

BWC Board of Directors

Board Agenda

Bill Lhota, Chairman

September 26, 2008

William Green Building

Level 2, Room 3

8 a.m. – 1:00 p.m.

Call to order

Bill Lhota, Chair

Roll Call

Tom Woodruff, Scribe

Bill Lhota, Chair

- Approval of minutes of the August 29, 2008 Board meeting
 - Review meeting agenda
-

Committee Reports

Actuarial Committee

Chuck Bryan, Committee Chair

- June 30, 2008 Reserve Audit

Audit Committee

Ken Haffey, Committee Chair

- Chapter 4123-6-08 Professional Service Fees
- Chapter 4123:1-21 Fire Fighting

Investment Committee

Bob Smith, Committee Chair

Governance Committee

Alison Falls, Committee Chair

Monthly Financial Report

Tracy Valentino, Chief, Fiscal & Planning Division

Developing A Net Asset Policy

Ray Mazzotta, Chief Operating Officer

Tracy Valentino, Chief, Fiscal & Planning Division

Developing a Net Asset Policy

A net asset policy statement should include:

- Target range for net assets
- A maintenance/strengthening/reduction strategy
- A funding ratio

The process to develop the policy:

- Identify key risk components
- Establish risk tolerance and risk metrics (to include industry financial and operational benchmarks)
- Apply scenario stress to the balance sheet
- Estimate the net asset range congruent with risk tolerance

KEY RISK COMPONENTS

The National Association of Insurance Commissioners utilizes the following risk categories (BWC response to that risk in parentheses) in their solvency monitoring process. These components of a risk based model parallel the Risk Based Capital (RBC) capital model discussed by Deloitte:

- Pricing and underwriting (premium audits, pricing policy)
- Reserving (external audit, Workers' Compensation Council)
- Investment risk (investment policy and objectives)
- Operational (internal audit, special investigations, process mapping)
- Liquidity (investment policy, cash management)
- Credit (compliance, SIEGF)
- Strategic (Board of Directors)
- Legal (policy and procedures)
- Reputational (Ethics policy, Inspector General, special investigations division)

Last month, Deloitte shared their list of major financial risks:

- Reserve uncertainty: range of estimates, changing development patterns
- Investment: risk free rate vs. discount rate vs. actual investment yield
- Frequency and severity trends: unanticipated shifts in the number or cost of claims, including medical inflation
- Payroll trend: unanticipated decreases in the premium rate base, shifts between industry classifications
- Pricing risk: delays in changing premium rates in reaction to trends
- Payment pattern fluctuations: unanticipated changes in timing of payments
- CAT Event Risk: rare catastrophic events occurring once in 100+ years

- Economic downturns: shocks from drop in investment return, drop in payrolls, rise in accident frequency, rise in medical inflation, faster payment system
- Operational risk: failure of controls on claim payments, investment operations, expenses, inability to estimate reserve or premium needs, fraud or abuse from employers, claimants or providers, judicial or legislative decisions, settlements, etc.

During the Board meeting our goal will be to tie together the various presentations the Board has seen on this topic and continue the dialogue establishing a net asset strategy that supports the BWC's mission. We hope to identify the issues, data requirements (including what we have and what we need to develop, especially using industry standards), deliverables and time frames.

Throughout the process, consideration will be given to accounting standards, modeling time periods, stakeholder perspectives, and the implementation of an easily understood monitoring process for management, stakeholders and the Board.

Enterprise Report

September 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.*

August Financial Analysis

BWC's net assets increased by \$185 million in August 2008 resulting in net assets of \$2.5 billion at August 31, 2008 compared to \$2.3 billion at July 31, 2008.

<i>(\$ in millions)</i>	Preliminary FY 2008	Adjusted FY 2008	Fiscal YTD July 31, 2008	Month Ended Aug. 31, 2008	Fiscal YTD Aug. 31, 2008
Operating Revenues	\$ 2,291	\$ 2,161	\$ 192	\$ 173	\$ 365
Operating Expenses	3,091	2,683	241	243	484
Operating Transfer Out	-	-	(2)	-	(2)
Net Operating Gain (Loss)	(800)	(522)	(51)	(70)	(121)
Net Investment Income (Loss)	717	720	(135)	255	120
Increase (Decrease) in Net Assets	(83)	198	(186)	185	(1)
Net Assets End of Period	\$ 2,223	\$ 2,504	\$ 2,318	\$ 2,503	\$ 2,503

- o Premium and assessment income of \$177 million was reduced by a \$4 million provision for uncollectible accounts receivable resulting in operating revenues of \$173 million in August 2008.
- o Premium and assessment income in August included reductions of \$8 million from incentive credits for employers participating in the premium discount program.
- o Benefits and compensation adjustment expenses of \$236 million along with other expenses of \$7 million resulted in operating expenses of \$243 million in August 2008.
- o The \$154 million increase in portfolio market value along with interest and dividend income of \$101 million for the month, resulting in net investment income of \$255 million for the month after investment expenses.
- o Premium collections in August were \$529 million, an expected increase from the \$200 million collected in July as private employers pay premiums for the January to June policy period. The number of private employers whose coverage lapsed effective September 1, 2008 remained steady at 43,649 compared to 43,617 employers whose coverage initially lapsed at the end of the last reporting period.
- o Claim payments issued in August were \$166 million, including \$25 million in claim settlements and \$3 million in Ohio Hospital Association settlements.

Fiscal Year-to-Year Comparisons

BWC's total net assets have decreased by \$1 million for fiscal year-to-date 2009 resulting in net assets of \$2.503 billion compared to \$2.544 billion at August 31, 2007.

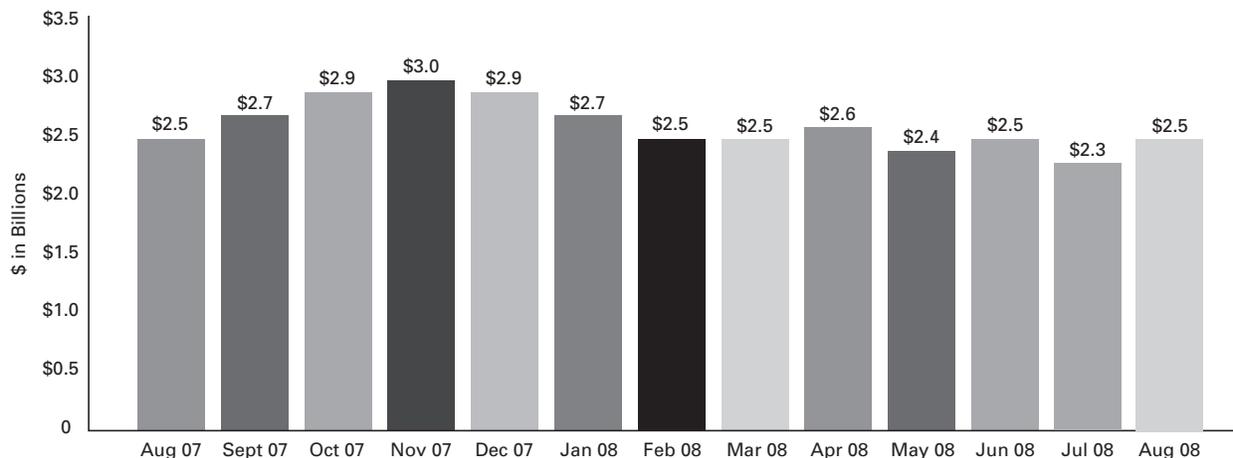
<i>(\$ in millions)</i>	Fiscal YTD Aug. 31, 2008	Projected FYTD Aug. 31, 2008	Fiscal YTD Aug. 31, 2007
Operating Revenues	\$365	\$389	\$427
Operating Expenses	484	540	572
Operating Transfer Out	(2)	(2)	-
Net Operating Gain (Loss)	(121)	(153)	(145)
Net Investment Income	120	174	383
Increase (Decrease) in Net Assets	(1)	21	238
Net Assets End of Period	\$2,503	\$2,524	\$2,544

