

BWC Board of Directors

Board Agenda

Friday, March 20, 2009

William Green Building

Level 2, Room 3

8:00 a.m. – 12:00 p.m.

Call to Order

Bill Lhota, Board Chair

Roll Call

Jill Whitworth, Scribe

Bill Lhota, Chair

- Approval of minutes of the February 20, 2009 Board meeting
- Review meeting agenda

Committee Reports

Governance Committee

Alison Falls, Committee Chair

1. Dispute Resolution for HPP Medical Issues, Rule 4123-6-16
(Possible vote)
2. Approval of Superintendent of Safety & Hygiene (Possible vote)

Actuarial Committee

Chuck Bryan, Committee Chair

1. Motion to Adopt Ratemaking Methodology and Instruct Staff to
Prepare Appropriate Rules (possible Vote)

Audit Committee

Ken Haffey, Committee Chair

Investment Committee

Bob Smith, Committee Chair

1. Mercer Investment Consulting, Inc. Contract First Renewal Option (Possible Vote to recommend renewal to the Board of Directors)
2. Mercer Updated Report on Asset-Liability Modeling State Insurance Fund (Possible Vote on Bonds/Equities/Cash asset allocation)
3. Recommendation to convert Large Cap Equity account of Disabled Workers' Relief Fund from passive management separate account to passive management commingled account (Possible Vote to recommend approval)
4. Recommendation to convert Large Cap Equity account of Coal Workers' Pneumoconiosis Fund from passive management separate account to passive management commingled account (Possible Vote to recommend approval)

Monthly Enterprise Report

Tracy Valentino, Chief, Fiscal & Planning Division

Discount Rate Recommendation

Marsha P. Ryan, Administrator

Ombudsman Annual Report

Michael Travis, Chief Ombudsman

Strategy Discussion

Funding Policy (Possible vote)
Don Berno, Board Liaison

Administrator Briefing

Marsha P. Ryan, Administrator

Executive Session (if needed)

Litigation Update

Adjourn

Bill Lhota, Board Chair

Next Meeting: Thursday, April 30, 2009, 8:00 am-12:00 pm

*Not all discussion items have materials included.

3/20/2009 2:33 PM

Enterprise Report

March 2009

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.*

February Financial Analysis

BWC's net assets decreased by \$506 million in February resulting in net assets of \$940 million at February 28, 2009 compared to \$1.4 billion at January 31, 2009.

<i>(\$ in millions)</i>	Fiscal YTD Jan. 31, 2009	Month Ended Feb. 28, 2009	Fiscal YTD Feb. 28, 2009
Operating Revenues	\$1,288.1	\$186.2	\$1,474.3
Operating Expenses	1,325.1	177.2	1,502.3
Operating Transfer Out to ODNR	(3.3)	–	(3.3)
Net Operating Gain (Loss)	(40.3)	9.0	(31.3)
Net Investment Income (Loss)	(1,016.4)	(515.3)	(1,531.7)
Increase (Decrease) in Net Assets	(1,056.7)	(506.3)	(1,563.0)
Net Assets End of Period	\$1,446.6	\$940.3	\$940.3

- o Premium and assessment income of \$188 million net of a \$2 million provision for uncollectible accounts receivable resulted in operating revenues of \$186 million in February.
- o Benefits and compensation adjustment expenses of \$171 million along with other expenses of \$6 million resulted in operating expenses of \$177 million in February.
- o A \$542 million decrease in portfolio market value in February exceeded interest and dividend income of \$27 million for the month, resulting in a net investment loss of \$515 million for the month after investment expenses. The decrease in portfolio market value is comprised of \$21 million in net realized losses and \$521 million in net unrealized losses. Over \$12 million of the \$21 million in net realized losses resulted from sales and permanent impairment charges for securities held in the miscellaneous holdings account.
- o Private employer premium payments for the six month period ended December 31, 2008 contributed to premium and assessment receipts of \$634 million in February. Collections were \$52 million more than projected for the month.
- o Claim payments issued in February were \$152 million, including \$12 million in claim settlements.
- o A total of \$60 million was redeemed from investment managers during February to provide an additional level of liquidity and in anticipation of a rebalancing of the investment portfolio.

Fiscal Year-to-Year Comparisons

BWC's total net assets have decreased by \$1.6 billion for fiscal year-to-date 2009 resulting in net assets of \$940 million at February 28, 2009 compared to \$2.5 billion at February 29, 2008.

