Enterprise Report

October 2009

Ohio | Bureau of Workers' Compensation

Enterprise Report

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

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

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

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

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

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

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

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

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

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

September Financial Analysis

BWC's net assets increased by $454 million in September resulting in net assets of $3.8 billion at September 30, 2009 compared to $3.4 billion at August 31, 2009.

($ in millions)	**Month Ended** Sept. 30, 2009	**Month Ended** Aug. 31, 2009	**Month Ended** Sept. 30, 2008
Operating Revenues	$181	$198	$181
Operating Expenses	(190)	(180)	(240)
Operating Transfers to ODNR & WCC	–	–	–
Net Operating Gain (Loss)	(9)	18	(59)
Net Investment Income (Loss)	463	365	(864)
Increase (Decrease) in Net Assets	454	383	(923)
Net Assets End of Period	$3,848	$3,394	$1,580

- o Premium and assessment income of $184 million net of a $10 million provision for uncollectible accounts receivable along with other income of $7 million resulted in operating revenues of $181 million in September. Other income is primarily penalties billed to private employers for the late filing and payment of premiums that were due on August 31.
- o Premium and assessment income in September included reductions of $15.3 million for safety council participation credits granted to over 6,000 employers. Eligible employers participating in BWC's Safety Council program earned a 2% premium discount.
- o Benefits and compensation adjustment expenses of $182 million along with other expenses of $8 million resulted in operating expenses of $190 million in September.
- o A $414 million increase in portfolio market value in September along with interest and dividend income of $49 million for the month, resulted in a net investment income of $463 million for the month after investment expenses. The increase in portfolio market value is comprised of $28 million in net realized gains and $386 million in net unrealized gains.
- o Cash and cash equivalents include almost $968 million in money market holdings in the outside investment manager accounts. These funds are committed to covering an $889 million net investment trade payable for transactions that will settle in October.
- o Private employer premium payments for the six month policy period ended June 30, 2009 contributed to premium and assessment receipts of $88 million in September. Timing differences in the payment of premiums resulted in September 2009 collections being 43 percent less than collections in September 2008.

Fiscal Year-to-Year Comparisons

BWC's total net assets have increased by $1.3 billion for fiscal year-to-date 2010 resulting in net assets of $3.8 billion at September 30, 2009 compared to $1.6 billion at September 30, 2008.

($ in millions)	**Fiscal YTD** Sept. 30, 2009	**Projected FYTD** Sept. 30, 2009	**Fiscal YTD** Sept. 30, 2008
Operating Revenues	$547	$561	$546
Operating Expenses	(575)	(599)	(723)
Operating Transfer Out	–	(2)	(2)
Net Operating Gain (Loss)	(28)	(40)	(179)
Net Investment Income (Loss)	1,360	210	(744)
Increase (Decrease) in Net Assets	1,332	170	(923)
Net Assets End of Period	$3,848	$2,685	$1,580

o BWC's premium and assessment income for fiscal year-to-date 2010 is $567 million compared to $551 million for the same period last year. Decreases in premium rates for private and state agency employers effective July 1, 2009 are off-set by increased unbilled receivables for DWRF and SIEGF.

o The provision for uncollectible receivables has increased by $14 million compared to the prior fiscal year. This increase is based on the aging of receivable accounts and is being driven by large audit findings posted to employer accounts in June 2009 that remain unpaid.

o Benefit and compensation adjustment expenses decreased by $145 million for fiscal year-to-date 2010 primarily due to a decrease in the change in reserves for compensation and compensation adjustment expenses. The reserves have increased $18 million in 2010 compared to $142 million increase in 2009. Benefit payments have declined by $32 million primarily as a result of decreased claims settlements.

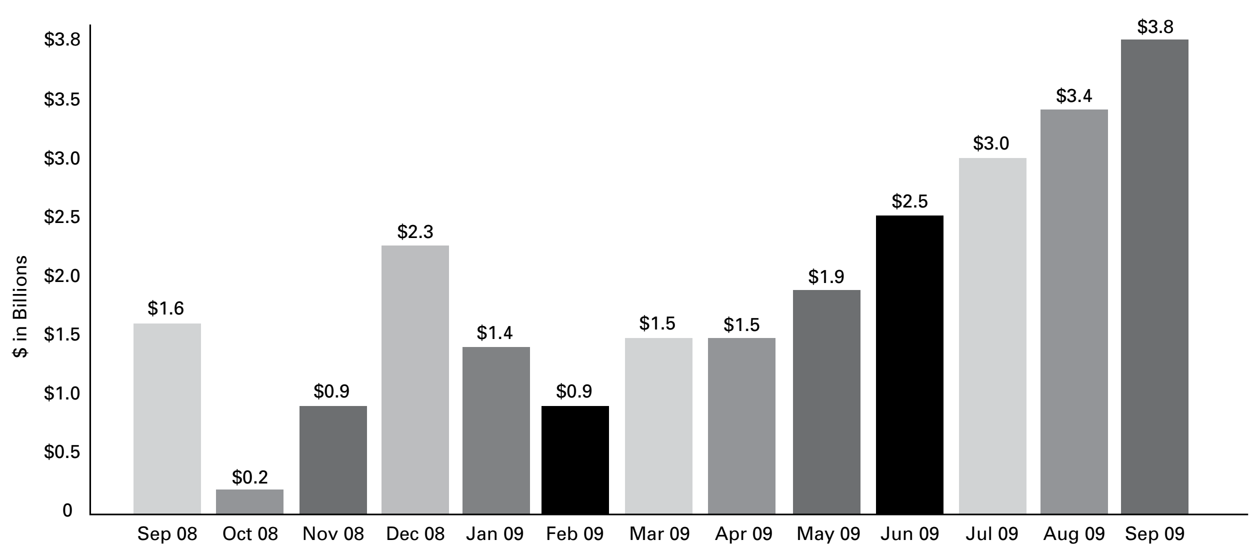
o BWC's net investment income for fiscal year-to-date 2010 totaled $1.4 billion, comprised of $74 million in net realized losses and $1,231 million in net unrealized gains, along with $205 million of interest and dividend income net of $1 million in investment expenses.

o Fiscal year-to-date 2010 premium collections are $101 million less than projected and $111 million less than prior fiscal year-to-date. An 8 percent decline in private employer payroll coupled with last year's 5 percent decrease in private employer premium rates have contributed to this decline.

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

o The number of private employers participating in the 50/50 payment program declined slightly this collection period compared to the collection period ended February 28, 2009. These employers will be paying approximately $149 million in premiums by December 1, 2009 to maintain active coverage. The $149 million is down by 15 percent from last collection period's second installment of $176 million.

Net Assets

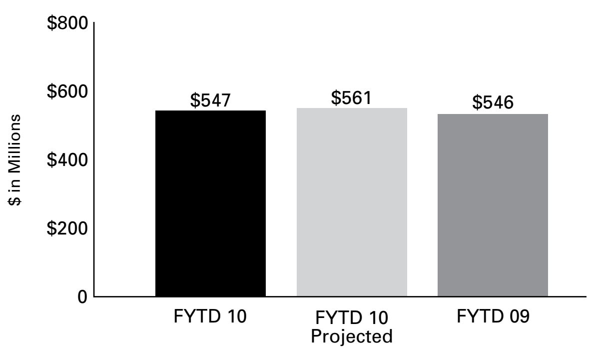


Statement of Operations

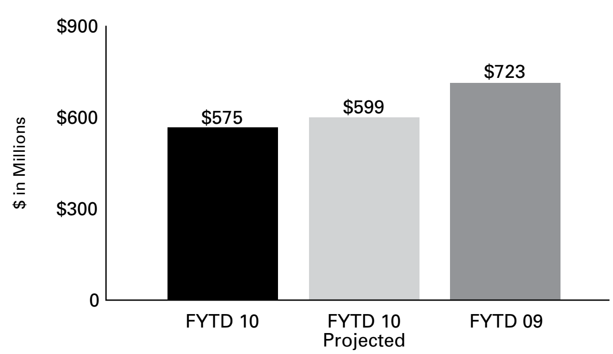
Fiscal year to date September 30, 2009

(in millions)	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
Operating Revenues					
Premium & Assessment Income	$567	$562	$5	$551	$16
Provision for Uncollectibles	(27)	(9)	(18)	(13)	(14)
Other Income	7	8	(1)	8	(1)
Total Operating Revenue	547	561	(14)	546	1
Operating Expenses					
Benefits & Compensation Adj. Expense	555	576	21	700	(145)
Other Expenses	20	23	3	23	(3)
Total Operating Expenses	575	599	24	723	(148)
Operating Transfers	–	(2)	2	(2)	2
Net Operating Gain (Loss)	(28)	(40)	12	(179)	151
Net Investment Income (Loss)	1,360	210	1,150	(744)	2,104
Increase (Decrease) in Net Assets	$1,332	$170	$1,162	$(923)	$2,255

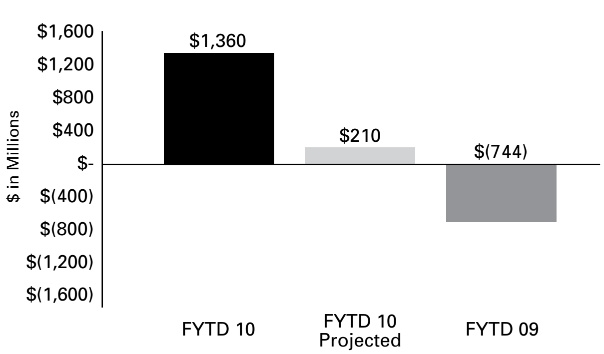
Operating Revenues



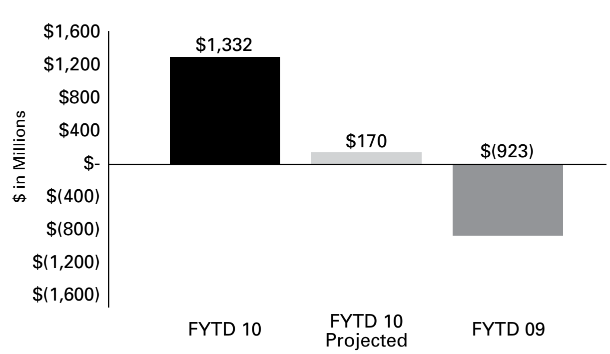
Operating Expenses



Net Investment Income (Loss)



Change in Net Assets



Statement of Operations – Combining Schedule

Fiscal year to date September 30, 2009

(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	$427,767	$40,710	$961	$56	$107	$10,190	$87,428	$567,219
Provision for Uncollectibles	(35,573)	8,504	–	–	(1)	(173)	73	(27,170)
Other Income	6,500	–	–	–	–	–	859	7,359
Total Operating Revenues	398,694	49,214	961	56	106	10,017	88,360	547,408
Operating Expenses:								
Benefits & Compensation Adj Expenses	444,777	48,416	236	3	45	9,142	52,197	554,816
Other Expenses	5,797	45	16	–	23	–	14,403	20,284
Total Operating Expenses	450,574	48,461	252	3	68	9,142	66,600	575,100
Net Operating Income (Loss) before Operating Transfers Out	(51,880)	753	709	53	38	875	21,760	(27,692)
Operating Transfers Out	(96)	–	–	–	–	–	(225)	(321)
Net Operating Income (Loss)	(51,976)	753	709	53	38	875	21,535	(28,013)
Investment Income:								
Investment Income	185,479	14,374	3,073	197	147	28	1,615	204,913
Net Realized Gains (Losses)	(75,268)	1,197	253	–	–	–	–	(73,818)
Net Unrealized Gains (Losses)	1,133,824	79,084	16,884	540	403	–	–	1,230,735
Total Realized & Unrealized Capital Gains (Losses)	1,058,556	80,281	17,137	540	403	–	–	1,156,917
Investment Manager & Operational Fees	(1,200)	(70)	(38)	(2)	(2)	(1)	–	(1,313)
Gain (Loss) on Disposal of Fixed Assets	–	–	–	–	–	–	(196)	(196)
Total Non–Operating Revenues, Net	1,242,835	94,585	20,172	735	548	27	1,419	1,360,321
Increase (Decrease) in Net Assets (Deficit)	1,190,859	95,338	20,881	788	586	902	22,954	1,332,308
Net Assets (Deficit), Beginning of Period	2,191,888	835,859	166,383	19,406	15,570	6,935	(720,699)	2,515,342
Net Assets (Deficit), End of Period	$3,382,747	$931,197	$187,264	$20,194	$16,156	$7,837	$(697,745)	$3,847,650

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

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

Statement of Investment Income

Fiscal year to date September 30, 2009

(in thousands)

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
Investment Income					
Bond Interest	$182,893	$163,230	$19,663	$255,798	$(72,905)
Dividend Income–Domestic & International	20,723	19,470	1,253	17,655	3,068
Money Market/Commercial Paper Income	592	1,248	(656)	2,521	(1,929)
Misc. Income (Corp Actions, Settlements)	705	1,200	(495)	668	37
Total Investment Income	204,913	185,148	19,765	276,642	(71,729)
Realized & Unrealized Capital Gains and (Losses)					
Bonds – Net Realized Gains (Losses)	(54,242)	–	(54,242)	(50,096)	(4,146)
Stocks – Net Realized Gains (Losses)	(18,937)	–	(18,937)	(51,840)	32,903
International Equity – Net Realized Gains (Losses)	(639)	–	(639)	–	(639)
Subtotal – Net Realized Gains (Losses)	(73,818)	–	(73,818)	(101,936)	28,118
Bonds – Net Unrealized Gains (Losses)	665,645	–	665,645	(687,811)	1,353,456
Stocks – Net Unrealized Gains (Losses)	541,890	25,860	516,030	(230,280)	772,170
International Equity – Net Unrealized Gains (Losses)	23,200	–	23,200	(3)	23,203
Subtotal – Net Unrealized Gains (Losses)	1,230,735	25,860	1,204,875	(918,094)	2,148,829
Change in Portfolio Value	1,156,917	25,860	1,131,057	(1,020,030)	2,176,947
Investment Manager & Operational Fees	(1,313)	(1,458)	145	(937)	376
Net Investment Income (Loss)	$1,360,517	$209,550	$1,150,967	$(744,325)	$2,104,842

Administrative Cost Fund Expense Analysis

September 2009

- o BWC Administrative Cost Fund expenses are approximately $9.2 million (12.94%) less than budgeted and approximately 8.7% less than last fiscal year.

