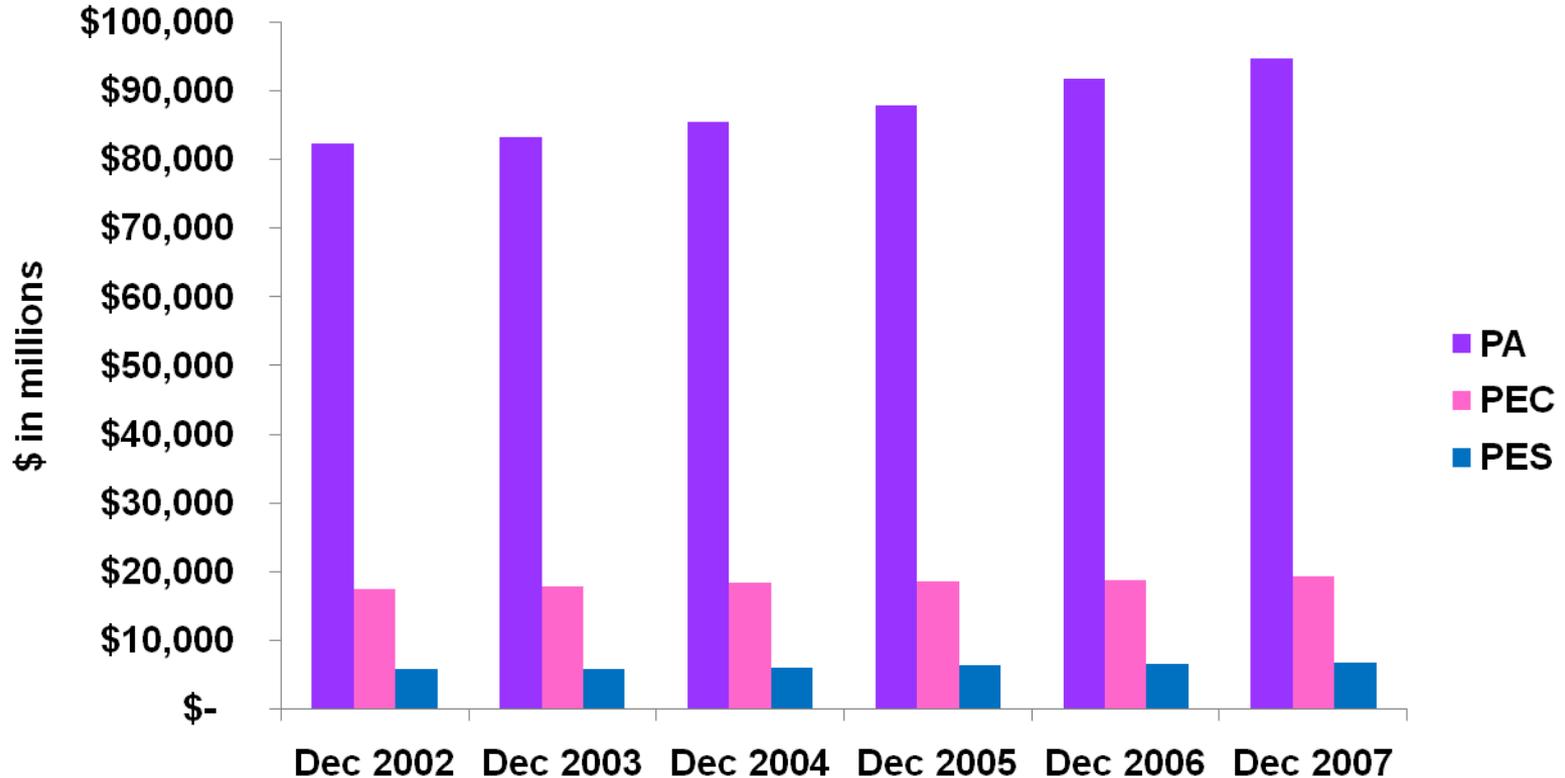
\$ in millions	FY 2006	FY 2007*	FY 2008
Private	\$1,638	\$1,917	\$1,956
PEC	338	315	286
PES	171	4	76
SI	16	216	51
Black Lung	1	1	1
Marine	1	1	1
	\$2,165	\$2,454	\$2,371

\* Excludes one-time adjustment to income of \$1.9 billion due to statutory accounting change for DWRP.

