

BWC Board of Directors
Wednesday, May 28, 2008, 1:00 PM
William Green Building
Neil Schultz Conference Center
Level 2 Room 3
30 W. Spring St., 2nd Floor (Mezzanine)
Columbus, OH 43215

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

Members Absent: Philip Fulton, Charles Bryan

Executive session

The Board met with Governor Strickland, in executive session, for the purpose of discussing personnel matters, more specifically, the performance of the Bureau Administrator. Upon motion by Mr. Haffey, seconded by Mr. Hummel, the Board adjourned into executive session, by a vote of 9-0. Mr. Fulton and Mr. Bryan were not present.

Administrator performance

Upon motion by Mr. Hummel, seconded by Mr. Caldwell, the Board approved its summary of the Administrator's evaluation, by a vote of 9-0. Mr. Bryan and Mr. Fulton were not present. The summary is incorporated by reference, into the minutes.

BWC Board of Directors
Thursday, May 29, 2008, 10:00 AM
William Green Building
Neil Schultz Conference Center
Level 2 Room 3
30 W. Spring St., 2nd Floor (Mezzanine)
Columbus, OH 43215

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

Members Absent: None

Call to order

Mr. Lhota reconvened the Board at 10:00 am, Thursday, 2008. Roll call was taken by the scribe, and all Directors were present.

House Bill 100 Educational session

Annual and Biennial Budget Discussion

Tracy Valentino, Chief of Fiscal and Planning, presented draft budget information, to the Board, for fiscal year July 1, 2008 through June 30, 2009. A handout and power point presentation is incorporated into the Board minutes. The Board approves annual and biennial budgets. There was discussion on the process of developing budgets, particularly within the context of providing customer service, reducing costs, and ensuring a continuing level of service. Monthly budget reports are provided to the Board. Mr. Harris inquired whether tuition reimbursement was available to union members. Ms. Valentino indicated that the tuition reimbursement budget item applied to all programs, including ones for exempt personnel. Marsha Ryan, Bureau Administrator, stated there is a robust fund for tuition reimbursement. Mr. Bryan raised the issue as to how the budget compares to the budgets of private insurers. Ms. Valentino stated that the budget has been flat in recent years. She further stated that it is difficult to compare the Bureau's budget to that of private insurers. Mr. Matesich inquired as to administrative costs and discrepancies in amounts. Ms. Valentino stated that she would address these issues later in her presentation.

Ms. Valentino made discussion of priority of expenses. Mr. Matesich inquired into the budget for Safety and Hygiene. Is the Safety and Hygiene budget funding other units? Ms. Valentino responded no. Mr. Harris inquired as to whether or not personnel in the service offices were paid

out of the Safety and Hygiene fund? Ms. Valentino responded that Safety and Hygiene personnel, stationed in services offices, were paid out of the Safety and Hygiene budget. Supervisors stationed at service offices, in other units, are not paid from the Safety and Hygiene budget. Ms. Ryan indicated there are safety items included in other budget areas, such as premium rebates for safety council participation. Mr. Bryan inquired as to whether that money was coming from employer premiums. Ms. Valentino stated yes. Ms. Falls inquired whether Safety and Hygiene costs included a pro rata share of utilities. Ms. Valentino stated yes. Ms. Valentino stated there is a three hundred million dollar cap, imposed by the General Assembly, for Bureau spending. Two hundred eighty million dollars is what the Bureau has budgeted. Mr. Price inquired as to whether materials for next month will include comparative data. Ms. Valentino stated yes, for estimated spending levels in 2008.

Mr. Fulton inquired as to whether the Bureau pays for the Attorney General workers' compensation section. Is it pay as you go? Ms. Valentino stated there is a memorandum of understanding, of outlining expected costs on a quarterly basis. Funding requests from the AG are reviewed quarterly and the requests are based on prior quarter actual activity. James Barnes, Chief Legal Officer, stated that expenditures for outside lawyers are monitored closely, and the budget for this has decreased, with more legal work being performed internally. Mr. Price inquired whether the budget is submitted in line item form? Ms. Valentino answered yes. Ms. Falls requested a department breakdown to further understand strategic allocation of resources and more discussion of the fifty "strategic hires." Mr. Harris inquired as to what subcommittee in the Ohio legislature considers the Bureau budget. It is the Insurance Commerce subcommittee. Mr. Lhota inquired whether or not the budget goes to the General Assembly once every two years. Ms. Valentino stated yes, every other year it is submitted to the General Assembly. The yearly budget is subject to an internal process. Mr. Lhota inquired whether or not the budget includes costs for the Inspector General. Ms. Valentino answered that the Bureau's budget does not include funding for the Inspector General. Mr. Smith inquired whether or not the Board approves the budget. Ms. Valentino said yes. Ms. Ryan discussed bonds issued for financing of the William Green building. The last bonds were issued in 2003. The amount funded is one hundred forty two million dollars. By 2014, the Bureau will have paid the bonds, and the building will be owned by the Bureau. The Bureau will be able to lease the office space. Mr. Matesich inquired as to the current percentage of space utilization in the building. Ms. Ryan indicated that perhaps six floors total are currently available. Mr. Bryan inquired as to tax implications with regard to the bonds. Mr. Bryan raised the issue as to whether or not it would be worthwhile to rent space. Ms. Ryan indicated that all options are being considered.

Mr. Fulton raised the issue of utilization of service offices. Ms. Ryan stated this is being evaluated as well. Mr. Price inquired as to who controls the William Green building. Ms. Ryan indicated that the Department of Administrative Services is the central point for real estate, but the important question is what rent will other agencies pay for office space in the building. Mr. Lhota indicated that he and Board Liaison Don Berno are working on the Board budget. The budget is just over one million dollars. Eighty one percent represents payroll, sixteen percent represents liability insurance, and the remainder represents miscellaneous expenses such as travel.

According to Ms. Valentino, the biennial budget submission is September 2008, therefore the Board needs to approve it in August 2008. The biennial budget process is different than the internal process for the annual budget. The budget is broken down for each year, with support for strategic goals. Requests are include justification based on criteria outlined by the Office of Budget and Management and the General Assembly. The biennial budget shall be for fiscal years 2010 and

2011. It is a high level submission with narrative. It is program level, as opposed to line item. The Office of Budget and Management establishes requirements for submission. The Board must approve at the August 29, 2008 meeting, for submission to the Office of Budget and Management September 15, 2008. Mr. Lhota inquired whether there will be a workshop for the budget. Ms. Ryan stated yes, the goals are to correlate with the biennial budget. The Deloitte-Touche study may impact the budget.

RECESS:

Upon motion by Mr. Matesich, seconded by Mr. Smith, roll call was taken and the meeting was recessed at 11:15 am. Roll call was unanimous in recessing the meeting.

BWC Board of Directors
Friday, May 30, 2008, 8:00 AM
William Green Building
Neil Schultz Conference Center
Level 2 Room 3
30 W. Spring St., 2nd Floor (Mezzanine)
Columbus, OH 43215

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

Members Absent: None

Others Present: John Williams, Assistant Attorney General

Call to order

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

Roll call

Roll call was taken and all members were present.

Minutes of April 25, 2008 meeting

Upon motion of Mr. Harris, seconded by Mr. Bryan, the minutes of April 25, 2008 were approved unanimously.

Agenda

The agenda was reviewed by Mr. Lhota. There will be no business conducted after the executive session. The Board calendar was reviewed.

Committee reports

Actuarial Committee:

Mr. Bryan reported on committee matters. Mr. Bryan discussed the educational session of the committee, held by Ms. Valentino. There was discussion of different types of premium rates.

Motion was made by Mr. Bryan, seconded by Mr. Matesich, as follows: that the Bureau of Workers' Compensation Board of Directors consents to the Administrator's recommendation relating to the administrative cost contribution rule, beginning July 1, 2008, to adjust the administrative cost contributions from the various classes of employers for the operation of the Bureau, the Board of Directors, and the Industrial Commission. This motion consents to the Administrator amending rule 4123-17-36 of the Administrative Code as presented at the Actuarial Committee. Roll call was taken and the motion passed unanimously.

The rates are estimated by Bureau staff, and they don't consider efficiency.

Motion was made by Mr. Bryan, seconded by Mr. Hummel, as follows: that the Bureau of Workers' Compensation Board of Directors consents to the Administrator's recommendation relating to the private employer rate rules, beginning July 1, 2008. These rate rules achieve an overall five percent decrease in the total collectible premium rate from the previous year as approved earlier this year by the Board of Directors. This motion consent to the Administrator amending rules 4123-17-05 and 4123-17-06 of the Administrative Code as presented at the Actuarial Committee. Roll call was taken, and the motion passed unanimously.

Motion was made by Mr. Bryan, seconded by Mr. Fulton, as follows: that the Bureau of Workers' Compensation Board of Directors consents to the Administrator's recommendation relating to the self-insuring employer assessment rule, beginning July 1, 2008, to adjust the assessments for self-insuring employers. This motion consents to the Administrator amending Rule 4123-17-32 of the Administrative Code, "self-insuring employer assessment based upon paid compensation," as presented at the Actuarial Committee. Roll call was taken, and the motion passed unanimously.

Motion was made by Mr. Bryan, seconded by Mr. Hummel, as follows: that the Bureau of Workers' Compensation Board of Directors approve an amendment to their Committee Charter. This amendment outlines the process for the Committee to create a subcommittee. Roll call was taken, and the motion passed unanimously.

According to Mr. Bryan, Oliver Wyman is also working on a group rating plan. The Ohio Hospital decision presents the issues as to whether or not the Bureau will mutualize or charge back (to each employer), the seventy million dollar cost. The decision shall be the Administrator's decision. The MIRA II implementation process is proceeding as planned. The Bureau staff is doing an excellent job. Evaluation of implementation may begin around July 1, 2008.

Audit Committee:

Kenneth Haffey discussed Audit Committee matters. At the committee meeting, there was a rule discussion by Tom Sico, Assistant General Counsel. There was discussion of transferring funds from the pneumoconiosis fund to the mine safety fund if Senate Bill 323 is signed by Governor Strickland and enacted into law.

Motion was made by Mr. Haffey, seconded by Mr. Fulton, as follows: that the Bureau of Workers' Compensation Board of Directors consents to the Administrator's Recommendation relating to rule 4123-21-03.1, rule to transfer funds from the pneumoconiosis fund to the mine safety fund. This motion consents to the Administrator filing rule 4123-21-03.1 of the Administrative Code as an emergency rule based upon provisions of Senate Bill 323, as presented at the Audit Committee, but only if the Governor signs Senate Bill 323 into law. Upon the Governor's approval of Senate Bill 323, the motion consents to the Administrator requesting that the Governor declare an emergency for the adoption of the rule, and consents to the Administrator also filing the rule under the normal chapter 119 rule making procedure. Roll call was taken, and the motion passed unanimously.

Motion was made by Mr. Haffey, seconded by Mr. Fulton, as follows: that the Bureau Board of Directors approve an amendment to their Committee Charter. This amendment outlines the process for the Committee to create a subcommittee. Roll call was taken, and the motion passed unanimously.

Joe Bell, Chief of Internal Audit, discussed fiscal year 2008, as well as third quarter executive updates on audit discussions. There was resolution of outstanding comments. House Bill 166 was reported on by Mr. Bell. Brian Walton, Director of Labor Relations, discussed Inspector General reports. An update of the external audit was also made. There was a litigation update by Mr. Barnes, in executive session.

Investment Committee:

Motion was made by Mr. Smith, seconded by Mr. Price, as follows: that the Bureau Board of Directors approve an amendment to their Committee Charter. This amendment outlines the process for the Committee to create a subcommittee. Roll call was taken and the motion passed unanimously.

Motion was made by Mr. Smith, seconded by Ms. Falls, as follows: that the Workers' Compensation Board of Directors adopt and approve the recommendation of the Investment Committee that the request for proposals ("RFP's") for commingled passive indexed investment managers, previously approved by the Board in December 2007, be amended to exclude the long duration fixed income asset class mandate at this time, for the reasons set forth in the memorandum of the Bureau's Chief Investment Officer dated May 16, 2008. The amended RFP process would therefore be for the U.S. TIPS, and Large Cap U.S. Equity asset class mandates for the State Insurance Fund, the Disabled Workers' Relief Fund and the Coal Workers' Fund. Roll call was taken and the motion passed unanimously.