- o Decreases in payroll, including Customer Service, Infrastructure and Technology, Special Investigations and Communications are due to a decrease in staff as a result of hiring controls implemented by OBM, a July payroll period not requiring health care premium payments and employees use of cost savings days. BWC staff have taken over 72,000 (39%) of the available 186,000 hours for a savings of approximately $2.1 million. Usage is expected to increase during November and December due to the holidays.

- o The timing of the receipt of invoices for payment in fiscal year 2010 caused actual expenditures to be less than the amount budgeted in September. An evaluation of consultant resources in Infrastructure and Technology resulted in a reduction in the number of consultants and Personal Service costs. Consultant rates were also renegotiated, which contributed to the decrease in fiscal year 2010 from 2009. A reduced number of safety grant applications resulted in lower expenditures in fiscal year 2010.

- o Gathering information and obtaining DAS approval for equipment purchases caused a delay in the completion of the purchases. Purchase orders were completed in September and October. This is causing actual expenditures to be less than the budgeted year to date amount in September.

- o Identification of additional costs savings, a payroll period not requiring health care premium payments in July, the use of cost savings days and approved projects awaiting final cost estimates led to a reduction in the fiscal year 2010 budget as of September.

- o BWC's current fiscal year 2010 budget is approximately $32.7 million (9.97%) less than appropriated by the General Assembly.

Administrative Cost Fund Budget Summary

As of September 30, 2009

Expense Description	FTE's	Actual FY10	Budgeted FYTD10	FYTD10 Variance	FYTD10 Percentage Variance	FY10 Budget	FYTD09 Expenses	Increase (Decrease) in FY10	FYTD10 Percentage Increase (Decrease)
Payroll									
BWC Board of Directors	12	214,372	214,372	0	0.00%	783,898	243,588	(29,216)	-11.99%
Workers' Comp Council	0	0	0	0	0.00%	0	28,669	(28,669)	-100.00%
BWC Administration	13	347,488	347,488	0	0.00%	1,565,749	203,538	143,950	70.72%
Customer Service	1,450	28,088,657	28,122,363	33,706	0.12%	109,215,915	29,845,162	(1,756,505)	-5.89%
Medical	130	2,921,257	2,921,656	399	0.01%	11,500,358	3,125,080	(203,823)	-6.52%
Special Investigations	132	2,726,456	2,727,190	734	0.03%	10,645,597	3,015,619	(289,163)	-9.59%
Fiscal and Planning	69	1,329,843	1,338,558	8,715	0.65%	5,186,263	1,285,225	44,618	3.47%
Actuarial	24	535,475	535,173	(302)	-0.06%	2,355,019	442,369	93,106	21.05%
Investments	11	329,798	330,284	486	0.15%	1,333,318	307,978	21,820	7.08%
Infrastructure Technology	303	7,431,862	7,490,330	58,468	0.78%	29,605,488	8,024,525	(592,663)	-7.39%
Legal	78	1,763,249	1,763,248	(1)	0.00%	6,960,090	1,756,925	6,324	0.36%
Communications	21	428,552	429,117	565	0.13%	1,680,381	768,181	(339,629)	-44.21%
Human Resources	61	1,334,544	1,334,607	63	0.00%	5,172,445	1,481,324	(146,780)	-9.91%
Internal Audit	14	346,463	346,713	250	0.07%	1,327,457	349,707	(3,244)	-0.93%
Ombuds Office	8	147,277	147,277	0	0.00%	584,080	138,362	8,915	6.44%
Total Payroll	2,326	47,945,293	48,048,376	103,083	0.21%	187,916,058	51,016,252	(3,070,959)	-6.02%
Personal Services									
Information Technology		1,061,380	2,175,368	1,113,988	51.21%	8,574,145	1,852,896	(791,516)	-42.72%
Legal - Special Counsel		8,563	378,750	370,187	97.74%	1,515,000	42,152	(33,589)	-79.69%
Legal - Attorney General		1,007,745	1,155,463	147,718	12.78%	4,621,850	1,003,658	4,087	0.41%
Other Personal Services		775,308	1,768,272	992,964	56.15%	7,069,141	1,027,050	(251,742)	-24.51%
Total Personal Services		2,852,996	5,477,853	2,624,857	47.92%	21,780,136	3,925,756	(1,072,760)	-27.33%
Maintenance									
William Green Rent		1,930,362	1,933,398	3,036	0.16%	19,871,795	2,286,323	(355,961)	-15.57%
Other Rent and Leases		2,694,927	3,297,942	603,015	18.28%	13,754,639	2,521,511	173,416	6.88%
Software and Equipment Maintenance and Repairs		4,075,031	4,630,909	555,878	12.00%	18,539,264	4,905,272	(830,241)	-16.93%
Inter Agency Payments		716,887	869,567	152,680	17.56%	3,671,624	566,847	150,040	26.47%
Communications		730,173	1,702,267	972,094	57.11%	6,851,744	1,046,680	(316,507)	-30.24%
Safety Grants and Long Term Care Loan		118,955	1,500,001	1,381,046	92.07%	6,000,000	727,893	(608,938)	-83.66%
Supplies and Printing		164,684	811,302	646,618	79.70%	3,387,469	316,350	(151,666)	-47.94%
Other Maintenance		820,379	1,002,022	181,643	18.13%	3,959,945	703,728	116,651	16.58%
Total Maintenance		11,251,398	15,747,408	4,496,010	28.55%	76,036,480	13,074,604	(1,823,206)	-13.94%
Equipment		66,110	2,075,162	2,009,052	96.81%	10,316,835	18,609	47,501	255.26%
Total Administrative Cost Fund Expenses		62,115,797	71,348,799	9,233,002	12.94%	296,049,509	68,035,221	(5,919,424)	-8.70%

Total Agency Appropriation	328,821,765
Budget to Appropriation Variance	32,772,256
Percentage Variance	9.97%

State Insurance Fund
Administrative Expense Summary

As of September 30, 2009

	Actual FYTD 2010	Encumbrance Balance	FYTD Actual & Encumbrance	Encumbrance Closing Date	Actual FYTD 2009
Investment Administrative Expenses					
UBS Securities LLC	$0	$0	$0	6/30/08	$0
JP Morgan Chase - Performance Reporting	5,792	166,960	172,752	6/30/11	21,750
Mercer Investment Consulting	121,249	415,244	536,493	6/30/10	79,166
Other Investment Expenses	99,048	459,988	559,036	6/30/10	50,369
	226,089	1,042,192	1,268,281		151,285
Actuarial Expenses					
Mercer Oliver Wyman	57,419	823,943	881,362	12/31/09	0
Oliver Wyman Consulting	144,710	1,274,236	1,418,946	12/31/09	347,144
Deloitte Consulting - Comprehensive Study	0	0	0	12/31/08	1,085,109
Deloitte Consulting - Actuarial Services	0	4,547,067	4,547,067	12/31/11	0
Shoenfelt Consulting	6,370	5,550	11,920	3/31/09	0
	208,499	6,650,796	6,859,295		1,432,253
Ohio Rehabilitation Services	605,407	0	605,407	6/30/10	605,407
TOTAL	$1,039,995	$7,692,988	$8,732,983		$2,188,945

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

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

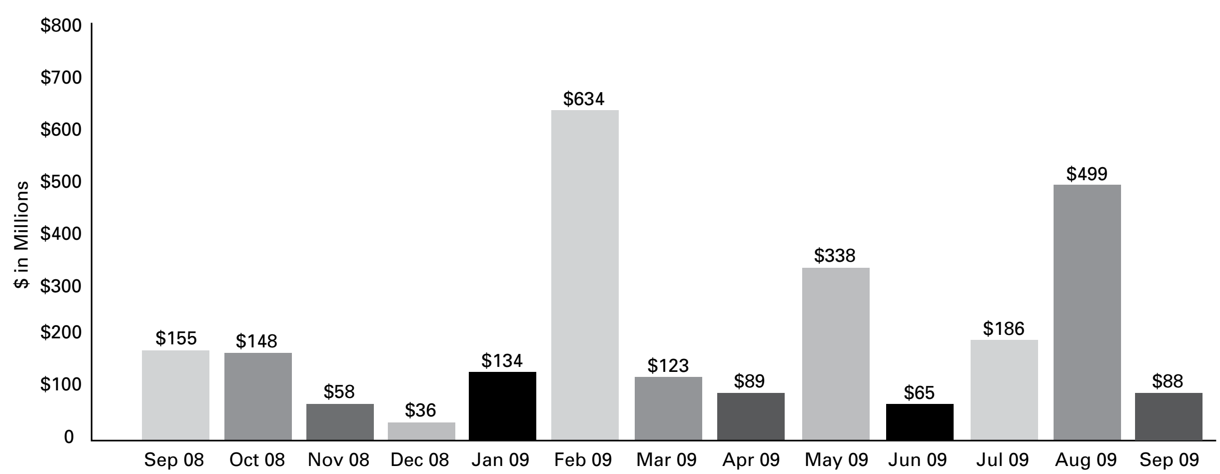
The encumbrance balance is the amount remaining on the contract and may extend beyond the end of this fiscal year.

Statement of Cash Flows

Fiscal year to date September 30, 2009

(in millions)	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
Cash Flows from Operating Activities:					
Cash Receipts from Premiums	$773	$874	$(101)	$884	$(111)
Cash Receipts – Other	12	8	4	7	5
Cash Disbursements for Claims	(502)	(501)	(1)	(531)	29
Cash Disbursements for Other	(96)	(122)	26	(118)	22
Net Cash Provided (Used) by Operating Activities	187	259	(72)	242	(55)
Net Cash Flows from Noncapital Financing Activities	–	(2)	2	(2)	2
Net Cash Flows from Capital and Related Financing Activities	(3)	(2)	(1)	(3)	–
Net Cash Provided (Used) by Investing Activities	890	–	890	(9)	899
Net Increase (Decrease) in Cash and Cash Equivalents	1,074	255	819	228	846
Cash and Cash Equivalents, Beginning of Period	504	504	–	378	126
Cash and Cash Equivalents, End of Period	$1,578	$759	$819	$606	$972

Premium and Assessment Receipts



Statement of Net Assets

As of September 30, 2009

(in millions)	Actual	Prior Yr. Actual	Year to Year Increase (Decrease)
Assets			
Bonds	$12,995	$13,278	$(283)
Stocks	4,120	2,913	1,207
International Equities	799	–	799
Private Equities	–	2	(2)
Cash & Cash Equivalents	1,578	606	972
Total Cash and Investments	19,492	16,799	2,693
Accrued Premiums	4,178	4,087	91
Other Accounts Receivable	324	326	(2)
Investment Receivables	969	194	775
Other Assets	106	117	(11)
Total Assets	25,069	21,523	3,546
Liabilities			
Reserve for Compensation and Compensation Adj. Expense	$19,264	$19,577	$(313)
Accounts Payable	50	53	(3)
Investment Payable	1,714	67	1,647
Other Liabilities	193	246	(53)
Total Liabilities	21,221	19,943	1,278
Net Assets	$3,848	$1,580	$2,268

Statement of Net Assets – Combining Schedule

As of September 30, 2009

(in thousands)