- o BWC's operating revenues for fiscal year-to-date 2009 were \$365 million, a decrease of \$62 million compared to fiscal year-to-date 2008. This is primarily due to lower accruals for unbilled premiums receivable because of lower than expected losses for state agency and self-insured employer groups.
- o Operating revenues are \$24 million less than projected due to lower than anticipated employer billing adjustments.
- o Benefit and compensation adjustment expenses have decreased by \$85 million in fiscal year 2009 due to a decrease in the change in reserves for compensation and compensation adjustment expenses.
- o Claim payments have decreased by \$3 million or almost 1 percent for fiscal year-to-date 2009 compared to the same period in fiscal year 2008. The decrease is primarily due to a \$6 million decrease in lump sum settlements that is partially off-set by a \$2 million increase in permanent total disability payments.
- o BWC's net investment income for fiscal year-to-date 2009 totaled \$120 million, comprised of \$194 million of interest and dividend income and \$73 million decline in portfolio fair market value reduced by \$625 thousand of investment expenses.
- o Cash used by operating activities is trending lower than the prior fiscal year-to-date but is \$10 million more than projected. Fiscal year-to-date 2009 premium collections are \$28 million lower and cash disbursements for claims are \$8 million lower than the prior fiscal year.

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

- o Premium and assessment receipts in September will be higher than expected. Receipts for the first 4 business days of the month are \$81 million higher than projected receipts for the entire month. This favorable variance is timing related as the last day for private employers to timely make premium payments fell on a holiday weekend.
- o Cash disbursements will continue to increase as payments are made to settle the remaining \$37 million liability resulting from the Ohio Hospital Association lawsuit disputing fee schedules that were not adopted through the Ohio Revised Code Chapter 119 rules process.
- o Changes in the reserves for compensation and compensation adjustment expenses will be updated in September based on new reserve projections from BWC's actuarial consultants for fiscal year 2009.

Net Assets



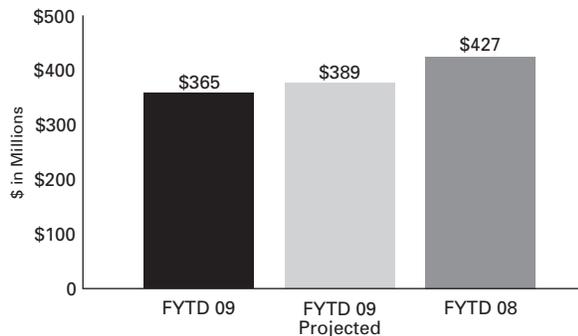
Statement of Operations

Fiscal year to date August 31, 2008

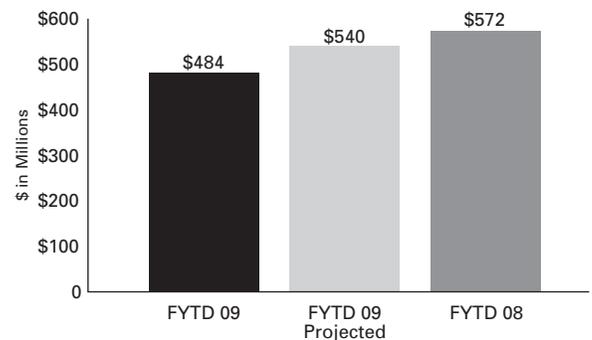
(in millions)

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
Operating Revenues					
Premium & Assessment Income	\$377	\$393	\$(16)	\$428	\$(51)
Provision for Uncollectibles	(12)	(4)	(8)	(1)	(11)
Other Income	—	—	—	—	—
Total Operating Revenue	365	389	(24)	427	(62)
Operating Expenses					
Benefits & Compensation Adj. Expense	469	524	55	554	(85)
Other Expenses	15	16	1	18	(3)
Total Operating Expenses	484	540	56	572	(88)
Operating Transfers	(2)	(2)	—	—	(2)
Net Operating Gain (Loss)	(121)	(153)	32	(145)	24
Net Investment Income	120	174	(54)	383	(263)
Increase (Decrease) in Net Assets	\$(1)	\$21	\$(22)	\$238	\$(239)

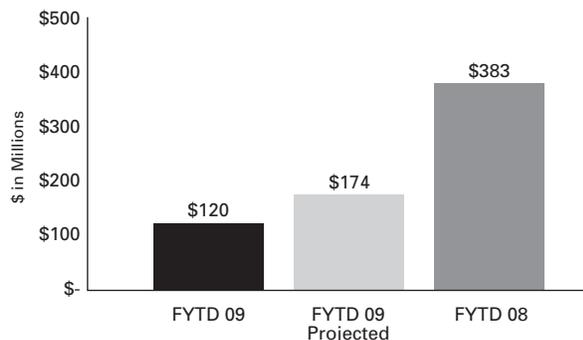
Operating Revenues



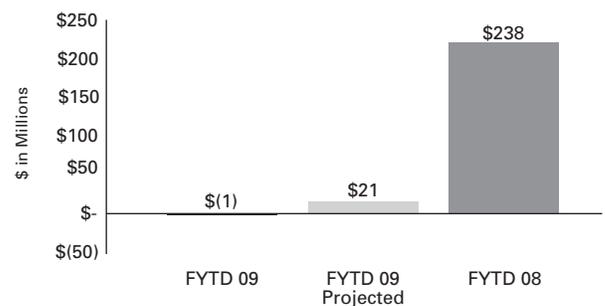
Operating Expenses



Net Investment Income



Change in Net Assets



Statement of Operations – Combining Schedule

Fiscal year to date August 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
Operating Revenues:								
Premium & Assessment Income	\$291,593	\$22,475	\$206	\$38	\$128	\$(73)	\$62,213	\$376,580
Provision for Uncollectibles	(9,289)	1,567	–	–	–	300	(4,594)	(12,016)
Other Income	(134)	–	–	–	–	–	292	158
Total Operating Revenues	282,170	24,042	206	38	128	227	57,911	364,722
Operating Expenses:								
Benefits & Compensation Adj Expenses	400,048	21,499	153	96	45	(140)	47,058	468,759
Other Expenses	3,740	36	9	–	45	–	10,938	14,768
Total Operating Expenses	403,788	21,535	162	96	90	(140)	57,996	483,527
Net Operating Income (Loss) before Operating Transfers Out	(121,618)	2,507	44	(58)	38	367	(85)	(118,805)
Operating Transfers Out	(37)	–	(1,745)	–	–	–	37	(1,745)
Net Operating Income (Loss)	(121,655)	2,507	(1,701)	(58)	38	367	(48)	(120,550)
Investment Income:								
Investment Income	177,098	12,720	2,693	84	63	209	701	193,568
Bonds – Realized & Unrealized Gains (Losses)	(74,300)	(5,012)	(1,009)	–	–	–	–	(80,321)
Equities – Realized & Unrealized Gains (Losses)	6,893	480	103	–	–	–	–	7,476
Total Realized & Unrealized Capital Gains (Losses)	(67,407)	(4,532)	(906)	–	–	–	–	(72,845)
Investment Manager & Operational Fees	(558)	(47)	(20)	–	–	–	–	(625)
Gain (Loss) on Disposal of Fixed Assets	–	–	–	–	–	–	15	15
Total Non-Operating Revenues, Net	109,133	8,141	1,767	84	63	209	716	120,113
Increase (Decrease) in Net Assets (Deficit)	(12,522)	10,648	66	26	101	576	668	(437)
Net Assets (Deficit), Beginning of Period	2,206,923	848,726	179,339	19,350	13,431	8,918	(773,399)	2,503,288
Net Assets (Deficit), End of Period	\$2,194,401	\$859,374	\$179,405	\$19,376	\$13,532	\$9,494	\$(772,731)	\$2,502,851

