BWC Board of Directors

Board Meeting

Friday, January 23, 2009, 8:00 a.m.
William Green Building
30 West Spring Street, 2nd Floor (Mezzanine)
Columbus, Ohio 43215

Members Present:	William Lhota, Chair Charles Bryan David Caldwell Alison Falls Kenneth Haffey James Harris James Hummel Thomas Pitts Larry Price Robert Smith
Members Absent:	James Matesich.

CALL TO ORDER
Chair Lhota called the meeting to order at 8 a.m.

ROLL CALL
Roll call was taken by the scribe. All members were present, except for Mr. Matesich.

DECEMBER 18, 2008 MINUTES
Motion was made by Mr. Harris, seconded by Mr. Caldwell, to approve the minutes. Roll call was taken and the motion to approve the minutes passed 10-0.

The meeting agenda was reviewed. There will be an executive session conducted at the end of the meeting. The meeting will adjourn immediately following the executive session. Motion was made by Mr. Hummel, seconded by Mr. Caldwell, to approve the agenda as amended. Roll call was taken and the motion passed 10-0.

COMMITTEE REPORTS:

GOVERNANCE COMMITTEE

Ms. Falls presented the Governance Committee report. There were no action items. Ms. Falls stated that Administrator Marsha Ryan provided an excellent report to the committee on leadership development. Further, an outline was provided to the directors as well as a table of organization with respect to senior management. There was discussion regarding the rule review process. A handout was included and is incorporated into the minutes. There is plan A, the current process, and plan B, a proposed alternative. The Board shall proceed with plan B, and continue with two readings, with waiver of the second reading when appropriate. The board may schedule additional committee meetings to consider rules presented by BWC staff. Mr. Price, Ms. Falls and Don Berno, Board Liaison, will meet to discuss further. Mr. Price noted that it is necessary to have a consistent process for rule review. He also cautioned the board to be patient in the development of the rule review process and rules presented for review by BWC staff.

ACTUARIAL COMMITTEE

Mr. Bryan presented the Actuarial Committee report. Mr. Bryan discussed a new approach and plan to group rating. He stated that it is important to ensure that equitable rates are developed in any plan. There will be an introduction of a new element to the group rating plan. Any new developments must result in sustainability for both groups and non groups. John Pedrick, Chief Actuarial Officer, discussed the great amount of work that has been performed with respect to this effort. There is a need for direction for modification of the plan approved by the Board in June 2008.

Motion was made by Mr. Bryan, seconded by Mr. Caldwell, as follows: that the Bureau of Workers' Compensation Board of Directors consents to the Administrator's recommendation relating to the development of the elements of a comprehensive rating plan. The motion consents to the Administrator proceeding with the development of the elements of the comprehensive rating plan as presented to the Actuarial Committee. The Administrator shall provide the Board with periodic updates, including proposed rule changes, on the development of the rating plan. Roll call was taken and the motion passed 10-0. Mr. Price indicated that the Board has given the Administrator the go ahead to develop the plan, but then emphasized the importance of the Administrator subsequently presenting the plan to the Board for the Board's consideration. Mr. Bryan noted that this is facilitating a move to equitable rates.

Mr. Pedrick noted the importance of transitioning to the new credibility tables previously approved by the Board, which remains a necessary piece of the plan to improve the system. Mr. Pitts and Mr. Harris noted this is a complex issue, and noted the good presentations that have been made to the Board by senior management.

Motion was made by Mr. Bryan, seconded by Mr. Pitts, as follows: that the Bureau of Workers' Compensation Board of Directors consents to the Administrator's recommendation to amend Ohio Administrative Rule 4123-17-62 relating to extending the deadline for group rating, filing the AC-26 form, and removing an employer from a group for gross misrepresentation. The motion consents to the Administrator amending rule 4123-17-62 as presented at the Actuarial Committee. Roll call was taken and the motion passed 10-0.

Motion was made by Mr. Bryan, seconded by Mr. Hummel, as follows: that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendation to amend Ohio Administrative Rule 4123-17-03 and 4123-17-71. The amendments establish a cap or limit on the annual increase in an employer's experience modification. Roll call was taken and the motion passed 10-0.

There is a February 27 deadline for a request for proposal for an actuarial consultant. The committee reviewed Deloitte recommendations, and further discussed a deductible plan. It was the first reading of the deductible plan. There was detailed evaluation of the actuary content for revision of the plan for group and non group.

AUDIT
Mr. Haffey presented the Audit Committee report. A report on the lump sum settlement consultant recommendations was made by Tina Kielmeyer, Chief of Customer Services, and Ray Mazzotta, Chief Operating Officer. Five key areas were summarized. An initial internal BWC team meeting was held January 22, 2009 to consider recommendations in the lump sum settlement consultant report. Implementation will be carried out in three phases. Mr. Pitts volunteered to participate as an observer for the lump sum settlement report and process developments. Mr. Lhota stated he appreciates individual Directors devoting extra time in their areas of expertise.

Caren Murdock, Chief of Internal Audit, provided an update on ten current audits. Two or three audits shall be completed by the February 2009 meeting. The Internal Audit department has Certified Public Accountants on staff. Mike Overmyer is the Investment / Compliance Program Manager. Joe Bell, from the Office of Budget and Management, provided a report on House Bill 166. Mr. Bell provided further discussion on the internal audit transition at the statewide level and the integration of the Bureau. Tracy Valentino presented an update of staff responses to the external audit comments. There was one significant deficiency this year, and staff is addressing that issue. Of the other 12 comments, staff believes 8 are resolved, 2 are in process, and 2 are pending. In executive session, James Barnes, Chief Legal Officer, provided litigation updates with regard to pending litigation.

INVESTMENT COMMITTEE

Mr. Smith presented the Investment Committee report. Discussion was made of the portfolio update presented by Bruce Dunn, BWC Chief Investment Officer. Discussion was made of the rebalancing of the portfolio. The rebalance was successful and in accordance with policy. Mercer Consulting made a presentation on asset-liability modeling. More specifically, Mercer made a presentation on the allocation of assets to meet obligations within a range of a funding ratio. The Board will continue to look for more precise ranges of asset allocation as the issue is further evaluated. Ms. Falls requested that discussion be made by Mr. Dunn with regard to State Street. Mr. Dunn noted that approximately $11.5 billion dollars of BWC assets are managed by State Street Global Advisors. Earnings reports for State Street have not been well received. Mr. Dunn has met with its new chief executive officer. It is important to distinguish State Street Global Advisors from its parent corporation. Global Advisors itself has increased market share, and is well positioned for a positive outlook. They do have an off balance sheet program, consisting of asset backed securities and commercial paper. Reserve losses had to be increased. There is a need for more in depth research. State Street Global Advisors continues to maintain an outstanding platform, the core business is strong, and is subject to heavy regulation. The firm has excellent repetitive revenues, at the advisory level is well managed, and is gaining market share. The firm is increasing market share as more clients move from active management towards passive management. The Bureau shall continue to watch the firm closely, and will meet face to face with management of the firm, on at least a quarterly basis.

Mr. Dunn described a plan for handling a default by State Street. Mr. Bryan inquired in great detail on this issue. Mr. Dunn noted there is no possibility of asset loss. State Street does not have custody of the Bureau's assets. Instead, JP Morgan has such custody. Director Falls noted that State Street received $2 billion in the first distribution of TARP monies. State Street has been deemed "to big to fail" by the federal government.

MONTHLY ENTERPRISE REPORT:

The enterprise report was presented by Tracy Valentino, Chief of Fiscal and Planning. Financial statements were reviewed and discussed at length. A report and PowerPoint presentation are incorporated by reference into the minutes. Net operating income for December 2008 was $32.4 million. Net investment income for December 2008 was $1.33 billion. The increase in net assets in December 2008 was almost $1.4 billion. The net asset balance as of December 31, 2008 is

$2.3 billion. The marked to market impact is reflected in the statements. Premium collection was five percent greater than anticipated. Ohio employment decreased substantially, thus, the Bureau anticipates a decrease in premium collections. The Bureau is sensitive to cost containment, in an effort to ensure that our cash flow is such to meet our monthly expenses. The fiscal year 2007 early retirement buyout is reflected in the statements. Mr. Price inquired as to the impact of reorganization expenses. Mr. Price inquired as to the increase in participation in the safety program. Administrator Ryan noted that the Bureau is paying great attention to participation in such programs. The Bureau is measuring the impact of such participation, including the impact of Safety Council. Creating the correct rate for the correct risk considers numerous variables the Bureau is aggressively measuring. Evaluation of the contribution of all programs is necessary for understanding decreases in costs, with specific focus on individual employers, to determine what their specific cost driver is. Ms. Falls inquired as to the measure of stability. Ms. Valentino discussed a change of five percent and $500 in premium, to define an unstable premium. Mr. Pedrick explained experience modifier and variable rates transition to a split plan. The transition to a split plan will initially cause volatility, but eventually create stability for experience modifiers, thus enabling employers to project costs.

STRATEGY DISCUSSION

Don Berno, Board Liaison, gave a presentation on a reserve discount rate policy. A handout is included and incorporated by reference into the minutes. The Bureau needs to adopt a policy, and a proposal is incorporated into the minutes. Although the Administrator has the authority to set the discount rate, this policy sets forth the process to develop and present a rate to the Board for evaluation and approval, as set forth by R.C. 4121.121(B)(1). Such a policy will provide transparency and guide the Board in the future. There was discussion about the methodology and guiding principles for developing a rate. It is important to recognize the time value of money to predict a prudent picture of liabilities. The method discussed is supported by the Governmental Accounting Standards Board (GASB) and the Actuarial Standards of Practice. This policy, if approved by the Board, will operate to reduce volatility in estimating reserves. Mr. Bryan inquired as to whether timing and frequency should be included in policy.

This will be investigated further. Ms. Falls indicated that when a recommendation is made to the Board, it should include the Administrator's rationale, and key background information as to how the recommendation was formulated. There was discussion of the possibility of including a definition of "risk-free" rate of return indicator. Mr. Berno pointed out that GASB went to great lengths to not define such a term.

LEGISLATIVE UPDATE

Gregg Paul, Legislative Liaison, presented an update on current legislative matters to the Board, including an overview of the new General Assembly leadership and associated dynamics. The House convened January 6, 2009, with thirty-three of the ninety-nine members being new. The balance is fifty-three Democratic members and forty-six Republican members. The new Speaker of the House is Armond Budish. The Bureau's Legislative Affairs staff meets regularly with the General Assembly. The Bureau's annual budget bill will be introduced in early 2009 for the 2010/ 2011 biennial budget. A bill to allow private insurance companies to compete with BWC may be introduced. The bill may also call for a reduction of twenty-three cabinet level agencies to nine cabinet level agencies. A meeting with Representative Grendell is set for January 28, 2009. There was discussion of professional employer organization revision legislation. House Bill 79 was signed January 6, 2009, concerning Workers' Compensation Council spending, group rating, as well as rate reform concerning the group rating process. Mr. Pitts discussed the legal issue of privatization, noting there was a constitutional question involved.

ADMINISTRATOR BRIEFING:

Administrator Ryan presented to the Board. Ms. Ryan discussed at length the focus on cost containment, improvement of efficiencies, and fiscal responsibility. The agency is reviewing its contracts with external parties to determine if and where reductions can be made. Governor Strickland shall make his State of the State speech on Wednesday, January 28. There was discussion about personnel changes, including the departure of Keary McCarthy, Chief of Communications, to assume a position with the Speaker of the House.

Tina Kielmeyer, Chief of Customer Services, Tom Woodruff, Interim Director of the Self- Insured Department, and the Administrator planned to attend and speak at the Education Day meeting of the Ohio Self Insuring Association on Friday afternoon, January 23. The Bureau and other state agencies continue to explore data sharing agreements relating to employer classification of workers. Such agreements would be subject to rigorous confidentiality requirements. Senate Bill 334 and House Bill 562, regarding interstate jurisdiction, became effective. Two rules on this topic are now in effect with another rule subject to review by the Joint Committee on Agency Rule Review of the General Assembly.

Upon motion by Mr. Harris, seconded by Mr. Haffey, the Board entered into executive session at 9:55 am, for the purpose of discussing pending litigation.

Roll call was taken, and the motion passed 10-0. There was a brief recess prior to the commencement of the executive session.