# Aggregate Reported Payroll

**Definition:** Measures reported payroll by employer type

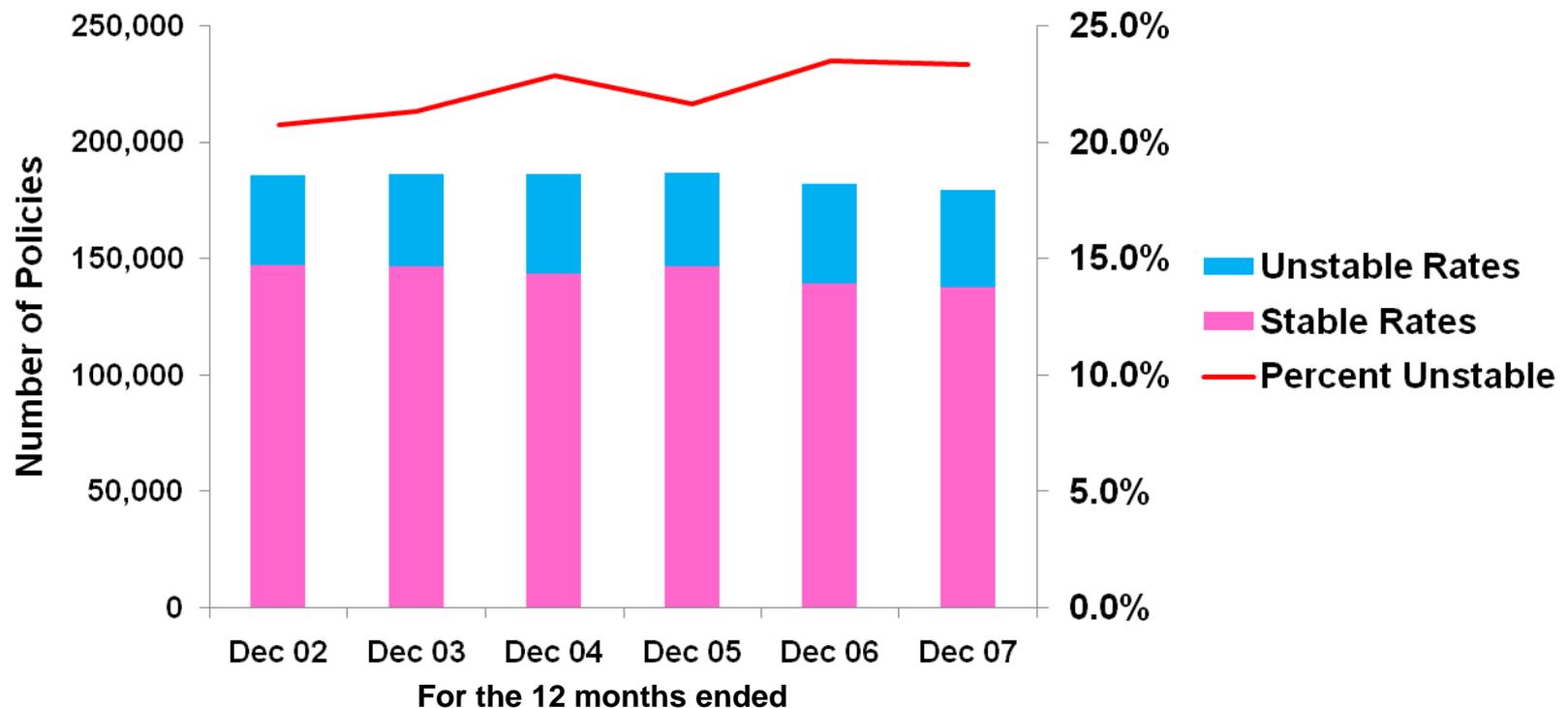
**Why important:** Provides information on payroll trends