There was an educational session presented by Mercer Consulting. There was discussion on fixed income securities lending. There was discussion on whether derivatives exposure to securities lending cash collateral management was appropriate at this time for the Bureau. Bruce Dunn, Chief Investment Officer shall present a report in June of 2008.

Governance Committee:

Ms. Falls discussed prospective Board self-evaluation process. This is a voluntary action, representing an industry best practice. It further emphasized the importance of risk management, and fosters healthy discussion of strategic issues. It shall enhance performance, and the processing of information on strategic issues. Action steps shall be derived from a survey, to be completed by Board Directors. The survey is included in a handout, incorporated by reference into the minutes.

The survey shall be finalized next month. Ms. Falls complimented Ms. Ryan on her excellent performance. She is demonstrating leadership by example.

Motion was made by Ms. Falls and seconded by Mr. Smith as follows: that the Bureau Board of Directors develops an annual self assessment process and survey. Roll call was taken and the motion passed unanimously.

Motion was made by Ms. Falls and seconded by Mr. Haffey as follows: that the Bureau Board of Directors approve an increase in the size of the Audit Committee from three to five members. Roll call was taken and the motion passed unanimously.

Discussion was made of the schedule for mandatory reports for the Board. The schedule was reviewed to ensure compliance. Reports are to go through the committee process, and then to the Board for approval.

Monthly financial report

Tracy Valentino, Chief of Fiscal and Planning, presented to the Board. A handout was included, and is incorporated by reference, into the minutes. Mr. Price commended Ms. Falls for leading the Administrator's review process. In addition, he thanked Bureau staff and the Administrator for the support and assistance that have been provided to him. Mr. Price then left the meeting at 8:35 AM. Ms. Valentino noted that Oliver Wyman has completed the quarterly reserve analysis. Ms. Valentino noted that the Bureau has experienced an increase in net assets. The funding of the administrative cost fund is a pay as you go basis of funding. With respect to the Ohio Hospital case, the approximately seventy million dollars amount is recognized as a contingent liability. Sixteen million dollars has been paid to date, with fifty seven million dollars remaining to be paid. The timeframe for repayment is contingent upon hospitals signing the release and waiver. The hospitals are individual members of the Ohio Hospital Association. One half of the hospitals have signed a release. This should be resolved by the end of the year.

Administrator briefing

There will be three vacancies on the Board as of June 12, 2008. The Nominating Committee will provide the Governor with a list of candidates for these positions after it meets in July 2008. RC 4121.12(B) provides for current Board members to continue to serve on the Board until a successor is appointed, for a period of sixty days.

Ms. Ryan has been visiting with newspaper editorial boards to discuss improvement in Bureau processes. The visits have been well received. The June 2008 public forum on medical issues is in the planning stages. There will be a press release June 2, 2008. Mr. Harris emphasized the importance of public notice for the forum. In order to testify, participants must sign up ahead of time. Robert Coury, Chief, Medical Services and Compliance, provided discussion on the Bureau's follow up on issues from the previous public forum. Most issues involved the removal of barriers to the system. The questions were categorized by Mr. Coury and medical services. Medical services tabulated and correlated these to strategic objectives of the Bureau. Speakers from the forum were responded to, and invited to respond and participate in work groups.

Some Board members are having difficulty opening attachments to e-mails. Mr. Berno will look into this issue.

Ms. Ryan continued discussion of the restoration of operational excellence. Keary McCarthy, Chief of Communications, has been coordinating activities with regard to the restoration of operational excellence. The Bureau's activities are consistent with the Governor's directives to restore excellence. Keary McCarthy presented to the Board, in conjunction with the information presented through the Bureau website. A handout was additionally included in the presentation, and is incorporated into the minutes by reference. The presentation discussed changes made over the past year. Goals achieved include issues such as stable costs, better services, accurate rates, and safe workplaces.

Upon motion by Mr. Caldwell, seconded by Mr. Matesich, the Board entered into executive session to discuss pending litigation, at 9:10 am. Roll call was taken and the motion passed 10-0. Mr. Price was not present.

Upon motion by Mr. Harris, seconded by Mr. Bryan, the meeting was reconvened at 9:34 am. Roll call was taken and the motion passed 10-0. Mr. Price was not present.

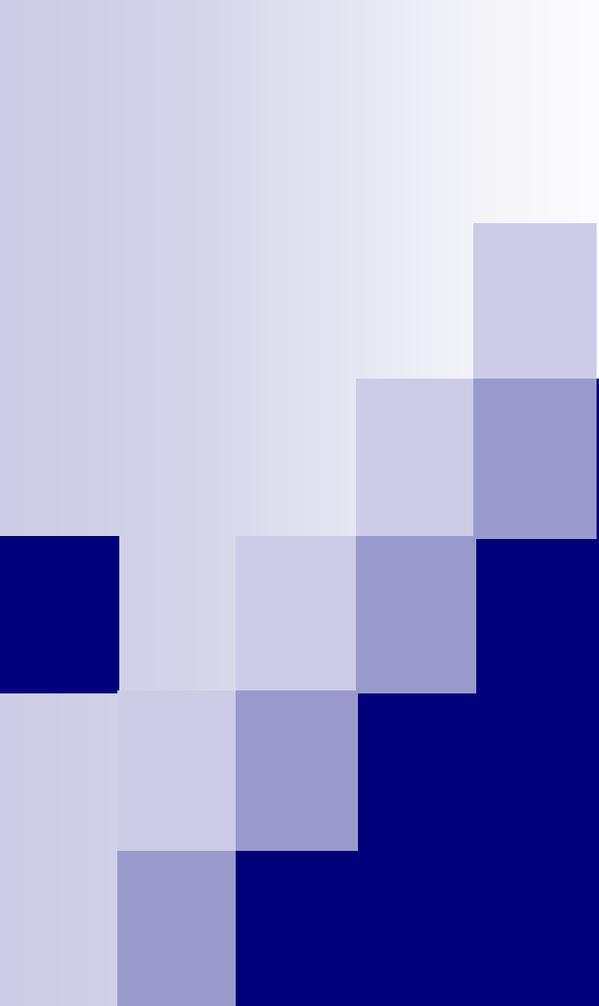
Deep dive

As a fact finding endeavor, the Board toured the Bureau customer contact center in the William Green building, at 9:50 am. The customer contact center is a restricted site.

Adjournment

Upon motion by Ms. Falls, seconded by Mr. Haffey, the meeting was adjourned at 11:07 am.

Minutes taken by Tom Woodruff, Bureau Staff Counsel



BWC Financial Report

May 2008 Results

Presented by: Tracy Valentino
Chief Fiscal and Planning Officer
June 27, 2008

BWC Financial Report

May 2008 Results

- Significant Events in May

- Decrease in Net Assets

- Operating Loss
 - Net Investment Loss

Operations Overview

Fiscal Year to Date – May 31, 2008

\$ in millions

	Actual	Plan	Prior Month
■ Operating Revenues	\$2,010	\$2,355	\$1,836
■ Operating Expenses	\$2,842	\$3,313	\$2,556
■ Net Operating Loss	\$(832)	\$(958)	\$(720)
■ Net Investment Income	\$888	\$540	\$1,049
■ Net Assets End of Period	\$2,362	\$1,888	\$2,635
■ Combined Ratio	136.9%	137.5%	136.1%
■ Operating Ratio	99.4%	106.9%	99.7%

Operations Overview

as of May 31, 2008

\$ in millions

Net Assets by Fund

	Actual	Plan	Prior Month
■ SIF	\$2,074	\$1,712	\$2,319
■ DWRF	\$850	\$793	\$865
■ Coal Workers'	\$183	\$172	\$185
■ PWRE	\$19	\$18	\$19
■ Marine	\$14	\$14	\$14
■ SIEGF	\$8	\$7	\$8
■ Administrative Cost	\$(786)	\$(828)	\$(775)
■ Total	\$2,362	\$1,888	\$2,635

Operations Overview

Fiscal Year to Date – May 31, 2008

\$ in millions

Cash Flows

	Actual	Plan	Prior Month
■ Premium Receipts	\$2,513	\$2,550	\$2,272
■ Other Receipts	\$30	\$18	\$28
■ Claims Disbursements	\$(2,050)	\$(2,064)	\$(1,836)
■ Other Disbursements	\$(432)	\$(372)	\$(400)
■ Net Capital Cash Flows	\$(24)	\$(20)	\$(22)
■ Investment Cash Flows	\$7	\$(65)	\$4
■ Cash Redemptions from IMs	\$164		\$155
■ Net Change in Cash	\$208	\$47	\$201
■ Cash and Cash Equivalents End of Period	\$536	\$375	\$529

BWC Financial Report

as of May 31, 2008

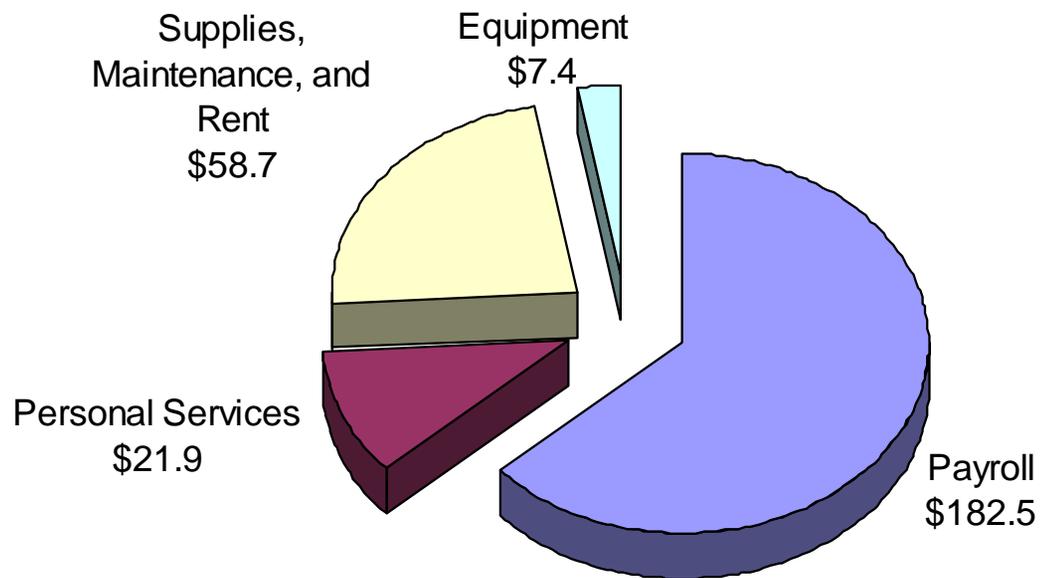
Performance Metrics

Measure	FY Actual	FY Plan	PFY Actual	Target
Net Loss Ratio: (Losses+ LAE/Earned Premium)	132.72%	133.81%	108.19%	120%
Expense Ratio: (Non-LAE Expenses / Earned Premium)	4.17%	3.64%	3.95%	5%
Combined Ratio: (Losses & LAE & Exp / Earned Premium)	136.89%	137.45%	112.14%	125%
Operating Ratio	99.43%	106.88%	79.51%	100%
Total Return on Invested Assets	5.00%	N/A	6.10%	TBD
Loss and LAE Reserves to NA	8.4 to 1	11 to 1	33 to 1	7 to 1
Operating Cash Flow	134.04%	135.67%	120.50%	118%
Investment to Loss Reserves	88.87%	85.64%	88.77%	110%