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 August 31, 2008

(in thousands)

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
Investment Income					
Bond Interest	\$180,114	\$126,982	\$53,132	\$115,804	\$64,310
Dividend Income—Domestic & International	11,827	11,500	327	7,403	4,424
Money Market/Commercial Paper Income	633	1,626	(993)	3,243	(2,610)
Misc. Income (Corp Actions, Settlements)	293	600	(307)	1,469	(1,176)
Private Equity	701	—	701	3,249	(2,548)
Securities Lending Income, Net of Fees	—	—	—	—	—
Total Investment Income	<u>193,568</u>	<u>140,708</u>	<u>52,860</u>	<u>131,168</u>	<u>62,400</u>
Realized & Unrealized Capital Gains and (Losses)					
Bonds – Net Realized Gains (Losses)	(3,806)	—	(3,806)	(18,272)	14,466
Bonds – Net Unrealized Gains (Losses)	<u>(76,515)</u>	<u>—</u>	<u>(76,515)</u>	<u>308,978</u>	<u>(385,493)</u>
Subtotal – Bonds	<u>(80,321)</u>	<u>—</u>	<u>(80,321)</u>	<u>290,706</u>	<u>(371,027)</u>
Stocks – Net Realized Gains (Losses)	(3,513)	—	(3,513)	38,521	(42,034)
Stocks – Net Unrealized Gains (Losses)	<u>10,989</u>	<u>34,500</u>	<u>(23,511)</u>	<u>(85,826)</u>	<u>96,815</u>
Subtotal – Stocks	<u>7,476</u>	<u>34,500</u>	<u>(27,024)</u>	<u>(47,305)</u>	<u>54,781</u>
Net Gain (Loss) – PE	—	—	—	9,567	(9,567)
Change in Portfolio Value	<u>(72,845)</u>	<u>34,500</u>	<u>(107,345)</u>	<u>252,968</u>	<u>(325,813)</u>
Investment Manager & Operational Fees	<u>(625)</u>	<u>(1,090)</u>	<u>465</u>	<u>(1,151)</u>	<u>(526)</u>
Net Investment Income	<u>\$120,098</u>	<u>\$174,118</u>	<u>\$(54,020)</u>	<u>\$382,985</u>	<u>\$(262,887)</u>

Administrative Cost Fund Expense Analysis

August 2008

- o BWC Administrative Cost Fund expenses are approximately \$12.5 million (22%) less than budgeted and approximately 1% more than last fiscal year.
- o 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 Special counsel fees will resume when the Attorney General completes assignments. A delay in completing BWC's agreement with the Attorney General for services provided has led to a delay in the fiscal year 2009 payment. The first payment for William Green rent will be made in September 2008. The Statewide implementation of the OAKS accounting system in fiscal year 2008 caused a delay in processing invoices through August 2008.
- o Restrictions implemented for all state agencies concerning the purchase of equipment led to BWC closely evaluating equipment needs and the reduction of equipment purchases.
- o Positions not yet filled led to a reduction in the fiscal year budget as of August. The payroll budget will be increased as employees are hired.
- o BWC's current fiscal year 2009 is approximately \$23.1 million (7%) less than appropriated by the General Assembly.

Administrative Cost Fund Budget Summary

As of August 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
Payroll									
BWC Board of Directors	14	163,441	163,647	206	0.13%	836,616	30,962	132,479	427.88%
Workers' Comp Council		0	0	0	0.00%	28,056	0	0	0.00%
BWC Administration	6	146,149	146,149	0	0.00%	807,817	82,995	63,154	76.09%
Customer Service	1,510	21,817,851	21,841,476	23,625	0.11%	113,752,760	23,214,125	(1,396,274)	-6.01%
Medical	130	2,053,830	2,053,950	120	0.01%	10,864,968	2,096,518	(42,688)	-2.04%
Special Investigations	134	2,176,053	2,177,047	994	0.05%	11,408,948	2,161,510	14,543	0.67%
Fiscal and Planning	65	917,103	928,779	11,676	1.26%	4,868,338	862,709	54,394	6.31%
Actuarial	19	318,361	317,214	(1,147)	-0.36%	1,743,030	290,612	27,749	9.55%
Investments	10	220,378	220,690	312	0.14%	1,337,550	181,551	38,827	21.39%
Infrastructure & Technology	313	5,785,475	5,813,955	28,480	0.49%	30,609,446	5,505,475	280,000	5.09%
Legal	76	1,267,282	1,267,282	0	0.00%	6,690,454	1,204,140	63,142	5.24%
Communications	34	558,834	558,654	(180)	-0.03%	2,910,974	543,158	15,676	2.89%
Human Resources	69	1,064,376	1,064,508	132	0.01%	5,679,158	684,624	379,752	55.47%
Internal Audit	14	257,971	258,359	388	0.15%	1,367,014	311,384	(53,413)	-17.15%
Ombuds Office	10	97,307	97,620	313	0.32%	646,339	64,314	32,993	51.30%
Early Retirement Expenses		0	0	0	0.00%	0	46,953	(46,953)	-100%
Total Payroll	2,404	36,844,411	36,909,330	64,919	0.18%	193,551,468	37,281,030	(436,619)	-1.17%
Personal Services									
Information Technology		427,372	2,214,138	1,786,766	80.70%	13,486,024	186,937	240,435	128.62%
Legal - Special Counsel		82	260,370	260,288	99.97%	1,562,187	0	82	
Legal - Attorney General		0	1,111,022	1,111,022	100.00%	4,444,085	0	0	0.00%
Other Personal Services		412,009	1,605,478	1,193,469	74.34%	7,465,699	137,774	274,235	199.05%
Total Personal Services		839,463	5,191,008	4,351,545	83.83%	26,957,995	324,711	514,752	158.53%
Maintenance									
William Green Rent		0	0	0	0.00%	20,686,500	0	0	0.00%
Other Rent and Leases		2,161,326	2,714,272	552,946	20.37%	11,156,933	1,618,827	542,499	33.51%
Software and Equipment Maintenance and Repairs		1,223,367	3,223,352	1,999,985	62.05%	19,426,703	1,317,713	(94,346)	-7.16%
Inter Agency Payments		454,297	748,173	293,876	39.28%	4,018,750	809,368	(355,071)	-43.87%
Communications		732,866	1,252,265	519,399	41.48%	6,977,919	458,009	274,857	60.01%
Safety Grants and Long Term Care Loan		302,469	1,500,000	1,197,531	79.84%	6,000,000	2,133	300,336	14080.45%
Supplies and Printing		205,002	461,090	256,088	55.54%	3,186,593	121,583	83,419	68.61%
Other Maintenance		468,068	613,656	145,588	23.72%	3,756,883	563,682	(95,614)	-16.96%
Total Maintenance		5,547,395	10,512,808	4,965,413	47.23%	75,210,281	4,891,315	656,080	13.41%
Equipment									
		4,028	3,170,716	3,166,688	99.87%	10,349,296	124,767	(120,739)	-96.77%
Total Administrative Cost Fund Expenses		43,235,297	55,783,862	12,548,565	22.49%	306,069,040	42,621,823	613,474	1.44%

Total Agency Appropriation 329,210,479
 Budget to Appropriation Variance 23,141,439
 Percentage Variance 7.03%