# Premium Stability

**Definition:** Measures the number of employers whose premium increases greater than 20 percent from the prior year

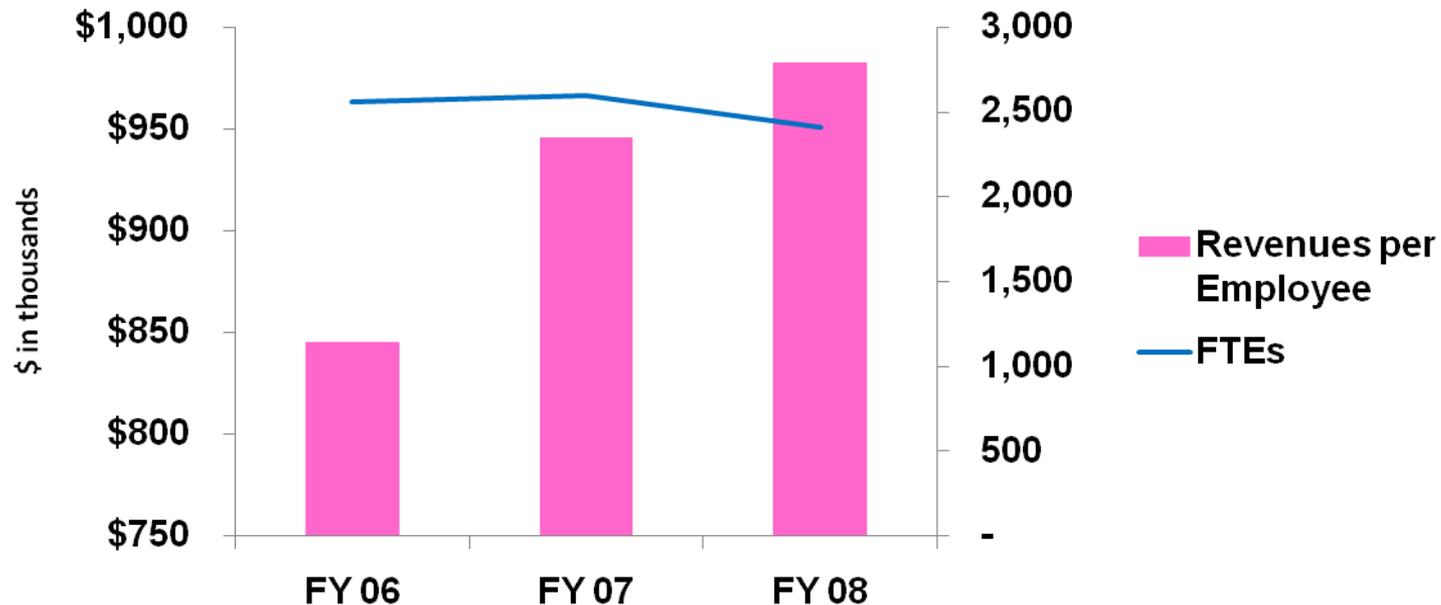
**Why important:** Provides information on changes in employers premium costs



## Revenue per BWC Employee

**Definition:** Measures revenue earned per full time equivalent employee of BWC

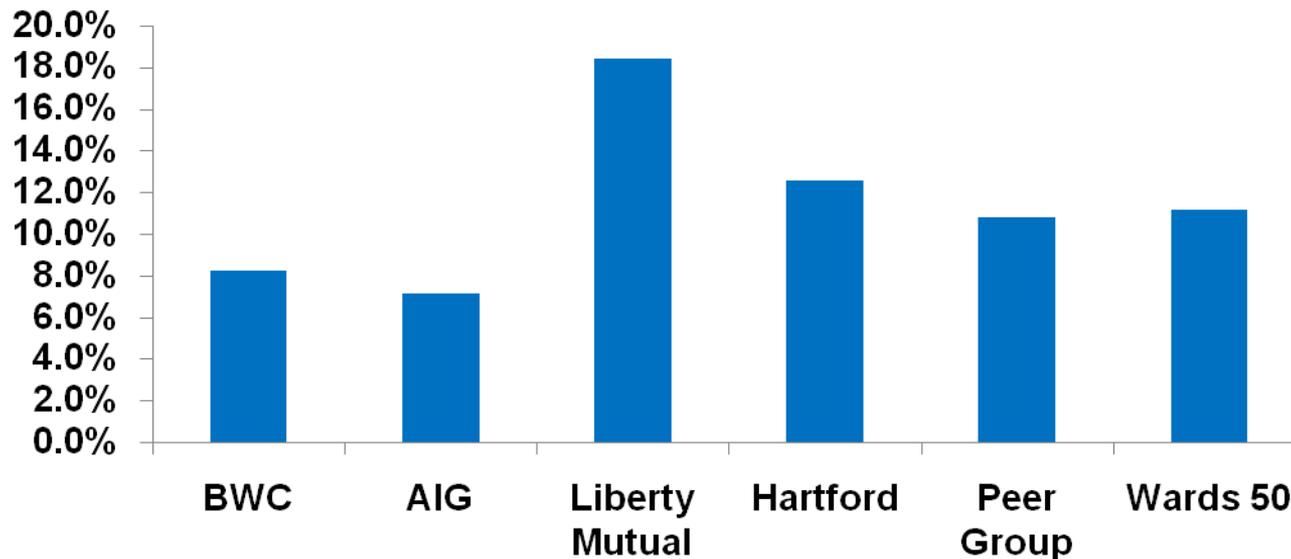
**Why important:** Provides information on operational efficiency relative to revenue earned