<i>(\$ in millions)</i>	Fiscal YTD Feb. 28, 2009	Projected FYTD Feb. 28, 2009	Fiscal YTD Feb. 28, 2008
Operating Revenues	\$1,474	\$1,466	\$1,510
Operating Expenses	1,502	1,728	2,267
Operating Transfer Out to ODNR	(3)	(4)	–
Net Operating Gain (Loss)	(31)	(266)	(757)
Net Investment Income (Loss)	(1,532)	697	985
Increase (Decrease) in Net Assets	(1,563)	431	228
Net Assets End of Period	\$940	\$2,934	\$2,533

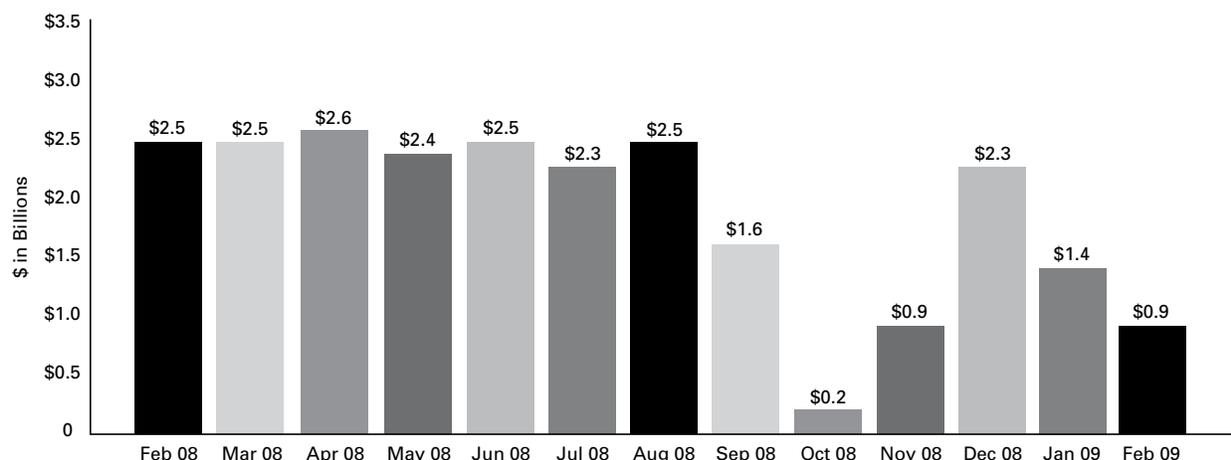
- o BWC's operating revenues for fiscal year-to-date 2009 were \$1.5 billion, a decrease of \$36 million compared to fiscal year-to-date 2008. The decrease is primarily due to declines in accruals for unbilled premium receivable because of lower than expected losses for state agencies, self-insured employers, and DWRF.
- o The adjustment of private employer accruals to actual premiums and assessments for the coverage period ended June 30, 2008 contributed to premium and assessment income being almost 2% higher than projected.

- o Benefit and compensation adjustment expenses have decreased by \$764 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 \$59 million in fiscal year 2009 compared to an almost \$573 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 \$55 million for fiscal year-to-date 2009 compared to the same period in fiscal year 2008. Claim settlements have declined by \$64 million and permanent partial payments have declined by \$2 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 \$226 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 \$1.5 billion, comprised of \$168 million in net realized losses and \$1.8 billion in net unrealized losses, partially off-set by \$447 million of interest and dividend income net of \$3 million in investment expenses.
- o Fiscal year-to-date premium collections are almost 2% higher than projected; contributing to the \$49 million favorable variance in cash provided by operating activities.
- o A total of \$265 million has been redeemed from investment managers in fiscal year 2009 to meet operating cash flow needs and anticipated portfolio rebalancing. 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 The number of private employers participating in the 50/50 payment program increased by almost 20% this collection period compared to the collection period ended August 31, 2008. These employers will be paying \$176 million in premiums by June 1, 2009 to maintain active coverage.
- o Approximately 43,000 or 16.6% of private employers were lapsed effective March 1, 2009 due to untimely reporting and payment of premiums for the July 1 through December 31, 2008 coverage period. The percentage of employers whose coverage lapsed has remained fairly consistent over the last five reporting periods.