State Insurance Fund

Administrative Expense Summary

As of August 31, 2008

	Actual FYTD 2009	Encumbrance Balance	FYTD Actual & Encumbrance	Encumbrance Closing Date	Actual FYTD 2008
Investment Administrative Expenses					
UBS Securities LLC	\$0	\$1,224,547	\$1,224,547	6/30/08	\$464,610
Wilshire Associates Inc.	0	0	0	2/24/08	108,833
JP Morgan Chase - Performance Reporting	11,083	72,651	83,734	6/30/08	0
Mercer Investment Consulting	79,166	442,327	521,493	6/30/09	0
Other Investment Expenses	12,972	320,038	333,010	6/30/08	0
	103,221	2,059,563	2,162,784		573,443
Actuarial Expenses					
Oliver Wyman	179,506	1,327,951	1,507,457	12/31/09	122,008
Deloitte Consulting LLP	816,817	733,278	1,550,095	12/31/08	0
AON Risk Consultants	0	0	0		263,599
	996,323	2,061,229	3,057,552		385,607
Ohio Rehabilitation Services	605,407	0	605,407	6/30/09	0
TOTAL	\$1,704,951	\$4,120,792	\$5,825,743		\$959,050

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

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

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

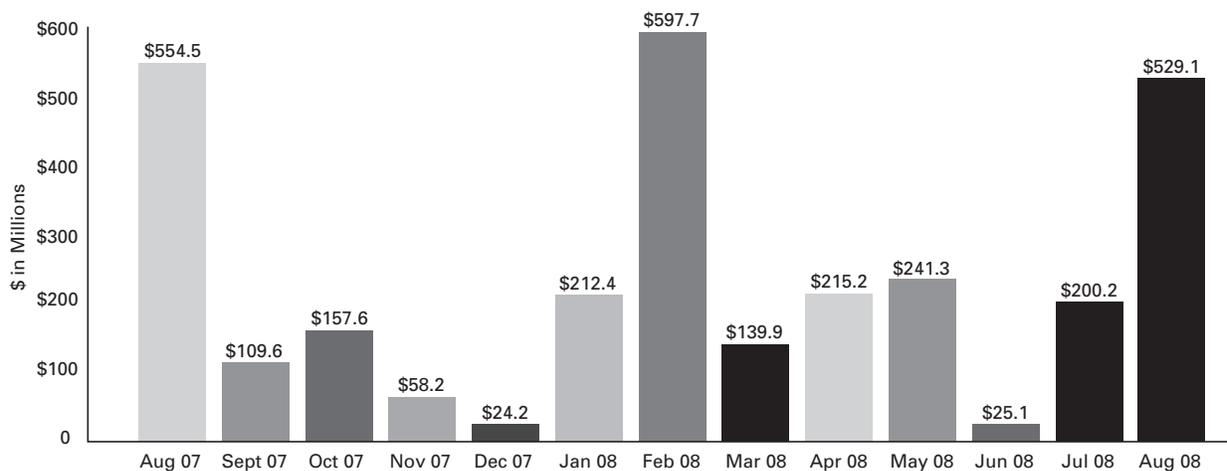
Statement of Cash Flows

Fiscal year to date August 31, 2008

(in millions)

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
Cash Flows from Operating Activities:					
Cash Receipts from Premiums	\$729	\$737	\$(8)	\$757	\$(28)
Cash Receipts – Other	3	5	(2)	4	(1)
Cash Disbursements for Claims	(360)	(385)	25	(368)	8
Cash Disbursements for Other	(84)	(79)	(5)	(83)	(1)
Net Cash Provided (used) by Operating Activities	288	278	10	310	(22)
Net Cash Flows from Noncapital Financing Activities	(2)	(1)	(1)	–	(2)
Net Cash Flows from Capital and Related Financing Activities	–	–	–	(1)	1
Net Cash Provided (used) by Investing Activities	66	–	66	201	(135)
Net Increase (Decrease) in Cash and Cash Equivalents	352	277	75	510	(158)
Cash and Cash Equivalents, Beginning of Period	378	378	–	328	50
Cash and Cash Equivalents, End of Period	\$730	\$655	\$75	\$838	\$(108)

Premium and Assessment Receipts



Statement of Net Assets

As of August 31, 2008

(in millions)

	Actual	Prior Yr. Actual	Year to Year Increase (Decrease)
Assets			
Bonds	\$13,804	\$13,655	\$149
Stocks	3,190	2,680	510
Private Equities	3	390	(387)
Cash & Cash Equivalents	<u>730</u>	<u>838</u>	<u>(108)</u>
Total Cash and Investments	17,727	17,563	164
Accrued Premiums	4,157	4,416	(259)
Other Accounts Receivable	249	218	31
Investment Receivables	188	168	20
Other Assets	<u>118</u>	<u>121</u>	<u>(3)</u>
Total Assets	<u>22,439</u>	<u>22,486</u>	<u>(47)</u>
Liabilities			
Reserve for Compensation and Compensation Adj. expense	\$19,530	\$19,447	\$83
Accounts Payable	81	84	(3)
Investment Payable	76	173	(97)
Other Liabilities	<u>249</u>	<u>238</u>	<u>11</u>
Total Liabilities	<u>19,936</u>	<u>19,942</u>	<u>(6)</u>
Net Assets	\$2,503	\$2,544	\$(41)

Statement of Net Assets – Combining Schedule

As of August 31, 2008

(in thousands)

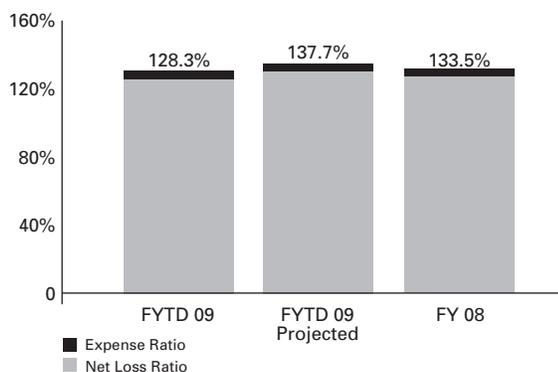
	State Insurance Fund Account	Disabled Workers' Relief Fund Account	Coal-Workers Pneumoconiosis Fund Account	Public Work Relief Employees' Fund Account	Marine Industry Fund Account	Self-Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Eliminations	Totals
Assets									
Bonds	\$12,693,130	\$ 916,803	\$ 193,524	\$ –	\$ –	\$ –	\$ –	\$ –	\$13,803,457
Stocks	2,942,519	201,821	46,016	–	–	–	–	–	3,190,356
Private Equities	3,330	–	–	–	–	–	–	–	3,330
Cash & Cash Equivalents	<u>619,086</u>	<u>14,331</u>	<u>1,775</u>	<u>22,703</u>	<u>17,025</u>	<u>53,304</u>	<u>2,097</u>	<u>–</u>	<u>730,321</u>
Total Cash & Investments	\$16,258,065	\$ 1,132,955	\$ 241,315	\$ 22,703	\$ 17,025	\$ 53,304	\$ 2,097	\$ –	\$17,727,464
Accrued Premiums	1,742,842	1,535,994	–	215	–	666,123	211,800	–	4,156,974
Other Accounts Receivable	175,677	26,295	10	29	–	2,622	43,780	–	248,413
Interfund Receivables	12,455	67,258	196	–	95	4,881	99,473	(184,358)	–
Investment Receivables	174,628	10,857	2,381	42	31	104	–	–	188,043
Other Assets	<u>26,007</u>	<u>22</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>91,634</u>	<u>–</u>	<u>117,663</u>
Total Assets	\$18,389,674	\$ 2,773,381	\$ 243,902	\$ 22,989	\$ 17,151	\$ 727,034	\$ 448,784	\$ (184,358)	\$22,438,557
Liabilities									
Reserve for Comp and Comp Adj. expense	\$15,744,143	\$ 1,899,543	\$ 62,795	\$ 3,582	\$ 3,196	\$ 715,525	\$1,101,084	\$ –	\$19,529,868
Accounts Payable	80,448	–	–	–	–	–	226	–	80,674
Investment Payable	71,696	3,593	770	–	–	–	–	–	76,059
Interfund Payables	171,327	10,756	172	31	57	2,015	–	(184,358)	–
Other Liabilities	<u>127,659</u>	<u>115</u>	<u>760</u>	<u>–</u>	<u>366</u>	<u>–</u>	<u>120,205</u>	<u>–</u>	<u>249,105</u>
Total Liabilities	16,195,273	1,914,007	64,497	3,613	3,619	717,540	1,221,515	(184,358)	19,935,706
Net Assets	\$ 2,194,401	\$ 859,374	\$ 179,405	\$ 19,376	\$ 13,532	\$ 9,494	\$(772,731)	\$ –	\$ 2,502,851