Upon motion by Mr. Harris, seconded by Mr. Caldwell, the Board returned from executive session. Roll call was taken and the motion passed 10-0. Immediately subsequent to leaving executive session, a motion by Mr. Pitts, seconded by Mr. Smith, was made to adjourn the Board meeting. Roll call was taken, the motion passed 10-0, and the meeting was adjourned at 10:47 am.

January 23 Board minutes prepared by: Thomas Woodruff, Interim Director Self Insured Department

Enterprise Report

February 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.*

January Financial Analysis

BWC's net assets decreased by $865 million in January resulting in net assets of $1.4 billion at January 31, 2009 compared to $2.3 billion at December 31, 2008.

($ in millions)	Fiscal YTD Dec. 31, 2008	Month Ended Jan. 31, 2009	Fiscal YTD Jan. 31, 2009
Operating Revenues	$1,123.9	$164.2	$1,288.1
Operating Expenses	1,165.0	160.1	1,325.1
Operating Transfer Out to ODNR	(1.7)	(1.5)	(3.2)
Net Operating Gain (Loss)	(42.8)	2.6	(40.2)
Net Investment Income (Loss)	(148.8)	(867.6)	(1,016.4)
Increase (Decrease) in Net Assets	(191.6)	(865.0)	(1,056.6)
Net Assets End of Period	$2,311.7	$1,446.7	$1,446.7

- Premium and assessment income of $169 million net of a $5 million provision for uncollectible accounts receivable resulted in operating revenues of $164 million in January.
- Premium and assessment income in January included reductions of $15.5 million for discounts earned by employers participating in the premium discount program.
- Benefits and compensation adjustment expenses of $154 million along with other expenses of $6 million resulted in operating expenses of $160 million in January.
- Oliver Wyman's quarterly review of the projected reserves for compensation and compensation adjustment expenses resulted in an $8 million decrease in January expenses.
- An $865 million decrease in portfolio market value along with net interest and dividends of negative $2 million, resulted in a net investment loss of $868 million for the month after investment expenses. The decrease in portfolio market value is comprised of $1 million in net realized losses and $864 million in net unrealized losses. Interest earnings were significantly impacted by a $65.7 million decline in the principal value of TIPS holdings resulting from a 1.9% decline in the monthly inflation index ratio. TIPS principal values are adjusted monthly based on changes in the consumer price index. However, the principal value will not fall below the original issued value. The semi-annual interest payments are based on a fixed rate applied to the adjusted principal value.
- Private employer premium payments for the six month period ended December 31, 2008 contributed to premium and assessment receipts of $134 million in January. The current economic situation has resulted in slower reporting and payment of premiums by private employers. Collections were $71 million less than projected for the month.
- Claim payments issued in January were $147 million, including $14 million in claim settlements and $2.6 million in Ohio Hospital Association (OHA) settlements.
- A total of $50 million was redeemed from investment managers during January. This cash is being used to support operational cash needs.

Fiscal Year-to-Year Comparisons

BWC's total net assets have decreased by $1.1 billion for fiscal year-to-date 2009 resulting in net assets of $1.4 billion at January 31, 2009 compared to $2.7 billion at January 31, 2008.

($ in millions)	Fiscal YTD Jan. 31, 2009	Projected FYTD Jan. 31, 2009	Fiscal YTD Jan. 31, 2008
Operating Revenues	$1,288	$1,276	$1,316
Operating Expenses	1,325	1,517	1,993
Operating Transfer Out to ODNR	(3)	(4)	–
Net Operating Gain (Loss)	(40)	(245)	(677)
Net Investment Income (Loss)	(1,016)	610	1,079
Increase (Decrease) in Net Assets	(1,056)	365	402
Net Assets End of Period	$1,447	$2,868	$2,707

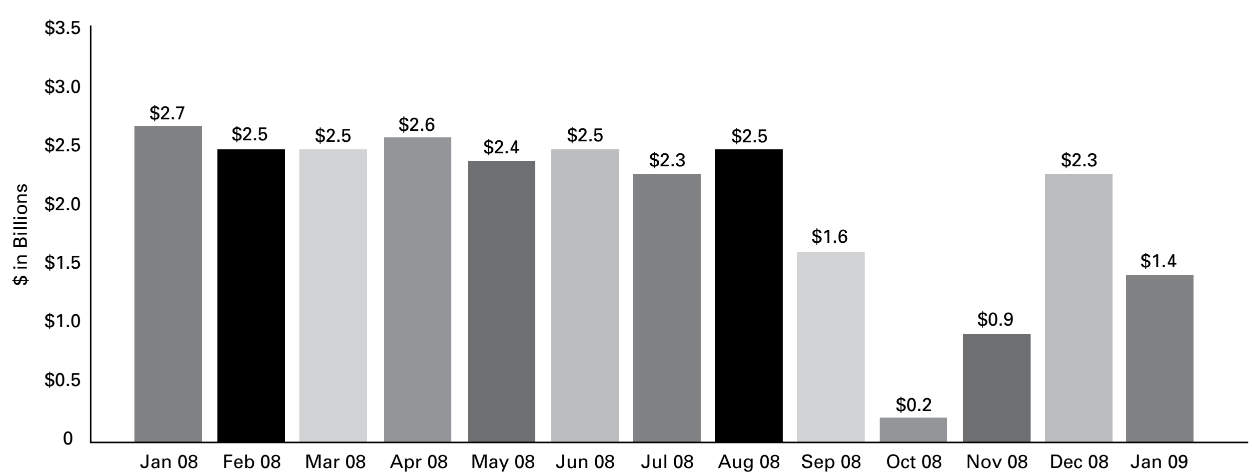
- o BWC's operating revenues for fiscal year-to-date 2009 were $1.3 billion, a decrease of $28 million compared to fiscal year-to-date 2008. The decrease is primarily due to declines in accruals for unbilled premium receivable because of lower than expected losses for state agencies, self-insured employers, and DWRF.
- o The adjustment of private employer accruals to actual premiums and assessments for the coverage period ended June 30, 2008 has contributed to premium and assessment income being 2% higher than projected.
- o Benefit and compensation adjustment expenses have decreased by $668 million in fiscal year 2009 due to a decrease in the change in reserves for compensation and compensation adjustment expenses. Reserves for compensation and compensation adjustment expenses have decreased by almost $52 million in fiscal year 2009 compared to a $501 million increase in fiscal year 2008. The fiscal year 2009 reserve projections are based on payment trends through December 31, 2008 and include a short-term medical inflation assumption of 6% compared to the 9% medical inflation rate used in the fiscal year 2008 actuarial audit.
- o Claim payments, excluding Ohio Hospital Association (OHA) settlements, have decreased by $45 million for fiscal year-to-date 2009 compared to the same period in fiscal year 2008. Claim settlements have declined by $51 million and permanent partial payments have declined by $1.6 million. These declines were partially off-set by increased payments for percent permanent partial disability, and permanent total disability benefits. Over $23 million has been paid this fiscal year in settlement of the OHA lawsuit.
- o Benefit and compensation adjustment expenses are $193 million or 13% less than projected due to lower than projected disbursements for claims and claims adjustment expenses.
- o BWC's net investment loss for fiscal year-to-date 2009 totaled $1.0 billion, comprised of $147 million in net realized losses and $1.3 billion in net unrealized losses, partially off-set by $419 million of interest and dividend income net of $3 million in investment expenses.
- o Fiscal year-to-date premium collections are almost 1.5% lower than projected; contributing to the $28 million unfavorable variance in cash used by operating activities.
- o A total of $205.3 million has been redeemed from investment managers in fiscal year 2009 to meet operating cash flow needs. These redemptions compare to the $155 million that was redeemed during this same time frame last fiscal year.

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

- o Cash disbursements will increase as payments are made to settle the remaining $14.7 million liability resulting from the Ohio Hospital Association lawsuit disputing fee schedules that were not adopted through the Ohio Revised Code Chapter 119 rules process.

- o Premium collections for January were $71 million less than projected. Collections in January through the first 7 business days of February are almost 20% less than during this same period six months ago and 24% less than this same period one year ago. Management is monitoring the status of collections on a daily basis.

Net Assets



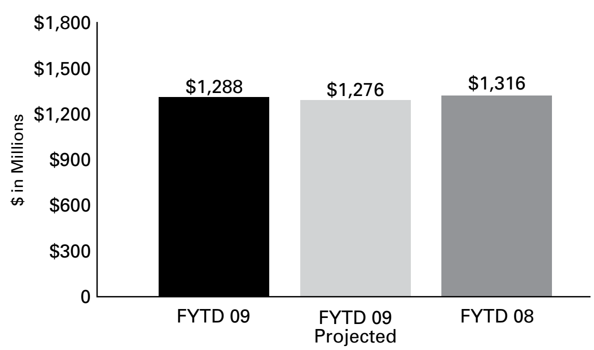
Statement of Operations

Fiscal year to date January 31, 2009

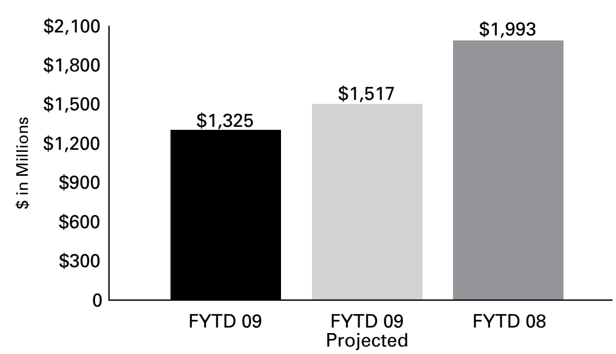
(in millions)

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
Operating Revenues					
Premium & Assessment Income	$1,327	$1,298	$29	$1,345	$(18)
Provision for Uncollectibles	(45)	(29)	(16)	(35)	(10)
Other Income	6	7	(1)	6	–
Total Operating Revenue	1,288	1,276	12	1,316	(28)
Operating Expenses					
Benefits & Compensation Adj. Expense	1,270	1,463	193	1,939	(669)
Other Expenses	55	54	(1)	54	1
Total Operating Expenses	1,325	1,517	192	1,993	(668)
Operating Transfers	(3)	(4)	1	–	(3)
Net Operating Gain (Loss)	(40)	(245)	205	(677)	637
Net Investment Income (Loss)	(1,016)	610	(1,626)	1,079	(2,095)
Increase (Decrease) in Net Assets	$(1,056)	$365	$(1,421)	$402	$(1,458)

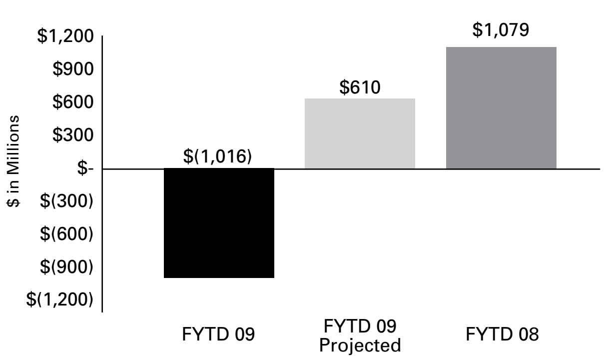
Operating Revenues



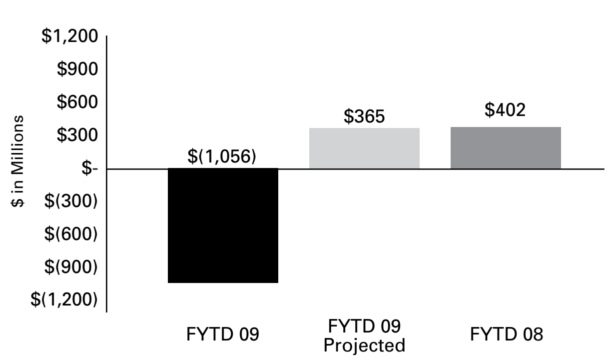
Operating Expenses



Net Investment Income (Loss)