BWC Financial Report

Fiscal Year to Date - May 31, 2008

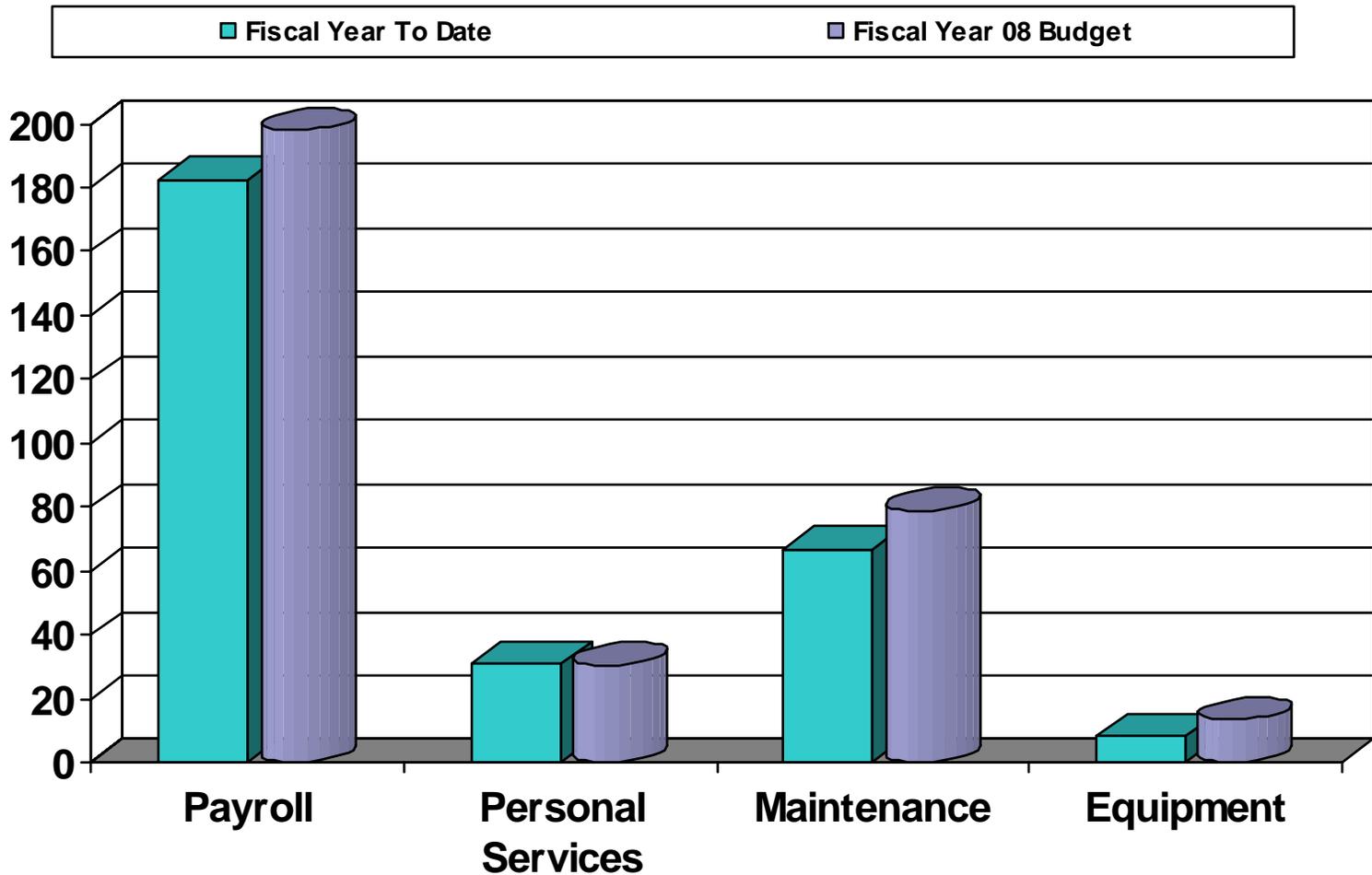
Actual Expenditures
(\$ in millions)



Total Fiscal Year to Date Expenditures - \$270.5

Fiscal Year To Date Expenses & Encumbrances Compared Fiscal Year 2008 Budget

May 31, 2008
(\$ in millions)



Financial Report

June '08

Financial Report

June '08

This section presents management's discussion and analysis of the Ohio Bureau of Workers' Compensation's (BWC's) financial performance for fiscal year to date ended May 31, 2008.

Fiscal Year-to-Year Comparisons

- BWC's total assets at May 31, 2008 were \$22.9 billion, an increase of \$2.1 billion or 10.3 percent compared to May 31, 2007.
- BWC's total liabilities at May 31, 2008 were \$20.5 billion, an increase of \$367 million or 1.8 percent compared to May 31, 2007.
- BWC's operating revenues for fiscal year to date May 31, 2008 were \$2.0 billion, a decrease of \$189 million or 8.6 percent compared to fiscal year to date May 31, 2007.
- BWC's operating expenses for fiscal year to date May 31, 2008 were \$2.8 billion, an increase of \$306 million or 12.1 percent from fiscal year to date May 31, 2007.
- BWC's net investment income for fiscal year to date May 31, 2008 totaled \$888 million, comprised of \$789 million of interest and dividend income and \$111 million in higher portfolio fair market value reduced by \$12 million of investment expenses.
- BWC's total net assets have increased by \$1.8 billion since May 31, 2007.

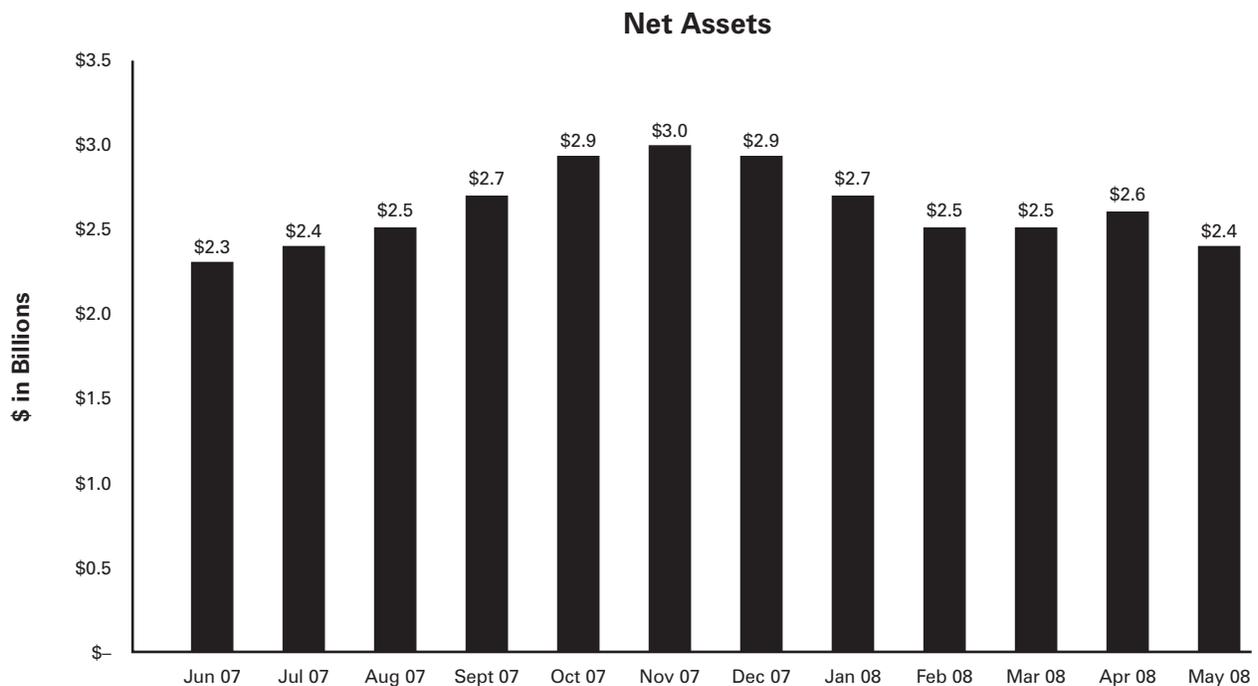
May Financial Analysis

BWC's net assets decreased by \$273 million in May 2008 resulting in net assets of \$2.362 billion at May 31, 2008 compared to \$2.635 billion at April 30, 2008.

	Fiscal YTD April 30, 2008	Month Ended May 31, 2008	Fiscal YTD May 31, 2008
Operating Revenues	\$ 1,836	\$ 174	\$ 2,010
Operating Expenses	2,556	286	2,842
Net Operating Loss	(720)	(112)	(832)
Net Investment Income (Loss)	1,049	(161)	888
Increase (Decrease) in Net Assets	329	(273)	56
Net Assets End of Period	\$ 2,635	\$ 2,362	\$ 2,362

- Premium and assessment income is continuing to trend 14 percent less than projected and 8 percent lower than the prior fiscal year primarily due to lower than expected losses for state agency and self-insured employer groups.
- Favorable payment trends and a lowering of the reserves for compensation and compensation adjustment expenses, based on the latest projections prepared by BWC's actuarial consultants have resulted in operating expenses, being 14 percent less than projected.
- Operating expenses are 12 percent higher than the prior fiscal year. The decrease in the discount rate at the end of fiscal year 2007 from 5.25% to 5.0% is a major factor in the \$309 million increase in benefit and compensation adjustment expenses compared to the prior fiscal year. As the discount rate decreases, reserves increase, and expenses increase.
- Claim payments issued in May were \$205 million. Included in May claim payments are \$12 million in payments resulting from the Ohio Hospital Association (OHA) lawsuit disputing fee schedules that were not adopted through the Ohio Revised Code Chapter 119 rules process. A total of \$28 million has been paid in settlement of this lawsuit with an estimated \$45 million remaining to be paid.
- Fiscal year-to-date 2008 claim payments have increased by \$100 million. Increased claim settlements and payments resulting from the OHA lawsuit are major factors in the increased payments. Settlement activities should generate long-term savings by lessening future claim payments.

- The \$255 million reduction in portfolio fair market value during May exceeded interest and dividend income of \$95 million for the month, resulting in a net investment loss of \$161 million for the month after investment expenses.
- Net investment income of \$888 million for fiscal year-to-date 2008 has off-set operating losses, leading to the growth in net assets.
- Payments by private employers of the second 50/50 payment plan installment along with premium payments by public taxing district employers contributed to \$241 million in premium collections during May. Premium collections in May were \$48 million higher than projected reducing the fiscal year-to-date variance from plan to 1.5%.
- Cash provided by operating activities continues to trend higher than the prior fiscal year-to-date. Premium collections have increased as a result of the 3.9% private employer premium rate increase that first impacted collection patterns in January 2007. Disbursements in fiscal year 2007 include \$45 million in payments made in settlement of the Santos subrogation case.



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

- Cash disbursements will continue to increase as payments are made to settle the remaining \$45 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.
- At this time, BWC’s actuarial consultants do not expect significant changes to the June 30, 2008 projected reserves for compensation and compensation adjustment expenses.