## Salary Costs as a Percentage of Revenue

**Definition:** Measures the costs associated with staffing operations relative to revenue

**Why important:** Provides information on efficiency of operations

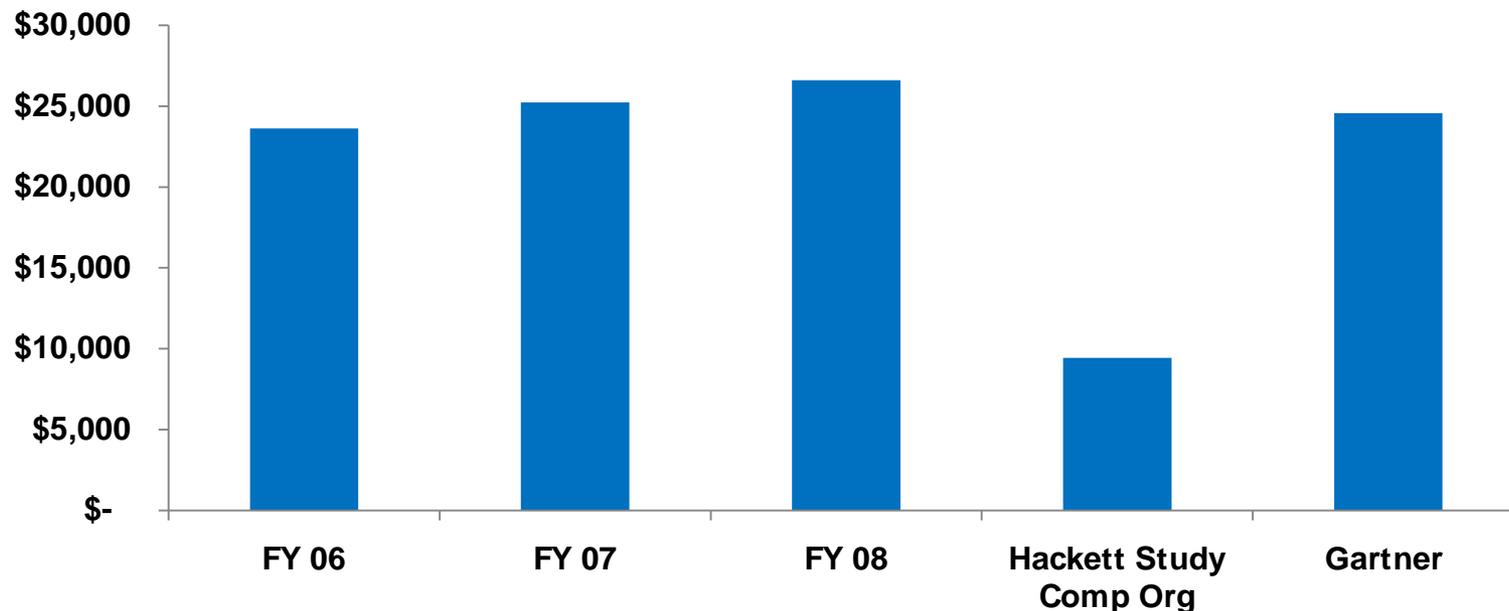


- Data for BWC is average of the last 5 fiscal years
- Data for private sector insurance companies is a 5 year average from the 2006 edition of Wards Results
- Peer Group 12 – Commercial and Other with Premiums Over \$500 million