Performance Metrics

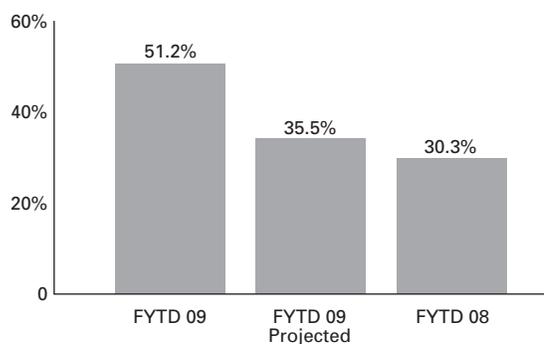
	Actual FY09 As of 8/31/08	Projected FY09 As of 8/31/08	Actual FY08 As of 8/31/07	Target
Loss Ratio	103.2%	107.7%	110.7%	
LAE Ratio - MCO	8.6%	10.1%	8.3%	
LAE Ratio - BWC	12.6%	15.7%	10.3%	
Net Loss Ratio	124.4%	133.5%	129.3%	120.0%
Expense Ratio	3.9%	4.2%	4.2%	5.0%
Combined Ratio	128.3%	137.7%	133.5%	125.0%
Net Investment Income Ratio	51.2%	35.5%	30.3%	
Operating Ratio (Trade Ratio)	77.1%	102.2%	103.2%	100.0%
Operating Cashflow Ratio	216.7%	190.0%	204.9%	118.0%
Total Reserves to Net Assets	8 to 1	8 to 1	8 to 1	7 to 1
Investments to Loss Reserves	90.8%	90.5%	90.3%	110.0%
Equities to Net Assets	1.27 to 1	1.26 to 1	1.05 to 1	
Bonds to Net Assets	5.5 to 1	5.5 to 1	5.4 to 1	

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

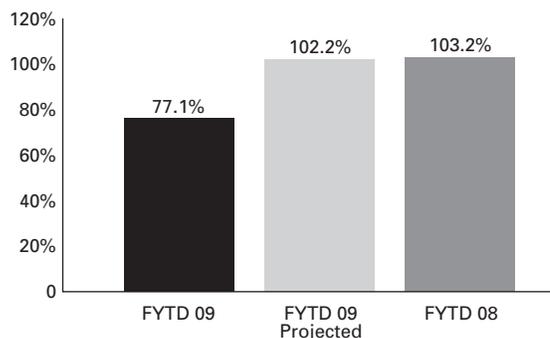
Combined Ratio



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 Legislative Report
Gregg Paul and Laura Abu-Absi

September 2008

Joint Legislative Regulatory Reform Task Force

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

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

August 13, 2008—First Hearing--Columbus

BWC-related testimony provided by: Ohio Small Business Council (Carrie Haughawout, Director), Joint Committee on Agency Rule Review, Ohio Society of CPA's (Justin Mohler), National Federation of Independent Business

Non BWC-related testimony provided by: Ohio Farm Bureau, Ohio Aggregates and Industrial Minerals Association, U.S. Small Business Administration—Office of Advocacy

September 4, 2008—2nd Hearing—West Chester—AK Steel headquarters

BWC-related testimony provided by: Ohio Society of CPA's (Sean Boland), AK Steel Corporation (Alan McCoy—VP Government and Public Relations)

Non BWC-related testimony provided by: John Jurgensen Company, Environmental Community Organization, Ohio Small Business Council (John McMinn), JTM Meat Processors

September 16, 2008—scheduled 3rd Hearing in London--Farm Science Review in Madison County at the Molly Caren Agricultural Center

Workers' Compensation Council—Rep. Bill Batchelder—Chair

August 13, 2008-2nd meeting

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

September 17, 2008 meeting—cancelled

West Central Ohio Manufacturing Association Summit

September 25, 2008—Lima

Purpose of summit is to hear concerns from manufacturers in an effort to strengthen the manufacturing base in the region. BWC requested to participate.

West Central Ohio Delegation members:

Sen. Steve Buehrer (R-Delta), Rep. Bruce Goodwin (R-Defiance), Rep. Cliff Hite (R-Findlay), Rep. Lynn Wachtmann (R-Napoleon), Sen. Keith Faber (R-Celina), Rep. John Adams (R-Sidney), Rep. Matt Huffman (R-Lima), Rep. Jim Zehringer (R-Ft. Recovery)

BWC 2009 Federal Priorities

September 8, 2008--communicated to Governor's D.C. office:

- Advocate for maintained funding of the Department of Labor's Energy Employees Occupational Illness Compensation Program Act of 2000
- Monitor asbestos litigation in the 109th Congress, S. 1125
- Monitor any legislation that may affect the tax-exempt status of state workers' compensation funds.
- Advocate for passage of H.R. 2549 Medicare Secondary Payer and Workers' Compensation Settlement Agreements Act of 2007
- Advocate for streamlined reporting requirements of SCHIP Extension Act of 2007 during rulemaking process.

Enacted legislation currently under rule development:

SB 334 (Sen. Faber-R-Celina)--Interstate Jurisdiction

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

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

HB 397/SB 290 (Rep. Szollosi-D-Oregon, Senator Wagoner-R-Ottawa Hills) Eliminates concurrent jurisdiction.

Summary: Exempts workers covered under federal Longshore and Harbor Workers' Compensation Act (FLHWCA) from state coverage unless it is elected by the employer.

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

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Net Asset Discussion Outline September 26, 2008