Change in Net Assets



Statement of Operations – Combining Schedule

Fiscal year to date January 31, 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	$1,052,493	$47,410	$748	$133	$513	$11,078	$214,309	$1,326,684
Provision for Uncollectibles	(39,441)	(1,031)	–	–	–	536	(4,945)	(44,881)
Other Income	4,652	–	–	–	–	–	1,653	6,305
Total Operating Revenues	1,017,704	46,379	748	133	513	11,614	211,017	1,288,108
Operating Expenses:								
Benefits & Compensation Adj Expenses	1,061,272	43,252	538	(49)	223	13,996	150,676	1,269,908
Other Expenses	14,003	157	45	–	64	1	40,847	55,117
Total Operating Expenses	1,075,275	43,409	583	(49)	287	13,997	191,523	1,325,025
Net Operating Income (Loss) before Operating Transfers Out	(57,571)	2,970	165	182	226	(2,383)	19,494	(36,917)
Operating Transfers Out	(1,825)	–	(3,106)	–	–	–	1,648	(3,283)
Net Operating Income (Loss)	(59,396)	2,970	(2,941)	182	226	(2,383)	21,142	(40,200)
Investment Income:								
Investment Income	382,395	27,208	5,777	232	173	571	2,788	419,144
Net Realized Gains (Losses)	(136,066)	(8,482)	(2,082)	–	–	–	–	(146,630)
Net Unrealized Gains (Losses)	(1,185,828)	(81,817)	(18,359)	–	–	–	–	(1,286,004)
Total Realized & Unrealized Capital Gains (Losses)	(1,321,894)	(90,299)	(20,441)	–	–	–	–	(1,432,634)
Investment Manager & Operational Fees	(2,651)	(163)	(98)	(1)	–	(1)	–	(2,914)
Gain (Loss) on Disposal of Fixed Assets	–	–	–	–	–	–	(74)	(74)
Total Non–Operating Revenues, Net	(942,150)	(63,254)	(14,762)	231	173	570	2,714	(1,016,478)
Increase (Decrease) in Net Assets (Deficit)	(1,001,546)	(60,284)	(17,703)	413	399	(1,813)	23,856	(1,056,678)
Net Assets (Deficit), Beginning of Period	2,206,922	848,727	179,339	19,350	13,431	8,919	(773,399)	2,503,289
Net Assets (Deficit), End of Period	$1,205,376	$788,443	$161,636	$19,763	$13,830	$7,106	$(749,543)	$1,446,611

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 January 31, 2009

(in thousands)	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
Investment Income					
Bond Interest	$368,474	$444,437	$(75,963)	$427,432	$(58,958)
Dividend Income–Domestic & International	39,301	40,250	(949)	32,651	6,650
Money Market/Commercial Paper Income	4,406	5,692	(1,286)	11,995	(7,589)
Misc. Income (Corp Actions, Settlements)	6,963	2,100	4,863	3,017	3,946
Private Equity	–	–	–	3,919	(3,919)
Securities Lending Income, Net of Fees	–	–	–	–	–
Total Investment Income	419,144	492,479	(73,335)	479,014	(59,870)
Realized & Unrealized Capital Gains and (Losses)					
Bonds – Net Realized Gains (Losses)	(77,659)	–	(77,659)	(73,723)	(3,936)
Stocks – Net Realized Gains (Losses)	(68,219)	–	(68,219)	45,724	(113,943)
Subtotal – Net Realized Gains (Losses)	(145,878)	–	(145,878)	(27,999)	(117,879)
Bonds – Net Unrealized Gains (Losses)	(180,721)	–	(180,721)	1,001,895	(1,182,616)
Stocks – Net Unrealized Gains (Losses)	(1,105,283)	120,750	(1,226,033)	(323,208)	(782,075)
Subtotal – Net Unrealized Gains (Losses)	(1,286,004)	120,750	(1,406,754)	678,687	(1,964,691)
Net Gain (Loss) – PE	(752)	–	(752)	(43,396)	42,644
Change in Portfolio Value	(1,432,634)	120,750	(1,553,384)	607,292	(2,039,926)
Investment Manager & Operational Fees	(2,914)	(2,784)	(130)	(6,853)	(3,939)
Net Investment Income (Loss)	$(1,016,404)	$610,445	$(1,626,849)	$1,079,453	$(2,095,857)

Administrative Cost Fund Expense Analysis

January 2009

- o BWC Administrative Cost Fund expenses are approximately $21 million (11.7%) less than budgeted and approximately the same as this time last fiscal year.

- o Changes in payroll within divisions, including BWC Administration, Customer Service, Human Resources and Ombuds Office, varied due to vacant management positions that were filled in fiscal year 2009, vacancies resulting from the fiscal year 2008 Early Retirement Incentive, hiring controls implemented by OBM and positions moving due to reorganization.

- o The timing of the receipt of invoices for payment in fiscal year 2009 caused actual expenditures to be less than the amount budgeted through January. A closer evaluation of projects and the need for IT consultants caused a reduction in IT personal services. The Attorney General's office encountered issues with the new OAKS system in 2008 causing delays in issuing invoices. Third quarter 2008 invoices were not received at BWC until February 2008.

- o Restrictions implemented for all state agencies concerning the purchase of equipment led to BWC more closely evaluating equipment needs and the reduction of equipment purchases in fiscal year 2008 and 2009.

- o Positions not yet filled led to a reduction in the fiscal year 2009 budget as of January. The payroll budget will be increased as employees are hired.

- o BWC's current fiscal year 2009 budget is approximately $27 million (8%) less than appropriated by the General Assembly. BWC's appropriation was increased $2,500,000 by the General Assembly to allow for additional expenditures for Safety Grants.

Administrative Cost Fund Budget Summary

As of January 31, 2009

Expense Description	FTE's	Actual FY09	Budgeted FYTD09	FYTD09 Variance	FYTD09 Percentage Variance	FY09 Budget	FYTD08 Expenses	Increase (Decrease) in FY09	FYTD09 Percentage Variance
Payroll									
BWC Board of Directors	13	567,086	566,000	(1,086)	-0.19%	873,277	419,816	147,270	35.08%
Workers' Comp Council	1	64,603	64,603	0	0.00%	77,963	0	64,603	100.00%
BWC Administration	6	457,945	457,945	0	0.00%	745,375	318,707	139,238	43.69%
Customer Service	1,485	68,766,499	68,840,581	74,082	0.11%	112,004,145	72,195,495	(3,428,996)	-4.75%
Medical	138	7,282,618	7,291,641	9,023	0.12%	11,993,310	6,496,894	785,724	12.09%
Special Investigations	141	6,946,216	6,947,411	1,195	0.02%	11,401,575	6,866,571	79,645	1.16%
Fiscal and Planning	68	3,065,129	3,077,531	12,402	0.40%	5,041,077	2,726,591	338,538	12.42%
Actuarial	20	1,026,684	1,027,291	607	0.06%	1,728,206	948,700	77,984	8.22%
Investments	10	710,300	711,392	1,092	0.15%	1,243,265	609,242	101,058	16.59%
Infrastructure & Technology	304	18,497,374	18,565,563	68,189	0.37%	30,284,063	17,925,324	572,050	3.19%
Legal	78	4,128,492	4,128,312	(180)	0.00%	6,797,092	3,820,707	307,785	8.06%
Communications	27	1,630,715	1,628,844	(1,871)	-0.11%	2,560,799	1,688,622	(57,907)	-3.43%
Human Resources	66	3,391,526	3,392,219	693	0.02%	5,540,784	2,202,086	1,189,440	54.01%
Internal Audit	16	812,922	813,427	505	0.06%	1,411,181	947,713	(134,791)	-14.22%
Ombuds Office	10	347,396	347,695	299	0.09%	608,990	234,872	112,524	47.91%
Early Retirement Expenses				0	0.00%		151,212	(151,212)	-100.00%
Total Payroll	2,383	117,695,505	117,860,455	164,950	0.14%	192,311,102	117,552,552	142,953	0.12%
Personal Services									
Information Technology		5,412,886	7,972,882	2,559,996	32.11%	13,509,987	8,173,286	(2,760,400)	-33.77%
Legal - Special Counsel		588,914	915,352	326,438	35.66%	1,566,244	814,765	(225,851)	-27.72%
Legal - Attorney General		3,225,701	3,333,064	107,363	3.22%	4,444,085	2,034,675	1,191,026	58.54%
Other Personal Services		3,367,362	5,473,243	2,105,881	38.48%	8,057,613	2,195,706	1,171,656	53.36%
Total Personal Services		12,594,863	17,694,541	5,099,678	28.82%	27,577,929	13,218,432	(623,569)	-4.72%
Maintenance									
William Green Rent		504,537	521,437	16,900	3.24%	18,904,714	579,422	(74,885)	-12.92%
Other Rent and Leases		9,231,883	10,903,018	1,671,135	15.33%	13,692,169	9,268,094	(36,211)	-0.39%
Software and Equipment Maintenance and Repairs		9,715,088	12,088,668	2,373,580	19.63%	19,604,579	9,700,105	14,983	0.15%
Inter Agency Payments		1,492,700	2,200,928	708,228	32.18%	3,658,452	1,431,867	60,833	4.25%
Communications		2,178,309	4,188,694	2,010,385	48.00%	6,964,313	2,139,133	39,176	1.83%
Safety Grants and Long Term Care Loan		2,385,865	3,000,000	614,135	20.47%	6,000,000	2,139,091	246,774	11.54%
Supplies and Printing		754,488	1,860,583	1,106,095	59.45%	3,186,668	1,053,174	(298,686)	-28.36%
Other Maintenance		1,837,285	2,201,278	363,993	16.54%	3,750,451	1,918,368	(81,083)	-4.23%
Total Maintenance		28,100,155	36,964,606	8,864,451	23.98%	75,761,346	28,229,254	(129,099)	-0.46%
Equipment		783,260	7,816,007	7,032,747	89.98%	9,680,865	749,131	34,129	4.56%
Total Administrative Cost Fund Expenses		159,173,783	180,335,609	21,161,826	11.73%	305,331,242	159,749,369	(575,586)	-0.36%

Total Agency Appropriation	332,360,479
Budget to Appropriation Variance	27,029,237
Percentage Variance	8.13%

State Insurance Fund
Administrative Expense Summary

As of January 31, 2009

	Actual FYTD 2009	Encumbrance Balance	FYTD Actual & Encumbrance	Encumbrance Closing Date	Actual FYTD 2008
Investment Administrative Expenses					
UBS Securities LLC	$275,191	$0	$275,191	6/30/08	$4,476,182
Wilshire Associates Inc.	0	0	0	2/24/08	272,083
JP Morgan Chase - Performance Reporting	65,041	36,293	101,334	6/30/08	0
Mercer Investment Consulting	237,498	283,995	521,493	6/30/09	0
Other Investment Expenses	147,994	316,815	464,809	6/30/08	74,176
	725,724	637,103	1,362,827		4,822,441
Actuarial Expenses					
Mercer Oliver Wyman	459,831	1,047,626	1,507,457	12/31/09	424,315
Oliver Wyman Consulting	147,826	1,806,533	1,954,359	12/31/09	0
Deloitte Consulting LLP	1,545,169	4,926	1,550,095	12/31/08	0
AON Risk Consultants	0	0	0	6/30/07	263,599
	2,152,826	2,859,085	5,011,911		687,914
Ohio Rehabilitation Services	605,407	0	605,407	6/30/09	0
TOTAL	$3,483,957	$3,496,188	$6,980,145		$5,510,355

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.

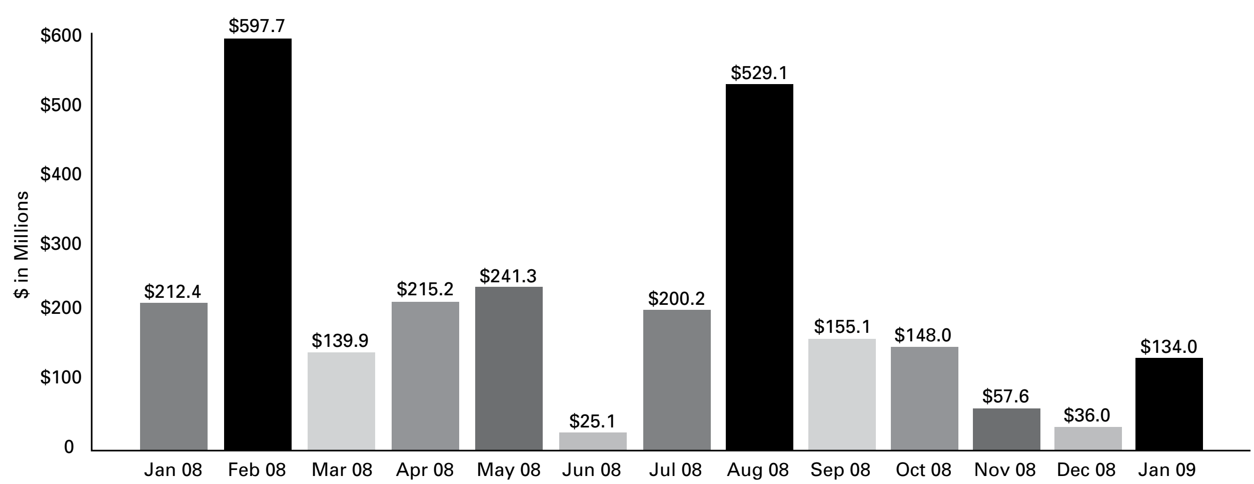
The encumbrance balance is the amount remaining on the contract and may extend beyond the end of this fiscal year.