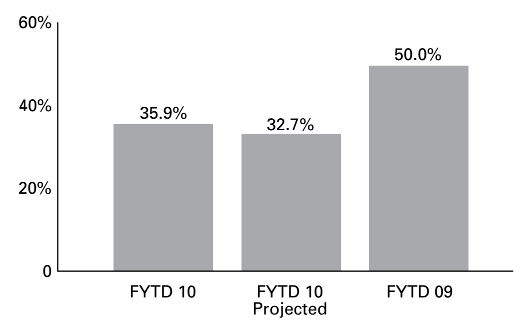
	State Insurance Fund Account	Disabled Workers' Relief Fund Account	Coal–Workers Pneumoconiosis Fund Account	Public Work Relief Employees' Fund Account	Marine Industry Fund Account	Self–Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Eliminations	Totals
Assets									
Bonds	$11,821,390	$ 933,932	$ 198,115	$ 23,740	$ 17,737	$ –	$ –	$ –	$12,994,914
Stocks	3,814,344	252,760	53,186	–	–	–	–	–	4,120,290
International Equities	798,661	–	–	–	–	–	–	–	798,661
Private Equities	52	–	–	–	–	–	–	–	52
Cash & Cash Equivalents	1,514,806	3,229	1,196	232	326	53,942	3,786	–	1,577,517
Total Cash & Investments	$17,949,253	$ 1,189,921	$ 252,497	$ 23,972	$ 18,063	$ 53,942	$ 3,786	$ –	$19,491,434
Accrued Premiums	1,660,005	1,594,941	–	169	–	723,209	199,755	–	4,178,079
Other Accounts Receivable	245,992	21,393	5	–	4	536	56,246	–	324,176
Interfund Receivables	12,219	66,811	696	29	11	2,921	141,150	(223,837)	–
Investment Receivables	944,461	18,952	5,426	–	–	7	–	–	968,846
Other Assets	25,765	22	–	–	–	–	80,247	–	106,034
Total Assets	$20,837,695	$ 2,892,040	$ 258,624	$ 24,170	$ 18,078	$ 780,615	$ 481,184	$ (223,837)	$25,068,569
Liabilities									
Reserve for Compensation & Compensation Adj. Expense	$15,397,000	$ 1,940,972	$ 68,597	$ 3,955	$ 1,709	$ 770,806	$1,081,000	$ –	$19,264,039
Accounts Payable	49,277	–	–	–	–	–	127	–	49,404
Investment Payable	1,703,501	8,756	1,942	–	–	–	–	–	1,714,199
Interfund Payables	210,715	11,045	75	19	11	1,972	–	(223,837)	–
Other Liabilities	94,455	70	746	2	202	–	97,802	–	193,277
Total Liabilities	17,454,948	1,960,843	71,360	3,976	1,922	772,778	1,178,929	(223,837)	21,220,919
Net Assets	$ 3,382,747	$ 931,197	$ 187,264	$ 20,194	$ 16,156	$ 7,837	$ (697,745)	$ –	$ 3,847,650

Financial Performance Metrics

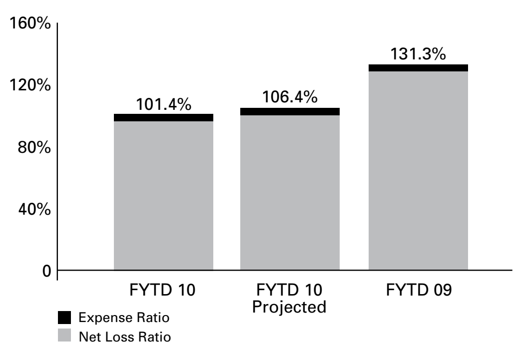
	Actual FY10 As of 9/30/09	Projected FY10 As of 9/30/09	Actual FY09 As of 9/30/08	Guidelines
Funding Ratio (State Insurance Fund)	**1.23**	**1.17**	**1.09**	**1.02 to 1.35**
Net Leverage Ratio (SIF)	**4.68**	**6.76**	**12.03**	**3.0 to 8.0**
Loss Ratio	81.4%	83.0%	105.3%	
LAE Ratio - MCO	7.1%	7.2%	8.5%	
LAE Ratio - BWC	9.3%	12.1%	13.3%	
Net Loss Ratio	97.8%	102.3%	127.1%	120.0%
Expense Ratio	3.6%	4.2%	4.2%	5.0%
Combined Ratio	101.4%	106.5%	131.3%	125.0%
Net Investment Income Ratio	35.9%	32.7%	50.0%	
Operating Ratio (Trade Ratio)	65.5%	73.8%	81.3%	100.0%

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

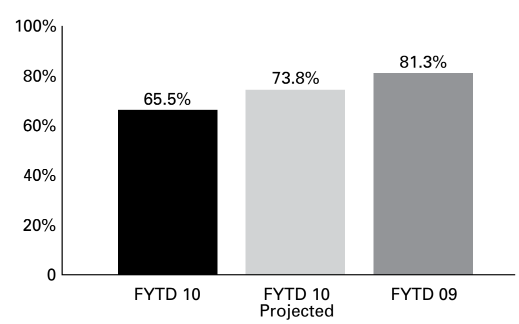
Investment Income Ratio



Combined Ratio

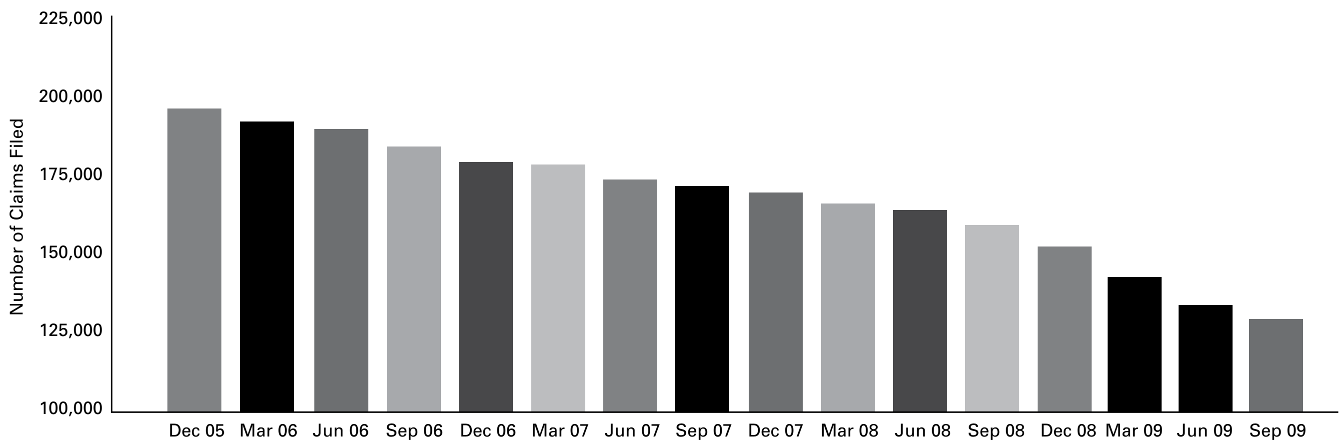


Operating Ratio

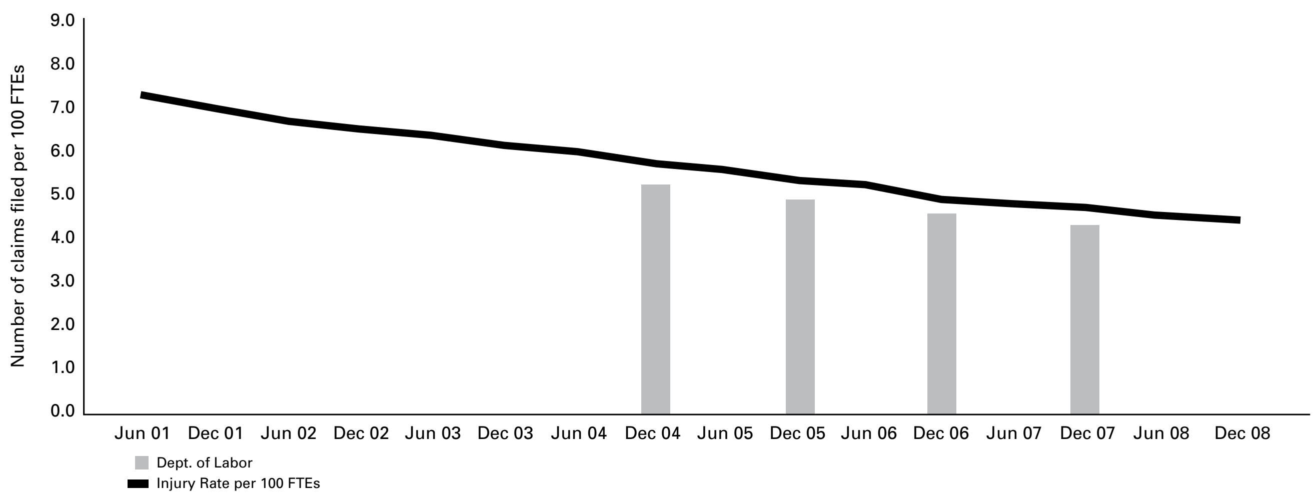


Operational Performance Metrics

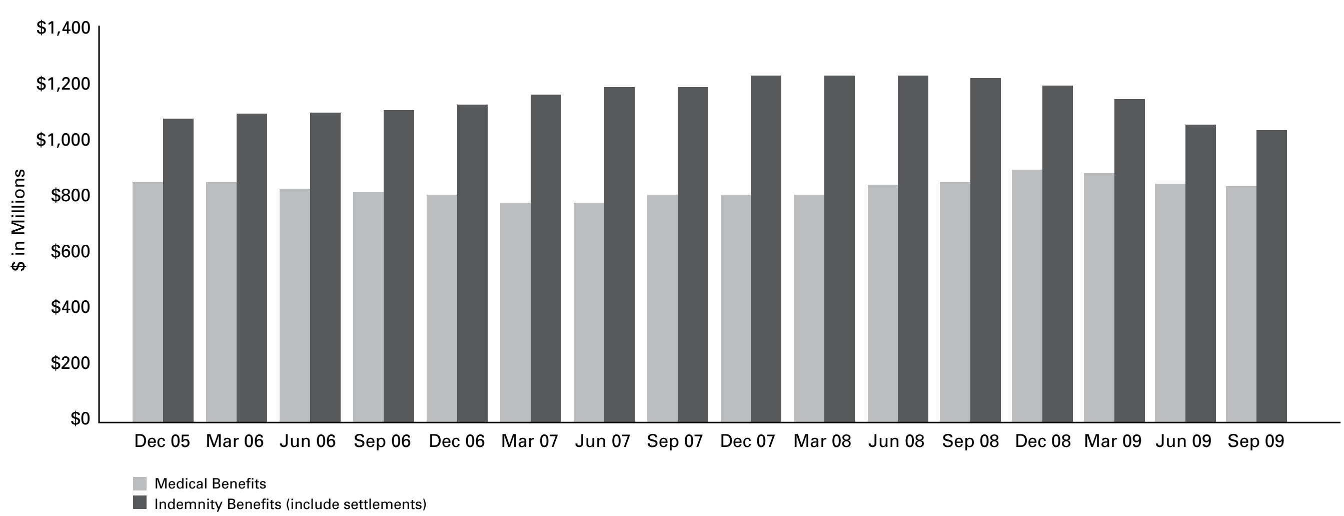
New Claims Filed - *Twelve months ended*