Ohio Bureau of Workers' Compensation

Ray Mazzotta, Chief Operating Officer

John Pedrick, Chief Actuarial Officer

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Judicial Risk

Competitive Risks

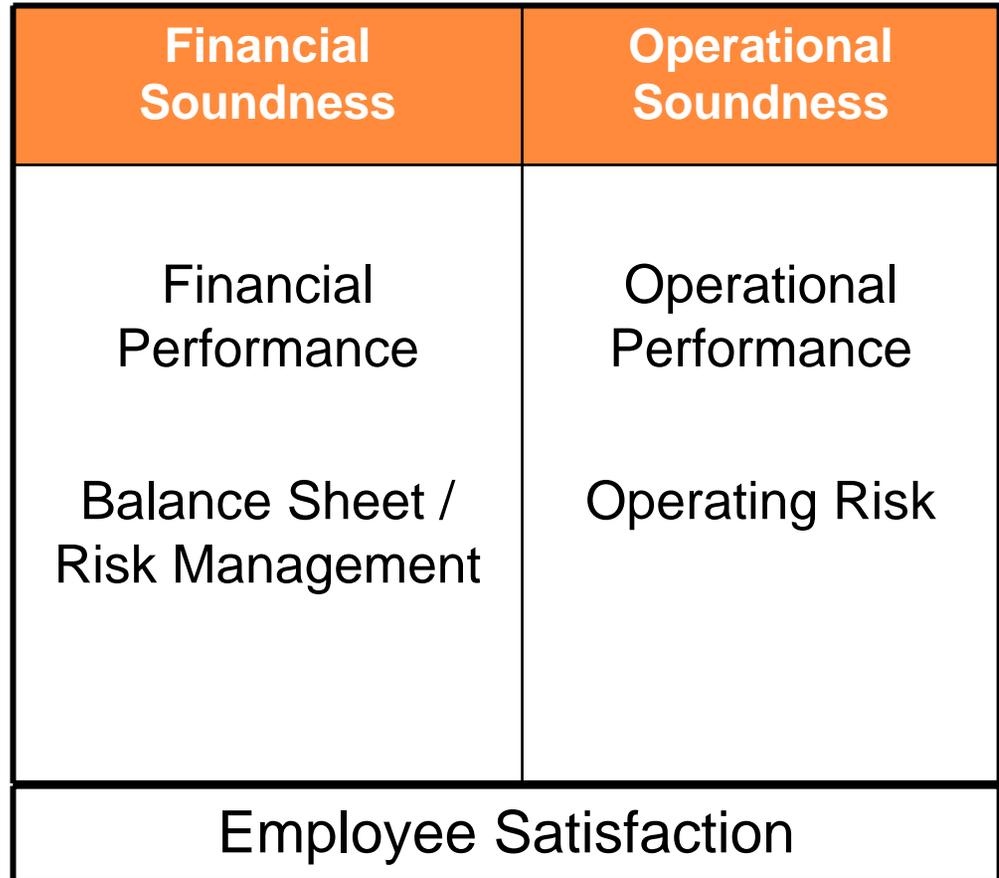
Medical Inflation

Shock Events

Legislative Risk

Latent Injury Risk

Environment / Cultural Risks



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Four Primary Types of Financial Metrics

- Profitability Ratios
- Leverage Ratios
- Liquidity Ratios
- Loss Reserve Ratios

Loss and LAE Reserves to Surplus (5 yr Average)

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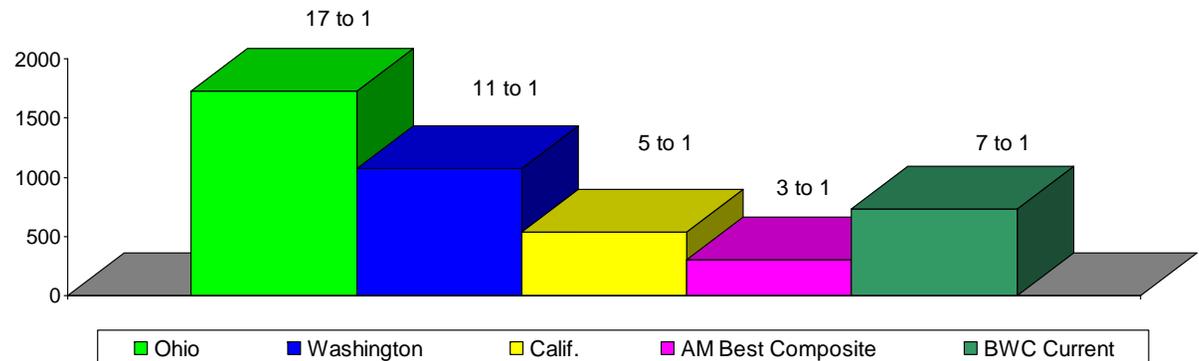
Strategy Implications

Next Steps

Definition: Measures the relationship between future claims liabilities and surplus

(Loss + Loss Adj. Exp. Reserves / Net Assets)

Why Important: Measures the exposure to errors in estimating future claim related liabilities



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Next Steps:

Financial Soundness

- *Performance Indicators: Identified measures and began reporting*
- *Balance Sheet Risk: Under development, pending results from various studies*

Deloitte Study

The tasks in the Comprehensive Study were prioritized and placed into 4 groups with various scheduled completion dates. Focus on Group 2 Tasks

Group 2 *Benefit comparisons; administrative cost calculation; net asset levels; excess insurance/reinsurance needs; actuarial audit reserves and payment projections.*

Specifically Net Asset Levels

Deloitte Study – Net Asset Metrics

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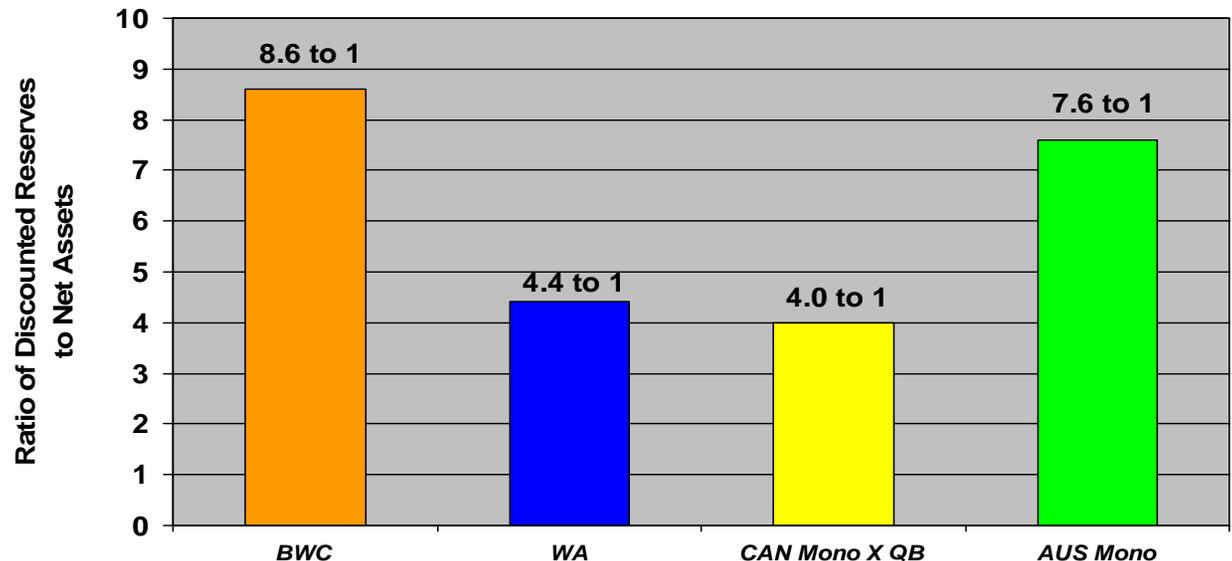
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Next Steps

Discounted Reserves to Net Assets – Measures the ability and strength to withstand unexpected adverse development, acceleration in insurance claim reserve payments, and unanticipated changes in interest/discount rates that vary from underlying assumptions

Observation: BWC is currently more highly leveraged than its peers and has less ability to absorb the risk of adverse deviations from unexpected reserve emergence and investment returns.



Deloitte Study – Net Asset Metrics

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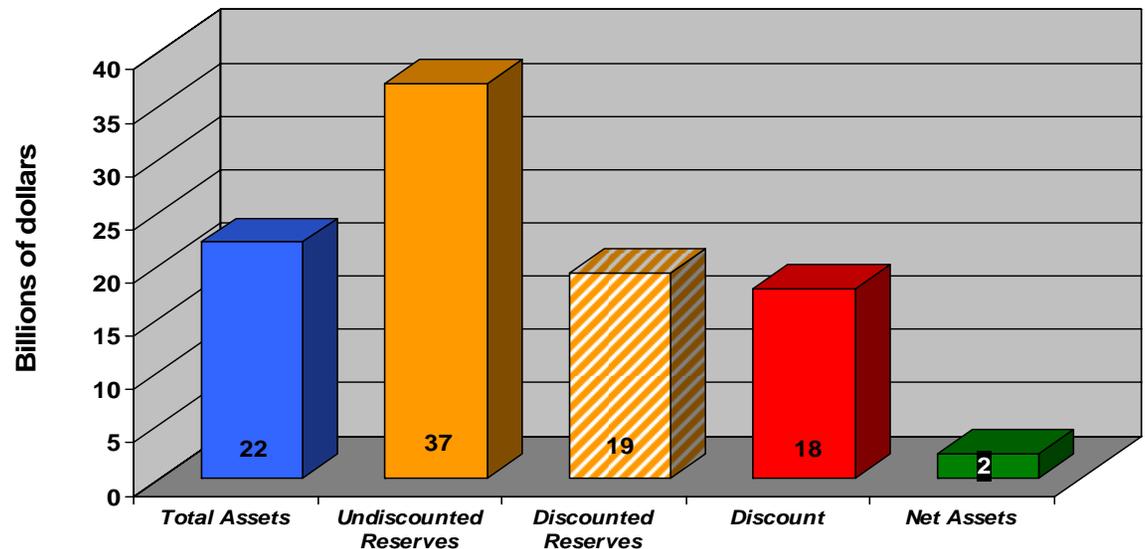
Deloitte Funding Ratio

Strategy Implications

Next Steps

Total Assets, Undiscounted Reserves, Discounted Reserves, Discount, Net Assets Indicates the ability and strength to withstand unexpected adverse development in reserves, a drop in asset values, or lower investment returns.