Statement of Operations

➤➤ Fiscal year to date May 31, 2008

<i>(in millions)</i>	Actual	Projected	Variance	Prior Yr. Actual	Increase (Decrease)
Total operating revenues	\$ 2,010	\$ 2,355	\$ (345)	\$ 2,199	\$ (189)
Total operating expenses	<u>2,842</u>	<u>3,313</u>	<u>471</u>	<u>2,536</u>	<u>306</u>
Net operating gain (loss)	(832)	(958)	126	(337)	(495)
Net investment income	<u>888</u>	<u>540</u>	<u>348</u>	<u>1,051</u>	<u>(163)</u>
Increase (decrease) in net assets	56	(418)	474	714	(658)
Net assets beginning of period	<u>2,306</u>	<u>2,306</u>	<u>—</u>	<u>(127)</u>	<u>2,433</u>
Net assets end of period	\$ 2,362	\$ 1,888	\$ 474	\$ 587	\$ 1,775

Statement of Operations

➤➤ Fiscal year to date May 31, 2008

<i>(in millions)</i>	Actual	Projected	Variance	Prior Yr. Actual	Increase (Decrease)
Operating revenues					
Premium & assessment income	\$ 2,076	\$ 2,410	\$ (334)	\$ 2,262	\$ (186)
Provision for uncollectibles	(82)	(69)	(13)	(81)	(1)
Other income	<u>16</u>	<u>14</u>	<u>2</u>	<u>18</u>	<u>(2)</u>
Total operating revenues	2,010	2,355	(345)	2,199	(189)
Operating expenses					
Benefits & compensation adj. expense	2,756	3,225	469	2,447	309
Other expenses	<u>86</u>	<u>88</u>	<u>2</u>	<u>89</u>	<u>(3)</u>
Total operating expenses	<u>2,842</u>	<u>3,313</u>	<u>471</u>	<u>2,536</u>	<u>306</u>
Net operating gain (loss)	(832)	(958)	126	(337)	(495)
Investment income					
Interest and dividend income	789	749	40	746	43
Realized & unrealized capital gains (losses)	111	(196)	307	313	(202)
Investment manager and operational fees	(12)	(13)	1	(8)	4
Gain (loss) on disposal of fixed assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net investment income	<u>888</u>	<u>540</u>	<u>348</u>	<u>1,051</u>	<u>(163)</u>
Increase (decrease) in net assets	56	(418)	474	714	(658)
Net assets beginning of period	<u>2,306</u>	<u>2,306</u>	<u>—</u>	<u>(127)</u>	<u>2,433</u>
Net assets end of period	\$ 2,362	\$ 1,888	\$ 474	\$ 587	\$ 1,775

Statement of Operations - Combining Schedule

➤➤ Fiscal year to date May 31, 2008

<i>(in thousands)</i>	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	\$ 1,606,377	\$ 134,693	\$ 1,250	\$ 99	\$ 721	\$ 864	\$ 332,206	\$ 2,076,210
Provision for uncollectibles	(70,976)	(3,090)	–	–	(8)	(68)	(8,285)	(82,427)
Other income	10,874	–	–	–	–	–	5,428	16,302
Total operating revenues	<u>1,546,275</u>	<u>131,603</u>	<u>1,250</u>	<u>99</u>	<u>713</u>	<u>796</u>	<u>329,349</u>	<u>2,010,085</u>
Operating expenses								
Benefits & compensation adj. expense	2,354,012	129,547	1,015	503	550	490	269,359	2,755,476
Other expenses	17,830	437	94	2	74	3	68,225	86,665
Total operating expenses	<u>2,371,842</u>	<u>129,984</u>	<u>1,109</u>	<u>505</u>	<u>624</u>	<u>493</u>	<u>337,584</u>	<u>2,842,141</u>
Net operating income (loss) before operating transfers out	<u>(825,567)</u>	<u>1,619</u>	<u>141</u>	<u>(406)</u>	<u>89</u>	<u>303</u>	<u>(8,235)</u>	<u>(832,056)</u>
Operating transfers out	<u>(3,179)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>3,179</u>	<u>–</u>
Net operating income (loss)	<u>(828,746)</u>	<u>1,619</u>	<u>141</u>	<u>(406)</u>	<u>89</u>	<u>303</u>	<u>(5,056)</u>	<u>(832,056)</u>
Investment income								
Investment income	720,741	51,118	10,858	771	566	1,958	3,363	789,375
Bonds - realized & unrealized gains (losses)	366,191	9,547	2,596	50	36	–	–	378,420
Equities - realized & unrealized gains (losses)	(252,761)	(12,230)	(2,739)	–	–	–	–	(267,730)
Total realized & unrealized capital gains (losses)	113,430	(2,683)	(143)	50	36	–	–	110,690
Investment manager and operational fees	(11,488)	(144)	(64)	–	–	–	–	(11,696)
Gain (loss) on disposal of fixed assets	–	–	–	–	–	–	(57)	(57)
Total non-operating revenues, net	<u>822,683</u>	<u>48,291</u>	<u>10,651</u>	<u>821</u>	<u>602</u>	<u>1,958</u>	<u>3,306</u>	<u>888,312</u>
Increase (decrease) in net assets (deficit)	<u>(6,063)</u>	<u>49,910</u>	<u>10,792</u>	<u>415</u>	<u>691</u>	<u>2,261</u>	<u>(1,750)</u>	<u>56,256</u>
Net assets (deficit) beginning of period	2,080,045	800,185	171,741	18,295	13,802	6,208	(784,730)	2,305,546
Net assets (deficit) end of period	\$ 2,073,982	\$ 850,095	\$ 182,533	\$ 18,710	\$ 14,493	\$ 8,469	\$ (786,480)	\$ 2,361,802

Statement of Investment Income

➤➤ Fiscal year to date May 31, 2008

	Actual	Projected	Variance	Prior Yr. Actual	Increase (Decrease)
Investment income					
Bond interest	\$ 707,002,659	\$ 681,100,000	\$ 25,902,659	\$ 673,311,321	\$ 33,691,338
Dividend income (dom & int'l)	57,310,100	52,800,000	4,510,100	21,935,471	35,374,629
Money market/ commercial paper income	16,674,141	11,440,000	5,234,141	22,682,050	(6,007,909)
Misc. income (corp actions, etc.)	3,992,237	3,300,000	692,237	11,050,263	(7,058,026)
Private equity	4,395,468	700,000	3,695,468	13,789,849	(9,394,381)
Securities lending income, net of fees	—	—	—	3,730,215	(3,730,215)
Total investment income	<u>789,374,605</u>	<u>749,340,000</u>	<u>40,034,605</u>	<u>746,499,169</u>	<u>42,875,436</u>
Realized & unrealized capital gains and (losses)					
Bonds - Net realized gains (losses)	(81,969,837)	—	(81,969,837)	(8,737,923)	(73,231,914)
Bonds - Net unrealized gains	<u>460,388,984</u>	<u>(393,500,000)</u>	<u>853,888,984</u>	<u>116,257,725</u>	<u>344,131,259</u>
Subtotal - bonds	<u>378,419,147</u>	<u>(393,500,000)</u>	<u>771,919,147</u>	<u>107,519,802</u>	<u>270,899,345</u>
Stocks - Net realized gains (losses)	41,855,254	—	41,855,254	(118,506)	41,973,760
Stocks - Net Unrealized gains (losses)	<u>(258,053,213)</u>	<u>196,680,000</u>	<u>(454,733,213)</u>	<u>169,293,617</u>	<u>(427,346,830)</u>
Subtotal - stocks	<u>(216,197,959)</u>	<u>196,680,000</u>	<u>(412,877,959)</u>	<u>169,175,111</u>	<u>(385,373,070)</u>
Net gain (loss) - PE	<u>(51,530,968)</u>	—	<u>(51,530,968)</u>	<u>36,847,575</u>	<u>(88,378,543)</u>
Change in portfolio value	<u>110,690,220</u>	<u>(196,820,000)</u>	<u>307,510,220</u>	<u>313,542,488</u>	<u>(202,852,268)</u>
Investment manager & operational fees	<u>(11,696,847)</u>	<u>(12,503,000)</u>	<u>806,153</u>	<u>(8,470,436)</u>	<u>3,226,411</u>
Net investment income	<u>\$ 888,367,978</u>	<u>\$ 540,017,000</u>	<u>\$ 348,350,978</u>	<u>\$1,051,571,221</u>	<u>\$(163,203,243)</u>

Statement of Net Assets

➤➤ As of May 31, 2008

<i>(in millions)</i>	Actual	Projected	Variance	Prior Yr. Actual	Increase (Decrease)
Assets					
Bonds	\$ 13,582	\$ 13,564	\$ 18	\$ 13,447	\$ 135
Stocks	3,457	3,391	66	2,689	768
Private equities	13	–	13	455	(442)
Cash & cash equivalents	<u>536</u>	<u>375</u>	<u>161</u>	<u>499</u>	<u>37</u>
Total cash and investments	17,588	17,330	258	17,090	498
Accrued premiums	4,376	4,551	(175)	3,056	1,320
Other accounts receivable	190	253	(63)	166	24
Investment receivables	587	183	404	279	308
Other assests	<u>115</u>	<u>112</u>	<u>3</u>	<u>123</u>	<u>(8)</u>
Total assets	\$ <u>22,856</u>	\$ <u>22,429</u>	\$ <u>427</u>	\$ <u>20,714</u>	\$ <u>2,142</u>
Liabilities					
Reserve for compensation and compensation adj. Expense	\$ 19,791	\$ 20,237	\$ 446	\$ 19,252	\$ 539
Accounts payable	53	65	12	51	2
Investment payable	385	–	(385)	192	193
Other liabilities	<u>265</u>	<u>239</u>	<u>(26)</u>	<u>632</u>	<u>(367)</u>
Total liabilities	<u>20,494</u>	<u>20,541</u>	<u>47</u>	<u>20,127</u>	<u>367</u>
Net assets	\$ 2,362	\$ 1,888	\$ 474	\$ 587	\$ 1,775

Statement of Net Assets - Combining Schedule

➤➤ As of May 31, 2008

<i>(in thousands)</i>	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	\$ 12,485,873	\$ 904,499	\$ 192,076	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,582,448
Stocks	3,188,192	219,160	50,025	-	-	-	-	-	3,457,377
Private equities	12,584	-	-	-	-	-	-	-	12,584
Cash & cash equivalents	419,825	13,649	2,147	22,510	16,700	57,642	3,359	-	535,832
Total cash and investments	\$ 16,106,474	\$ 1,137,308	\$ 244,248	\$ 22,510	\$ 16,700	\$ 57,642	\$ 3,359	\$ -	\$ 17,588,241
Accrued premiums	1,796,862	1,659,184	-	287	-	677,038	242,017	-	4,375,388
Other accounts receivable	162,977	19,318	1	(2)	-	1,118	6,754	-	190,166
Interfund receivables	18,537	65,898	5	-	17	914	107,906	(193,277)	-
Investment receivables	540,232	38,509	8,134	43	32	110	-	-	587,060
Other assets	26,147	21	-	-	-	-	89,778	-	115,946
Total assets	\$ 18,651,229	\$ 2,920,238	\$ 252,388	\$ 22,838	\$ 16,749	\$ 736,822	\$ 449,814	\$ (193,277)	\$ 22,856,801
Liabilities									
Reserve for comp and comp adj. Expense	\$ 15,868,048	\$ 2,023,753	\$ 62,268	\$ 4,115	\$ 2,043	\$ 724,761	\$ 1,106,216	\$ -	\$ 19,791,204
Accounts payable	46,451	-	-	-	-	-	104,017	-	150,468
Investment payable	348,346	30,061	6,762	-	-	-	-	-	385,169
Interfund payables	173,259	16,285	92	13	36	3,592	-	(193,277)	-
Other liabilities	141,143	44	733	-	177	-	26,061	-	168,158
Total liabilities	16,577,247	2,070,143	69,855	4,128	2,256	728,353	1,236,294	(193,277)	20,494,999
Net assets	\$ 2,073,982	\$ 850,095	\$ 182,533	\$ 18,710	\$ 14,493	\$ 8,469	\$ (786,480)	\$ -	\$ 2,361,802

Statement of Cash Flows

➤➤ Fiscal year to date May 31, 2008

<i>(in millions)</i>	Actual	Projected	Variance	Prior Yr. Actual	Increase (Decrease)
Cash flows from operating activities:					
Cash receipts from premiums	\$ 2,513	\$ 2,550	\$ (37)	\$ 2,342	\$ 171
Cash receipts – other	30	18	12	30	–
Cash disbursements for claims	(2,050)	(2,064)	14	(1,953)	(97)
Cash disbursements for other	<u>(432)</u>	<u>(372)</u>	<u>(60)</u>	<u>(494)</u>	<u>62</u>
Net cash provided (used) by operating activities	61	132	(71)	(75)	136
Net cash flows from capital and related financing activities	(24)	(20)	(4)	(25)	1
Net cash provided (used) by investing activities	<u>171</u>	<u>(65)</u>	<u>236</u>	<u>405</u>	<u>(234)</u>
Net increase (decrease) in cash and cash equivalents	208	47	161	305	(97)
Cash and cash equivalents, beginning of period	<u>328</u>	<u>328</u>	<u>–</u>	<u>194</u>	<u>134</u>
Cash and cash equivalents, end of period	\$ 536	\$ 375	\$ 161	\$ 499	\$ 37

Insurance Ratios

➤➤ May 31, 2008

	Actual FY08 May 31, 2008	Projected FY08 May 31, 2008	Actual FY07 May 31, 2007	Target
Loss ratio	111.01%	108.84%	84.97%	
LAE ratio - MCO	8.61%	11.29%	7.57%	
LAE ratio - BWC	<u>13.10%</u>	<u>13.68%</u>	<u>15.65%</u>	
Net loss ratio	132.72%	133.81%	108.19%	120.00%
Expense ratio	4.17%	3.64%	3.95%	5.00%
Policyholder dividend ratio	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	
Combined ratio	136.89%	137.45%	112.14%	125.00%
Net investment income ratio	<u>37.46%</u>	<u>30.57%</u>	<u>32.63%</u>	
Operating ratio (trade ratio)	99.43%	106.88%	79.51%	100.00%
Operating Cashflow Ratio	134.04%	135.67%	120.50%	118.00%
Total Reserves to Net Assets	8.4 to 1	11 to 1	33 to 1	7 to 1
Investments to Loss Reserves	88.87%	85.64%	88.77%	110.00%
Equities to Net Assets	1.5 to 1	1.8 to 1	4.6 to 1	
Bonds to Net Assets	5.8 to 1	7.2 to 1	22.9 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.