# Information Technology Costs per End User

**Definition:** Measures the cost of technology operations per end user

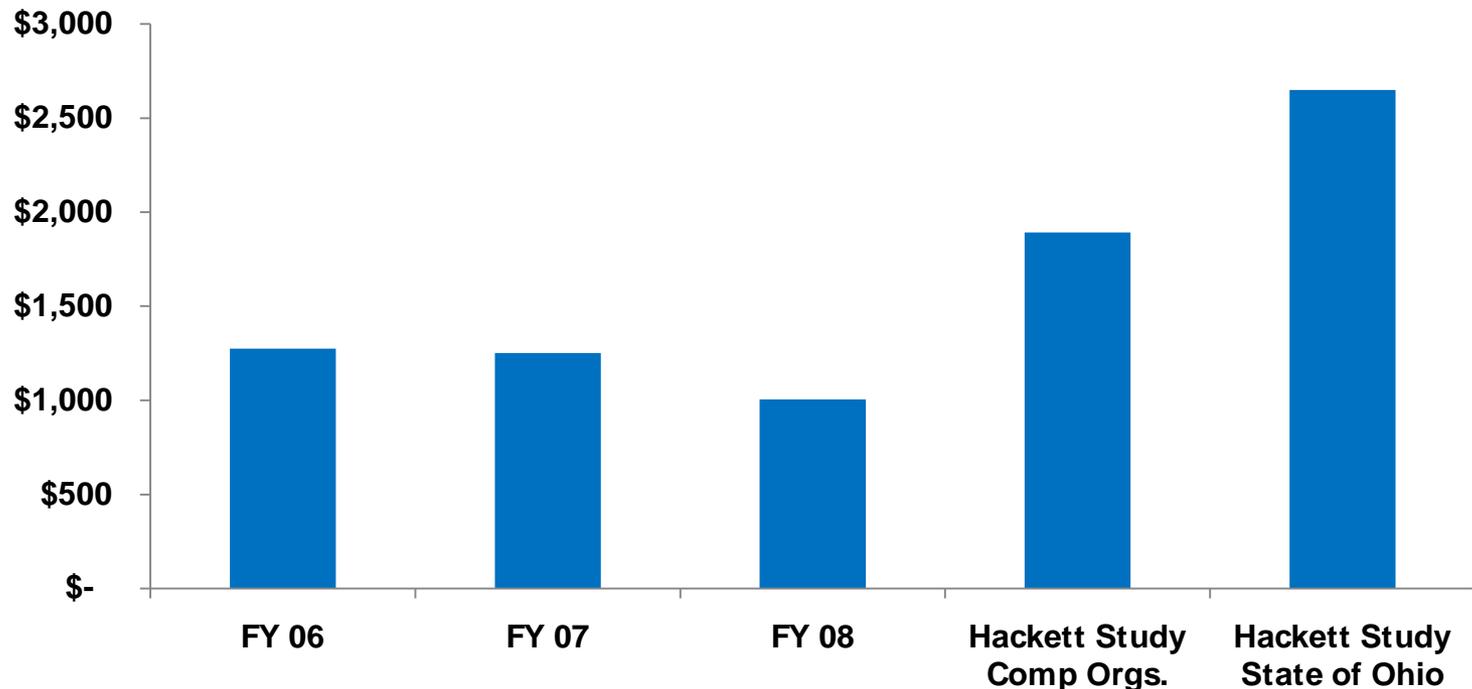
**Why important:** Provides information regarding the cost effectiveness of maintaining and supporting technology operations



## Human Resource Costs per Employee

**Definition:** Measures the cost of the Human Resource operation within the organization relative to the number of employees