Net Assets



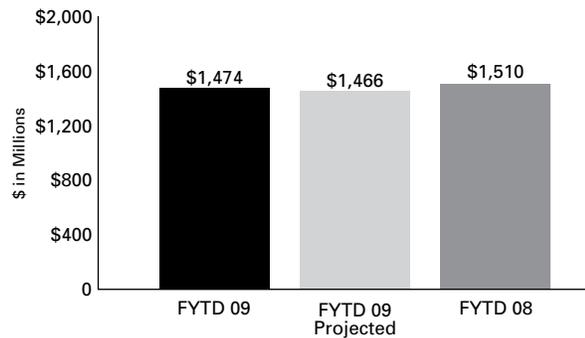
Statement of Operations

Fiscal year to date February 28, 2009

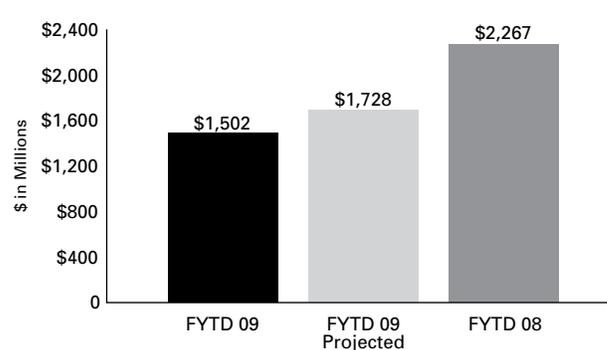
(in millions)

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
Operating Revenues					
Premium & Assessment Income	\$1,514	\$1,488	\$26	\$1,539	\$(25)
Provision for Uncollectibles	(46)	(30)	(16)	(36)	(10)
Other Income	6	8	(2)	7	(1)
Total Operating Revenue	1,474	1,466	8	1,510	(36)
Operating Expenses					
Benefits & Compensation Adj. Expense	1,441	1,667	226	2,205	(764)
Other Expenses	61	61	-	62	(1)
Total Operating Expenses	1,502	1,728	226	2,267	(765)
Operating Transfers	(3)	(4)	1	-	(3)
Net Operating Gain (Loss)	(31)	(266)	235	(757)	726
Net Investment Income (Loss)	(1,532)	697	(2,229)	985	(2,517)
Increase (Decrease) in Net Assets	\$(1,563)	\$431	\$(1,994)	\$228	\$(1,791)

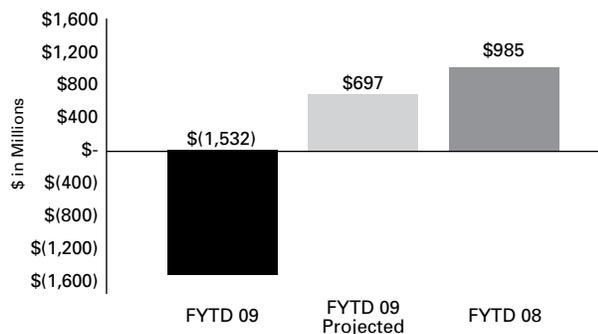
Operating Revenues



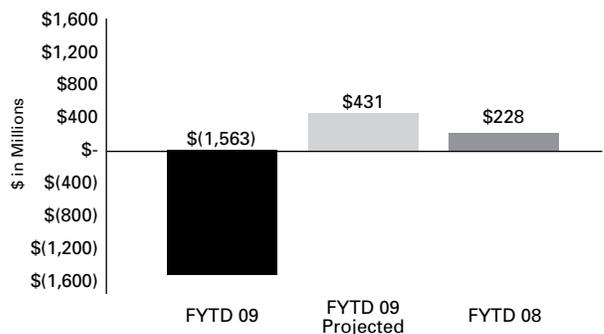
Operating Expenses



Net Investment Income (Loss)