Fiscal Year End Insurance Ratios

➤➤ Fiscal years ended June 30, 2003 – 2008

	Projected June 30, 2008	Audited				
		FY 07	FY06	FY05	FY04	FY03
Loss ratio	111.0%	46.9%	74.3%	106.7%	96.7%	128.9%
LAE Ratio - MCO	8.5%	3.8%	8.6%	7.1%	9.1%	8.8%
LAE Ratio - BWC	13.1%	10.9%	6.4%	14.7%	8.3%	12.9%
Net loss ratio	132.6%	61.6%	89.3%	128.5%	114.2%	150.6%
Expense ratio	4.1%	2.3%	4.0%	4.0%	5.1%	4.1%
Policyholder dividend ratio	0.0%	0.0%	-0.4%	10.3%	18.6%	28.7%
Combined ratio	136.7%	63.9%	92.9%	142.8%	137.9%	183.4%
Net investment income ratio	37.1%	18.5%	30.4%	22.1%	20.5%	23.9%
Operating ratio (trade ratio)	99.6%	45.4%	62.5%	120.7%	117.3%	159.5%

Note 1: FY 07 ratios have been significantly impacted by a statutory change in accounting for the Disabled Workers' Relief Fund that increased premium and assessment income by \$1.9 billion.

Note 2: FY 06 ratios have been significantly impacted by improvements in medical payment trends that contributed to a reduction of approximately \$1 billion in loss expenses.

Operating Cashflow Ratio	126.9%	114.2%	121.8%	94.0%	96.1%	50.8%
Total Reserves to Net Assets	9 to 1	8 to 1	999 to 1	999 to 1	19 to 1	29 to 1
Investments to Loss Reserves	87.8%	86.9%	85.7%	86.8%	100.5%	101.1%
Equities to Net Assets	1.5 to 1	1.1 to 1	0	999 to 1	6.8 to 1	8.7 to 1
Bonds to Net Assets	5.9 to 1	5.8 to 1	999 to 1	999 to 1	9.2 to 1	15.7 to 1

Administrative Cost Fund Budget Summary

➤➤ As of May 31, 2008

Report Analysis

As of May 31, 2008, BWC Administrative Cost Fund expenses are approximately \$30 million (10%) less than budgeted and approximately \$5 million (1.6%) less than Fiscal Year 2007. The savings are a result of the change in leadership that occurred in the first half of the fiscal year. The appointment of a new administrator and a new Board of Directors led to a delay in the prioritization and implementation of strategic initiatives as BWC developed more defined strategic goals focusing on communications, cost reduction, customer service, revenue capture and internal controls and documentation.

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

Review of actual year-to-date expenses and projected spending for the remainder of the fiscal year revealed the following:

- Unexpected temporary services were necessary due to delays in filling vacancies. Temporary resource requests are evaluated on a case-by-case basis to ensure services are only used to fill critical operational areas or support specific projects.
- Annual encumbrances for fees associated with outside legal counsel are expected to exceed the amount budgeted for the remainder of the fiscal year. This is a direct result of the use of special counsel for several lawsuits that began during the current fiscal year.
- Total payroll for Fiscal Year 2008 is slightly overstated as a result of a timing difference associated with the actual processing of payroll. Payroll expenses originally planned for June were actually charged to the budget during the month of May. As a result, the payroll budget will be adjusted approximately \$10 million in June.

Evaluation of BWC's current spending patterns and planned spending for the remaining month of the fiscal year indicates BWC's administrative spending will be significantly below the FY08 appropriation. Continued implementation of strategic projects in Fiscal Year 2009 will enable the agency to properly leverage next year's available resources.

BWC Administrative Cost Fund— Budget Summary

➤➤ As of May 31, 2008

Expense Description	FTE's	Actual FY08	Budgeted FYTD08	FYTD08 Variance	FYTD08 Percentage Variance	FY08 Budget	FYTD07 Expenses	Increase (Decrease) in FY08	FYTD08 Percentage Incr. (Decr.)
Payroll									
BWC Board of Directors	13	737,445	736,461	(984)	-0.13%	803,537	0	737,445	100.00%
Workers' Compensation Council	0	0	0	0	0	25,066	0	0	0
BWC Administration	6	596,406	596,406	0	0.00%	644,367	287,162	309,244	107.69%
Customer Service	1,512	109,691,011	109,995,826	304,815	0.28%	118,826,890	109,809,662	(118,651)	-0.11%
Medical	131	10,088,208	10,089,726	1,518	0.02%	10,978,865	9,752,886	335,322	3.44%
Special Investigations	144	10,707,168	10,716,367	9,199	0.09%	11,582,127	9,980,386	726,782	7.28%
Fiscal and Planning	60	4,604,946	4,558,166	(46,780)	-1.03%	4,941,877	3,785,336	819,610	21.65%
Actuarial	18	1,499,442	1,509,986	10,544	0.70%	1,633,295	1,027,183	472,259	45.98%
Investments	10	962,153	964,168	2,015	0.21%	1,070,727	847,382	114,771	13.54%
Information Technology	308	27,916,993	27,877,854	(39,139)	-0.14%	30,278,938	25,980,253	1,936,740	7.45%
Legal	74	5,954,354	5,954,354	0	0.00%	6,447,582	5,659,933	294,421	5.20%
Communications	36	2,656,036	2,656,385	349	0.01%	2,892,896	2,903,327	(247,291)	-8.52%
Human Resources	69	5,027,096	5,029,921	2,825	0.06%	5,470,954	3,400,699	1,626,397	47.83%
Internal Audit	13	1,434,959	1,433,344	(1,615)	-0.11%	1,564,629	1,714,367	(279,408)	-16.30%
Ombuds Office	6	391,883	391,674	(209)	-0.05%	431,310	427,670	(35,787)	-8.37%
Early Retirement Expenses		258,880	258,880	0	0.00%	258,880	739,063	(480,183)	-64.97%
Total Payroll	2,400	182,526,980	182,769,518	242,538	0.13%	197,851,940	176,315,309	6,211,671	3.52%
Personal Services									
Information Technology		12,650,298	17,891,921	5,241,623	29.30%	18,663,331	14,763,026	(2,112,728)	-14.31%
Legal - Special Counsel		1,301,604	2,018,962	717,358	35.53%	2,202,500	1,228,050	73,554	5.99%
Legal - Attorney General		4,099,303	4,444,085	344,782	7.76%	4,444,085	4,023,267	76,036	1.89%
Other Personal Services		3,848,540	4,875,212	1,026,672	21.06%	5,177,627	4,785,594	(937,054)	-19.08%
Total Personal Services		21,899,745	29,230,180	7,330,435	25.08%	30,487,543	24,799,937	(2,900,192)	-11.69%
Maintenance									
William Green Rent		20,237,720	20,436,600	198,880	0.97%	20,436,600	19,873,510	364,210	1.83%
Other Rent and Leases		10,178,300	13,733,277	3,554,977	25.89%	13,995,170	12,248,753	(2,070,453)	-16.90%
Software and Equipment Maintenance and Repairs		13,358,402	16,955,932	3,597,530	21.22%	17,956,739	13,612,908	(254,506)	-1.87%
Inter Agency Payments		3,075,308	5,571,648	2,496,340	44.80%	5,956,680	4,489,645	(1,414,337)	-31.50%
Communications		3,322,150	6,629,167	3,307,017	49.89%	7,307,431	4,799,374	(1,477,224)	-30.78%
Safety Grants and Long Term Care Loan		3,686,177	6,000,000	2,313,823	38.56%	6,000,000	3,162,956	523,221	16.54%
Supplies and Printing		1,875,227	3,455,714	1,580,487	45.74%	3,743,300	2,786,598	(911,371)	-32.71%
Other Maintenance		2,931,131	3,174,103	242,972	7.65%	3,460,789	3,140,333	(209,202)	-6.66%
Total Maintenance		58,664,415	75,956,441	17,292,026	22.77%	78,856,709	64,114,077	(5,449,662)	-8.50%
Equipment		7,414,778	12,862,510	5,447,732	42.35%	13,276,580	9,653,142	(2,238,364)	-23.19%
Total Administrative Cost Fund Expenses		270,505,918	300,818,649	30,312,731	10.08%	320,472,772	274,882,465	(4,376,547)	-1.59%

Total Agency Appropriation 328,956,361
 Budget to Appropriation Variance 8,483,589
 Percentage Variance 2.58%

BWC State Insurance Fund

Administrative Expense Summary

➤➤ As of May 31, 2008

<i>(in millions)</i>	Actual FYTD 2008	Encumbrance Balance	FYTD Actual & Encumbrance	Encumbrance Closing Date	Actual FYTD 2007
Investment Administrative Expenses					
UBS Securities LLC	\$ 5,094,342	\$ 1,224,547	\$ 6,318,889	6/30/08	\$ 1,386,111
Wilshire Associates Inc.	480,368	0	480,368	2/24/08	638,942
JP Morgan Chase	220,930	36,109	257,039	6/30/08	201,865
Mercer Investment Consulting	72,341	600,659	673,000	6/30/09	0
Other Investment Expenses	<u>219,665</u>	<u>346,472</u>	<u>566,137</u>	6/30/08	<u>350,186</u>
	6,087,646	2,207,787	8,295,433		2,577,104
Actuarial Expenses					
Oliver Wyman	731,498	1,605,010	2,336,508	12/31/09	440,328
Deloitte Consulting LLP	580,255	1,550,095	2,130,350	12/31/08	0
AON Risk Consultants	263,599	0	263,599	6/30/07	0
Pinnacle Actuarial Resources	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>91,981</u>
	1,575,352	3,155,105	4,730,457		532,309
Ohio Rehabilitation Services	<u>605,407</u>	<u>605,407</u>	<u>1,210,814</u>	6/30/09	<u>1,193,181</u>
TOTAL	\$ 8,268,405	\$ 5,968,299	\$14,236,704		\$ 4,302,594

ADJUDICATING COMMITTEE

1



Ohio Bureau of Workers' Compensation

Governor, Ted Strickland
Administrator, Marsha P. Ryan



**ADJUDICATING COMMITTEE
STATUTORY AUTHORITY
R.C. 4123.291**

2

(A) An adjudicating committee appointed by the administrator of workers' compensation to hear any matter specified in divisions (B)(1) to (7) of this section shall hear the matter within sixty days of the date on which an employer files the request, protest, or petition. An employer desiring to file a request, protest, or petition regarding any matter specified in divisions (B)(1) to (7) of this section shall file the request, protest, or petition to the adjudicating committee on or before twenty-four months after the administrator sends notice of the determination about which the employer is filing the request, protest, or petition.

ADJUDICATING COMMITTEE STATUTORY AUTHORITY (cont...)

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(B) An employer who is adversely affected by a decision of an adjudicating committee appointed by the administrator may appeal the decision of the committee to the administrator or the administrator's designee. The employer shall file the appeal in writing within thirty days after the employer receives the decision of the adjudicating committee. The administrator or the designee shall hear the appeal and hold a hearing, provided that the decision of the adjudicating committee relates to one of the following:

(1) An employer request for a waiver of a default in the payment of premiums pursuant to section 4123.37 of the Revised Code;

ADJUDICATING COMMITTEE STATUTORY AUTHORITY (cont...)

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- (2) An employer request for the settlement of liability as a noncomplying employer under section 4123.75 of the Revised Code;**
- (3) An employer petition objecting to the assessment of a premium pursuant to section 4123.37 of the Revised Code and the rules adopted pursuant to that section;**
- (4) An employer request for the abatement of penalties assessed pursuant to section 4123.32 of the Revised Code and the rules adopted pursuant to that section;**

ADJUDICATING COMMITTEE STATUTORY AUTHORITY (cont...)