Statement of Cash Flows

Fiscal year to date January 31, 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	$1,260	$1,278	$(18)	$1,319	$(59)
Cash Receipts – Other	14	17	(3)	17	(3)
Cash Disbursements for Claims	(1,258)	(1,260)	2	(1,282)	24
Cash Disbursements for Other	(279)	(270)	(9)	(280)	1
Net Cash Provided (Used) by Operating Activities	(263)	(235)	(28)	(226)	(37)
Net Cash Flows from Noncapital Financing Activities	(3)	(4)	1	–	(3)
Net Cash Flows from Capital and Related Financing Activities	(4)	(2)	(2)	(4)	–
Net Cash Provided (Used) by Investing Activities	194	166	28	575	(381)
Net Increase (Decrease) in Cash and Cash Equivalents	(76)	(75)	(1)	345	(421)
Cash and Cash Equivalents, Beginning of Period	378	378	–	328	50
Cash and Cash Equivalents, End of Period	$302	$303	$(1)	$673	$(371)

Premium and Assessment Receipts



Statement of Net Assets

As of January 31, 2009

(in millions)	Actual	Prior Yr. Actual	Year to Year Increase (Decrease)
Assets			
Bonds	$12,905	$13,815	$(910)
Stocks	2,773	3,366	(593)
Private Equities	–	30	(30)
Cash & Cash Equivalents	302	673	(371)
Total Cash and Investments	15,980	17,884	(1,904)
Accrued Premiums	4,680	4,891	(211)
Other Accounts Receivable	155	139	16
Investment Receivables	404	306	98
Other Assets	113	117	(4)
Total Assets	21,332	23,337	(2,005)
Liabilities			
Reserve for Compensation and Compensation Adj. Expense	$19,383	$19,772	$(389)
Accounts Payable	40	66	(26)
Investment Payable	238	476	(238)
Other Liabilities	224	316	(92)
Total Liabilities	19,885	20,630	(745)
Net Assets	$1,447	$2,707	$(1,260)

Statement of Net Assets – Combining Schedule

As of January 31, 2009

(in thousands)

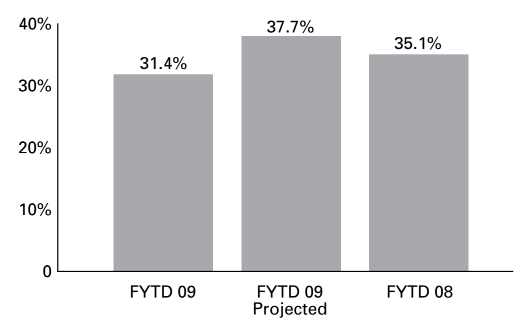
	State Insurance Fund Account	Disabled Workers' Relief Fund Account	Coal–Workers Pneumoconiosis Fund Account	Public Work Relief Employees' Fund Account	Marine Industry Fund Account	Self–Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Eliminations	Totals
Assets									
Bonds	$11,869,171	$ 855,181	$ 180,880	$ –	$ –	$ –	$ –	$ –	$12,905,232
Stocks	2,550,690	183,824	38,520	–	–	–	–	–	2,773,034
Private Equities	311	–	–	–	–	–	–	–	311
Cash & Cash Equivalents	189,625	11,747	3,372	22,782	17,169	54,990	2,060	–	301,745
Total Cash & Investments	$14,609,797	$ 1,050,752	$ 222,772	$ 22,782	$ 17,169	$ 54,990	$ 2,060	$ –	$15,980,322
Accrued Premiums	2,187,086	1,542,798	–	311	–	667,171	282,457	–	4,679,823
Other Accounts Receivable	99,890	24,725	–	–	–	5,330	25,167	–	155,112
Interfund Receivables	12,250	46,656	1	–	138	637	66,867	(126,549)	–
Investment Receivables	368,746	29,096	6,204	16	12	39	–	–	404,113
Other Assets	25,691	21	–	–	–	–	86,886	–	112,598
Total Assets	$17,303,460	$ 2,694,048	$ 228,977	$ 23,109	$ 17,319	$ 728,167	$ 463,437	$ (126,549)	$21,331,968
Liabilities									
Reserve for Compensation & Compensation Adj. Expense	$15,626,257	$ 1,876,697	$ 62,800	$ 3,337	$ 3,214	$ 717,571	$1,093,491	$ –	$19,383,367
Accounts Payable	39,592	–	–	–	–	–	246	–	39,838
Investment Payable	216,513	18,091	3,709	–	–	–	–	–	238,313
Interfund Payables	112,234	10,725	71	9	20	3,490	–	(126,549)	–
Other Liabilities	103,488	92	761	–	255	–	119,243	–	223,839
Total Liabilities	16,098,084	1,905,605	67,341	3,346	3,489	721,061	1,212,980	(126,549)	19,885,357
Net Assets	$ 1,205,376	$ 788,443	$ 161,636	$ 19,763	$ 13,830	$ 7,106	$(749,543)	$ –	$ 1,446,611

Financial Performance Metrics

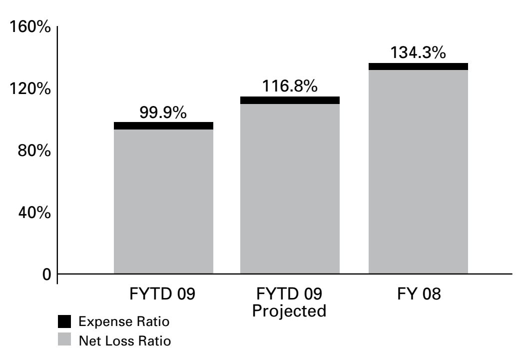
	Actual FY09 As of 1/31/09	Projected FY09 As of 1/31/09	Actual FY08 As of 1/31/08	Target
Loss Ratio	77.4%	90.9%	119.5%	
LAE Ratio - MCO	6.9%	8.2%	11.6%	
LAE Ratio - BWC	11.4%	13.6%	13.0%	
Net Loss Ratio	95.7%	112.7%	144.1%	120.0%
Expense Ratio	4.2%	4.1%	4.1%	5.0%
Combined Ratio	99.9%	116.8%	148.2%	125.0%
Net Investment Income Ratio	31.4%	37.7%	35.1%	
Operating Ratio (Trade Ratio)	68.5%	79.1%	113.1%	100.0%
Operating Cashflow Ratio	110.8%	116.7%	114.8%	118.0%
Total Reserves to Net Assets	13 to 1	7 to 1	7 to 1	7 to 1
Investments to Loss Reserves	82.4%	91.8%	90.5%	110.0%
Equities to Net Assets	1.92 to 1	1.16 to 1	1.25 to 1	
Bonds to Net Assets	8.9 to 1	4.9 to 1	5.1 to 1	
Funding Ratio (State Insurance Fund)	1.09	1.18	1.18	