Change in Net Assets



Statement of Operations – Combining Schedule

Fiscal year to date February 28, 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	\$1,200,273	\$53,591	\$750	\$152	\$563	\$13,273	\$245,725	\$1,514,327
Provision for Uncollectibles	(40,783)	(1,243)	-	-	-	536	(4,949)	(46,439)
Other Income	4,622	-	-	-	-	-	1,807	6,429
Total Operating Revenues	1,164,112	52,348	750	152	563	13,809	242,583	1,474,317
Operating Expenses:								
Benefits & Compensation Adj Expenses	1,205,691	49,081	619	(67)	241	16,191	169,371	1,441,127
Other Expenses	14,922	176	52	1	98	1	45,884	61,134
Total Operating Expenses	1,220,613	49,257	671	(66)	339	16,192	215,255	1,502,261
Net Operating Income (Loss) before Operating Transfers Out	(56,501)	3,091	79	218	224	(2,383)	27,328	(27,944)
Operating Transfers Out	(2,197)	-	(3,106)	-	-	-	2,020	(3,283)
Net Operating Income (Loss)	(58,698)	3,091	(3,027)	218	224	(2,383)	29,348	(31,227)
Investment Income:								
Investment Income	407,140	29,130	6,187	239	178	596	3,125	446,595
Net Realized Gains (Losses)	(153,898)	(11,337)	(2,498)	-	-	-	-	(167,733)
Net Unrealized Gains (Losses)	(1,665,511)	(115,755)	(25,567)	(241)	(180)	-	-	(1,807,254)
Total Realized & Unrealized Capital Gains (Losses)	(1,819,409)	(127,092)	(28,065)	(241)	(180)	-	-	(1,974,987)
Investment Manager & Operational Fees	(2,969)	(185)	(111)	(1)	-	(1)	-	(3,267)
Gain (Loss) on Disposal of Fixed Assets	-	-	-	-	-	-	(74)	(74)
Total Non-Operating Revenues, Net	(1,415,238)	(98,147)	(21,989)	(3)	(2)	595	3,051	(1,531,733)
Increase (Decrease) in Net Assets (Deficit)	(1,473,936)	(95,056)	(25,016)	215	222	(1,788)	32,399	(1,562,960)
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	\$732,986	\$753,671	\$154,323	\$19,565	\$13,653	\$7,131	\$(741,000)	\$940,329

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 February 28, 2009

(in thousands)

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
Investment Income					
Bond Interest	\$384,841	\$507,928	\$(123,087)	\$480,865	\$(96,024)
Dividend Income-Domestic & International	50,028	46,000	4,028	40,439	9,589
Money Market/Commercial Paper Income	4,571	6,505	(1,934)	13,241	(8,670)
Misc. Income (Corp Actions, Settlements)	7,155	2,400	4,755	3,434	3,721
Private Equity	-	-	-	3,919	(3,919)
Securities Lending Income, Net of Fees	-	-	-	-	-
Total Investment Income	<u>446,595</u>	<u>562,833</u>	<u>(116,238)</u>	<u>541,898</u>	<u>(95,303)</u>
Realized & Unrealized Capital Gains and (Losses)					
Bonds - Net Realized Gains (Losses)	(95,701)	-	(95,701)	(71,782)	(23,919)
Stocks - Net Realized Gains (Losses)	(72,166)	-	(72,166)	45,690	(117,856)
Subtotal - Net Realized Gains (Losses)	<u>(167,867)</u>	<u>-</u>	<u>(167,867)</u>	<u>(26,092)</u>	<u>(141,775)</u>
Bonds - Net Unrealized Gains (Losses)	(400,780)	-	(400,780)	956,546	(1,357,326)
Stocks - Net Unrealized Gains (Losses)	(1,406,474)	138,000	(1,544,474)	(433,427)	(973,047)
Subtotal - Net Unrealized Gains (Losses)	<u>(1,807,254)</u>	<u>138,000</u>	<u>(1,945,254)</u>	<u>523,119</u>	<u>(2,330,373)</u>
Net Gain (Loss) - PE	134	-	134	(45,967)	46,101
Change in Portfolio Value	<u>(1,974,987)</u>	<u>138,000</u>	<u>(2,112,987)</u>	<u>451,060</u>	<u>(2,426,047)</u>
Investment Manager & Operational Fees	<u>(3,267)</u>	<u>(3,548)</u>	<u>281</u>	<u>(8,246)</u>	<u>(4,979)</u>
Net Investment Income (Loss)	<u>\$ (1,531,659)</u>	<u>\$ 697,285</u>	<u>\$ (2,228,944)</u>	<u>\$ 984,712</u>	<u>\$ (2,516,371)</u>

Administrative Cost Fund Expense Analysis

February 2009

- o BWC Administrative Cost Fund expenses are approximately \$23.6 million (11.7%) less than budgeted and approximately 1.5% less than last fiscal year.
- o Changes in payroll within divisions, including BWC Administration, Customer Service, Medical 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. BWC's early retirement offering that ended January 31, 2008, resulted in Early Retirement Expenses in fiscal year 2008.
- 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 February. A closer evaluation of projects and the need for IT consultants caused a reduction in IT personal services.
- 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 February. The payroll budget will be increased as employees are hired.
- o BWC's current fiscal year 2009 budget is approximately \$28 million (8%) less than appropriated by the General Assembly.