5

- (5) An employer protest relating to an audit finding or a determination of a manual classification, experience rating, or transfer or combination of risk experience;**
- (6) Any decision relating to any other risk premium matter under Chapters 4121., 4123., and 4131. of the Revised Code;**
- (7) An employer petition objecting to the amount of security required under division (C) of section 4125.05 of the Revised Code and the rules adopted pursuant to that section.**

BOARD RESPONSIBILITY

R.C. 4123.291

6

(C) The bureau of workers' compensation board of directors, based upon recommendations of the workers' compensation actuarial committee, shall establish the policy for all adjudicating committee procedures, including, but not limited to, specific criteria for manual premium rate adjustment.

Ohio BWC Kaizen Event



KAIZEN

8

改善- To change for the good of all.

WHY KAIZEN?

9

- **Governor's statewide initiative**
- **BWC identified process that could be improved through Kaizen event**
- **1st step in assisting Board to carrying out its statutory charge in establishing policy and procedure for the Adjudicating Committee .**

Scope

10

- **From the written receipt of an employer complaint into the adjudication unit to the final administrative action communicated to the employer with adjustments if necessary**

Out of Scope

11

- **Any statutory or rule change**
- **Policy changes outside of the team's control**
- **Any collective bargaining rules**
- **No money**
- **No people**
- **Common pleas/appeals**

Our Approach

12

Kaizen Breakthrough Experience

Team-based energy and creativity drives immediate process improvement



At the end of the week, each Kaizen team has achieved dramatic operational improvements

Key Principles

13



- **Clear objectives**
- **Team process**
- **Tight focus on time (one week)**
- **Quick and simple, action first**
- **Necessary resources available right away**
- **Immediate results (new process functioning by end of week)**

Time-Based Strategies

14

Lead-Time Reduction

Identify and eliminate waste

- Defects and loop-backs
- Hand-offs
- Over-producing
- Unnecessary processing
- Decisions in process
- Excess transportation
- Waiting



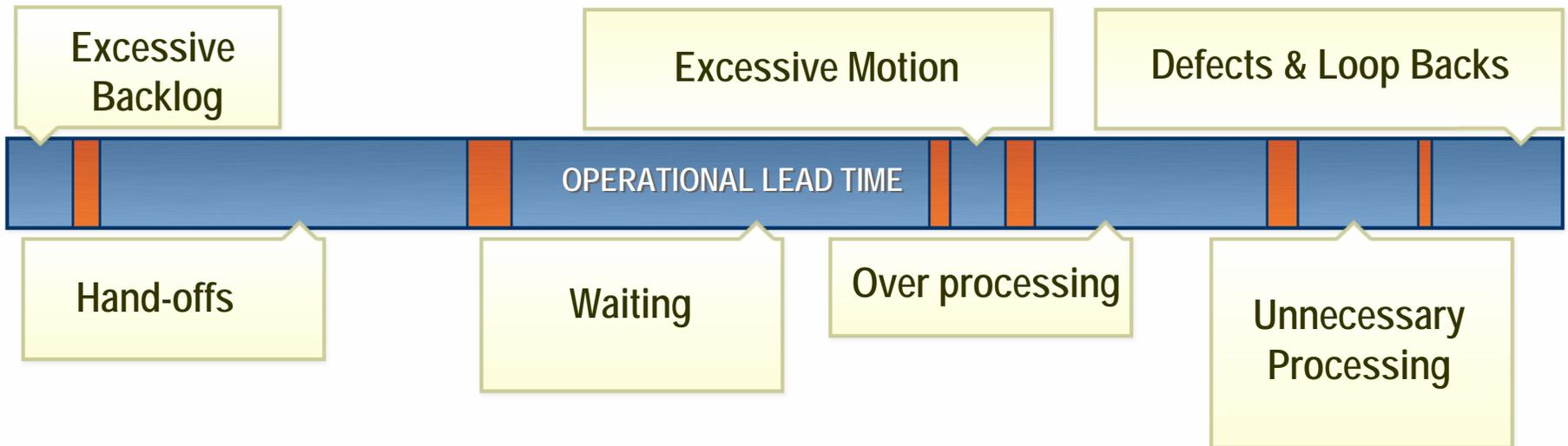
Time-Based Strategies

15

Lead-Time Reduction

The Key is to Reduce Your Processes to Core Value

■ Wasted Time and Activity
■ Core Process Value



The key is to reduce your processes to "core value"

Objectives

16

- **Reduce lead time by 60%**
 - Completed app → final decision
- **Reduce the number of protest from reaching formal hearings by 50%**
- **Create a consistent set of standardized decision rules**

Measure	Current Level	Target	Gap
Reduce Lead Time (# days) to Hearing by 60 %	136	60	76
Reduce # of cases going to formal hearing by 50%	880	440	440

Statutory Requirements

17

- The employer has the right to a hearing
- Receipt of written protest to hearing date = 60 days

Annual Workload (2007)

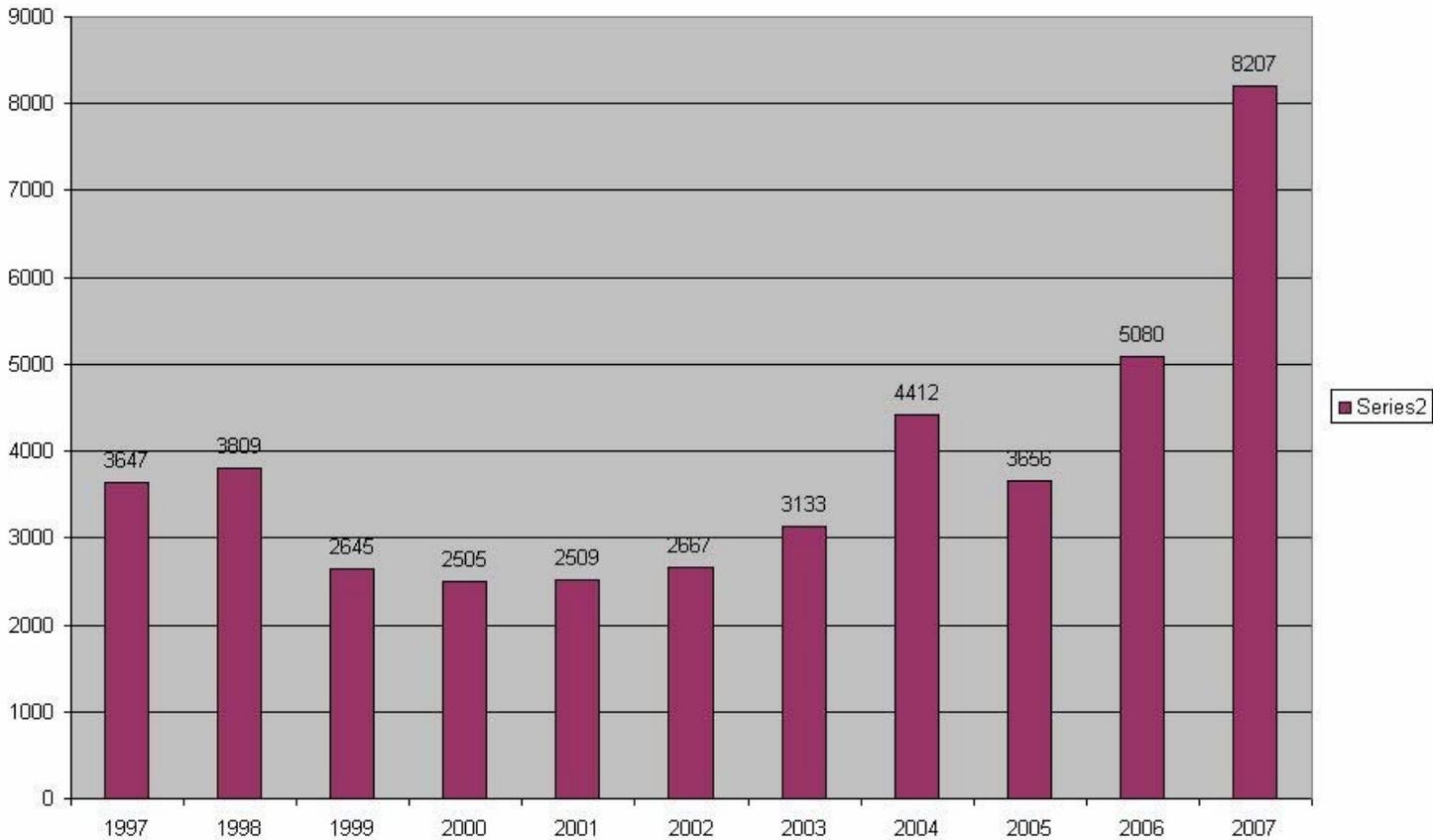
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- **8200 new applications per year**
- **880 hearings per year**
 - On average = 25 hearings per week

Historic Protests – Past 10 Years

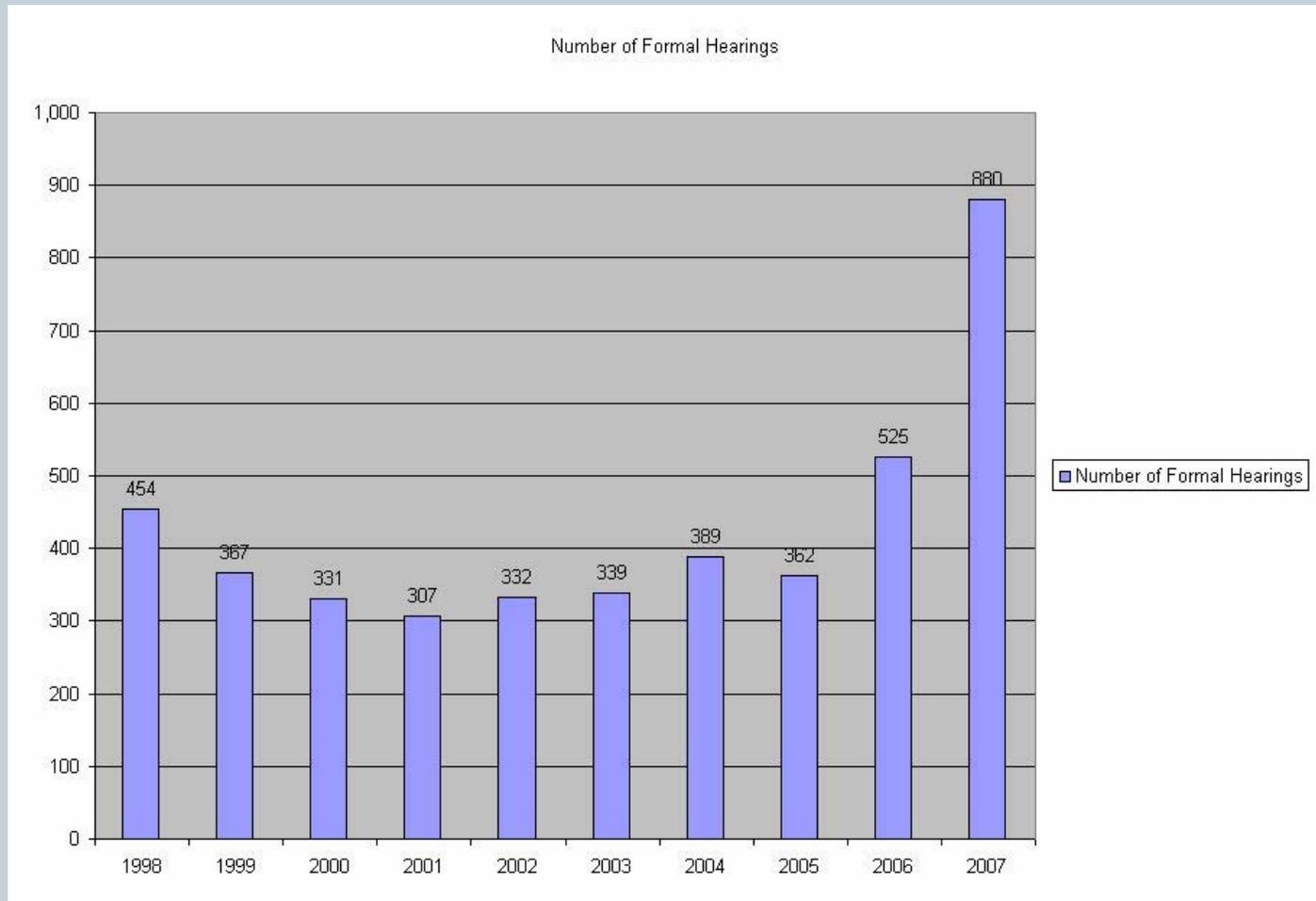
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Number of Protests Received



Historic Hearings – Past 10 Years

20



Voice of Third Party Administrators (TPA's)

21

- **Level one employees do not have the ability to make decisions.**
- **The Adjudicating Committee should not “rubber stamp” Level One employee decisions.**
- **Level One employees should have access to past Adjudicating Committee decisions to help make current decisions.**
- **Policies should conform to the Laws. Law Section should look at policies to see they comply with Laws or should be made into Laws.**
- **Should there be set criteria for appealing an Adjudicating Committee decision to the Administrator’s Designee**
- **Break down categories to specific protest type not just broad categories like “group rating”. Also, create a report which shows “wins and losses” regarding each specific protest type.**
- **Should there be more “paper” hearings and less formal hearings.**
- **Empower the “Group Rating Review Committee” and/or create similar Committees for other BWC Units to make informal decision.**

Current State Flow Map

22



Top 19 Issues

23

- **Retro Coverage & Penalty Abatement**
- **Penalty Abatement**
- **Retro Coverage**
- **Audit**
- **Group Ratings**

- **39.7%**
- **25.0%**
- **9.2%**
- **6.0%**
- **5.2%**

Top 5 issues represent....