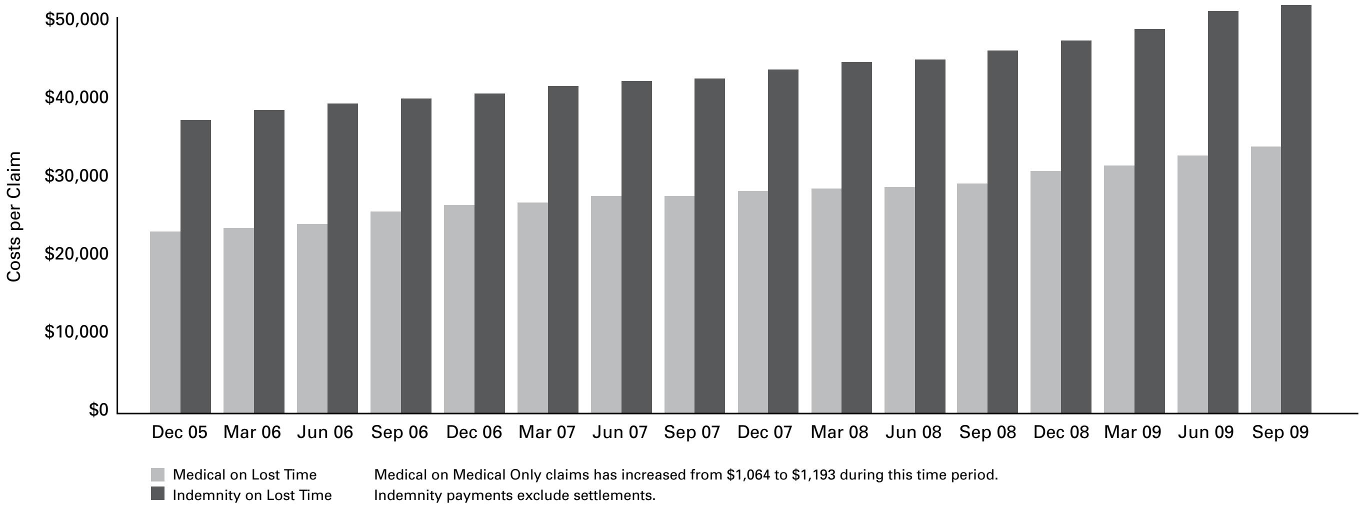
Frequency - *Reported semi-annually*



Benefit Payments - *Twelve months ended*

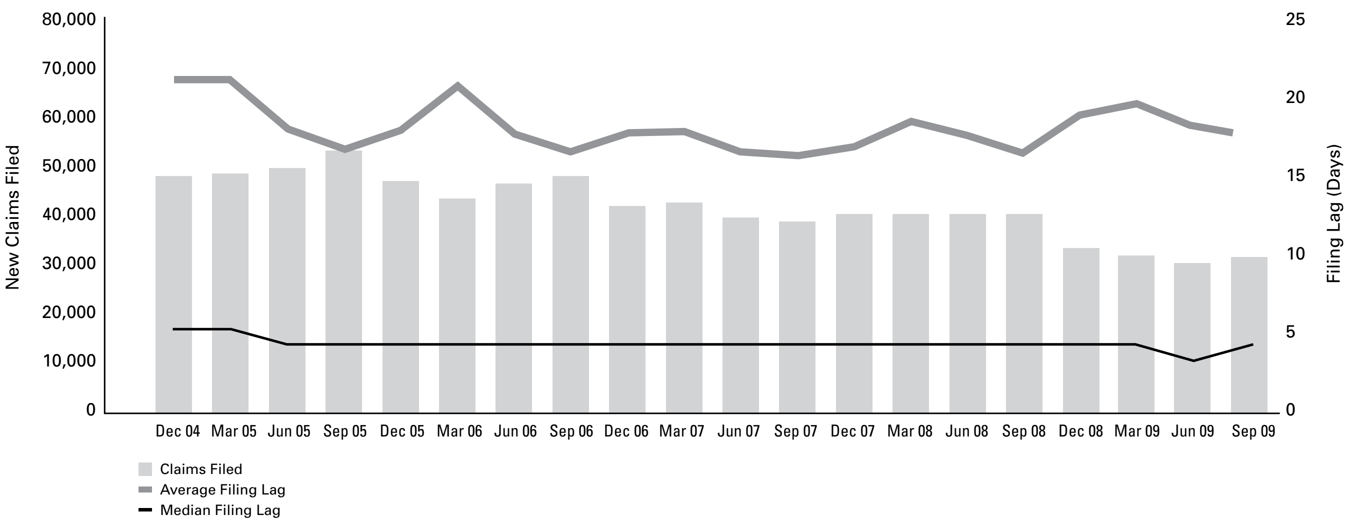


Severity

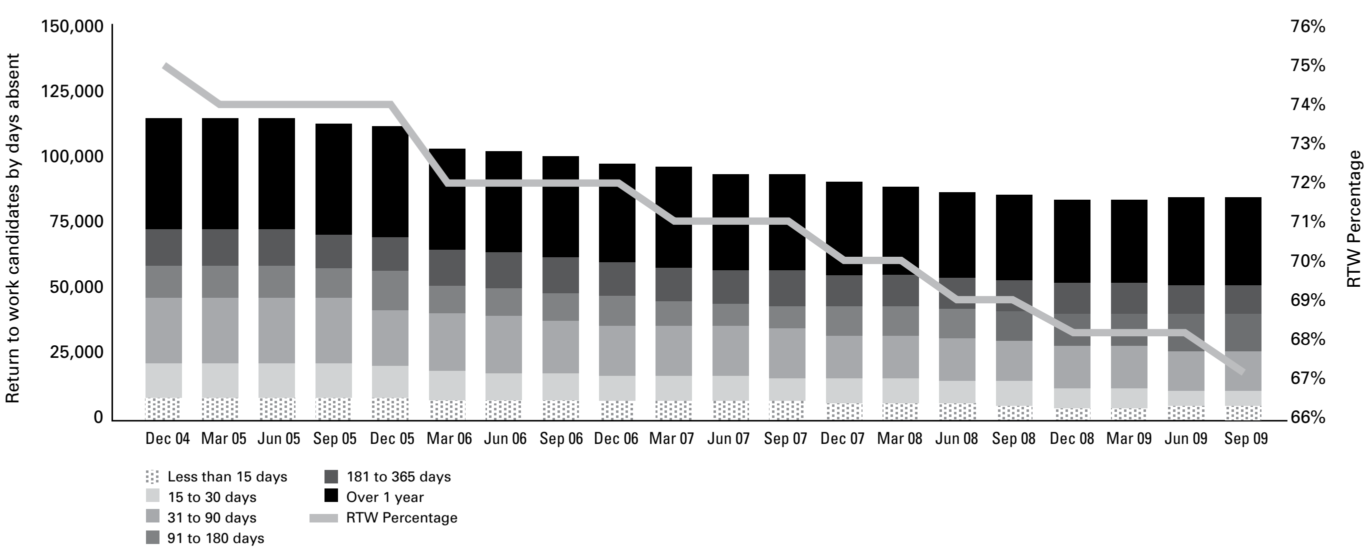


Medical on Medical Only claims has increased from $1,064 to $1,193 during this time period.
Indemnity payments exclude settlements.

Claim Filing Lag



Return to work

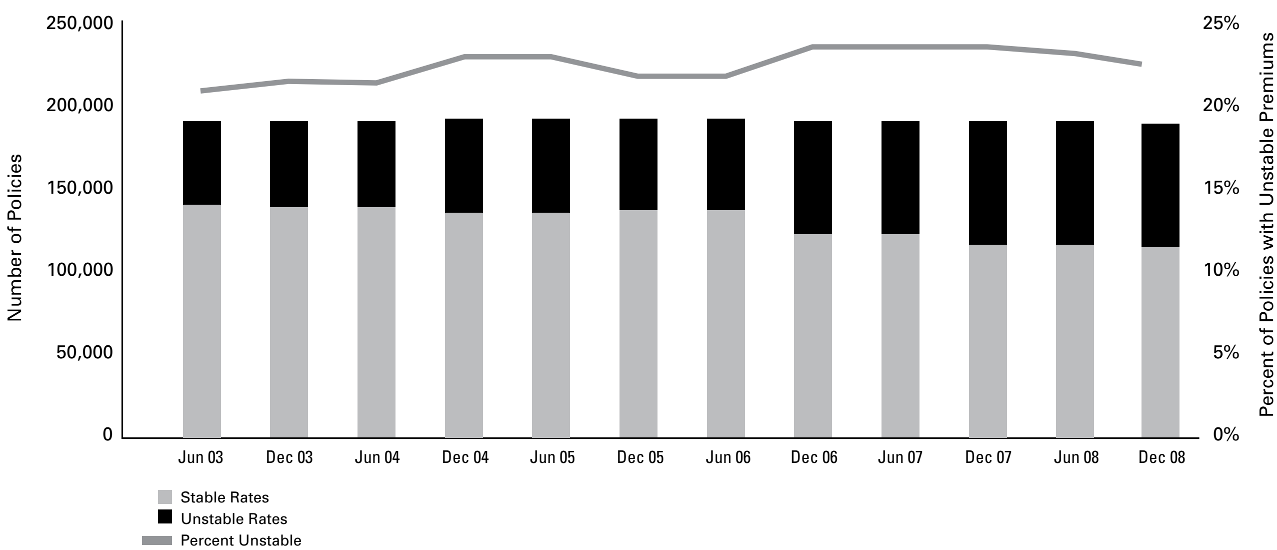


Aggregate Reported Payroll – *Twelve Months Ending*

($ in millions)	Private	PEC	PES	Black Lung	Marine
Dec 2002	$82,400	$17,611	$5,823	$64	$3
Jun 2003	$83,090	$17,611	$5,924	$51	$4
Dec 2003	$83,304	$18,022	$6,005	$59	$4
Jun 2004	$83,741	$18,022	$6,076	$73	$3
Dec 2004	$85,492	$18,545	$6,184	$84	$3
Jun 2005	$86,530	$18,545	$6,266	$82	$4
Dec 2005	$87,902	$18,594	$6,388	$87	$4
Jun 2006	$90,414	$18,594	$6,524	$98	$5
Dec 2006	$91,830	$18,946	$6,654	$98	$5
Jun 2007	$93,636	$18,946	$6,788	$100	$4
Dec 2007	$94,890	$19,427	$6,914	$107	$4
Jun 2008	$95,027	$19,427	$7,032	$117	$5
Dec 2008	$94,580	$19,778	$7,065	$134	$5

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

Premium Stability



Performance Metrics Glossary

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

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

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

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

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

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

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

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

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

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

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

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

Funding Ratio
Provides an indication of financial strength and security – Funded assets divided by funded liabilities.

Net Leverage Ratio
Measures the combination of BWC's exposure to pricing errors and errors in estimating its liabilities in relation to net assets. Premium income plus reserves for compensation and compensation adjustment expense divided by net assets.

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

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

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

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

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

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

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

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

Ohio | Bureau of Workers' Compensation
30 W. Spring St.
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Administrator **Marsha P. Ryan**
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Legislative Affairs Update
Prepared for the BWC Board of Directors
October 30, 2009

BWC Testimony and Correspondence to Ohio General Assembly — Administrator Ryan

House Insurance Committee - On October 14, 2009 at the request of Chairman Dan Dodd (D-Licking Township), Administrator Ryan delivered a presentation to the House Insurance Committee regarding statutory revision recommendations suggested by Deloitte in its comprehensive rate review. Please see Administrator Ryan's remarks as well as the handout that was distributed to the House Insurance Committee (attached).

Chairman Dodd is gathering interested party input in preparation for drafting workers' compensation legislation. During conference committee negotiations for House Bill 15, Chairman Dodd was a zealous advocate on behalf of the policies, procedures, and interests of BWC. Although copies of draft legislation prepared by House Minority Caucus members have been circulated, to date, nothing has been introduced.

The Committee expects to hear testimony from Phil Fulton on October 27, 2009.

Senate Insurance Commerce and Labor Committee - On October 20, 2009 at the request of Chairman Steve Buehrer (R-Delta), Administrator Ryan provided testimony to the Senate Insurance, Commerce and Labor Committee regarding the Deloitte comprehensive rate review and BWC's ongoing rate reform effort. Please see Administrator Ryan's testimony (attached). The Committee was also provided with copies of the reports prepared pursuant to House Bills 79 and 100.

Administrator Ryan's appearance spanned most of two hours. Her prepared remarks lasted approximately 45 minutes and then she responded to robust questioning regarding rate reform for another hour.

Following Administrator Ryan's testimony, Chairman Buehrer opened the floor to public comment. At Chairman Buehrer's request, copies of all testimony submitted at the hearing are being provided to the Board.

Committee was also open to public testimony. Committee will be open to public testimony on October 27th.

Rate Reform E-Mail Messages – Numerous e-mail messages were sent regarding changes to the group rating program. In addition to the Board, recipients included Administrator Ryan, Governor Strickland, the Ohio House of Representatives, and the Ohio Senate. Attached is Administrator Ryan's response.

Pending Legislation

Four pieces of legislation relevant to the workers' compensation system have been introduced since last spring in the General Assembly. HB 249 addresses the expansion of the "Journalist Exception" as it pertains to public record requests; SB 94 identifies and provides that certain cancers and infectious diseases contracted by safety service personnel are considered workplace injuries; HB 216 specifies requirements for professional employer organizations; and HB 259 governs BWC investments.

1. **Summary of HB 249—As Introduced**

Primary sponsors—Rep. Tracy Heard (D-Columbus), Rep. Tom Letson (D-Warren)
Cosponsors—Reps. Matt Lundy (D-Elyria), Barbara Boyd (D-Cleveland Hts.), Robert Hagan (D-Youngstown), Jay Goyal (D-Mansfield), Dennis Murray (D-Sandusky).

As introduced, HB 249 seeks to permit trade and business associations potentially unlimited access to confidential injured worker and dependent contact information. The bill expands on the current "journalist exception" in 4123.88 (D) to accomplish this goal.

HB 249 was assigned to House Civil and Commercial Law Committee— Rep. Mark Okey (D-Carrollton)--Chair.