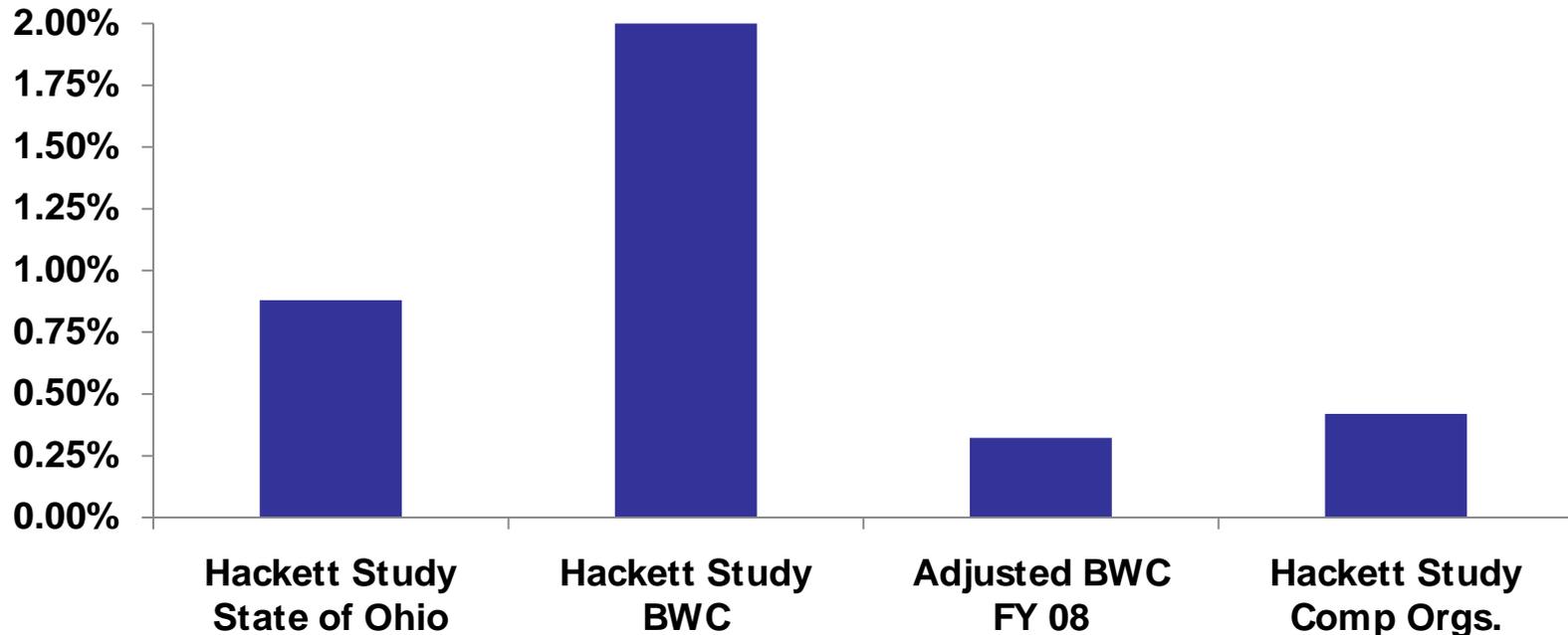
**Why important:** Provides information on the cost effectiveness of the human resource operations within the agency



## Finance Operations as a Percentage of Revenues

**Definition:** Measures the cost of financial operations within the organization relative to the revenues earned

**Why important:** Provides information on the cost effectiveness of the financial organization within the agency



## ***Other Measures***

- ***Access and Quality of Care***
- ***Customer Satisfaction***
- ***Safety Services***
- ***Employer Compliance***
- ***Employee Satisfaction***

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*A Service of Ohio's Workers' Comp System*

**To:** BWC Board of Directors  
**From:** Michael Travis, Esq., Chief Ombuds Officer  
**Date:** August 29, 2008  
**Re:** Ombuds Office Executive Update for first half of 2008

This memo provides an executive summary of the activities of the Ombuds Office for the period 1/1/2008 through 6/30/2008. The Ombuds Office is created by ORC 4121.45, and is statutorily independent of both BWC and the Industrial Commission. The Chief Ombuds Officer is appointed by the Industrial Commission Nominating Council, which is comprised of ten members, with four representing labor, four representing employers, and two representing the general public.

The Ombuds Office is charged with three key functions, within Ohio's workers' compensation system:

- A. Handle complaints and customer inquiries from external stakeholders of Ohio's workers' compensation system, including employers, injured workers, and medical providers.
- B. Analyze the data from these customer inquiries, to determine future trends, within Ohio's workers' compensation system.
- C. Proactively identify problem areas within Ohio's workers' compensation system, research the issues underlying these problems, and provide proposed solutions to executives at both BWC and the Industrial Commission.