85.1% Issues

- Elective coverage, Pre-relief – retro coverage
- Earlier Effective Date
- Exp combinations Mergers/Acquisitions
- Manual protest
- PEO
- PDP Protest
- Premium relief
- Rate & reserve
- Retro coverage date
- Retrospective rating
- One claim
- Safety council
- Drug free
- 50/50



Brainstormed Ideas for Improvement

24

- **Lack of decision making authority at entry point of A.C. process**
- **Lack of complete information required at the front end of the decision making process**
- **Too many issues that could be resolved early in the process end up in the appeals process**
- **Appeal is checked and re-checked multiple times prior to distribution to BWC BU's**
- **Why does appeal process have multiple hand-offs between the clerk and the management analyst supervisor**
- **Huge amount of handling & review conducted prior to BU review & decision**
 - **“Can we resolve outside formal hearing?”**
- **Why are there multiple updates to the database?**
- **Manual notification (via email) from BU to clerk to deliver statement of fact**
- **Information flow prior to go/no-go decision is not standardized**
- **Provide multiple opportunities for E.R. to modify A.C. process**
- **Multiple task performed by only one individual – lack of cross training and/or back-ups**
- **Hand-offs throughout process is done exclusively by email and face-to-face contact**
- **Improvement in multiple no-shows policy**
 - **There is no incentive to reduce no-shows and/or reschedules**
- **Reduce time span between date of hearing and issuance of order**
 - **Multiple hand-offs post hearing – 27 days**
- **Centralized unit that processes both complaints, contacts required supervisors and adjudicators**
- **Any complaint/protest goes straight to the BU and BU reviews**
 - **Eliminates 45 days of delay**
- **Need employers to fill a standardized form for a protest**
- **Only one schedule**
- **Contact employer directly for the first hearing date**
- **RSVP for the confirmation of hearing dates**
- **Provide statement of fact only once with little lag time**
- **More concise statement of fact**
- **Everyone on the hearing committee writes orders**

Brainstormed Ideas for Improvement (cont'd.)

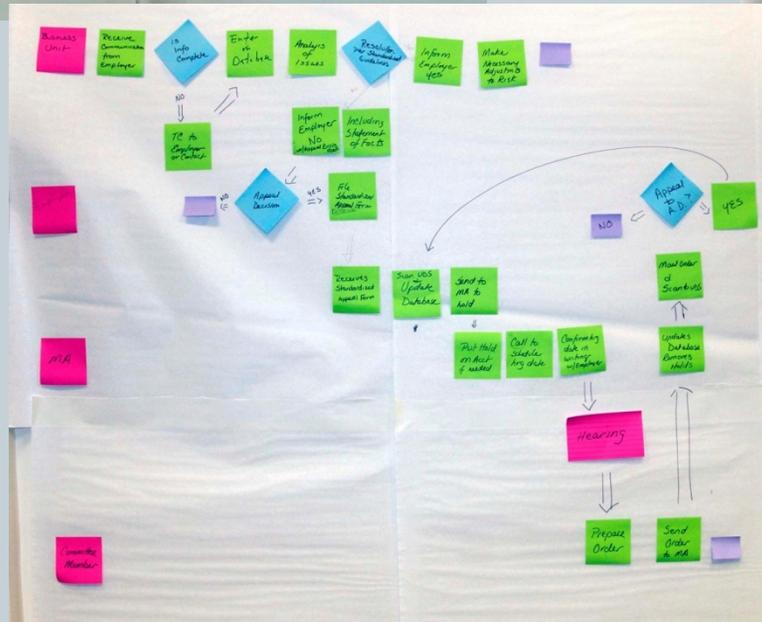
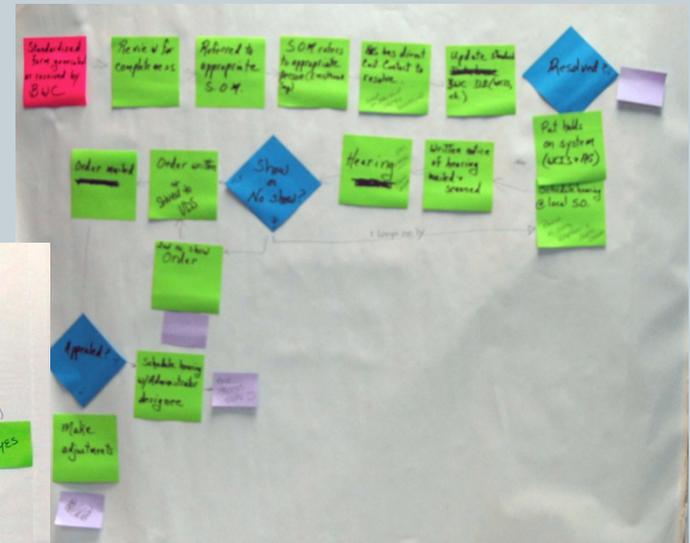
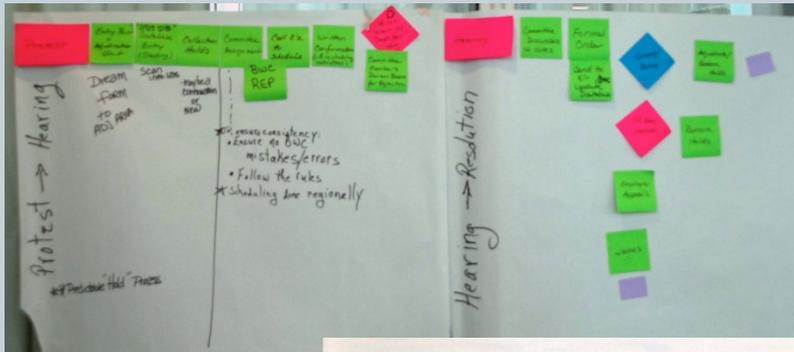
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- **Adjudication web site for filing and tracking protest and status of adjudication**
 - **All protest go to a central input point**
 - **Employer picks dates – 1st, 2nd, 3rd**
 - **Team work on specific tasks rather than piecemeal**
 - **Eliminate batch processing**
 - **Specific “max lag time” for various steps in the process that is reviewed on a regular basis**
 - **Both internal and external**
 - **Employer schedule hearing dates themselves (via web) – they see what’s open & not open**
 - **No statement of fact to employer before hearing**
 - **Provide employer & TPA’s more information about past protest successes & failures**
 - **Preferably by category**
 - **Take protest letter offline & add a new complaint form**
 - **Employer BU will provide the opportunity to file protest if needed**
 - **Create a set of criteria for all BU’s for granting employer protests/complaints**
- **Fix group rating**
 - **Educate employers more on group rating and audit rules**



Three New Process Ideas

26



Improvements Made

27

- Created new ***customer focused*** process to resolve complaints & issues before they become a formal protest
- ***Everything*** goes through one funnel
- Employer complaint is ***accurately and timely*** referred to proper subject matter expert
- Referral process allows management decision support
- Established detail ***performance metrics***
- Written policies and procedures will establish ***consistency*** at all levels
- Complaints ***decentralized*** to all service offices
- Hearings ***decentralized*** to 3 Regions
- Creation of ***quality assurance*** function
- New forms created & approved in 4 hours (a record!)
- SharePoint
- ***Enhanced value to customer***

Implementation Plan for Complaint Process

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HERE WE LIVE?

Implementation

* Prioritize issues — procedures, policies, players
tracking - assign business Sharept ~~Person~~ Person

training - identify team: ^{Policy training} IT (SharePoint person)

Labor issues?

Early communication to masses

Legal

- * Fast track
- Deadline → 5/30
- Rollout → 6/2

Todd, BCs, policies

- Document for training the difference between a call, complaint + protest. (e.g. an appealable issue.)
- Create FAQ for training on process

✓ Procedures w/ Internal Audit Controls / Seq. of duties

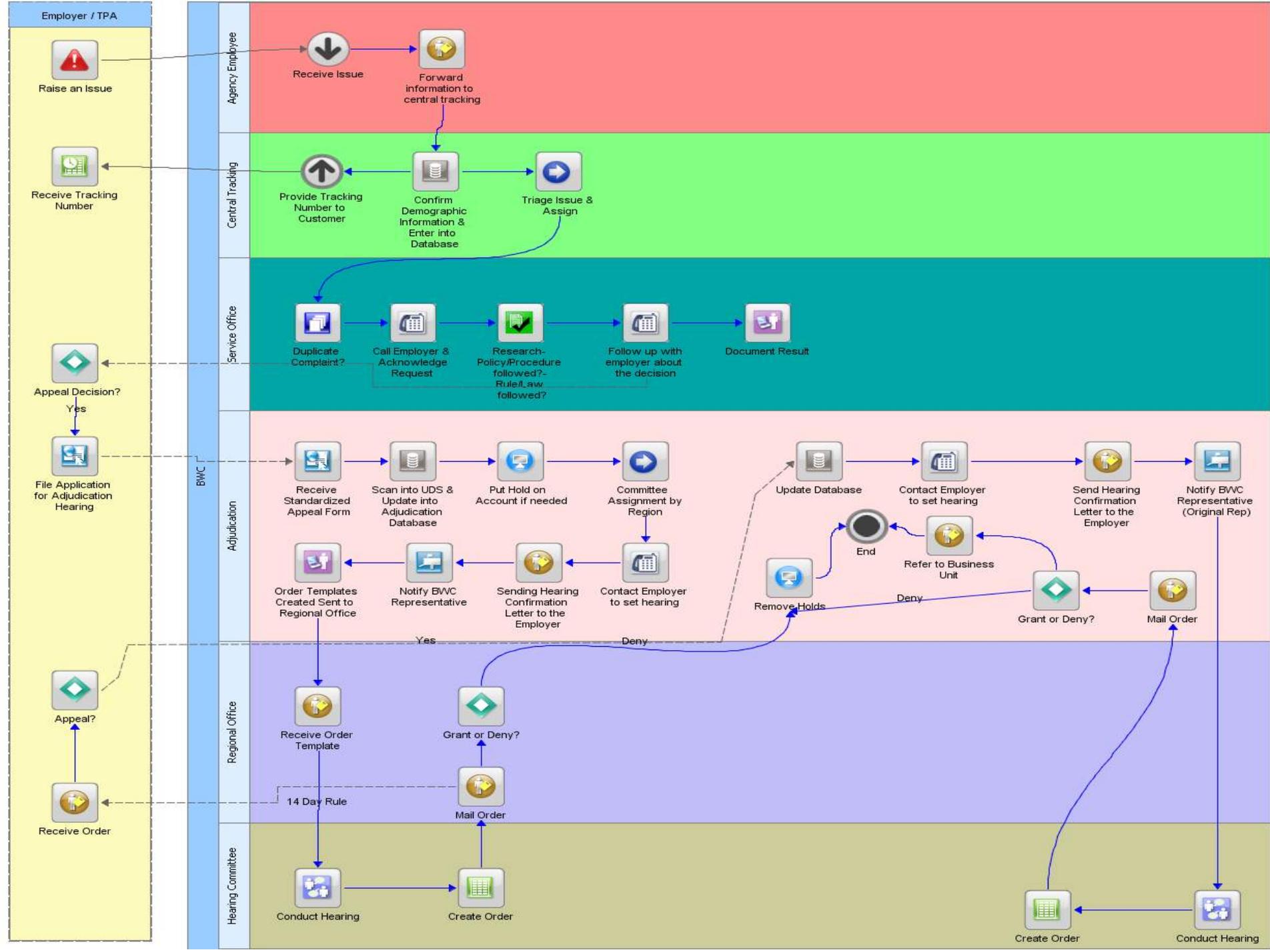
CREATE QUALITY ASSURANCE FUNCTION (FOR PROCESS)