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

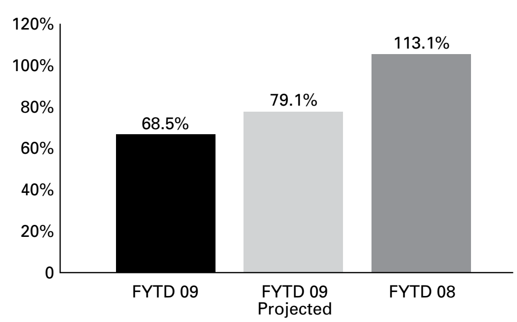
Investment Income Ratio



Combined Ratio

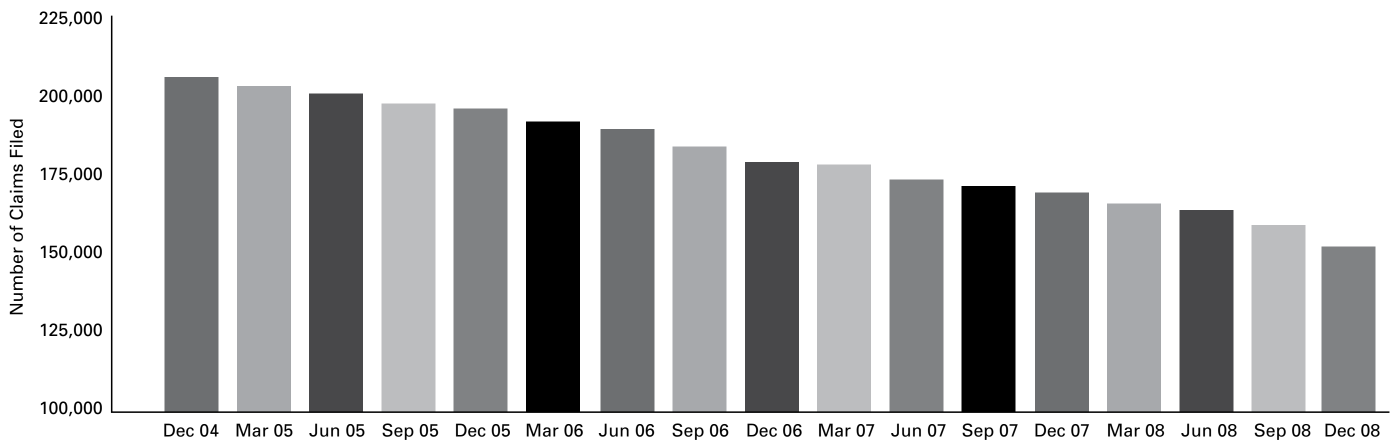


Operating Ratio

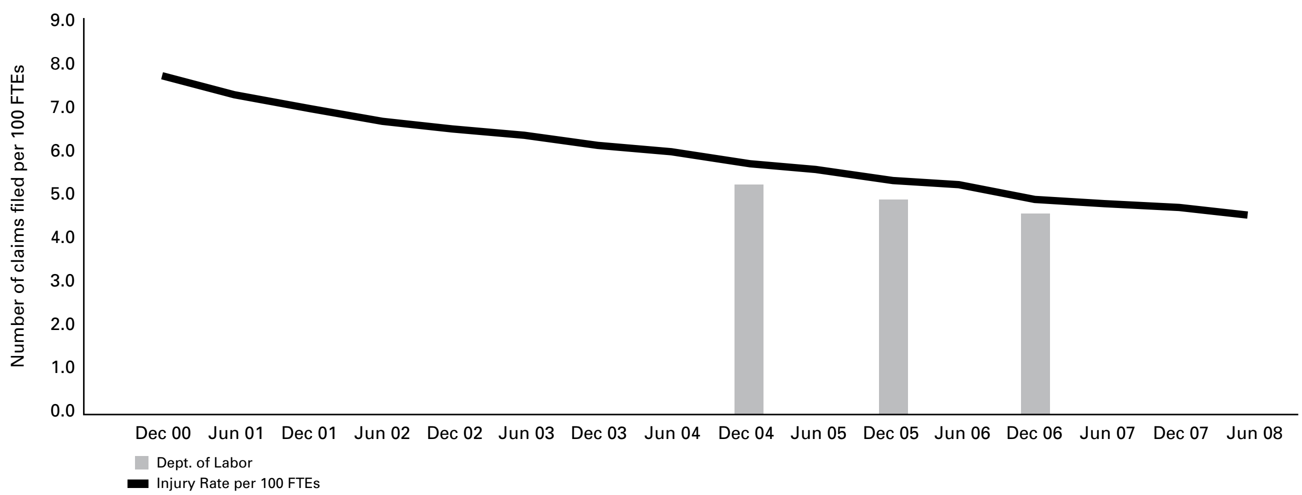


Operational Performance Metrics

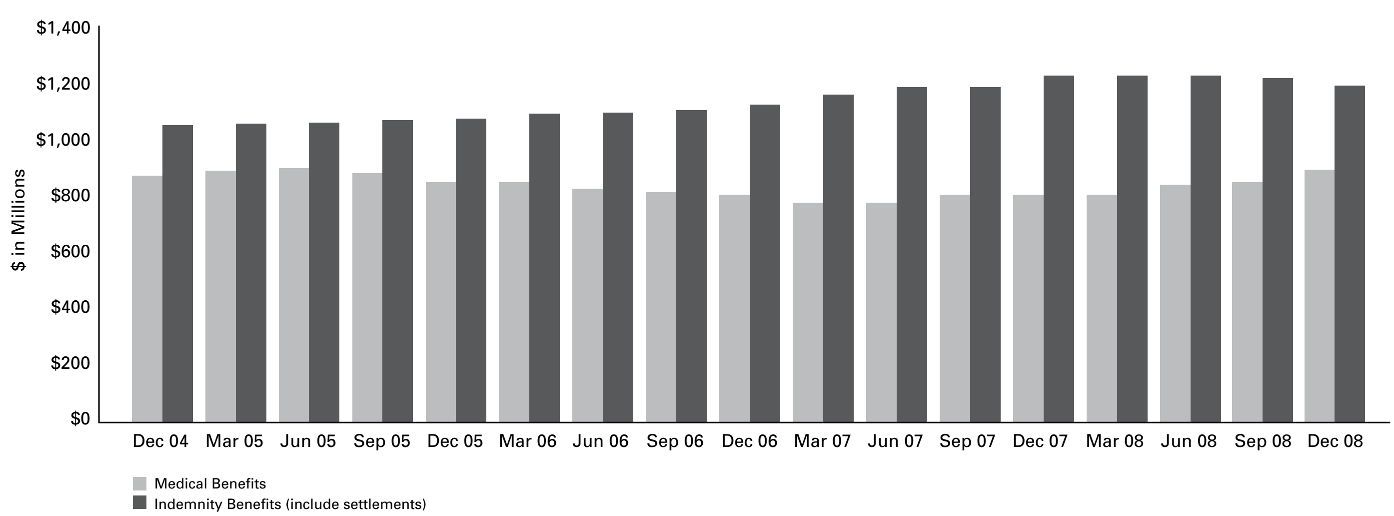
New Claims Filed - *Twelve months ended*



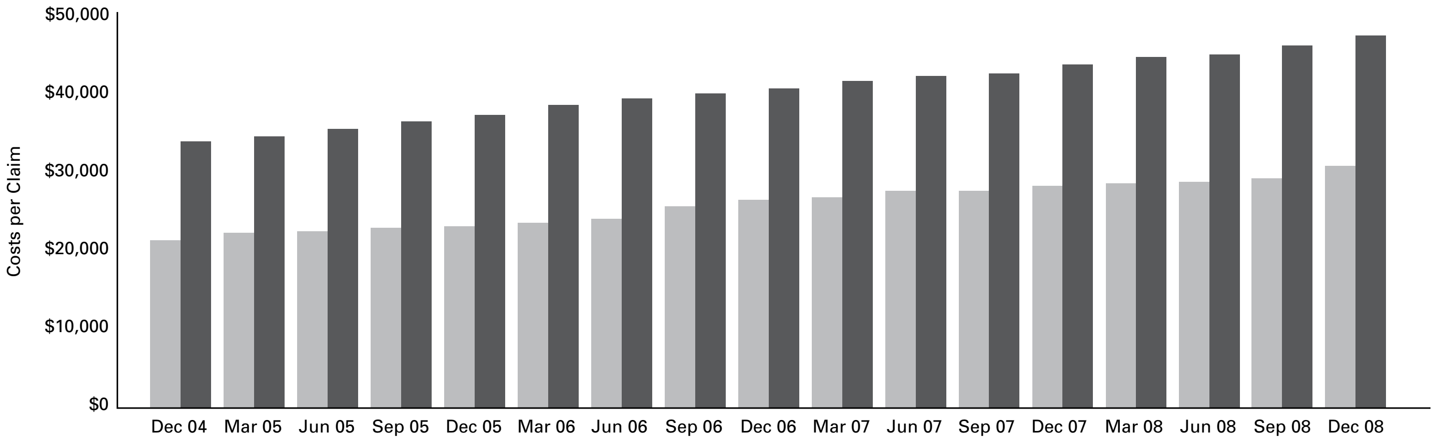
Frequency - *Reported semi-annually*



Benefit Payments - *Twelve months ended*



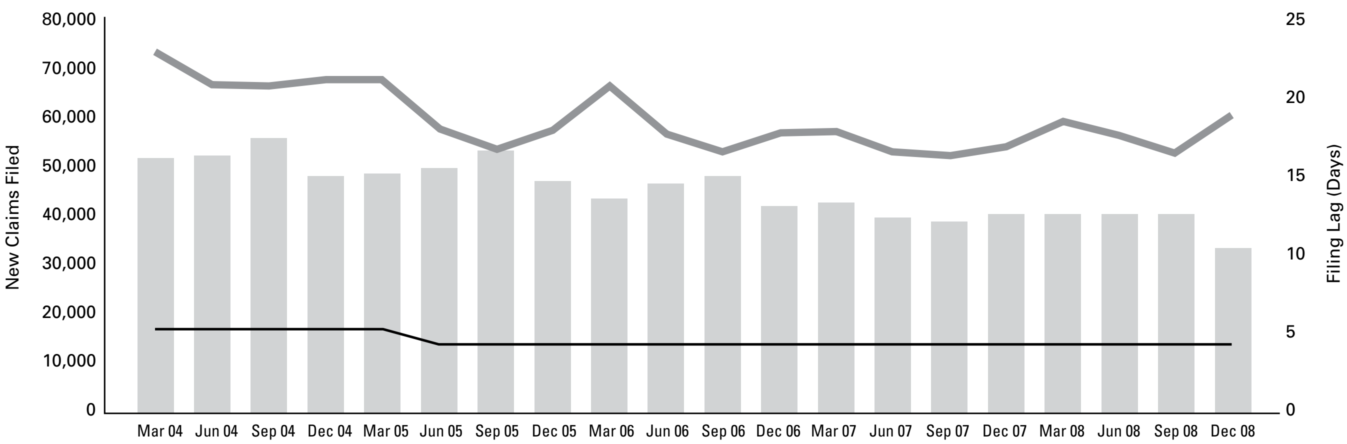
Severity



Medical on Lost Time
Indemnity on Lost Time

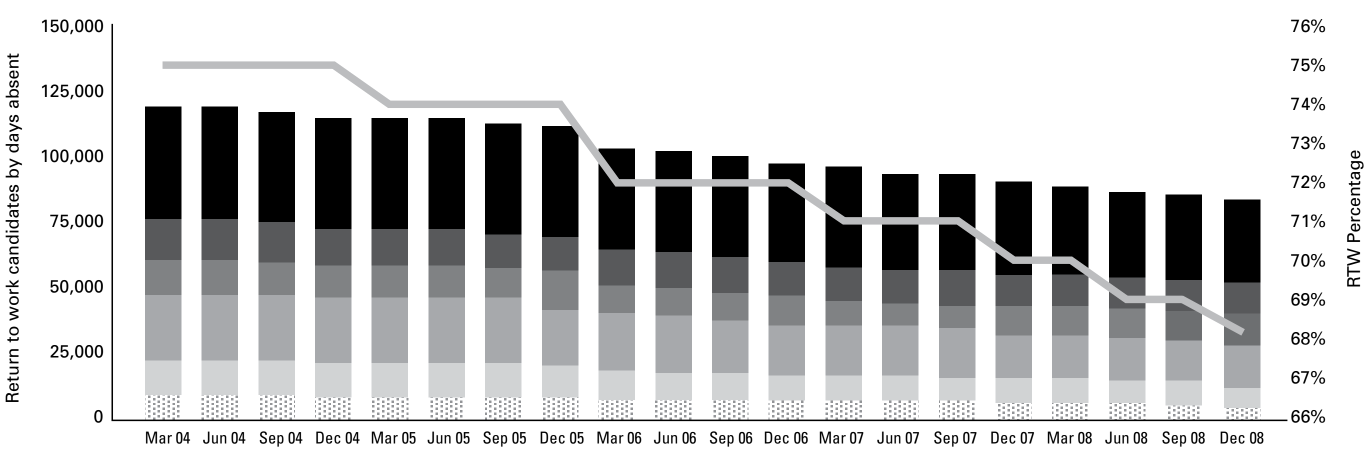
Medical on Medical Only claims has increased from $1,032 to $1,116 during this time period.
Indemnity payments exclude settlements.

Claim Filing Lag



Claims Filed
Average Filing Lag
Median Filing Lag

Return to work



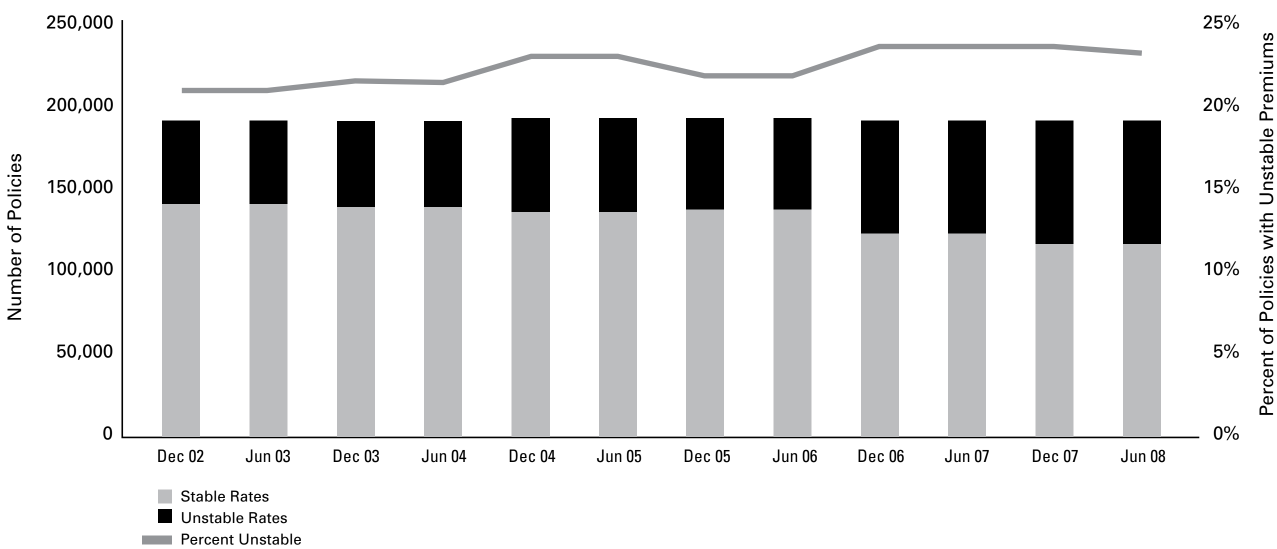
Less than 15 days
15 to 30 days
31 to 90 days
91 to 180 days
181 to 365 days
Over 1 year
RTW Percentage

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

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.

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.