Observation: Net Assets are insufficient to absorb relatively small fluctuations in the value of Total Assets, Reserves or Discount.



- An adverse variance of 5% in the reserves would lower net assets by approx. 45%.
- An investment return of 1% less than the discount rate would lower net assets by approx. 90%.

Deloitte Study – Net Asset Risk Analysis

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Next Steps

Identification and assessment of major financial risks

- **Reserve Uncertainty** – e.g. range of estimates, changing development patterns
- **Investment** – risk free rate vs. discount rate vs. actual investment yield
- **Frequency & Severity Trends** – unanticipated shifts in the number or cost of claims, including medical inflation
- **Payroll Trend** – unanticipated decreases in the premium rate base
- **Pricing Risk** – delays in changing premium rates in reaction to trends
- **Payment Pattern Fluctuations** – unanticipated changes in timing of payments
- **CAT Event Risk** – rare catastrophic events occurring once in 100+ years
- **Economic Downturns** – shocks from drop in investment return, drop in payrolls, rise in frequency, rise in medical inflation, faster payment pattern
- **Operational Risk** – failure of controls on claim payments, investment operations, expenses, inability to estimate reserve or premium needs, fraud or abuse from claimants or providers, judicial decisions, legislative changes, litigation settlements, etc.

Inherent Risk Classifications

- **Credit** – Amounts actually collected or collectible are less than those contractually due.
- **Market** – Movement in market rates or prices, such as interest rates, foreign exchange rates, or equity prices adversely affect the reported and/or market value of investments.
- **Pricing/Underwriting** – Pricing and underwriting practices are inadequate to provide for risks assumed.
- **Reserving** – Actual losses or other contractual payments reflected in reported reserves of other liabilities will be greater than estimated.
- **Liquidity** – Inability to meet contractual obligations as they become due because of an inability to liquidate assets or obtain adequate funding without incurring unacceptable losses.

Inherent Risk Classifications

- **Operational** – Operational problems such as inadequate information systems, breaches in internal controls, fraud, or unforeseen catastrophes will result in unexpected losses.
- **Legal** – Non-conformance with laws, rules, regulations, prescribed practices or ethical standards in any jurisdiction in which the entity operations will result in a disruption in business and financial loss.
- **Strategic** – Inability to implement appropriate business plans, to make decisions, to allocate resources or to adapt to changes in the business environment will adversely affect competitive position and financial condition.
- **Reputation** – Negative publicity, whether true or not, causes a decline in the customer base, costly litigation, and/or revenue reductions.

Deloitte Study – Net Asset Metrics

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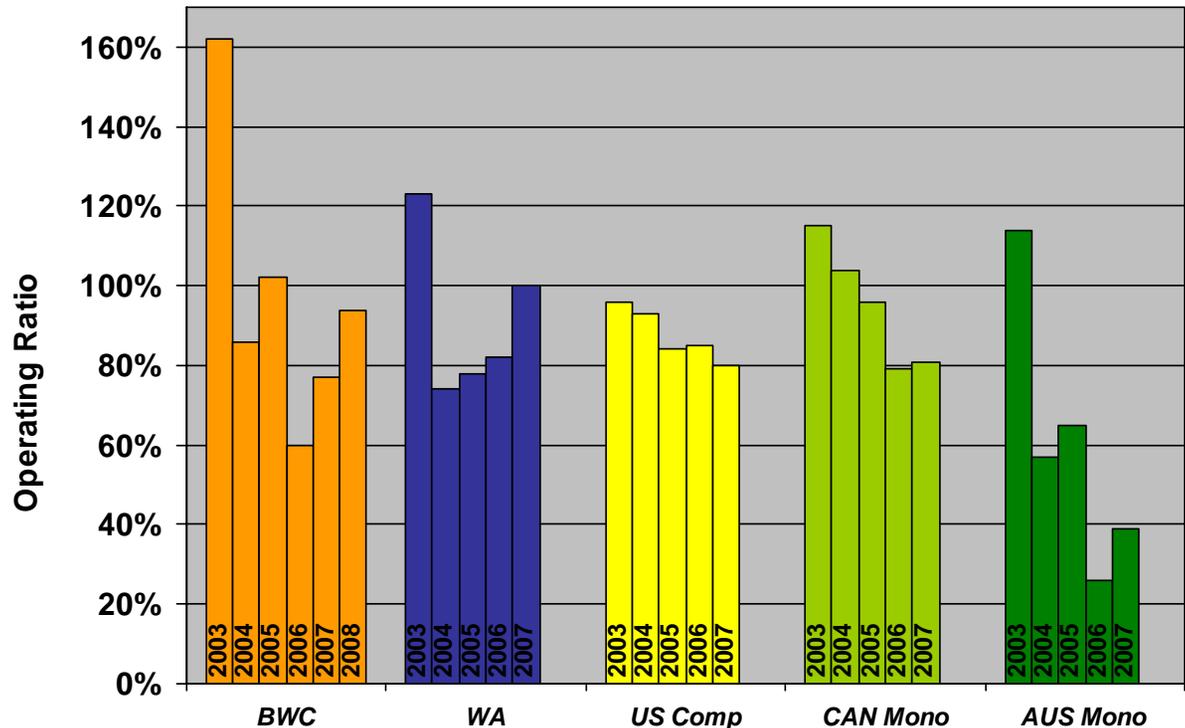
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Strategy Implications

Next Steps

Operating Ratio after Investment Income – Measures the success in maintaining stable operational results over the long term to support the workers compensation system.

Observation: BWC has been less successful than its peers in maintaining stability in its operational results. BWC appears to be exposed to significant risk from variability in operational results.