Invite TPA's to review BOTH NEW PROCESSES

Complaint Process Performance Metrics

30

- **Total Calls to Complaints to Hearings**
- **Ratio of resolved to hearing**
- **Resolved Status**
 - Fixed BWC errors
 - Good Cause/Extenuating circumstances – Policies / Guidelines
- **Timeliness – Goal – 14 Days**
- **By SO/Region**
- **By type of complaint**
- **Number of holds**

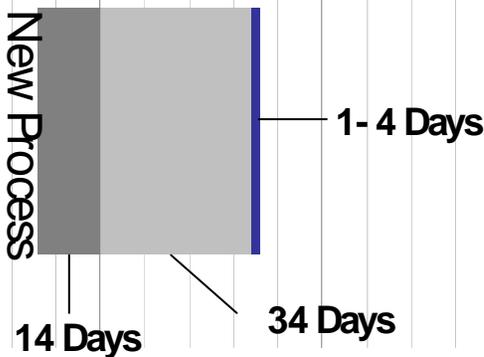


Lead-time Comparison

Old Process



New Process



- New Complaint Process
- Receipt to Hearing
- Hearing to Order Complete

Old Process = 163 Days Total

New Process = 49 – 52 Days Total

Results

35

Measure	Before	Target	After	Difference
# of Steps	87		27	69%
# of Decisions	20		7	65%
# of Delays	12		2	83%
# of Hand-offs	37		10	73%
Complaint lead time	????		14 Days	
Hearing lead time	136 Days	60 Days	34 Days	75%
Post hearing lead time	27 Days		1 -4 Days	85% - 96%
Number of cases going to protest	880	440	TBD	
Potential Saving\$			\$220,000 (440 cases x \$500)	

RECAP

36

- **Kaizen allowed BWC to review and quickly address critical issues such as customer service, timeliness and quality of the adjudication committee process.**
- **Elimination of non-value added steps.**
- **Next Steps**

QUESTIONS?

37



The Public Servant

Sharing news about service, support and solutions for Ohio government

May 29, 2008

Volume 1, Issue 9

Ohio Department of Administrative Services

Office of Communications and External Relations

Highlights:

- State holds first Kaizen event, *Page 1*
- Lean business processes defined, *Page 2*

The Public Servant is an internal newsletter published by the Ohio Department of Administrative Services, Office of Communications and External Relations. Our mission is to inform employees about agency progress to enhance service, support and solutions for Ohio government.

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Steve Wall, team leader for accountability and results for the Strickland administration who served as team champion for the BWC Kaizen team, appears with some of the business process mapping created by the team during its weeklong Kaizen event.

During a Kaizen event, sticky notes in a variety of colors, sizes and shapes are used to map business processes. The map of the old 87-step BWC business process being streamlined filled three walls. The streamlined process, which is pictured, only filled a horizontal flip chart and only will take 27 steps.

Wall has served the state of Ohio for 15 years in a variety of continuous improvement efforts. Prior to coming here, he worked for the state of Iowa, also for 15 years, serving the last four years leading its quality efforts. Wall is part of the DAS Director's Office because of the enterprise-wide responsibilities of DAS.

“This was a total team process. Everyone left their rank and ego at the door.”

— Steve Wall

Kaizen event blows up old process

By Molly O'Reilly

The state employee proudly admitted he sounded like a 2-year-old.

“Why? Why? Why?” he asked repeatedly.

The employee, Lee Thatcher of the Ohio Department of Commerce, explained that that was his role as an outsider during a Kaizen event held the week of May 12.

Thatcher was one of 13 team members assigned to dedicate that entire week to a Kaizen event during which they were to create a new adjudication process for the Ohio Bureau of Workers' Compensation.

The objectives included creating a new process that would halve the number of cases proceeding to formal hearing from 880 cases per year to 440 cases.

Another objective of the new process was to reduce the amount of time from the date the bureau receives a protest from an Ohio employer until the issue is resolved from 142 days to 60 days, as required by statute. The team was so successful in

streamlining the process that they believe 34 days will now be the average.

This new process was the result of the first Kaizen event held by the state of Ohio. Kaizen is a Japanese term meaning to destroy for the better. Kaizen is a “Lean” business process improvement tool.

“You are pioneers because this is the first time this process has been brought to our state government,” Cabinet Secretary Jan Allen said.

Allen was among the speakers congratulating the team during a celebration held the Friday morning at the end of that week. During the celebration the team shared its results.

“You can tell by the smiles on our faces that we are proud of our results,” said Mike Lucid, team co-leader and BWC quality manager, as he shared a team photo featuring beaming smiles and a couple sets of fingers forming bunny ears.

One-third of the members of a typical Kaizen team is made up of outsiders to the process, such as Thatcher. The other two-thirds are typically

divided evenly between employees directly involved in the current process and stakeholders.

“I think it's important to bring in outsiders to ask the question 2-year-olds ask. Why? Why? Why?” Thatcher said, explaining how the outsiders were questioning the current process, which made the insiders realize there weren't always good answers or any answers for how the current process operated.

One of the “insiders,” BWC attorney Joe Sommer, said, “Bringing outside people in to participate in the process was invaluable. It allowed us to look at things we insiders didn't think about.”

Another insider who had been on many quality improvement-related teams during her career admitted she wasn't optimistic when the week started. “I was really skeptical. I've been converted,” said Jill Whitworth, also a BWC attorney.

One of the team's proud accomplishments was revising and approving a form in four hours.

Please see *Kaizen*, Page 2

Lean business processes

Lean: A methodology that accelerates the speed of a process by eliminating waste and deficits in quality.

Kaizen: A Lean tool designed to improve an existing process or product.

History: Came out of the Toyota global production system to reform their processes. It migrated across the ocean to U.S. manufacturers and then migrated from the shop floor to business offices. The tool moved to state government in 2003 when Iowa reduced the number of days it took to issue an air quality permit from 62 days to 12 days in six months, eliminating a backlog of 600 applications and further shortened the process to six days.

Before Governor Ted Strickland was elected governor, he and Jan Allen, now Strickland's cabinet secretary, discussed with then Iowa Governor Tom Vilsack his accountable government model of management.

"I was really intrigued and so was Ted," Allen said.

The accountable government management model was then used to create the new management system for the state of Ohio. The new system incorporates the Governor's Efficiency and Continuous Improvement Initiative.

As a result, the implementation of Kaizen and other process improvements is underway. The first Kaizen event was held the week of May 12 when a 13-member team created a new adjudication process for the Ohio Bureau of Workers' Compensation.

Characteristics: Kaizen is conducted with a team made up of equal parts of insiders directly involved with the current process, outsiders and stakeholders during a weeklong "event." The team is empowered to develop a new process that will be implemented the following week. Shorter events lasting two or three days are called "mini" Kaizens.

Sources: lean.iowa.gov and Steve Wall, team leader for accountability and results for the Strickland administration.

Kaizen, continued from Page 1

"I think we set a world record," said team member Mike Travis, chief ombuds officer for BWC and the Industrial Commission of Ohio. "Wow! That's the Kaizen process."

The team's approval authority went beyond the new form – the new process went into effect immediately; it didn't need to go farther up the chain-of-command for review.

Eliminating non-value-adding steps allowed the team to reduce the number of steps in the process from 87 to 27, a 69 percent reduction. Along the way, the number of decision points in the process was reduced from 20 to seven. The number of handoffs among employees involved in the process was reduced from 37 to 10. The number of potential delays was reduced from 12 to two.

Helping to reduce the delays was the elimination of batch processing, something frowned upon in the Lean methodology because processing time is slowed when nothing happens with a customer request or complaint until a batch is collected.

The new process also will accelerate processing time and customer service by requiring BWC employees to contact complainants to ask them when they are available for hearings. Previously BWC assigned complain-

The orders will be written immediately after the hearing in the vast majority of cases. The previous wait for an order was 27 days.

BWC field employees will be trained on the new process in June with implementation following in July.

Measurements to gauge the success of the streamlined process also were determined by the team.

Allowing the team to complete its work in a week was the preparation work conducted by Tom Morin, a consultant who served as the team facilitator, and

Steve Wall, team leader for accountability and results for the Strickland administration.

"Tom scoped out what was in scope and out of scope and determined what data needed to be collected beforehand so the team was ready to go non-stop when it was time for the meeting," said Wall who served as the team champion. He coached the team and also handled its administrative work.

"This was a total team process. Everyone left their rank and ego at the door," Wall said at the celebration.

Kaizen 改善

改 Kai = To break

善 Zen = For the better

ants hearing dates, resulting in a high number of no-shows and rescheduled hearings.

However, a goal of the new customer-focused process is to resolve complaints before they become formal protests. Means to do this include the decentralization of the complaint process to empower all service offices to work to resolve such complaints.

The hearings will be decentralized as well. They will be heard in three regional offices instead of just at BWC headquarters in Columbus.



Participants of the state's first Kaizen event include (front row, from left) Steve Wall, team leader for accountability and results for the Strickland administration; Mike Lucid, BWC quality manager; Sheryl Thorne, BWC Employer Management Services division; (middle row) Tom Morin, consultant who served as team facilitator; Stephanie Robson, BWC Employer Management Services; Raj Subramanian, BWC Enterprise Data Management; Cathy Herron, Ohio Department of Job and Family Services quality manager; Jill Whitworth, BWC legal department; Joy Bush, BWC Employer Management Services executive director; (back row) Joe Sommer, BWC legal department; Paul Watson, BWC legal department; James Barnes, BWC chief legal officer and team sponsor; Mike Travis, chief ombuds officer for BWC and the Industrial Commission of Ohio; Chuck Relli, BWC Employer Management Services; and Lee Thatcher, Project Management Office of the Ohio Department of Commerce.

BWC Legislative Report

Gregg Paul and Laura Abu-Absi

June 9 – June 13, 2008

Active Bills

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.
 - 3rd 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**

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

Summary: Creates two BWC discount programs as an incentive to employers to implement wellness measures for their employees:

- Up to a 15% discount, for up to three years, for qualifying employers who offer a qualifying health insurance plan to employees that previously did not offer such a plan.
- Up to a 5% discount, for up to three years, for qualifying employers who offer a health and wellness program for their employees.
- Employers eligible for both programs may receive up to a 20% premium discount on top of any other BWC premium discounts they are already receiving.

- Substitute introduced in committee on 5/15/08. BWC premium discount provisions remain in substitute bill.
- **Testimony scheduled for 5/29/08 cancelled. No further hearings scheduled until November.**

Legislative Developments

Workers' Compensation Council

- **Held first meeting on 6/11. Rep. Batchelder elected Chairperson. Sen. Stivers elected Vice-Chairperson. Governance rules adopted.**

MIRA II Technical Date Change – BWC proposed legislative change

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

Significant Meetings:

- Workers' Compensation Council—6/11
- Meeting with Rep. Linda Bolan (D-Salem)—constituent inquiry—6/10
- Meeting with Rep. Todd Book (D-Portsmouth)—constituent inquiry—6/10