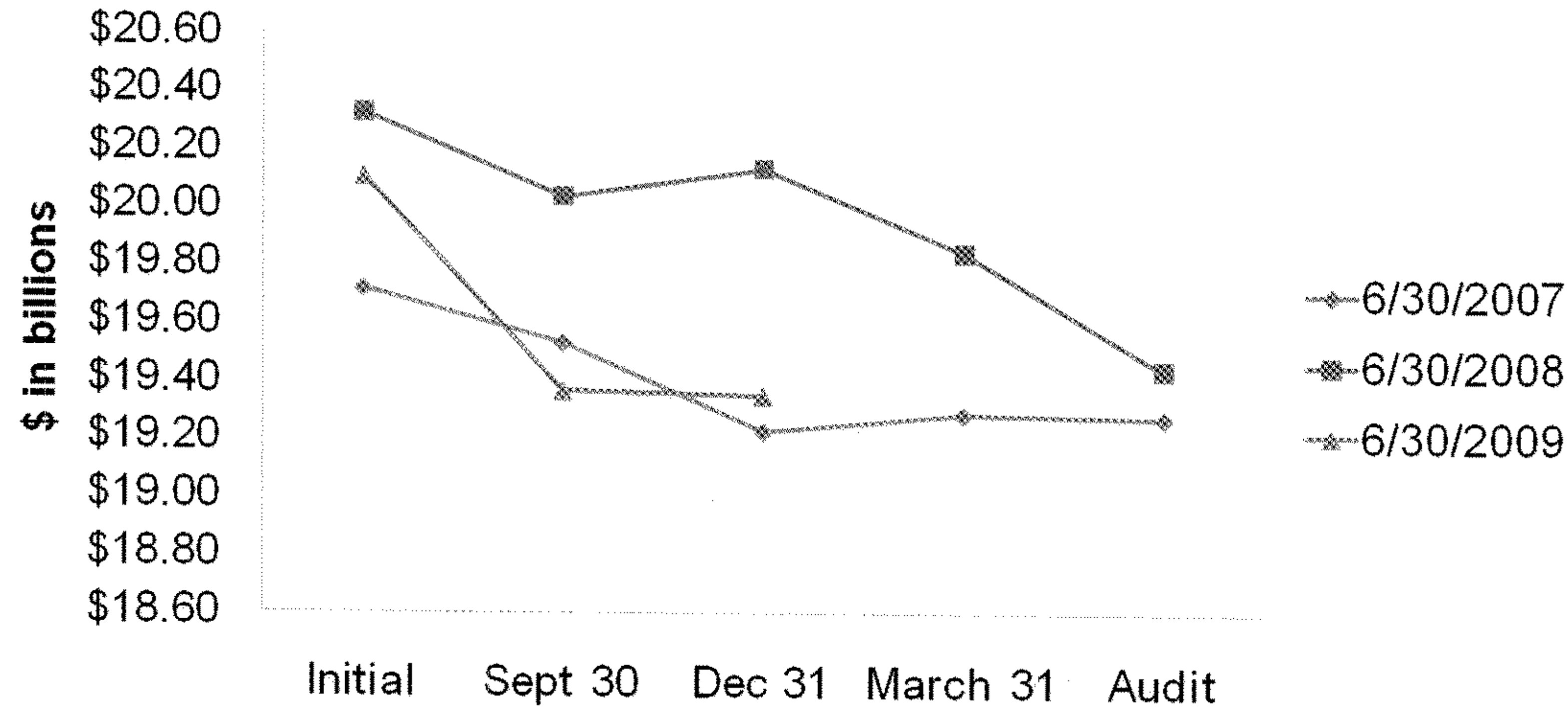
Return to Work Rates
Measures the percentage of injured workers who have returned to work relative to the claim population eligible to return to work.

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

Reserves for Compensation and Compensation Adjustment Expenses



Discussion Draft
Reserve Discount Rate Policy

Presented to
OBWC Board of Directors
February 20, 2009

Workers' compensation claims are generally paid over a period of several years. A reserve for compensation is set based on the total of all estimated amounts that will be paid in future years on reported claims and claims incurred but not reported. BWC's practice is to discount the reserve to reflect the time value of money (one dollar of future claims liability can be paid by setting aside less than one dollar today due to expected investment earnings).

BWC has been discounting reserves for at least 30 years. Since 1997, BWC has established a practice to review and evaluate the current discount rate on an annual basis using a documented approach. The approach relies on GASB 10. Prior to FY 2006, BWC performed this evaluation at the time of the actuarial audit. In FY 2006, BWC began its current practice of performing the evaluation in conjunction with the rate making process for private employers. This results in better matching of the ratemaking and reserving processes. The effective date for the discount rate is July 1.

Under Ohio Revised Code 4121.121(B)(1) the Administrator has the responsibility to establish a discount rate. Every March, the Administrator presents the discount rate decision to the Board for review, discussion and concurrence.

The business rationale and methodology and guiding principles for the establishment of the discount rate are:

Business Rationale

- The discount rate recognizes the economic benefit of the time value of money. It is an appropriate accounting treatment that recognizes that benefit. However, the discount rate does not create income.
- The discount rate enables the organization to present a prudent picture of its liabilities that is consistent with economic forces and BWC's mission to provide benefits for injured workers at the lowest possible cost while maintaining a solvent state insurance fund.

Methodology and Guiding Principles

- Should use a methodology supported by accounting and actuarial literature, especially the provisions of Governmental Accounting Standards Board (GASB) Statement No. 10 ("Accounting and Financial Reporting for Risk Financing and Related Insurance Issues") and Actuarial Standard of Practice No. 20 ("Discounting of Property and Casualty Loss and Loss Adjustment Expense Reserves") as approved by the Actuarial Standards Board.
    - GASB 10 requires an examination of past portfolio performance, historical payment patterns and settlement rates
    - Actuarial Standard of Practice #20 requires that explicit provisions for risk accompany reserve discounting and suggests the uncertainty in the timing and amounts of future payments be considered along with historical payment patterns
    - Both standards recommend consideration of a risk-free investment yield
- Should be established with a long term view to reduce volatility in BWC's balance sheet and premiums
- Should not exceed highly probable investment returns over long periods of time
- Should enable management to focus on business enterprise goals
- Should be reviewed annually

The Administrator completes the following steps to establish the discount rate:

1. Meets with the Chief Actuarial Officer, Chief Investment Officer, Chief Fiscal and Planning Officer and other senior executives as appropriate to review reserves, investment returns, and cash flow needs
2. Follows the Actuarial Standard of Practice #20 concerning discounting
3. Follows the Government Accounting Standards Board Statement 10
4. Considers the following questions:
    - Is it consistent with BWC's practice of establishing a conservative discount rate?
    - Is it consistent with industry standards?
    - Is there a decreasing or increasing return on BWC's investment portfolio?
    - Are there changes in BWC's investment strategy?
    - What are the trends of risk free investment yields?
    - Do we anticipate changes in the financial markets?
5. Administrator presents a recommendation and rationale to the Board for review, discussion and concurrence

Discount Rate Assumptions used in actuarial audits and rate indications

Evaluation Date	Discount Rate
12/1991-12/1996	7.00%
12/1997	6.75%
6/1998	6.50%
6/1999	6.25%
6/2000 – 6/2001	6.00%
6/2002	5.80%
6/2003 – 6/2004	5.50%
6/2005 – 6/2006	5.25%
6/2007	5.00%
6/2008	5.00%

Ohio | **Bureau of Workers' Compensation**
30 W. Spring St.
Columbus, OH 43215-2256

Governor **Ted Strickland**
Administrator **Marsha P. Ryan**
ohiobwc.com
1-800-OHIOBWC

February 18, 2009

The Honorable Armond Budish
Speaker of the Ohio House of Representatives
77 South High Street, 14th Floor
Columbus, OH 43215

Dear Speaker Budish:

Congratulations on your recent election as Speaker of the Ohio House of Representatives. We look forward to working with you as we strive to make Ohio a more economically competitive state both regionally and nationally while protecting Ohio's most valuable asset – its workers.

Under the umbrella of *Restoring Operational Excellence,* we have been diligent in our efforts to further professionalize BWC. Our purpose is reflected in our mission, which is "*To protect injured workers and employers from losses that result from accidents in the workplace and to enhance the health and well being of all Ohioans and the Ohio economy."* Early on, we focused on dramatically improving the safeguards and controls around our investment and finance areas, which has allowed BWC to recover from the investment and financial scandals that existed in 2005. These efforts allowed us to begin to restore our credibility with our customers.

However, there remains much work to do in terms of improving the agency's operations. BWC's professionalized Workers' Compensation Board of Directors, BWC staff and external customers are charting a path for comprehensive, long-term reform to provide stability and equity for our customers. We envision a system with high quality service and accurate, competitive rates for all Ohio businesses that promotes safer workplaces while ensuring workers continue to receive fair and appropriate medical treatment and compensation for on-the-job injuries.

There are several aspects of rate reform that may be of interest to you. First, BWC is on track to implement two new alternative rating programs for the upcoming policy year beginning July 1, 2009. For the first time, employers will be able to enroll in a true deductible program and will have a choice of five different deductible levels so they can find an option that best suits their business needs. Additionally, employers will be able to enroll in a retrospective group rating program for the first time. These programs, along side other alternative rating programs like the current group-rating program, will provide employers with a menu of options to find programs that best suit their business needs.

Another instrumental piece of rate reform is ensuring employers pay premiums commensurate with the risk they present to the system. With this in mind, we have recently recommended a set of complimentary strategies to the BWC Board of Directors that could significantly reduce Ohio's base rates for employers beginning July 1, 2009. Please allow us to share some information with you on this initiative to accelerate our rate reform efforts.

BWC staff, along with input from our customers and their representatives, will be running projections on various proposals and will come to the Board of Directors Actuarial Committee with specific recommendations and the actuarial analysis behind them in February. We will continue to keep the Board, the legislature, and our customers informed of our progress over the coming months as we work toward an accurate and equitable rating system for the upcoming policy year.

The comprehensive rate study commissioned as a requirement of HB 100 (127th GA) is nearing completion. Many of the recommendations have already been presented to the BWC Board by Deloitte and BWC will be preparing initiatives from these recommendations that will better the system in the coming months.

BWC is also scheduled to report its progress back on equity and accuracy in ratemaking to the legislature by September 15, 2009, (per H.B. 79 of the 127th General Assembly). At that time, we expect Ohio's base rates to be competitive with other states, while ensuring that employers are paying for the risk they truly bring to the system. Additionally, we will keep you apprised of our progress along the way.

Enclosed, you'll find a brief overview of several of the changes that have occurred and will be occurring at the BWC – we hope you find this information useful. Should you have questions on this material, or any other workers' compensation-related matters, BWC's legislative affairs team is available to assist you and your staff - from injured worker and employer constituent inquiries to overarching policy issues. If you or your constituents have any concerns on this short term initiative, or on our more extensive three year reform plan, please do not hesitate to contact BWC's legislative affairs team:

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Again, congratulations, and we look forward to working with you this General Assembly as we continue to serve the mission of the Ohio BWC to protect Ohio's injured workers and employers from loss through a system with high quality service; accurate and competitive rates for Ohio businesses; and fair and appropriate treatment for Ohio's most valuable asset – its workers.

Best wishes,

Marsha P. Ryan

Marsha P. Ryan
Administrator

Ohio | Bureau of Workers' Compensation
30 W. Spring St.
Columbus, OH 43215-2256

Governor **Ted Strickland**
Administrator **Marsha P. Ryan**
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Background – BWC Reform Efforts

The Ohio Bureau of Workers' Compensation (BWC) is engaged in an intensive reform effort to increase the stability, consistency, and competitiveness of workers' compensation insurance for Ohio's injured workers and employers. Under the leadership of Administrator Marsha Ryan and the BWC Board of Directors, the Ohio BWC has been working to ensure Ohio's employers are paying accurate and stable premiums for their workers' compensation insurance, while injured workers receive the appropriate treatment to help them return to work as quickly as possible as well as receive appropriate benefits if they are unable to return to work due to a workplace injury.

Overall Premium Rate Reduction:

BWC has made significant strides on rate reform in the past two years. In early 2008, the BWC Board of Directors reduced overall premium rates for private employers by five percent (the first such reduction since 2001) and for state public employers and universities by ten percent (the first such reduction since 1999.)

Claims Reserving:

Additionally, on July 1, 2008, BWC implemented a new claim reserving system, MIRA II. This state-of-the-science reserving system is more accurate and transparent than its predecessor, MIRA. Already, MIRA II has helped Ohio's employers better calculate their workers' compensation costs by knowing the actual amount of reserves necessary for medical coverage and indemnity required to appropriately and fairly help injured workers recover from workplace injuries in a timely manner. It is worth noting that the majority of individual claim reserves have decreased since MIRA II's implementation.

Looking Ahead:

However, there is still much work to be done. Making meaningful improvements to Ohio's workers' compensation system requires the application of sound insurance-rating principles, industry best practices and appropriate performance measures. This includes better aligning premiums with the claims costs of individual employers. It also involves ensuring that discounts correspond with a measurable reduction in risk. The path charted to accomplish this over the next three to five years includes the introduction of new, performance-based discount programs, correcting and modifying existing non-performing programs to ultimately reduce base rates for all employers; the implementation of a nationally tested split experience-rating plan; and capping employer premium increases due to their claim history by 100% to avoid the instability that is all too prevalent today. Please allow us to update you on BWC and the Board of Directors' progress in these areas.