Deloitte Study – Net Asset Metrics

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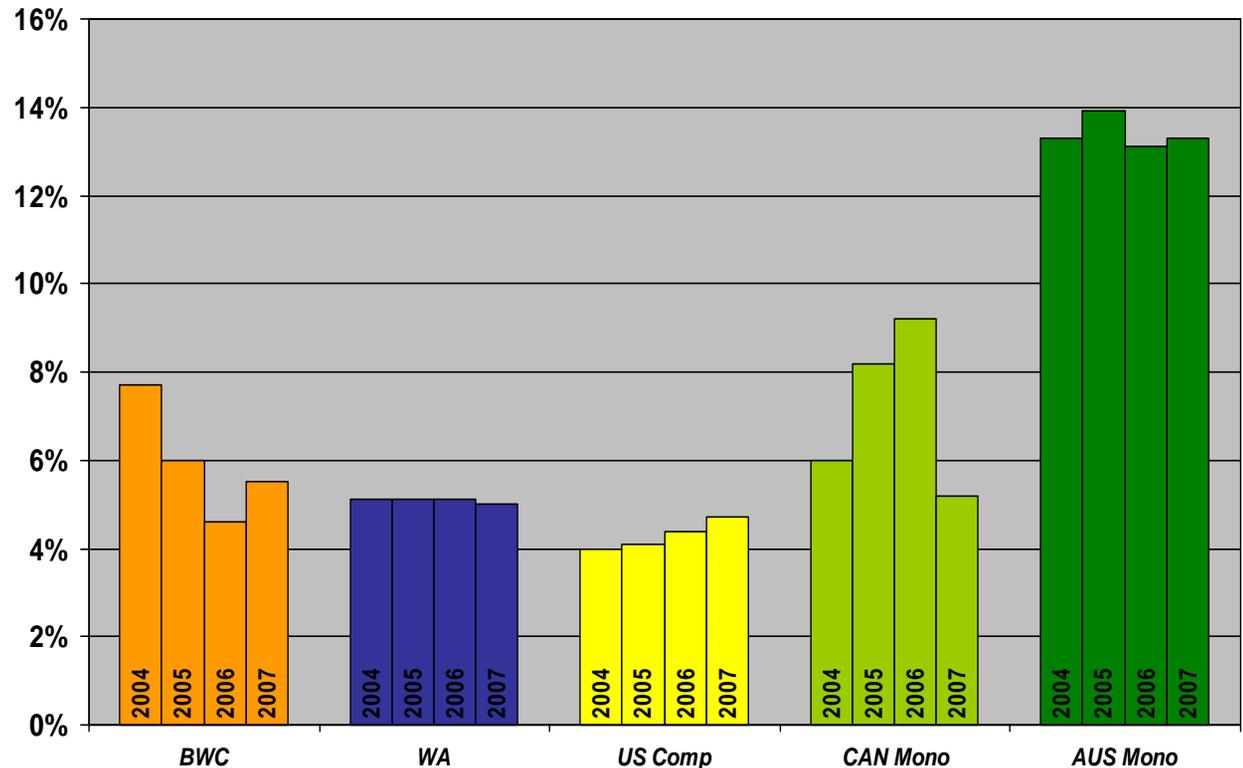
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Strategy Implications

Next Steps

Annual Investment Return – Measures the ability to generate a consistent level of investment income to supplement/complement the insurance operations.

Observations: BWC's average return is slightly higher than its US peers. BWC's historical returns have been more unstable than its peers.



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Strategy Implications

Next Steps

The definition of the Funding Ratio used for this analysis:

$$\text{Funding Ratio} = \frac{\text{Funded Assets}}{\text{Funded Liabilities}}$$

Funded Assets = cash, investments and current receivables less deposits and current payables

Funded Liabilities = Reserves for funded unpaid claims and funded claim expenses (HPP on PA/PEC), excluding any risk margin, discounted at a risk free discount rate.

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Next Steps

Preliminary Results – Funding Ratio – Acceptable Range

Using results of risk analysis for reserve risk and other risks:

Percentile	75 th	95 th	99 th
Reserve Risk	1.05	1.10	1.45
Other Risks (difference economic downturn scenarios)	1.05- 1.20	1.10- 1.25	1.15- 1.30
Overall Funding Ratio Range	1.20 to 1.75		

Deloitte Funding Ratio

Impact of Risk Model Results: Additional Net Assets Needed – the Funding Ratio range is applied to the estimated Funded Liabilities to produce the Target Assets. The difference between the Target Assets and the Funded Assets as of 6/30/08 is the indicated additional net assets needed to attain the target Funding Ratio.

Deloitte Funding Ratio

	Preliminary 6/30/08	If Target Funding Ratio	If Target Funding Ratio
Funding Ratio	1.152	1.25	1.50
Funded Liabilities	14,761 million	14,761 million	14,761 million
Target Assets		18,451 million	22,141 million
Funded Assets	17,001 million	17,001 million	17, 001 million
Additional Net Assets Needed	---	1,450 million	5,140 million

Strategy Implications – Two Scenarios

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Strategy Implications

Next Steps

Funding Ratio 125%

- \$ 1.5 billion additional net asset needed.
- Build over 5 years, \$250 million additional income per year.
- Increase incremental annual investment return by 25%?
- Include Premium Risk Margin of 10%?
- Some combination of the two?

Funding Ratio 150%

- \$ 5.1 billion additional Net Asset needed.
- Build over 10 years, \$400 million additional income per year.
- Increase incremental annual investment return by 30%?
- Include Premium Risk Margin of 20%?
- Some combination of the two?

Sources of Income – Premiums & Investments

BWC Funding Ratio History – State Insurance Fund

(000s omitted)

	FY 2008 (Unaudited)	FY 2007 (Audited)	FY 2006 (Audited)	FY 2005 (Audited)	FY 2004 (Audited)	FY 2003 (Audited)	FY 2002 (Audited)	FY 2001 (Audited)	FY 2000 (Audited)
Total Funded Assets	\$17,001,444	\$16,487,050	\$15,799,103	\$15,333,753	\$14,893,298	\$14,380,556	\$15,020,231	\$17,096,556	\$18,667,224
Total Funded Liabilities	\$14,761,301	\$14,407,917	\$14,476,223	\$14,779,151	\$14,261,500	\$13,977,338	\$13,087,747	\$12,450,458	\$12,025,519
Funding Ratio	1.152	1.144	1.091	1.038	1.044	1.029	1.148	1.373	1.552
Total Net Assets	\$ 2,206,923	\$ 2,080,045	\$ 1,278,845	\$ 507,491	\$ 644,444	\$ 417,937	\$ 1,886,585	\$ 4,643,351	\$ 6,644,827
Reserve for compensation	\$ 14,986,000	\$ 14,673,000	\$ 14,808,000	\$ 15,056,000	\$ 14,557,000	\$ 14,248,000	\$ 13,213,000	\$ 12,462,968	\$ 12,002,121
Reserve for comp adj expense	670,301	711,917	730,100	717,400	727,100	696,400	669,000	610,900	610,600
Total Reserves	\$15,656,301	\$15,384,917	\$15,538,100	\$15,773,400	\$15,284,100	\$14,944,400	\$13,882,000	\$13,073,868	\$12,612,721
Discount Rate	5.00%	5.00%	5.25%	5.25%	5.50%	5.50%	5.80%	6.00%	6.00%
Total Premium Income	\$1,849,610	\$1,800,637	\$1,752,108	\$1,730,396	\$1,741,880	\$1,721,581	\$1,878,105	\$1,596,385	\$1,710,673
Total Dividend Expense	\$0	\$0	(\$8,229)	\$232,836	\$415,523	\$640,563	\$1,473,880	\$1,624,921	\$1,328,207
Total Reserves to Net Assets	7.0942	7.3964	12.1501	31.0811	23.7167	35.7575	7.3583	2.8156	1.8981
Total Premiums to Net Assets	0.8381	0.8657	1.3701	3.4097	2.7029	4.1192	0.9955	0.3438	0.2574
Net Leverage Ratio	7.9323	8.2621	13.5202	34.4908	26.4196	39.8767	8.3538	3.1594	2.1555
Cash & Investments to Total Reserves	101.0%	99.5%	95.7%	97.9%	98.9%	99.3%	115.2%	135.5%	145.3%
Equities to Net Assets	1.3220	1.2656	0.0094	12.4490	9.0513	11.4424	2.9211	1.4745	1.1117
Bonds to Net Assets	5.7178	5.7482	11.1707	13.8571	10.5618	18.2118	4.1903	1.9574	1.3815

Next Steps

Enterprise Reporting

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Risks

Deloitte Funding Ratio

Strategy Implications

Next Steps

- *Analyze specific risk categories*
- *Establish desired “funding ratio”*
- *Correlate pricing and investment strategies with desired funding ratio objective*

Administrator Briefing

Marsha P. Ryan, Administrator

Executive Session

- Litigation Update

Adjourn Board Meeting

Next meeting: October 31, 2008, 8:00am – 1:00pm, Wm. Green Building, L2, Rm 3