Sponsor Testimony was provided by Reps. Heard and Letson on October 6th. As of this date, no further hearings are scheduled.

Background
Existing R.C. 4123.88 provides that injured worker claim files are not a public record. Further, under SB 7 of the 126th General Assembly, any information directly or indirectly identifying the address or telephone number of an injured worker is not a public record. SB 7 carved out one exception to this general confidentiality rule – upon the request of a journalist (defined in R.C. 149.43), an injured workers' name, address and telephone number must be released.

Existing R.C. 149.43(B)(9) clearly defines a journalist for the purposes of Ohio Public Records Law but does not permit a journalist unlimited access to bulk or exhaustive injured worker contact information. General requests by legitimate journalists that are not overly broad are permitted.

Protection of injured worker contact information was further protected through SB 334 of the 127th General Assembly. This legislation tightened the statutory language around who qualifies as a journalist and specified claimant information can only be released to one whose "primary occupation is that of a journalist". This language was included in code in an effort to address situations when professionals requested injured worker contact information for purposes of solicitation, by citing their role as a "journalist" via a quarterly newsletter, online blog or direct mailing.

BWC Policy
It is clear from existing statute that injured worker contact information is not a public record. BWC is statutory steward of this sensitive information and, therefore, must properly assess whether an individual purporting to be a journalist under the statute is gathering the information for a public purpose and with the intent to disseminate to the general public.

Effect of Proposed Legislation
Instead of amending current statute that shields injured worker contact information from the general public, HB 249 seeks to permit the "journalist exception" to swallow the general rule against public disclosure of this sensitive information. HB 249 seeks to accomplish that which SB 7 of the 126th General Assembly sought to curb – unfettered and potentially unlimited access to injured worker contact information.

General Issues for Consideration
Social Security Disability applicant contact information is not a public record nor is beneficiary contact information possessed by the Ohio Department of Job and Family Services. Both agencies require a signed release before any information, including contact information, can be released.

2. Summary of SB 94—As Introduced

Primary sponsors—Sen. Tom Patton (R-Strongsville)
Cosponsors—Sens. Jimmy Steward (R-Albany), Tim Schaffer (R-Lancaster), Jim Hughes (R-Columbus), Dale Miller (D-Cleveland)

As introduced, SB 94 seeks to provide a rebuttable presumption that specified types of cancer or contagious or infectious diseases contracted by a firefighter, police officer, or public emergency medical services worker are presumed, for the purposes of workers' compensation and the Ohio Police and Fire Pension Fund, to have been incurred while performing work or job-related duties. This bill could have actuarial implications and presumably would be sent to the Workers' Compensation Council for review.

Contraction of certain contagious or infectious diseases that give rise to the presumption are those adopted in rule by the Public Health Council that are reasonably likely to be transmitted by air or blood during the normal course of duties by an emergency medical services worker. These diseases include; hepatitis B and C and HIV and AIDS and others.

The bill creates a presumption for specific types of cancer that have a higher rate of prevalence in firefighters. Those cancers are: lung, brain, kidney, bladder, rectal, stomach, skin, prostate, colorectal, testicular, non-Hodgkin's lymphoma, leukemia, and multiple myeloma.

Note: Nearly all of these forms of cancer were cited in a University of Cincinnati study as being more prevalent in firefighters. The study was paid for, in part, by a grant from BWC in 2006.

This legislation is currently pending in the Senate Insurance, Commerce and Labor Committee. Sen. Patton provided sponsor testimony on May 19th. As of this date, no further hearings are scheduled.

Background
The bill is similar to HB 431 (Rep. Patton) from the 127th General Assembly. That bill received several hearings in House committee last year. The bill was opposed by the City of Cleveland, the Ohio Municipal League, and the Ohio Ambulance and Medical Transportation Association.

Activity in Other States
The International Association of Fire Fighters provides that 41 states have enacted presumptive disability laws that presume that cardiovascular diseases, certain cancers and certain infectious diseases contracted by fire fighters are job-related for purposes of workers' compensation and disability retirement unless proven otherwise.

In 2002, the State of Washington enacted legislation that created a rebuttable presumption for certain cancers after the fire fighter has served at least 10 years and was given a qualified medical examination upon becoming a firefighter that showed no evidence of cancer. In 2007, the Washington legislature further expanded the list of cancers presumed to be occupational diseases.

From 2002 – 2008 under this recently modified presumption statute, the State of Washington reported 12 cancer claims and 9 infection-related illness claims. These claims include state fund and self-insured employers.

3. **Summary of HB 216—As Introduced**

Primary sponsor—Rep. John Carney (D-Columbus)
Cosponsors—Reps. John Domenick (D-Smithfield), Dennis Murray (D-Sandusky), David Daniels (R-Greenfield)

As introduced, HB 216 seeks to establish certain financial capacity requirements for professional employer organizations, clarify rights and liabilities of professional employer organizations and client employers, and make other changes to the professional employer organization law.

This legislation is intended to update Ohio's PEO statutes and better harmonize our state's laws with those of neighboring states.

Proponent Testimony in House Commerce and Labor Committee, Rep. Kenny Yuko, (D-Elyria)-- Chair was provided on October 6th by Todd Cohen, National Association of Professional Employer Organizations, Jim Sasse, HR Systems, Angie Strunk, Sheakley HR Solutions.

Background
Our primary concern rests with existing R.C. 4125.04, which permits the PEO to become the "employer of record" for the purposes of reporting payroll and paying premium. By becoming the employer of record for reporting purposes, client employers are able to secure a more favorable rate by evading an unfavorable claims experience. This practice; while currently permitted under Ohio law, has led to auditing difficulties, experience-rating difficulties, experience modifier avoidance, and premium slippage. BWC and JFS have previously expressed these concerns to Rep. Carney.

4. **Summary of HB 259—As Introduced**

Primary sponsor—Rep. Bill Batchelder (R-Medina)
Cosponsors—numerous House Republican cosponsors

As introduced, the bill replaces the "prudent person" standard that guides BWC investment policy. In its place is a requirement that BWC must invest "custodial funds" (SIF, MIF, DWRF, Pneumoconiosis Fund, etc.) in the classes of investments specified in the bill.

The bill also makes changes relative to contracts for investment consultant services and requires background checks on all employees of investment consultants prior to issuing a contract.

The bill was recently assigned to the House Insurance Committee, Rep. Dan Dodd (D-Licking Township)—Chair. As of this date, no hearings are scheduled.

General Assembly—Committee and Session Schedule—October -- December 2009

October 2009 [Back to Top]	**Senate**	**House**
Oct. 27	Session	Session
Oct. 28	Session	Session
Oct. 29	Committee Hearings	Committee Hearings
November 2009 [Back to Top]	**Senate**	**House**
Nov. 05	Committee Hearings	Committee Hearings
Nov. 17	Session (if needed)	Session (if needed)
Nov. 18	Session (if needed)	Session (if needed)

December 2009 [Back to Top]	**Senate**	**House**
Dec. 01	Session (if needed)	Session (if needed)
Dec. 02	Session (if needed)	Session (if needed)
Dec. 08	Session	Session
Dec. 09	Session	Session
Dec. 10	Committee Hearings	Committee Hearings
Dec. 15	Session (if needed)	Session (if needed)
Dec. 16	Session (if needed)	Session (if needed)

BWC Administrator Marsha Ryan

Testimony to Ohio House Insurance Committee

October 14, 2009

Good afternoon Chairman Dodd, Vice-Chairman Letson, Ranking Member Hottinger and members of the House Insurance Committee. I am pleased to present to you statutory recommendations made by Deloitte Consulting LLC (Deloitte) in its comprehensive review of BWC.

As you know, the 127th General Assembly's HB 100 was a sweeping workers' compensation reform bill, which included a requirement for an independent, comprehensive study of BWC rates and programs. After a competitive bidding process, we selected Deloitte Consulting, an international firm known for its financial advisory, tax, consulting and auditing services. Its private-sector clients include companies such as Allstate and MetLife. It also provides services to public-sector entities such as the State of Texas and the U.S. Department of Justice.

The comprehensive review was intended to measure the overall performance of Ohio's workers' compensation system, and to benchmark it against other state and private workers' compensation insurance systems.

This thorough review included detailed interviews with BWC staff at all levels of the organization. Deloitte also interviewed personnel with the Industrial Commission and a number of external parties including attorneys who represent injured workers, union representatives, employers, self insured representatives, external actuaries, external investment advisors and third-party administrators.

The review was completed earlier this year and posted to BWC's website in April. In addition, a high-level overview of the entire comprehensive study was recently presented to the BWC Board of Directors and the Workers' Compensation Council.

The study comprises 900 pages of findings and 146 recommendations for improvement. Many of the recommendations are intended to make the system more actuarially sound, and to create premium parity among group and non group employers.

The extensive analysis in this comprehensive study will set a course for the future. We plan to utilize the review findings to implement more insurance industry best practices, strengthen our actuarial functions and bring more transparency and improved customer service to Ohio's workers' compensation system. We estimate that 45% of the study's recommendations will be addressed in fiscal year 2010, with others to follow as time and resources permit, over the next two-to-three years.

I would like to take you a little deeper into how the study was conducted. As part of its comprehensive review, the study analyzed not only BWC's rate-making methodology but also many programs and processes which find their genesis in statute. Several of these statutorily-mandated programs directly impact rates charged to employers. Some affect benefits afforded to injured workers, and the result of many others is claims cost mutualization across the entire workers' compensation system, which, in turn, effects rates charged to all employers. I will briefly highlight each of the recommended changes and refer you to a handout provided to the committee entitled, "Ohio BWC Comprehensive Review Recommendations Governed by Statute."

The full report is available online at ohiobwc.com/deloitte.

Exceptions to Experience Rating
In its initial report, provided to the BWC Board of Directors in 2008, the study concluded that exceptions to standard experience rating practices have been employed by BWC for 75 years.

Experience rating is a commonly used method to set an individual employer's rates. It is based on statistics and actuarial science, and uses an employer's recent claim cost history to estimate the costs the employer is likely to bring to the system during the next year. Experience-rated employers are either credit-rated or debit-rated, depending on their claims history. An employer with lower-than-average loss experience, compared to others in the same classification, will receive a credit and pay a rate lower than the base rate. An employer with higher loss experience, compared to others in the same classification, will receive a debit and pay a rate higher than the base rate. In short, the lower the loss experience, the lower the subsequent rate; and the higher the loss experience, the higher the subsequent rate.

The comprehensive study identifies specific programs as exceptions to standard experience rating practices. They include the 15K Medical-only program, the salary continuation program, and the Handicap Reimbursement Program. The salary continuation program is not governed by statute, while the other two are based on statute.

The study states these programs compromise rating accuracy and cause rating inequity among employers. They do this by excluding or suppressing certain costs or the entire cost of a claim from an employer's experience, which makes them appear to present lower risk to the system than they actually do.

15K Medical-only Program and salary continuation program
Prior to 1993, BWC had significant medical bill and indemnity payment backlogs. Employers sought legislative help. The General Assembly enacted HB 107 in 1993 to eliminate long delays in compensation payments and prevent collection actions against injured workers for overdue medical bills.

The $15,000 Medical Only Program, was established in ORC 4123.29 in order to address the medical payments backlog. It began as the $1,000 Medical Only Program in 1993 and was expanded to $5,000 and $15,000 in 2006 and 2007 respectively. This program allows employers to pay medical expenses on a claim without reporting the claim to the BWC. An employer can use this program when the claim results in seven or fewer lost days from work. If the injured worker loses more than seven days of work, the injury is no longer eligible for the 15K medical-only program and a claim must be filed with BWC. Today, approximately 3,300 employers (1.2%) participate in the 15K Medical-only program.

The salary continuation program is not expressly codified but is acknowledged by ORC 4123.52. This program was established to address the indemnity backlog. Salary continuation allows employers to continue payment of full salary in lieu of BWC paying temporary total disability benefits. BWC does not include the loss reserve on that claim or the amount of salary paid to the injured worker in the experience rating modification calculation.

The comprehensive study concludes that, for purposes of these programs, the loss of certain claim economies by BWC is highly likely, because they prevent early intervention and the ability to apply best claim practices. In addition it states the cost of claims within these programs is not directly known by BWC. Claims in these programs are generally reported to BWC after efforts to get the injured worker back to work have been unsuccessful. By then much of the opportunity to apply early loss control strategies has passed.

Deloitte concludes that the 15K Medical-only and salary continuation programs should be terminated.

Handicap Reimbursement Program
Similarly, the study expressed concern about the Handicap Reimbursement Program. The original objective of the Handicap Reimbursement Program was to encourage the employment and retention of handicapped employees, recognizing that employees with a pre-existing disability may be more likely to be injured. The program was established in ORC 4123.343 and 4123.63 and allows employers to eliminate "handicapped" workers' claims from their experience on a retroactive basis. From post World War II through the 1990's, most states have had programs in place with a purpose similar to that of Ohio's Handicap Reimbursement Program. There are currently 25 statutorily-recognized medical conditions that can qualify employers for reimbursement. These include: diabetes, multiple sclerosis, hemophilia, and arthritis.