Comprehensive study of BWC's rating programs:

One of the tools given to BWC by the legislature in HB 100 (BWC's budget bill, 127th GA) was the task to commission an outside, independent consultant to conduct a top-to-bottom assessment of BWC, including all of our rating programs. Deloitte Consulting LLP has been gathering the pertinent information over the past year and presented parts of its study publicly to BWC's Board of Directors and to the Workers' Compensation Council. Its final report will be presented to the Board of Directors at its

February 20, 2009 meeting, and we look forward to subsequently sharing that information with the General Assembly.

Implementation of a nationally tested split-experience rating plan:

BWC's actuarial staff, in conjunction with the BWC Board of Directors' actuarial consultant, Oliver Wyman, is working to implement a new experience rating system by July 1, 2011. Currently, BWC's method of rating an employer's experience relies too heavily on the severity, or total cost, of claims. Under the new method, however, the frequency of claims will receive greater weight than severity. Measuring both frequency and severity in an employer's past will allow BWC to better predict future risk, will target the importance of reduce workplace injuries, and will align the agency's system with national industry standards.

Creation of new, performance-based safety incentives and discount programs:

Partnering with our customers, BWC has been working to research and identify alternative rating programs that would promote safety in the workplace and reward employers with cost reductions on their workers' compensation insurance. While work on programs such as a safety dividend program will continue into the future, BWC is proud to announce that two new rating programs will be available to employers beginning July 1, 2009.

- Deductible program – BWC will offer a deductible program to all State Insurance Fund employers with five deductible options. For assuming portions of per-claim risk, employers will receive up-front premium discounts. We will continue to study this program's relevance in today's market and will revisit deductible levels year-to-year so the program meets the real and changing needs of Ohio's businesses.
- Group retrospective rating program –Ohio employers will be also be able to enroll in a retrospective group rating program for the first time. Under this program, employers will join groups and actively involve themselves with safety and claims management. Following the end of the policy year they will receive retrospective premium adjustments based on the combined performance of the group.

Modification of current non-performing discount programs:

Over the years, BWC has implemented various discount programs designed to reward employers for focusing on safety in their workplace. Based on findings in Deloitte's comprehensive rate review study (mentioned above) as well as the analysis of agency staff, several of these programs warrant some modifications.

BWC has been working with external customers for approximately a year and a half to improve the performance of Ohio's current group rating program. This program allows small employers to group together and take advantage of BWC's experience rating rules as though they are a large employer, enabling them to pay lower rates.

While the group rating program is valuable, especially to small businesses, changes are necessary. Since June 2008, we have worked closely with employers, sponsors and third-party administrators to better align premium costs with overall risk while holding group sponsors more accountable for their performance. While group rating was designed to encourage safety and risk reduction, we must make sure employers who participate cover the costs they bring to the system.

To this end, the maximum group discount has been reduced gradually to begin to align employers' premium with the costs they present to the system. In the rating year beginning July 1, 2007, the maximum discount was 90%. For the current year beginning July 1, 2008, it is 85%, and will be lowered to 77% for the rating year that begins July 1, 2009.

Additionally, BWC and our external customers have worked on the concept of continuity – keeping groups together longer than one year so that employers can share their mutual knowledge and efforts to reduce workplace injuries and are not removed from groups just because of claim activity. Keeping groups consistent will allow us to better estimate their future costs, so they are paying for the risk they bring to the system.

Premium Cap

BWC's Board of Directors has approved a premium cap to mitigate the potential harm that losing group rating status can have on an employer who was enjoying a high discount and then is removed from group rating just because of claim activity. Beginning July 1, 2009 the experience adjustment to an employer's premium will not be able to increase by more than 100%. This will provide relative stability to employers until the full impact of rating reforms is realized.

Group Sponsor Oversight

In recent years, BWC has also heard concerns about a need for greater oversight over group sponsors – not only in determining whether an organization is qualified to serve as a group sponsor, but also in holding them accountable to meet the requirements and the spirit of the law.

Based on these concerns, BWC submitted a series of rule changes to the Board's actuarial committee in January that will strengthen compliance efforts. These include: requiring greater disclosure from a sponsor, including a membership roster, by-laws, sources of revenue and affiliate organizations that may funnel employers to a larger sponsor; mandating that all sponsors reapply for certification before being allowed to offer groups for the policy year beginning July 1, 2010; and instituting a re-certification process to ensure all sponsors are evaluated on a regular basis.

Pending Board approval, BWC would have the authority to recertify sponsors under these new rules before groups are formed for the upcoming rating year.

BWC Budget Testimony
BWC Administrator Marsha Ryan
House Insurance Committee
February 18, 2009

Chairman Dodd, Vice-Chairman Letson, Ranking Minority Member Hottinger, and distinguished members of the committee: thank you for the opportunity to present the Ohio Bureau of Workers' Compensation's operational budget for Fiscal Years 10 and 11.

Operational funding is critical to BWC's mission of protecting the safety and well-being of Ohio's workforce, and contributing to the success of our business community.

I would first like to describe the unique financial position of BWC compared to most other state agencies. BWC is funded by employer premium and assessment dollars which support a system that is critical in protecting injured workers and employers from loss resulting from workplace accidents. We rely on no General Revenue Funds for our operations.

The funds under consideration maintain BWC operations to support nearly 160,000 new injured worker claims each year. These funds are critical in maintaining the operation which ensures Ohio's workers' compensation insurance product works for those who rely on it when accidents or injuries happen in the workplace. These funds ensure that the investment and disbursement of the BWC's $21.3 billion (as of January 31, 2009) of total assets is handled responsibly and meets the fiduciary standards required of a public insurance fund.

BWC's Administrative Cost Fund, from which all operational expenses are paid, is funded on a "pay-as-you-go" basis though employer assessment dollars. If BWC does not spend as much as is collected from employers, the employers receive a credit in their assessments for a subsequent policy year.

Another aspect of BWC's budget that sets us apart from other state agencies is that before our appropriations for the biennium are approved by the Legislature, they are approved by the agency's Board of Directors. In addition to reviewing and approving a biennial budget submission to the Legislature, the Board approves BWC's budget on an annual basis prior to the start of each fiscal year. Per statute, four of the Board's 11 members have subject matter expertise which helps guide them in this process: two members are investment professionals, one is a certified public accountant, and one is an actuary. Other members represent injured workers, small and large employers, the public and organized labor.

Finally, BWC's budget is unique in that just because the agency has been granted the authority to spend up to a certain amount of money through appropriation, that amount cannot be spent until it is collected from Ohio's premium-paying employers. This is what makes the Board's annual review of planned spending for each fiscal year critical. If Ohio's employers are unable to make their workers' compensation payments, the BWC must reduce its planned administrative costs accordingly.

As you can see, while our budget is non-General Revenue Fund, it is impacted by the current economy no less than our peers. These factors, along with the agency's long-term strategic goals will be carefully considered as we recommend each annual budget to the BWC Board of Directors within the next biennium, while calculating the corresponding assessment to Ohio's employers.

HB 100 – Reformed Governance

When we appeared before this body in 2007 for the FY08-09 biennium budget, BWC was in a very different position than it is today. The investment scandals of 2005 are well behind us. We have rolled up our shirt sleeves to create a workers' compensation system that is more insurance-like – building a compensation system that is stable, fair and responsive to its customers.

The direction set forth in the 127th General Assembly's House Bill 100 has helped chart this course for change.

The creation of a new, professionalized board of directors with fiduciary responsibility like that of the administrator, has provided BWC with outstanding guidance for the many challenging issues that face us as we reach our goals. In addition to our board of directors, we have hired a Chief Operating Officer to better align agency operations and customer service; and we have hired BWC's first-ever Property and Casualty (P&C) Actuary to ensure the soundness and stability of the ratemaking efforts that will make Ohio's rates more competitive for future economic development and affordable for Ohio employers.

Also called for in House Bill 100 was a comprehensive study to determine how Ohio's workers' compensation costs compare to those of other states, and to identify opportunities for improvement. I am pleased to report that year-long study, performed by Deloitte Consulting, Inc. has been completed well ahead of the statutory deadline and is providing us with solid facts and reliable data on which to base comprehensive reform of Ohio's ratemaking programs.

Performing the study, Deloitte sifted through an enormous amount of data, interviewed BWC staff, employers, employer organizations, third party administrators, and presented their analysis to the BWC Board of Directors throughout 2008.

By the month's end, Deloitte will have completed its comprehensive review and benchmarking report. Many of the findings are already being addressed, while others are helping us set forth plans for the future. In addition to making presentations to BWC management and the Board of Directors, Deloitte has presented findings to the Workers' Compensation Council.

Ratemaking

Even before receiving the findings of the Deloitte study, it was clear that BWC's rating system did not comport with sound insurance practices. Similarly situated employers were paying different premiums for the same product - some far below what their risk represents to the system, others more than their share. This disparity can hinder economic development in our state.

In general, employers should not pay significantly more for their workers' compensation insurance coverage than their risk dictates. Two years ago, Ohio lawmakers recognized the system BWC was using to calculate claim reserves, MIRA, was using outdated information to estimate the reserves which are used to calculate premium rates for employers. HB 100 required BWC to replace the MIRA I system by July 1, 2008 with a completely new system, or a new version of MIRA. We met that deadline and successfully implemented MIRA II last summer.

MIRA II is a web-based application which uses a much more transparent process that allows employers to better plan for the cost of a claim. Feedback has been overwhelmingly positive. The new system has dramatically improved accuracy, allowing BWC to translate that accuracy to rates for each employer that match the risk presented to the State Insurance Fund. While it is still early in the implementation of MIRA II, we have solid indications of improved reserve performance and accuracy.

Since 2007, we have implemented changes to our rating systems designed to lower base rates. In November 2007, the BWC Board of Directors approved a reduction in the maximum discount from 90% to 85%, and directed staff to develop a plan to bring base rates down to an appropriate level, with the goal of improving rate equity throughout the system.

In June 2008, staff presented the Board of Directors with a plan to improve equity over a three to five year time frame; to implement a nationally recognized and tested experience rating plan; and to introduce alternative rating programs that allow employers to control their workers' compensation costs in a manner that fits their own business needs, such as a deductible program.

Staff is proposing for the Board's consideration, further improvements to the June plan that will lower base rates and increase equity sooner – with significant progress expected in the July 1, 2009 policy year. This will bring Ohio's base rates to competitive levels right away, aiding economic development and setting the stage for BWC to be a true value-added asset for Ohio's economy.

Fiscal years 2010 and 2011 will see the implementation of rating plans developed in the current biennium. In addition to continuing to refine rate options for employers, we will implement a new experience rating plan and a retrospective rating plan for groups.

Investments

Through the current biennium, BWC has made a diligent effort to restore trust and rebuild the confidence of all Ohioans in the state's workers' compensation system. In Fiscal Year 2008, BWC collected more than $2.4 billion dollars in premium and assessments. With more than $20 billion dollars in total assets, BWC is the largest exclusive, state-fund workers' compensation system in the United States.

As of January 31, 2009, BWC's Investable Assets Market Value is approximately $16 billion, which includes $13 billion in bonds, $2.8 billion in equities and $200 million in cash. Despite the nation's recent financial crisis, BWC's total portfolio performed relatively well – down 2.3 percent for calendar year 2008.

Throughout the current biennium, BWC has taken deliberate steps to restore trust and accountability in our investment management. I would cite the following three initiatives as the most important in restoring trust.

- First, the BWC Internal Audit function reports independently to the Audit Committee of the BWC Board of Directors, as well as to the Ohio Office of Budget and Management. This creates a segregation of duties in BWC's reporting structure, promoting risk reduction in investment operations. Today, an internal auditor with specific investment expertise focuses on critical investment processes, validates good process in current investment activities, and assures appropriate documentation and controls.

- Second, the BWC Board of Directors' Investment Committee has two designated investment and securities experts. The Investment Committee develops, monitors and oversees the investment policy and all new investment mandates. In addition, the BWC Investment Committee reviews the performance of the Chief Investment Officer and any investment managers retained by the Administrator to assure compliance and performance.

- And third, the BWC Investment Division has retained professional staffing, currently comprised of 11 members, of which seven are Chartered Financial Analysts. The investment team's emphasis has been on training and continuous investment education.

(The Ohio Revised Code requires the Chief Investment Officer be licensed by the Ohio Department of Commerce on an annual basis - of which one requirement is the CFA designation - to hold this position within BWC.)

Financial Accountability

Given the large volume of dollars BWC holds in the public trust, BWC has developed and put into place professional financial procedures to generate accurate and timely financial reporting data. This data is utilized in the operation of BWC at <u>all</u> management levels, including BWC's Board of Directors.