Administrative Cost Fund Budget Summary

As of February 28, 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	643,057	641,471	(1,586)	-0.25%	887,291	496,968	146,089	29.40%
Workers' Comp Council	1	72,323	72,323	0	0.00%	83,011	0	72,323	100.00%
BWC Administration	10	525,164	525,164	0	0.00%	755,108	375,088	150,076	40.01%
Customer Service	1,484	76,842,496	76,930,900	88,404	0.11%	111,450,800	79,538,936	(2,696,440)	-3.39%
Medical	138	8,151,835	8,162,137	10,302	0.13%	11,922,549	7,297,127	854,708	11.71%
Special Investigations	140	7,767,253	7,768,723	1,470	0.02%	11,304,862	7,729,118	38,135	0.49%
Fiscal and Planning	67	3,440,509	3,463,728	23,219	0.67%	5,028,454	3,382,683	57,826	1.71%
Actuarial	20	1,156,727	1,157,334	607	0.05%	1,719,066	1,071,726	85,001	7.93%
Investments	11	800,923	802,171	1,248	0.16%	1,227,669	683,726	117,197	17.14%
Infrastructure and Technology	299	20,660,116	20,749,077	88,961	0.43%	30,123,875	20,175,925	484,191	2.40%
Legal	77	4,628,516	4,628,336	(180)	0.00%	6,763,360	4,300,103	328,413	7.64%
Communications	24	1,786,240	1,784,368	(1,872)	-0.10%	2,476,772	1,900,368	(114,128)	-6.01%
Human Resources	66	3,789,541	3,790,233	692	0.02%	5,509,085	3,626,803	162,738	4.49%
Internal Audit	16	925,897	926,193	296	0.03%	1,409,693	1,067,182	(141,285)	-13.24%
Ombuds Office	10	390,416	390,715	299	0.08%	599,751	271,127	119,289	44.00%
Early Retirement Expenses				0	0.00%		163,564	(163,564)	-100.00%
Total Payroll	2,376	131,581,013	131,792,873	211,860	0.16%	191,261,346	132,080,444	(499,431)	-0.38%
Personal Services									
Information Technology		6,419,286	9,080,302	2,661,016	29.31%	13,509,987	9,252,599	(2,833,313)	-30.62%
Legal - Special Counsel		660,359	1,045,537	385,178	36.84%	1,566,244	827,448	(167,089)	-20.19%
Legal - Attorney General		3,225,701	3,333,064	107,363	3.22%	4,444,085	3,139,623	86,078	2.74%
Other Personal Services		<u>3,952,242</u>	<u>6,046,527</u>	<u>2,094,285</u>	<u>34.64%</u>	<u>8,212,044</u>	<u>2,714,671</u>	<u>1,237,571</u>	<u>45.59%</u>
Total Personal Services		14,257,588	19,505,430	5,247,842	26.90%	27,732,360	15,934,341	(1,676,753)	-10.52%
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		9,647,673	11,061,396	1,413,723	12.78%	13,692,169	9,594,961	52,712	0.55%
Software and Equipment Maintenance and Repairs		10,650,283	13,722,246	3,071,963	22.39%	19,604,579	10,556,488	93,795	0.89%
Inter Agency Payments		1,881,898	2,645,614	763,716	28.87%	3,660,962	2,129,763	(247,865)	-11.64%
Communications		2,526,741	4,727,876	2,201,135	46.56%	6,964,313	2,502,948	23,793	0.95%
Safety Grants and Long Term Care Loan		2,710,061	4,500,000	1,789,939	39.78%	6,000,000	2,789,270	(79,209)	-2.84%
Supplies and Printing		968,570	2,140,560	1,171,990	54.75%	3,186,668	1,199,655	(231,085)	-19.26%
Other Maintenance		<u>2,075,611</u>	<u>2,492,699</u>	<u>417,088</u>	<u>16.73%</u>	<u>3,747,941</u>	<u>2,100,354</u>	<u>(24,743)</u>	<u>-1.18%</u>
Total Maintenance		30,965,374	41,811,828	10,846,454	25.94%	75,761,346	31,452,861	(487,487)	-1.55%
Equipment									
		<u>811,809</u>	<u>8,190,653</u>	<u>7,378,844</u>	<u>90.09%</u>	<u>9,680,865</u>	<u>841,600</u>	<u>(29,791)</u>	<u>-3.54%</u>
Total Administrative Cost Fund Expenses		177,615,784	201,300,784	23,685,000	11.77%	304,435,917	180,309,246	(2,693,462)	-1.49%