The study analyzed the existing Handicap Reimbursement Program under the following three-pronged approach: 1) the effectiveness of the program to reward employers that hire and retain employees with pre-existing conditions; 2) the cost effectiveness and administration of the program; and 3) comparison of Ohio's program with those of other states.

The study observes that the Americans with Disabilities Act (ADA) has made the original purpose of the Handicap Reimbursement Program largely irrelevant. The ADA prohibits discrimination in employment and other areas based on disability, therefore, providing an incentive to employers to follow federal law seems unnecessary.

The program is utilized by approximately 4,100 employers (1.5% of those in the SIF) at a cost of approximately $190 million per year in charges to the Surplus Fund. Despite the implementation of the ADA, BWC has not made substantive program revisions. However, 21 states have discontinued similar programs or funds since inception of the ADA and many others are contemplating such an action. Currently, arthritis accounts for approximately 97% of the reimbursed losses, and Ohio is one of only 3 states that list arthritis as a qualifying pre-existing condition. As the prevalence of arthritis in our working-age population is expected to increase over the short-term, the cost to the Surplus Fund is expected to increase greatly.

The study recommends termination of the Handicap Reimbursement Program. If the program cannot be eliminated, the study suggests implementation of the following provisions to increase more appropriate utilization of this program:

- Exclusion of arthritis as a handicap;
- Require that existing conditions be the proximate cause of a more severe subsequent injury (require the pre-existing condition contribute to the subsequent or second injury);
- Reduce the lag time allowed for handicap reimbursements (current BWC practice permits employers to file for reimbursement 5-6 years after injury).

Statutory Revisions Related to Medical Services

In addition to the programmatic revisions stated, the study recommends several changes to the injured worker disability management process. The study recognizes that while improvements have been made in the delivery of medical services to injured workers and our managed care processes, opportunities to improve quality, streamline, and provide greater efficiencies still exist. As a result, the study has made the following recommendations for improving both the quality and cost-effectiveness of medical treatment and disability management of our injured workers.

Medical Treatment Authorization for Allowable Conditions

The study recognizes unnecessary delays in the process related to timely medical treatment authorization for allowable conditions. This is caused, in part, by the statutory separation of claim determination and medical management between BWC and the MCOs, respectively. MCOs rely upon the initial BWC claim determination for treatment approval and provider reimbursement. These determinations are made by BWC based on early, initial diagnoses while more definitive diagnoses are not reached until specialist referrals and diagnostic testing is complete. The MCOs cannot authorize medical treatment for the refined diagnosis until after they request that BWC update the claim allowance for the new diagnosis. As a result, the study recommends statutory change in ORC 4121.44 to allow MCOs to approve accepted medical conditions and allowance of related medical treatment, subject to BWC oversight and audit.

Proactive Allowance Process

Several years ago, BWC initiated a proactive allowance policy. The intent of the policy was to provide physicians an expedited process to seek additional allowances and deliver services to injured workers earlier. Despite improvements, the study found the proactive allowance process fails to provide the expedited process BWC desired. Currently, a waiver is required before the allowed conditions in a claim can be changed, and employers retain the right to protest additional claim allowances to the Industrial Commission. The study recommends streamlining the proactive allowance process by eliminating the statutorily required employer waiver contained in ORC 4123.511. And further, the study recommends greater consideration of MCO medical determinations, and that employers should not be involved in allowable condition determinations due to lack of both impartiality and medical expertise.

90-day Independent Medical Exam

The study also recommends eliminating the statutory requirement of an Independent Medical Exam (IME) at 90 days of lost time currently contained in ORC 4123.53. In reaching this conclusion, the study notes that this statutory requirement delivers little value to BWC or its constituents at a cost of $2.35 million annually. It also creates an unnecessary burden on injured workers when no dispute exists. IMEs are typically used in today's industry to render opinions on the course of treatment and disability duration determinations, most often when appropriateness of medical treatment or permanent impairment is disputed. Mandatory IMEs were enacted into law to afford employers the ability to ensure the appropriateness of medical treatment, to test for maximum medical improvement, and to identify vocational rehabilitation opportunities. With the advancements in case management that BWC and MCOs have made, each of these goals can now be accomplished without a required IME at 90 days of lost time. For example, BWC's policy is now to initiate disability management IME at 45 days which provides earlier and more effective case management.

In place of a mandatory IME, the study recommends BWC consider a program that allows for IMEs on an "as needed" basis.

Managed Care Organization Service Selection and Pricing

The study recommends that BWC conduct a study to determine the feasibility of introducing more competition into the Health Partnership Program (HPP). If increased competition is determined feasible, statutory changes to ORC 4121.44 and rule development will be required.

The study observed that substantial BWC resources are dedicated to audit and oversight of the 18 MCOs, and economies of scale and more effective program standardization are available in reduced numbers of participating MCOs. Pricing of MCO services are currently not based in a competitive process, and a "Come One, Come All" approach to all who meet minimum criteria creates an administrative burden for BWC. Introduction of expanded competition to the MCO reimbursement structure would also position BWC to evaluate specific service value and pricing for First Report of Injury (FROI) submission, medical and disability case management rates, utilization review and clinical editing software, etc. The current "bundled" approach challenges effective pricing of MCO component services. A more competitive environment would also afford enhanced opportunity for innovation in service delivery and transactional processing, and may attract industry leaders who don't currently participate in Ohio's HPP.

Statutory Revisions to Specialty Funds

The study recommends several changes to three (3) specialty funds, the Disabled Workers Relief Fund ("DWRF") established in ORC 4123.411, the Coal Workers Pneumoconiosis Fund ("Pneumo Fund") established in 4131.03, and the Marine Industry Fund ("MIF") established in ORC 4131.13.

Deloitte recommends BWC develop a funding policy for the DWRF and other specialty funds similar to what was recommended for the State Insurance Fund.

The BWC Board of Directors recently established a Net Asset Policy to evaluate the strength of the State Insurance Fund. This is being achieved by focusing on maintaining sufficient net asset funding levels. The policy is also designed to ensure solvency, while keeping premium levels both stable and as low as prudently feasible.

Additionally, Deloitte recommends BWC reconsider whether these three specialty funds should remain separate funds or whether they should be combined with the State Insurance Fund.

The DWRF is the largest of these three funds and provides supplementary payments to workers whose combined permanent total disability plus Social Security Disability benefits are lower than a specified entitlement amount. In short, the DWRF is intended to provide injured workers receiving permanent total disability benefits a cost of living adjustment.

By statute, the DWRF operates on a pay-as-you-go basis. DWRF revenue is derived from assessments on employers' payrolls or premium. Premiums are intended to cover paid losses in the prospective policy year. They are not intended to fully fund the liabilities. BWC records an asset for unbilled assessments to offset the unfunded liability. The amount of this asset is approximately $1.5 billion as of June 30, 2008. This asset represents an obligation for Ohio employers in future years.

Chairman Dodd, members of the committee, I appreciate this opportunity to present to you the statutory recommendations made by Deloitte in its comprehensive review.

Comprehensive Review Recommendations Governed by Statute

Ohio | Bureau of Workers' Compensation

October 20, 2009

Employer Programs Recommendations

Topic	Background	Problem Identified by Deloitte	Report	Deloitte's Recommendation(s)
Introduction		"Certain rules and programs specific to Ohio result in the exclusion of claims, or portions of claims, from the experience rating process. These exclusions include handicap relief, salary continuation [not governed by statute], and the 15K Medical-Only Program. These rules are not standard industry practice, potentially erode the effectiveness of experience rating, and contradict a key underlying premise of experience rating by ignoring the excluded claims." (Report 1.1, p. 49).		
$15K Medical-Only Program ORC 4123.29	This program provides an employer (a) the ability to pay these expenses out-of-pocket and (b) have the reserves suppressed that (c) keeps the costs from being included in the employer's experience-modifier calculation, which impacts premiums. Today, approximately 3,300 employers (1.2 percent) participate in the $15K program. In addition, BWC cannot account for out-of-pocket expenses paid by approximately 8,400 employers (3.1 percent) using salary continuation.	This program has "a potentially negative effect on productivity and the Ohio economy" (p. 63) and is inconsistent with industry practices (p. 3). The program allows employers to avoid reporting workers' compensation costs to the system (p. 63) which compromises rating accuracy and causes rating inequity among employers (p. 64). The program causes the possibility of reserve estimates to be understated (p. 64). Employers forego opportunities for early medical intervention, effective claim management, and loss-control techniques which increase the costs to employers in the state overall (p. 64).	1.1	36. ▲**Terminate the $15K Medical-Only Program** (p. 66). 37. **Offer a deductible program.** Consider an appropriately priced deductible program as an alternative (pg. 66). A deductible program accommodates employers who wish to self-insure a portion of their exposure to losses (p. 66) without compromising the integrity, accuracy and equity of experience rating.
Handicap Reimbursements ORC 4123.343; ORC 4123.63	Handicap Reimbursements do not alter the benefits for injured workers. By filing for Handicap Reimbursements, employers shift portions of their claim costs from their experience-modifier calculation on a retroactive basis (Report 3.3, p. 9). Retroactive changes alter the premium rate, which results in a cash reimbursement. Reimbursement costs are shifted to the Surplus Fund and shared by all Ohio employers. Approximately 4,100 employers a year (1.5 percent) use the program at a cost of $190 million.	"Arthritis accounts for approximately 97 percent of the reimbursed losses" (Report 3.3, p. 3). "The dominance of less verifiable arthritis cases makes many of the reimbursements arbitrary" (p. 3). Ohio is one of only three states that list arthritis as a qualifying pre-existing condition (p. 23). The Americans with Disabilities Act (ADA) made the original purpose of the program largely irrelevant. Since the inception of the ADA in 1990, 21 states discontinued their programs (p. 3). Analysis does not indicate that employers with handicapped workers require the economic relief provided by the program (p. 24).	3.3	1. ▲**Terminate Handicap Reimbursements** (p.24), or 2. ▲**Exclude arthritis**. Remove arthritis from the list of handicapped conditions (p. 25). 3. ▲**Require a proximate cause**. Prevent the granting of reimbursements for pre-existing conditions that did not contribute to the second injury (p. 25). 4. ▲**Reduce the lag time allowed for Handicap Reimbursements**. BWC permits five to six years (p. 25); benchmarks at three years (p. 19).
Change of Employer Experience Rates ORC 4123.343 ORC 4123.512 ORC 4123.931	Employers' experience-rating modification factor is changed retroactively based on certain claim changes (i.e., a subrogation recovery on a claim, and handicap, fraudulent, dismissed and disallowed claims). Current practice involves the re-calculation of an employer's experience for prior years and affected employers receive a premium adjustment for each prior year impacted.	"Some of the adjustments to an employer's experience have no time constraint or have an overly extended reporting period. This adds to the administrative burden required of the BWC staff in order to process multiple changes to the employer experience" (Report 4.2, p. 1). "Other monopolistic states do not make as many mid-term adjustments to experience modification; nor do the NCCI guidelines require or permit as many mid-term adjustments" (p. 1).	4.2	1. ▲**Eliminate/restrict changes to employer rates due to changes in claims**. 2. ▲**Restrict the time to report errors**. 3. ▲**Establish shorter and clearly defined time constraints.**

▲= Governed by statute

Comprehensive Review Recommendations Governed by Statute

Ohio Bureau of Workers' Compensation

October 20, 2009

Medical Recommendations

Topic	Background	Problem Identified by Deloitte	Report	Deloitte's Recommendation(s)
MCO Effectiveness ORC 4121.44 ORC 4121.121	The 1997 Health Partnership Program (HPP) was initiated to improve managed care services to Ohio's injured workers and positively impact loss costs. Today, 18 managed care organizations (MCOs) partner with BWC.	"MCOs do not compete on a price-of-service basis in the HPP. The associated bundling of services (e.g., First Report of Injury submission, telephonic and field-based case management) makes it difficult for BWC to value these services and to compare them one to another or to other out-of-state MCO arrangements" (p. 30).	2.6	2. ▲**Price-of-service competition among MCOs** (p. 34). Conduct a formal study to determine the feasibility of introducing competition into the HPP.
Medical Treatment Authorization Process ORC 4121.44 ORC 4121.34 ORC 4121.39 ORC 4123.53 ORC 4123.511	Proactive allowance is intended to give physicians an expedited process to seek additional allowances and ultimately deliver services to injured workers sooner, resulting in appropriate quality care and the potential for earlier return to work (p. 22). When additional medical allowances are requested, employers have due process and appeal rights. A waiver is required when an employer agrees not to appeal. Injured workers' Independent Medical Exams (IMEs) are required after 90 days of lost time to (a) ensure that medical treatment is appropriate, (b) test for maximum medical improvement and (c) identify vocational rehabilitation opportunities. Last year, 4,500 mandatory IMEs were conducted at a cost of $1.5 million. Less than one in four IMEs resulted in maximum medical improvement findings. Today, BWC's policy is to initiate a 45-day Disability Management IME to manage claims more closely. A February 2009 rule gave BWC the authority to waive the 90-day IME when treatment, medical and/or legal conditions indicate it is not necessary.	Despite improvements, "there are significant bottlenecks in the process related to timely medical treatment authorization for allowable conditions" (Report 2.6, p. 32). "The proactive allowance process fails to provide an expedited process" (Report 2.3, p. 22). "The allowable time frame under current guidelines is five to 28 days" (p. 22). Deloitte does "not believe that employers should be involved in allowable condition determinations due to lack of both impartiality and medical expertise" (p. 22). Statutorily-required Independent Medical Exams (IMEs) at 90 days of injured worker lost time appear to deliver little value to BWC or its constituents (Report 2.6, p. 2).	2.3 2.6 2.6	3. ▲**Eliminate the proactive allowance waiver**. Streamline the process by eliminating the required employer waiver in proactive allowance (p. 28). 5. ▲**More MCO flexibility in treatment authorization.** More readily accept MCO recommendations on medical-treatment requests that involve adding related conditions when determining an additional covered condition (p. 3). 4. ▲**Eliminate IME requirements at 90 days**. Seek legislative change to eliminate the statutory requirement of required IMEs at 90 days of lost time (p. 34).