In the current biennium, BWC developed a comprehensive Enterprise Report that reflects all of the financial and operational activities of the agency. This report is utilized for management, oversight by the Board of Directors, and as a tool for internal and external communications.

Aside from assuring sufficient governance oversight, BWC management has strengthened financial business processes, which supports budgeting and long-range planning. Not only does this support a culture of fiscal responsibility, it enhances our ability to deliver cost-efficient services to our internal and external customers.

Additionally, one aspect of BWC studied by Deloitte was our overall operational costs. I am pleased to report that the agency's operational costs are average when compared to our peers – both private funds and other state funds. Keep in mind that this ranking comes before our current operational efficiency strategies have been realized. It is also important to note that any savings incurred are passed directly back to Ohio's employers in a subsequent policy year – not embedded into a profit margin or claimed by federal or state taxes.

Delivery of Healthcare to Injured Workers

The core function of BWC is to provide injured workers with quality, timely and cost-effective medical and vocational rehab care to facilitate an early and safe return to work.

It is the responsibility of the BWC Medical Services Division to coordinate the delivery of healthcare through provider networks and Managed Care Organizations. This is accomplished by using pricing and payment strategies for the benefit of injured workers and Ohio's 280,000 employers.

An exciting development over the past year has been the development of a partnership between BWC and The Ohio State University. This partnership, with OSU's College of Public Health, will be used to produce research-based guidelines to further BWC's mission to improve the quality of care for Ohio's injured workers. This model has been successfully used in other states, such as Washington, with very positive results in terms of cost and improved care. We anticipate this partnership will assist us in ensuring Ohio's injured workers receive the highest quality, state-of-the-art treatment for workplace injuries and illness.

Expanding the Medical Provider Network: Prompt, effective medical care is vital to those injured on the job. It is imperative that injured workers are able to access the best doctors, treatments, drug benefits and rehabilitation services available. Our Medical Services Division has identified operational opportunities and targeted business processes to remove unnecessary barriers to provider participation.

Last fall, Medical Services replaced its entire Provider Enrollment System which is responsible for maintaining provider demographic information, certification, credentialing and billing support services. The new system will provide markedly improved provider service to medical and vocational rehabilitation providers.

Improved Injured Worker Benefit Plans: Injured worker access to high-quality medical care is accomplished by establishing an appropriate benefit plan and terms of service, paired with a competitive fee schedule designed to enhance the medical provider network.

Effective February 2009, Medical Services has substantially improved the medical, vocational rehabilitation and pharmaceutical benefit plans, the corresponding fee schedule, and bill payment controls. This updated benefit plan and fee schedule, along with maintaining a network of dependable medical and vocational rehab service providers will help to ensure accessible, prompt, effective medical care for injured workers.

In addition to the need for qualified, dependable provider care, injured workers often are in need of responsible prescription drug treatment. BWC's pharmacy benefit delivery program was the subject of a comprehensive review. Last summer, our pharmacy consultant issued its final report which compared Ohio's plan to that of other similar insurance systems, the results showed that our program performed above average in many of the benchmarks that were measured.

In 2008, pharmacy utilization was also addressed with tighter controls for our most prescribed drugs, some of which were being used for indications either not related to the allowed conditions or for indications that were "off label" and not intended by the manufacturer or the FDA. This has resulted in a savings of several million dollars in the fourth quarter alone. Further, in 2008, BWC began collecting the rebates available from drug manufacturers representing millions of dollars which will directly offset the premiums employers pay.

Improving Managed Care Processes: Managed care organizations serve as a primary link between injured workers, medical providers, employers and BWC. These MCOs help manage the medical portion of workers' compensation claims for State Fund employers. This includes reporting claims, making treatment reimbursement decisions and informing injured workers and employees about return-to-work initiatives. To date, there are 22 MCOs throughout the state participating in BWC's Health Partnership Program.

The 2008 MCO contract achieved several strategic objectives. First, a greater portion of the $162.6 million paid to MCOs, from the State Insurance Fund is now based on performance. Today, 50 percent of an MCOs payment is performance-based. Further, the total amount available for payment has been set at a fixed amount, eliminating the uncertainty and variability of premium-based payment. We have also negotiated an "opener" in the contract that will allow us to re-negotiate the contract when BWC institutes program changes or strengthens performance measures.

The 2009-2010, two-year MCO contract builds on these 2008 performance requirements, with additional program enhancements becoming effective January 1, 2010.

These include the requirements to have a certified coder on staff to ensure appropriate payments to providers; to make certain back-up devices are secured and the data encrypted; to submit semi-annual certification of compliance with MCO contract provisions as selected by BWC; and to obtain fidelity bond insurance or equivalent on the provider account. By taking these measures we anticipate fewer hurdles for injured workers, medical providers and employers as they utilize BWC's medical services.

Vocational Rehabilitation Redesign: Getting injured workers back to work safely and quickly is paramount to BWC's mission. As injuries heal, effective vocational rehabilitation by qualified professionals ensures injured workers are better prepared for their return to the workforce. To achieve this, BWC has strengthened the qualifications for its Disability Management coordinators. They are now required to maintain or obtain certification as either a Certified Rehabilitation Counselor, Certified Disability Management Specialist or a Certified Case Manager.

Customer Contact Tracking System: When a worker becomes injured on the job, the last thing they should be burdened with is confusing correspondence and documentation. To help eliminate confusion and miscommunication, BWC has undergone a complete overhaul of all operational correspondence to improve the language we use when we communicate with our customers.

It is our responsibility to ensure customers understand how to file a claim, apply for financial assistance, request workers' compensation coverage, etc. The workers' compensation system runs more efficiently when we take the time to make certain our customers fully understand our business processes.

Enhancing Medical Bill Payment Services: As important as it is to ensure our provider fee schedule is updated to attract quality providers to treat our injured workers, so too is it imperative that we timely and accurately pay our medical bills, consistent with industry standards. We have recently implemented a clinical editing program which has allowed BWC to identify improperly-billed services, enforce billing standards, identify the effectiveness of MCO bill payment, and ensure bill processing consistency. BWC estimates that annualized savings due to these edits will be $700,000. Future billing edits are planned for installation in the last quarter of 2009. These include the National Correct Coding Initiative (NCCI) edits. Preliminary reports indicate BWC will further increase cost containment by as much as $3 million dollars annually.

Other Initiatives

Employer compliance/collecting overdue premiums: As we work to make rates more competitive and equitable, there are still those employers who fall behind in their payments or operate without workers' compensation insurance at all. Last summer, we established an employer compliance unit which is having success in making sure all employers are protecting their workforce by meeting their workers' compensation insurance obligations. The unit was formed with existing BWC employees who are doing an outstanding job.

In just over six months, the unit has made nearly 2,400 employer contacts; helped to resolve 1,996 delinquent policies; and assisted in the collection of more than $39 million in delinquent workers' compensation premium.

In addition to making arrangements for payment, the unit is providing another important service by educating employers about the importance of protecting their workforce by remaining current on their premiums.

Regulatory Rule Reduction: An effective workers' compensation system can't be too complex. Processes must be stable, easy to understand and efficient for both employers and injured workers. Creating such a system will provide peace of mind for Ohio's workforce and allow businesses to focus on building and growing our economy.

Following the Governor's Executive Order for common sense regulation and the subsequent passage of HB 285, BWC is becoming more stream-lined and business-friendly.

Our Board of Directors has eliminated 18 rules since Governor Strickland's Executive Order. We have developed a checklist related to each rule that is completed as we assess current rules, undertake development of a new rule, and when an existing rule is examined under the regular five-year rule review. We are working to make certain our rules and regulations are grounded in sound public policy, provide value, and are transparent and consistent in development and application.

Adjudication Process – Kaizen: Just as the rules should not be cumbersome, neither should the process and time it takes for employers to resolve disputes with the BWC. Under statute, the Adjudicating Committee must hold a hearing within 60 days of a request. Unfortunately, this timeline was not being met and cases were severely backlogged.

Recognizing the need to speed up this process, allowing employers to quickly resolve their issues and focus on their business, we have recently begun utilizing the Kaizen method of quality control. This Japanese industry concept is based on deconstructing something to make it better. We have implemented Kaizen to improve the adjudication process, and have cut down the average process time of 169 days before Kaizen to an average of 50 days, falling within the statutory timeline.

Operational Efficiencies: Governor Strickland is presenting a very lean biennial budget which calls for sacrifices among all state agencies. At BWC we have been conducting a thorough evaluation of everything we do to see where we can streamline our operations to improve our efficiency and cost effectiveness:

- Process Mapping: To know we are operating efficiently and meeting the needs of our customers, it was important to learn how the operation works from the inside. We have executed a plan for systematic documentation of all of BWC's core processes. Knowing the steps involved at each level of the workers' comp process will allow us to take an agency-wide approach to ensure our processes are as efficient as possible, and to be certain staff is allocated appropriately. Moreover, using a standard method will make certain agency procedures are applied consistently and transparently both internally and externally.

- Shared Services: Duplication of services has also been a focus as we work to operate more efficiently. For example, BWC has worked independently from other state agencies and until recently operated its own full-service printing facility. Last fall, we merged our services with the Department of Administrative Services' State Printing Operation. Sharing services such as printing with other state agencies affords us an opportunity to eliminate duplicated services, providing more effective and efficient use of state resources.

- Restacking of William Green Building: Combining our resources goes beyond our day-to-day operational services. BWC is fortunate to have an outstanding facility in which to operate. The William Green Building has historically housed BWC and the Ohio Industrial Commission. Over the years BWC has scaled down the size of its workforce, leaving us with more than 100,000 square feet of vacant prime office space. To more efficiently manage our operation and to free up space for other public agencies, we have cleared off three complete floors, making them available as a competitive leasing solution for state agencies that are trying to reduce their rental costs.

- Internal Cost Savings: At BWC, we take stewardship of employer premium dollars very seriously. To ensure we are spending funds wisely, we are taking internal cost saving measures that are designed to create greater efficiency. We are cutting back on travel, holding off on the purchase of new equipment and not filling some open positions. We are also examining the personal services contracts we have with IT consultants. By limiting the degree of system enhancements and other necessary efficiencies, we anticipate that approximately one-third of our IT service contracts will be terminated in stages over the next four months without causing interruption to our customers who utilize our online services.

BWC Requests

The Ohio BWC respectfully requests approval of the General Assembly for the following four items. These requests are largely clarifying and technical updates to current statutes.

The existing language in 4123.34(B) was established with the original statute that created Ohio's State Insurance Fund in 1913. With the evolution of workers' compensation practices and modern financial reporting requirements, the statute as currently worded is outdated and imparts complexity into the financial statements. In fact, external auditors hired by the Auditor of State have repeatedly noted that BWC is not in compliance with the antiquated language in the Ohio Revised Code. Note: we are not asking to eliminate the Surplus Fund Account or modify the types of expenses charged to the Surplus Fund Account. The elimination of the set-aside requirement and the $100,000 statutory cap allows the Administrator to transfer the amount necessary to cover the costs charged to the Surplus Fund Account and allows BWC to properly match revenues and expenses in the year in which they occur.

The next two items deal with statutory deadlines.

- The first refers to the revision of 4121.12, which relates to the BWC Nominating Committee. We request the BWC Nominating Committee have the authority to submit names of prospective Board members to the Governor prior to the expiration of the exiting member's term.

- The next item relates to section 4121.125(C) (3) and discusses the submission of actuarial valuation reports to the appropriate committees of the General Assembly. We request changing the date of submission of the actuarial valuation of assets, liabilities, and funding from September 1, to November 1, because the report is not received by BWC until after September 1.

Finally, we ask you to revise 4121.70(B) and 4121.62(A)(4), (B) and (C) relating to the Rehabilitation Division and Director of Rehabilitation. In the past, BWC operated two rehabilitation facilities under its former Rehabilitation Division. These facilities ceased operation in 1995 and 2001; respectively. This restructuring of the agency several years ago eliminated the Rehabilitation Division.

Conclusion

The $328 million requested in BWC's budget, also funds the Deputy Inspector General assigned to BWC and the Industrial Commission; the office of the Ombudsperson; and the Attorney General's workers' compensation, legal and fraud sections. We also anticipate costs associated with implementing certain of the recommendations made by Deloitte in its study. We commit to use all resources as effectively as possible for all of our customers, the employers and workers of Ohio.

Thank you.