### **Key issues related to the Ombuds Office in the first half of 2008**

1. **Customer Contacts** - The overall contact volume for the Ombuds Office for the first half of 2008 was 4,416 customer contacts, which was down slightly from the same time frame of 2007, totaling 4,857 customer contacts. The Ombuds Office has implemented a marketing/customer contact program, as described below, to increase the overall awareness of the services offered by the workers' compensation Ombuds Office.
2. **Marketing & Awareness of Ombuds Office Services** - Since 1Q 2008, the Ombuds Office has implemented a sustained marketing effort, to increase awareness of Ombuds services among both internal and external customers of Ohio's workers' compensation system. The Ombuds Office has developed a new capabilities brochure, and has presented at employer, labor, and government events all across Ohio, highlighting the role of the Ombuds Office within Ohio's workers' compensation system.

In 2008, Ombuds Office presentations have been made to a wide range of groups, from the Teamsters annual convention to the Industrial Commission hearing officer's conference, and from local chambers of commerce to the Latino Business Affairs Council.

**3. Industrial Commission/BWC/Ombuds Office Relationship** - The working relationship between the Ombuds Office and BWC continues to be maintained at a high level. The Ombuds Office has full access and cooperation with BWC staff and senior management, in addressing problems and concerns. The Ombuds Office recently met with the new Executive Director of the Industrial Commission, and fully anticipates developing a strong working relationship with the IC, as well.

**4. EFT/EBT Conversion** - In 1Q 2008, the Ombuds Office worked with BWC in successfully handling customer inquiries related to the mandatory conversion of injured worker payments from paper checks to electronic payments. Approximately 60,000 bi-weekly payments are made to Ohio injured workers.

**5. Customer Complaint Tracking** - In 4Q 2008, the Ombuds Office will be converting all complaint tracking to EPower, an industry standard call center software program. Multiple benefits of this conversion include the more efficient exchange of claims data with BWC, and the ability to generate a wide variety of management reports. This program also allows for more versatility in data mining and data trend analysis.

**6. Complaint Handling Unit / Ombuds Office Consolidation** - In 3Q 2008, in a show of cooperation, the BWC Complaint Handling Unit staff merged into the Ombuds Office, aligning all complaint handling functions into one standardized unit. This consolidation should allow for a more timely and efficient handling and tracking of complaints from external stakeholders in Ohio's workers' compensation system.

**7. Common Sense Business Initiative** - In February 2008 Governor Strickland issued Executive Order 2008-04S, which directed all state agencies to streamline administrative roles, and ease business regulations. A key component of this order was mandating that all large state agencies that regularly interact with businesses must create an Ombuds Office. Because the workers' compensation system Ombuds Office has been in place since 1978, this office has taken the lead in providing guidance and assistance in other state agencies creating new business Ombuds offices. The Chief Ombuds Officer of each agency meet on a regular basis, to ensure good inter-agency cooperation and information flow.

**8. Shared Services** - This new key initiative from Governor Strickland involves the anticipated consolidation of backroom operations of state agencies, to save money through both eliminating duplicate services and providing economies of scale. Potential areas of consolidation include fleet, IT, finance, payroll, purchasing, and HR. The Ombuds Office, as an independent and neutral third party, expects to play a leading role in fostering cooperation between BWC and the IC, in implementing shared services.

## **Opportunities for Improvement from the Ombuds 2008 Annual Report**

A key segment of the Ombuds Annual Report is a listing of *Opportunities for Improvement*. These are topics that the Ombuds Office has specifically identified as areas for potential improvement within Ohio's workers' compensation system that should be addressed, from a quality improvement standpoint. Listed below is a brief summary of key *Opportunities for Improvement* from the 2008 Ombuds Annual Report that the Ombuds Office is currently working on:

- 1. Real Estate Vacancies** - The William Green Building in downtown Columbus currently has a vacancy rate of 25 – 30%, and efforts should be made to house other state agencies in the Bureau's HQ facility, to increase rental revenues and amortize fixed building costs. BWC senior management, in conjunction with DAS, is working on addressing this concern. An update on this issue will be included in the 2009 Ombuds Office Annual Report.
- 2. Employer Non-Compliance** - The Ombuds Office reported in its Annual Report in 1Q 2008 that non-compliance by Ohio employers was a growing problem, with an estimated 10,000 non-complying employers annually, and uncollected annual premium of \$20 million. The Ombuds Office is pleased to note that BWC has created a formal non-compliance unit, to systematically address this issue. The efforts of this unit will provide an increased level of fairness for Ohio employers, by relieving employers who pay their full premium, while also subsidizing non-complying employers. An update on the efforts of this team will be provided in the Ombuds Office 2009 Annual Report.
- 3. BWC / IC Forms** - The Ohio workers' compensation system uses 105 different forms, between injured workers, employers, and medical providers. In 4Q 2008, the Ombuds Office will begin tracking utilization of these specific forms to determine what forms can be consolidated or eliminated, to reduce the administrative burden on Ohio employers, injured workers, and medical providers.
- 4. Out-of-State Claims** - The Ombuds Office has noted an increasing trend in the volume of injured workers, usually older PTD recipients no longer living in Ohio, expressing concerns about their inability to receive BWC authorized medical treatment. There are currently over 45,000 injured workers receiving benefits from BWC who do not currently live in Ohio. The Ombuds Office is working with both BWC and Managed Care Organizations on how best to address this rising concern. An update on these efforts will be provided in the Ombuds Office 2009 Annual Report.
- 5. Industrial Commission Hearing Consistency** - A frequent concern received by the Ombuds Office from employers involves a lack of consistency in Industrial Commission hearing outcomes. Employers are concerned that similar fact patterns, argued in front of hearing officers in different IC offices state-wide, receive substantially different outcomes. The Ombuds Office is not aware of any current efforts by the IC to track consistency, related to Industrial Commission orders. In 4Q 2008, the Ombuds Office hopes to work with IC management to explore methods of tracking consistency in hearing outcomes. An update on this matter will be presented in the 2009 Ombuds Office Annual Report.

**6. Business Dispute ADR Process** - As reported in 1Q 2008, the Ombuds Office expressed concerns about the lack of timeliness in the alternative dispute resolution process for employer complaints, through the BWC Adjudicating Committee. In 2Q 2008 the Ombuds Office was fortunate to participate in the State of Ohio's first *Kaizen* quality control process, which successfully restructured the adjudicating committee workflow, yielding improvements in both timelessness and output quality. The Ombuds Office is analyzing other processes within Ohio's workers' compensation system and may recommend other workflows that may be well suited for a *Kaizen* review.

**BWC Legislative Report**  
Gregg Paul and Laura Abu-Absi

August 11 – August 25, 2008

**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 and business. First meeting held on August 13, 2008 in Columbus. Chairman Faber indicated the task force would meet for the second time somewhere in Southwest Ohio on an undetermined date.

August 13, 2008—First Hearing

Testimony provided to the Task Force by the following organizations:

Ohio Farm Bureau  
Ohio Small Business Council  
Joint Committee on Agency Rule Review  
Ohio Society of CPAs  
Ohio Aggregates and Industrial Minerals Association  
U.S. Small Business Administration—Office of Advocacy  
National Federation of Independent Businesses

**Workers' Compensation Council**—Rep. Bill Batchelder—Chair

August 13, 2008-2<sup>nd</sup> meeting

Presentation on MIRA II provided by Rex Blateri, MIRA II Project Manager/Business Lead

Next meeting: September 17, 2008.

**State Controlling Board**—Joe Secest—Chair

August 4, 2008 meeting:

Approved BWC consulting contract with David Hollingsworth for services related to Group-rating discount program reform.

August 18, 2008 meeting:

Approved Office of Budget and Management request to approve the creation of a new fund and establish appropriation authority in the amount of \$650,000.00 in fund 5DR0, line item 321001, Workers' Compensation Council.

**Enacted legislation currently under rule development:**

**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.

- 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 by Governor Strickland on 6/11**
- **BWC Board of Directors adopted rules to govern the transfer of interest to the Mine Safety Fund on 5/30. Rules will become effective immediately upon the Governor's signature.**

**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.
  - 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 by Governor Strickland on 6/11**

**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 Omnibus Amendment on 5/22/08 by House Finance and Appropriations Committee. BWC remains an interested party.
- **HB 562 Conference Committee adopted by Senate and House on 6/10. Bill to be signed by Governor Strickland week of 6/16**