▲= Governed by statute

Fiscal Recommendations

Topic	Background	Problem Identified	Report	Recommendation(s)
Ancillary Funds ORC 4123.411 ORC 4123.419 ORC 4131.03 ORC 4131.13	The Disabled Workers' Relief Fund (DWRF), Marine Industry Fund, and Coal Workers' Pneumoconiosis Fund (CWPF) are collectively termed the "ancillary funds." These funds provide primary or supplemental insurance to employers in these special risk industries. DWRF operates on a pay-as-you-go basis. Premiums cover paid losses in the prospective policy year. They do not fully fund the liabilities. BWC is not at risk of defaulting on obligations to disabled workers.	"Considering the state of Ohio as a whole, there is an unrecognized obligation of employers for their collective potential future premium liability related to this [DWRF] Fund equal to $1.5 billion" (Report 4.1, p. 18).	4.1	9. ▲**Address the large unfunded obligation, including possible long-term funding** (p. 22). 10. ▲**Change DWRF from a pay-as-you-go basis to support reducing unfunded obligations** (p. 22). 11. ▲**Set DWRF rates to meet payments and reduce the burden to future employers for DWRF benefits** (p. 22). 12. ▲**Establish a good, clear and long-term rationale for funding DWRF benefits** (p. 22). 13. ▲**Set policy rationale for equity between past, current and future benefits to pay DWRF benefits** (p. 22). 14. **Charge some premium for CWPF coverage with credits/dividends for long-term CWPF employers** (p. 22). 15. ▲**Develop funding policies for each ancillary fund** (p. 22). 16. ▲**Combine funds** (p. 22).

▲= Governed by statute

BWC Administrator Marsha Ryan
Senate Insurance Commerce and Labor Committee
Group Rating and Comprehensive Review
October 20, 2009

BWC policies, rules, and outcomes regarding rate reform are the result of much input debate and discussion over the past two years by the BWC Board of Directors with direct input from legislators, stakeholders, third-party administrators, sponsors of groups, individual employers, business and trade associations, and attorneys representing various parties.

Legislative input includes two pieces of legislation passed in the 127th General Assembly. House Bill 100 and House Bill 79 have been primary drivers of BWC rate reform. Both laws placed a duty on the BWC Administrator to report to the General Assembly. In accordance with these requirements, summaries were prepared and electronically distributed to the General Assembly.

The "Ohio Bureau of Workers' Compensation Comprehensive Review," is a summary of actuarial study mandated in HB 100 and performed by Deloitte Consulting. The comprehensive study gave us a number of recommendations to make the system more actuarially sound, and to create premium parity among group and non group employers. The "Plan for Adequacy and Equity in Ohio's Group Experience Rating Program," outlines the reforms resulting from HB79. Both reports were personally presented to the Workers' Compensation Council in September and have been provided to you today. Also included are the statutory changes recommended by the Comprehensive Review. These were personally presented to the House Insurance Committee at its hearing last week.

Stakeholder input includes many meetings over the past two years. Stakeholders were intimately involved in crafting the reform plan which was a compromise for all parties. BWC presented stakeholders with a number of suggestions for eliminating the premium collection shortfall that could no longer be denied.

Among the suggestions made by BWC were "behavioral solutions," such as homogeneity and continuity within groups. Alternatively, BWC could apply a financial solution in the form of a "break even factor" that guarantees group employers pay premiums that reflect their actual costs. A break-even factor adjusts the discount level for all group participants to the right level for the risks within the group. Stakeholders preferred this to behavioral solutions and a break even factor was applied for the 2009 policy year. This past week there was a recent request from stakeholders to discontinue application of a break even factor for the 2010 policy year.

As an agency with a fiduciary duty to the State Insurance Fund and the employer premium dollars that are paid into the fund, we cannot arbitrarily reassign costs. Failure to require behavioral solutions or a financial solution will result in a premium shortfall in excess of $185 million dollars.

Rate Reform Plan

On March 20, 2009, the BWC Board of Directors approved BWC's comprehensive rate reform plan. This landmark decision by the Board emphasizes BWC's ongoing commitment to all employers to establish the right rate for the right risk

The signature achievement of this plan is that the connection between discounts for group-rated employers and base rates for non-group rated employers has been severed. This means that non-group employers' premiums are not inflated to cover premium shortages caused by the group-experience rating program. By setting the base rates for all employers independent of the pricing actions in group experience rating, BWC eliminated any chance of non-group employers bearing additional costs created by group-rated employers and preserved the availability of 50% discounts.

Rate reform is resulting in Ohio employers paying rates that more closely match the risk they bring to the workers' compensation system, and a major portion of the vast premium inequity between group rated and non-group- rated employers has been eliminated. Rate reform has also resulted in the following:

1. Significantly lowered the base rates for a majority of Ohio's manual classes;
2. Modified group rating and clarified the role of sponsoring organizations;
3. Eliminated ineffective rating programs; and
4. Introduced new products and options for employer coverage.

On the horizon in 2011 is a new "split" experience rating plan, that weighs both frequency and severity of claims losses and is used in most U.S. states.

Group-rating History

The group rating program was created in 1991. Giving group discounts is a common insurance industry practice and it is not, on its face, unfair or unsound. Done properly, these types of discounts incentivize safety. Over the years, it became apparent that BWC was not collecting sufficient premiums from a majority of participating employers to cover their costs despite protestations to the contrary. Actuarial data indicates that group rated employers bring higher costs to the system than they pay. This created an imbalance that had to be made up elsewhere. Because BWC is revenue neutral, employers who were not in a group paid extra premium to make up the shortfall left as an effect of the large group discount.

The Deloitte comprehensive rate review concluded in Report 1.1, page 1 that *the current pricing structure has created substantial inequity in the premiums by different employers in the state of Ohio. The primary driver of this inequity is the current approach to group rating.* Deloitte opined further that, *Ohio's base rates are much higher than those of other states, largely as a result of the significant off-balance created by group-rating.*

The BWC Board of Directors is determined to establish rating equity in Ohio and have implemented a well-thought out, multi-year plan which delivered a 25.3 percent average rate decrease for non-group employers. This decrease now ensures non group employers are paying the right rate based on their risk to the system while minimizing the average increase for group rated employers. Most group rated employers will see increases under 10%.

Employer Impact

Comparing all **177,764 private employer policies from 2008 to 2009**, our research shows over a **$139 million drop in premium** for all private group and non-group employers. Naturally, some individual employers will see increases, while others receive a decrease in premium. Sixty one percent of all employers will see less than a $500 swing, either up or down, in their premium. And nearly 54% of group rated employers will see less than $500 increases. Even with the reduction in credibility and the application of a break-even factor, in the coming year, group rated members will average a 50% discount off significantly lower base rates.

- A construction company in Cincinnati with a 2008 payroll of $54.58M will see a 34.2% decrease in premium and save $650,000. The primary catalyst for this premium decrease is a 46% reduction in the base rate for the primary manual classification this company reports and elimination of an off balance previously used to support group rating..

- A mid-sized agricultural business will see a 61% reduction in the base rate and a savings of $27, 500 for the primary manual classification of dairy farm.

- A Lancaster auto dealership will save nearly $200,000 due to a 29% base rate reduction.

Looking at county-by-county figures, one can see the flow-through of these significant premium decreases. For all private employer policies, **those in <u>73 of Ohio's 88 counties</u> will see a net reduction in the total premiums**. These figures range from a $ 4,100 net reduction in Hocking County to a $21 million net reduction in Cuyahoga County. Even in the 15 counties where premiums are expected to rise, 50 percent of employers will receive a decrease.

Other county-wide examples include:

- <u>Defiance County</u> where over 240 employers are expected to see an overall premium reduction of $740,000.   An average of $3,030 for those employers.

- <u>Franklin County</u> where over 9,400 employers are expected to see an overall premium reduction of $37 Million and a net **county-wide savings of $18 Million**.

- <u>Hamilton County where over 8,500 employers are expected to see an overall premium reduction of $31.3 Million and a net county-wide savings of $13 Million.</u>

- Where 1,130 <u>Licking County</u> employers are expected to see an overall premium reduction of more than $3 million and net **county-wide, employers will save over $$1 Million**.

- <u>Mahoning County</u> where 2,750 employers are expected to experience more than $8.7 million savings and a net **county-wide savings of more than $2.9 million**.

- In <u>Trumbull County</u>, where more than 1,650 employers will save more than $6.4 million in premium, with a net **county-wide savings of more than $4.4 million**.

- Finally, of the 446 private employers in <u>Van Wert County</u>, more than 200 will save over $470,000 in premiums with a net **county-wide savings of over $45,000**.

Beyond rationalizing and stabilizing group rating to more closely match an industry model of group programs, BWC has also created some options for employers based on proven insurance practices.

These include a new deductible program and a group retrospective rating program for Ohio employers, providing more options for employers to meet their business needs.
Deloitte also addressed three ancillary issues relative to rate reform.

Premium Volatility

The success of rate reform will be felt by employers on a number of levels. In addition to the dollars and cents cost savings, a major benefit will be greater certainty in knowing how much their expected workers' compensation premium will be from year to year, making it much easier to budget their insurance costs. BWC instituted a 100% experience-modifier (EM) cap. The EM cap was intended to mitigate the sticker shock experienced by far too many employers in this state after being eliminated from group-rating by their previous year's group sponsor. The EM is a calculation used by BWC to arrive at an employer's premium. An employer with an EM of .15 in 2008 (or an 85% discount) could expect their EM to increase to more than .30 (for a 70% discount). Members of this committee may have heard from an employer, who because of one large claim, experienced a ten-fold premium increase when removed by their sponsors from their group.

With this cap, approximately **1,700 employers will see their premiums collectively reduced by $25 million**.

Manual Classifications Better Match Risk

Workers' compensation insurance premium costs are calculated using base rates for various manual classifications which are defined by the National Council on Compensation Insurance (NCCI). This is a nationally accepted standard, and like more than 40 other states, Ohio uses these 600 plus different classifications to report employer payroll and ultimately determine each employer's premium.

This year's plan significantly lowered rates for the majority of the manual classifications to give Ohio a much better opportunity for new business and job creation.

With rate reform, base rates have dropped for **441 of the 532 manual classifications** used in Ohio from fiscal year 2008 to fiscal year 2009. Of those, **325 classifications saw a drop of 20% or more,** with **70 manual classes experiencing a base rate drop more than 50%.**

Reserving System

In addition to lowering base rates and premiums, a key new "tool" installed in 2008 is benefiting BWC's ratemaking.

Mandated in HB 100, MIRA II is in its second year and providing the most accurate individual claim reserve data we've ever seen. This in turn makes employers' experience modifiers (EM) more accurate than ever. And even more importantly, its transparency is giving employers an open window to their claims, allowing them to calculate how much an injury will cost well into the future. This change has lowered claim reserves and decreased incurred costs for individual claims by more than 20%.

Over the past two years, the BWC Board of Directors has made a number of mindful decisions to achieve our goal of a fair and actuarially sound workers' compensation system. With these initial changes, employers are now paying rates that more closely match the risk they bring to the system.

Future changes will further improve equity throughout the system and provide accurate, competitive rates for all Ohio employers.