Total Agency Appropriation 332,360,479
 Budget to Appropriation Variance 27,924,562
 Percentage Variance 8.40%

State Insurance Fund

Administrative Expense Summary

As of February 28, 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	\$4,784,833
Wilshire Associates Inc.	0	0	0		272,083
JP Morgan Chase - Performance Reporting	70,249	31,085	101,334	6/30/08	0
Mercer Investment Consulting	277,081	244,412	521,493	6/30/09	0
Other Investment Expenses	154,550	310,259	464,809	6/30/09	112,459
	777,071	585,756	1,362,827		5,169,375
Actuarial Expenses					
Mercer Oliver Wyman	480,620	1,026,837	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	1,550,095	0	1,550,095	12/31/08	0
AON Risk Consultants	0	0	0		263,599
	2,178,541	2,833,370	5,011,911		687,914
Ohio Rehabilitation Services	605,407	0	605,407	6/30/09	0
TOTAL	\$3,561,019	\$3,419,126	\$6,980,145		\$5,857,289

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.

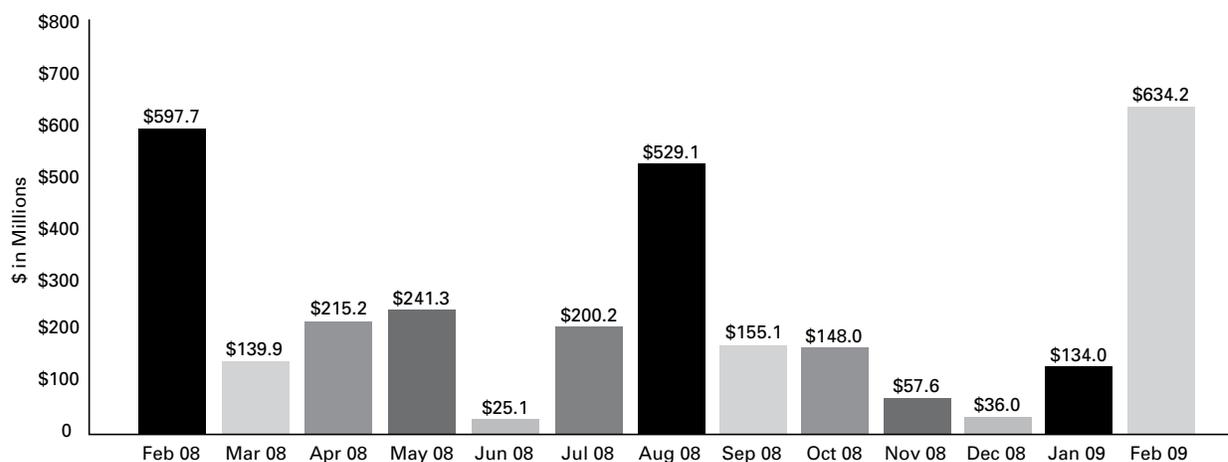
Statement of Cash Flows

Fiscal year to date February 28, 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	\$1,895	\$1,860	\$35	\$1,917	\$(22)
Cash Receipts - Other	17	19	(2)	18	(1)
Cash Disbursements for Claims	(1,424)	(1,442)	18	(1,461)	37
Cash Disbursements for Other	<u>(309)</u>	<u>(307)</u>	<u>(2)</u>	<u>(325)</u>	<u>16</u>
Net Cash Provided (Used) by Operating Activities	179	130	49	149	30
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	<u>197</u>	<u>166</u>	<u>31</u>	<u>288</u>	<u>(91)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	369	290	79	433	(64)
Cash and Cash Equivalents, Beginning of Period	<u>378</u>	<u>378</u>	<u>-</u>	<u>328</u>	<u>50</u>
Cash and Cash Equivalents, End of Period	\$747	\$668	\$79	\$761	\$(14)

Premium and Assessment Receipts



Statement of Net Assets

As of February 28, 2009

(in millions)