In response to Senator's Buehrer's remarks regarding DFWP in Gongwer this morning the following is an update the Committee on the status of the DFWP program.

Deloitte Consulting concluded that Ohio's current program is ineffective at improving employers' loss performance and current discount levels are excessive.

Historic Program Participation

- 13,658 participants since 1997
- $403m in discounts given

While the current program will continue for the new policy year, BWC has revised the eligibility requirements. The only "change" to date is the un-stacking of discounts for DFWP program participants who are also in the group rating program. This change was intended to achieve rating equity and actuarial soundness to the workers' compensation system in Ohio. Overall participation is on a steady decline.

All Ohio employers can rest assured that BWC supports Ohio employers' efforts in maintaining drug-free workplaces and for the first time, providing a drug free program is mandated by statute. This commitment includes our continued work to help employers understand the importance and value of being drug and alcohol free and the direct affect such a program can have on safety in the workplace.

Since the DFWP is directed toward the prevention of injuries and claims attributed to substance abuse, it should be treated as other similar safety intervention programs and evaluated accordingly. Therefore, BWC's Division of Safety and Hygiene is currently leading our effort to retool the DFWP to be a compatible, evidence-based, contemporary drug free workplace safety program (DFWSP).

We will tailor the program to meet the needs of Ohio's employers collectively and individually while supporting the mission and objectives of BWC. This program will be consistent with the occupational safety and health practices as they apply to specific industries, trades, and employers. We envision the program to be evidence-based as it will adhere to scientific scrutiny with elements that are objectively designed, implemented, measured, and, if needed, modified to produce the desired outcome. Also, we envision the program to be contemporary such that it is consistent with the latest advances in science and research, current practices in other states, and private sector companies in and outside Ohio.

Currently we are heavily involved in benchmarking similar programs in other states as well as large self insured companies, and we are reviewing and synthesizing the scientific literature on the design and effectiveness of drug free workplace programs.

Preliminary results of benchmarking drug free workplace programs in eleven states confirmed that the discounts offered in Ohio are larger than those offered in other states. Except for Georgia (7.5%) and Ohio (can reach 20%), DFWP, discounts are at 5.0%.

Results from the scientific literature are mixed relative to the effectiveness of drug free workplace programs in limiting injuries and claims. The majority of the literature suggests that reductions in injuries are not as many expected when these programs gained momentum 15 years ago. Further, the literature suggests that companies with low rates of injuries tend to gain less from these programs. This may explain the relatively reduced effect of our program on group rated employers.

Additionally, BWC's Division of Safety and Hygiene has initiated further analysis of the injuries and claims experience of employers who participated in the program. The objective of this analysis is to identify certain characteristics among specific industries and employers that make DFWP programs more effective in preventing workplace injuries and claims.

Another major part of this effort involves soliciting input from stakeholders including meeting with vendors, employers, and employees as well as experts in the subject area. Further, we are working with researchers and academics from the National Institute for Occupational Safety and Health (NIOSH), Ohio State University, and the Ohio Department of Alcohol and Drug Addiction Services (ODADAS) to help in retooling the DFWP. All of these efforts are intended to guarantee the viability and sustainability of BWC's drug free workplace program by improving its effectiveness in reducing the frequency and severity of injuries attributed to drug abuse in the workplace

Ohio | Bureau of Workers' Compensation

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Governor **Ted Strickland**
Administrator **Marsha P. Ryan**

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Thank you for your e-mail regarding the group-rating program. The Ohio Bureau of Workers' Compensation (BWC) and its Board of Directors (Board) are aware of the economic challenges that exist in Ohio and nationwide. In fact, the Board gave considerable attention to those challenges when it decided to set rates more accurately for non-group employers beginning July 1, 2009.

As the administrator of BWC, I assure you that the Board and I welcome your feedback and take your concerns seriously. As such, please provide us with your business name and contact information, so that one of our staff members can contact you regarding your premiums. You may send your information to Jeremy Jackson at jeremy.jackson@bwc.state.oh.us.

During the past two years, the Board has made a number of decisions based on equity and fairness that allow us to provide rates to employers that reflect their individual risk. Indeed the decisions affecting policies, rules and outcomes pertaining to rate reform are the result of much debate and discussion with direct input from legislators (*see* House Bill 100, and House Bill 79, passed during the 127th General Assembly) and stakeholders. These stakeholders included group sponsors, individual employers, business and trade associations, and attorneys representing various parties.

Giving group discounts is a common insurance practice. When used properly these discounts can incentivize safety. However, over the years, it has become apparent that we were not collecting sufficient premiums from groups to cover the costs that groups presented to the system. This created a premium shortfall in the workers' compensation system.

We are a state agency with a fiduciary duty to the State Insurance Fund and the employer premium dollars that are paid into the fund. To satisfy our fiduciary responsibility, we cannot arbitrarily reassign costs. BWC presented the stakeholder community with a number of suggestions for eliminating the premium collection shortfall.

Our suggestions included "behavioral solutions," such as homogeneity and continuity within groups. BWC's alternative suggestion was to apply a financial solution in the form of a "break- even factor" that guarantees group employers pay premiums that reflect their actual costs. A break-even factor adjusts the discount level for all group participants relative to the risk within the group. Stakeholders preferred this approach to the behavioral solutions. BWC accommodated the stakeholders' preference and applied a break-even factor to group premiums for the 2009 policy year.

It is important to understand that failure to require behavioral solutions or, in the alternative, to apply a break-even factor will result in a premium shortfall in excess of $185 million.

The Board of Directors is determined to establish rating equity in Ohio, and it has implemented a thoroughly considered, multi-year plan that delivered a 25.3-percent average rate decrease for non-group employers. This decrease ensures non-group employers are paying the right rate based on the risk they present to the system while minimizing the average increase for group-rated employers. Most group-rated employers will see increases under 10 percent.

Comparing rates for 194,103 private employer policies from 2008 to 2009, our research shows an overall decrease of $139 million in premium for all private group and non-group employers. This means that even with the reduction in the maximum discount rate, and the application of a break-even factor in the coming year (2010 policy year), group-rated employers will average a 50-percent discount off significantly lower base rates.

In addition to these cost savings, the Board has also approved a 100-percent experience modifier (EM) cap. This cap is intended to mitigate premium volatility - the sticker-shock experienced by far too many Ohio employers when they are eliminated from group by their group sponsor. With this cap, approximately 1,700 employers will see their premiums collectively reduced by $25 million.

Rate reform has significantly lowered rates for the majority of manual classifications, giving Ohio a much better opportunity for new business and job creation. In fact, with rate reform, base rates have dropped for 441 of the 532 manual classifications used in Ohio from fiscal year 2008 to fiscal year 2009. Of those, 325 classifications saw a decrease of 20 percent or more, with 70 manual classes experiencing a base rate drop exceeding 50 percent.

Over the past two years, the Board of Directors has made a number of mindful decisions in pursuit of a fair and actuarially sound workers' compensation system. The cornerstone of the rate reform plan is establishing the right rates for the right risks brought to the system. With these initial changes, employers are paying rates that more closely match the risk they present to the system.

Thank you again for contacting me and the BWC Board of Directors regarding your concerns. As I mentioned above, please feel free to contact us with your information and a member of our staff will respond to any questions regarding your individual policy.

Sincerely,

Marsha P Ryan

Marsha P. Ryan
Administrator

Ohio House of Representatives

Civil and Commercial Law Committee
Representative Okey, Chairman
Sponsor Testimony – HB 249, October 6th, 2009
Representatives Heard & Letson

Chairman Okey, members of the Civil and Commercial Law Committee, thank you for allowing Representative Letson and I the opportunity to speak to you about House Bill 249. House Bill 249 is legislation that seeks to clarify existing law regarding a journalist's access to the bulk data, names, addresses, and telephone numbers of injured workers. It would add to the current definition of "journalist" and allow a person to solicit authority from a claimant or employer to represent the claimant or employer in any claim or appeal filed with the Ohio Bureau of Worker's Compensation.

In order to better understand why this change is necessary, let us examine the history behind the statute.

Prior to Senate Bill 7 of the 122nd general assembly, anyone could request and receive bulk data of names, addresses and claim numbers of injured workers. SB 7 revised section 4123.88 of the Ohio Revised Code still allowing access to names, addressees, and claim numbers, but it had some added limitations:

1) Names and address were no longer public records and only journalists could request the data under the statutory exception in section 4123.
2) In practice, bulk data requests were still allowed if made by journalists.
3) The state's reasons for such limitation were to limit chiropractors' and lawyers' access to this information to save money in administration and to protect the fund.

Last assembly, SB 334 placed further limitations on those who had access by expanding the language to say that only those who are "primary occupation journalists" could get this information. Later, the BWC halted, by rule, the certification of primary occupation journalists to obtain this information by saying journalists cannot not make bulk data requests. This then required those seeking information to submit gigantic, phone-book sized lists of injured workers to gather information – which is difficult seeing as they might need this sort of information in the first place.

This bill would do the following:

1) Eliminate the prohibition in the workers Compensation Law against directly or indirectly soliciting authority from a claimant or employer to take charge of, or represent the claimant or employer in respect of, any claim or appeal that is or may be filed with the BWC or the Industrial Commission.
2) Removes the provision in the Workers Compensation Law that provided that, generally, information kept by the industrial Commission or the BWC concerning claimant files is for the exclusive use of the commission and BWC in the discharge of their official duties.
3) Provided that an individual whose primary occupation is as journalist is permitted to request the address or address and telephone number or numbers of workers' compensation claimants, for *any lists of* multiple workers or dependents in one written request.
4) Redefines "journalist" for purposes of the provisions for a journalist exception to the confidentiality of workers' compensation claimants' names and addresses.

The BWC's position on the statute is clear. As a statutory steward of the sensitive information, they feel that they must properly assess the requestor's background, determine their journalistic integrity, and assess if the intent is to disseminate said information for the public good. It follows that the interest implied in such a position is due to a desire to protect Ohio's citizens and be true servants of the public.

There are several reasons why I believe this legislation needs to be passed.

1) **There is a legal reason for this information to be public**
   a. There is no constitutional right to privacy and this contact information is not federally protected.
   b. The BWC is not protected under HIPPA law
      i. The BWC has no duty to deny access to "Protected Health Information Identifiers" that would include the aforementioned contact info.
2) **There is a right to advocacy**
   a. Some might suggest this will just allow attorneys to solicit information from BWC to advertise their services to claimants. In my district, where the illiteracy and poverty rates are higher than what one might find in more affluent neighborhoods, individuals find the process of filing a claim intimidating. Here they are, going through a process laden with legalese and nuance. Often, they are not even aware of their rights. In this context, to limit any individual's ability to acquire the support of an advocate flies in the face of the social contract. As Rousseau said, "Those who believe themselves the masters of others cease not to be even greater slaves than the people they govern." If the BWC serves as a

mechanism to help injured workers, that worker's ability to access council is paramount.

3) **We should never limit the definition of journalist**
    a. Especially in the age of "new media," I find it problematic to have the government narrow the definition of a journalist. Our country was founded on the principals of free speech and governmental accountability. With an entity such as the BWC, which is in charge of distributing millions and millions of dollars, why should this be any different? Wouldn't the public be better served by a policy that allows for the greatest amount of transparency? If a blogger on the campus of OSU noticed a pattern of favoritism or corruption, and wanted to investigate that pattern, or if someone formed a facebook group seeking to find other individuals who may have been affected while working at a specific worksite, what is to prevent the BWC from saying "they are not a legitimate journalist"?

I submit to the committee that this change is necessary because it is a bill about good government, agency accountability, and advocacy. Mr. Chairman, members of the committee, this concludes our sponsor testimony. Representative Letson and I will answer any questions the committee members may have.

Ohio | Bureau of Workers' Compensation

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Governor **Ted Strickland**
Administrator **Marsha P. Ryan**

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MEMORANDUM

To: BWC Actuarial Committee
BWC Board of Directors
From: Paula A. Phillips, Director, Fiscal Operations
Subject: Safety & Hygiene Utilization
Date: October 29, 2009

At September's Actuarial Committee meeting during the first reading of rule 4123-17-37 concerning the recommendation to reduce the Safety & Hygiene Public Employer Taxing District rate from 1% to .5% Director Hummel asked if utilization of services had declined in recent years. Upon review of the utilization information provided by Safety & Hygiene for the annual Cost Allocation Study in recent years I found the percentage for Public Employer Taxing District utilization had decreased slightly while total utilization from all employer groups has increased. During this time the Safety & Hygiene budget has remained stable.

Please accept my apology for the delay in providing this response. I would be glad to answer any additional questions you might have. Thank you.

XC: Marsha P. Ryan, Administrator
John Pedrick, Chief Actuarial Officer
Tracy Valentino, Chief Fiscal and Planning Officer
Abe Al-Tarawneh, Superintendent of Division of Safety & Hygiene