	Actual	Prior Yr. Actual	Year to Year Increase (Decrease)
Assets			
Bonds	\$12,716	\$13,851	\$(1,135)
Stocks	2,471	3,258	(787)
Private Equities	–	26	(26)
Cash & Cash Equivalents	747	761	(14)
Total Cash and Investments	15,934	17,896	(1,962)
Accrued Premiums	4,318	4,525	(207)
Other Accounts Receivable	131	143	(12)
Investment Receivables	360	331	29
Other Assets	112	116	(4)
Total Assets	20,855	23,011	(2,156)
Liabilities			
Reserve for Compensation and Compensation Adj. Expense	\$19,376	\$19,844	\$(468)
Accounts Payable	94	92	2
Investment Payable	221	232	(11)
Other Liabilities	224	310	(86)
Total Liabilities	19,915	20,478	(563)
Net Assets	\$940	\$2,533	\$(1,593)

Statement of Net Assets – Combining Schedule

As of February 28, 2009

(in thousands)

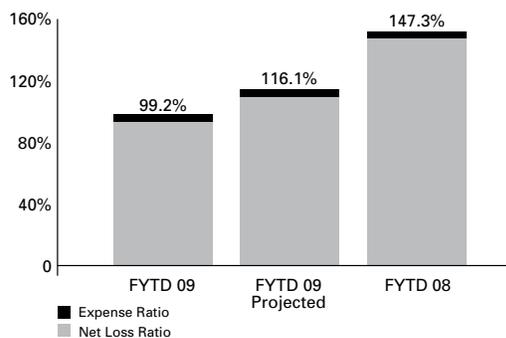
	State Insurance Fund Account	Disabled Workers' Relief Fund Account	Coal-Workers Pneumoconiosis Fund Account	Public Work Relief Employees' Fund Account	Marine Industry Fund Account	Self-Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Eliminations	Totals
Assets									
Bonds	\$ 11,665,173	\$ 833,969	\$ 177,176	\$ 22,419	\$ 16,750	\$ -	\$ -	\$ -	\$12,715,487
Stocks	2,268,611	166,982	35,225	-	-	-	-	-	2,470,818
Private Equities	197	-	-	-	-	-	-	-	197
Cash & Cash Equivalents	<u>677,859</u>	<u>11,771</u>	<u>3,194</u>	<u>129</u>	<u>365</u>	<u>52,468</u>	<u>1,249</u>	<u>-</u>	<u>747,035</u>
Total Cash & Investments	\$ 14,611,840	\$ 1,012,722	\$ 215,595	\$ 22,548	\$ 17,115	\$ 52,468	\$ 1,249	\$ -	\$15,933,537
Accrued Premiums	1,883,608	1,527,159	-	330	-	669,063	238,103	-	4,318,263
Other Accounts Receivable	55,470	25,037	-	-	-	1,505	48,993	-	131,005
Interfund Receivables	13,407	59,686	-	-	8	4,129	97,987	(175,217)	-
Investment Receivables	330,003	24,999	5,348	7	5	25	-	-	360,387
Other Assets	<u>25,654</u>	<u>21</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>86,015</u>	<u>-</u>	<u>111,690</u>
Total Assets	\$ 16,919,982	\$ 2,649,624	\$ 220,943	\$ 22,885	\$ 17,128	\$ 727,190	\$ 472,347	\$ (175,217)	\$20,854,882
Liabilities									
Reserve for Compensation & Compensation Adj. Expense	\$ 15,621,965	\$ 1,874,075	\$ 62,800	\$ 3,311	\$ 3,218	\$ 717,369	\$ 1,093,204	\$ -	\$19,375,942
Accounts Payable	93,533	-	-	-	-	-	183	-	93,716
Investment Payable	207,278	10,692	2,989	-	-	-	-	-	220,959
Interfund Payables	161,224	11,142	95	9	57	2,690	-	(175,217)	-
Other Liabilities	<u>102,996</u>	<u>44</u>	<u>736</u>	<u>-</u>	<u>200</u>	<u>-</u>	<u>119,960</u>	<u>-</u>	<u>223,936</u>
Total Liabilities	16,186,996	1,895,953	66,620	3,320	3,475	720,059	1,213,347	(175,217)	19,914,553
Net Assets	\$ 732,986	\$ 753,671	\$ 154,323	\$ 19,565	\$ 13,653	\$ 7,131	\$ (741,000)	\$ -	\$ 940,329

Financial Performance Metrics

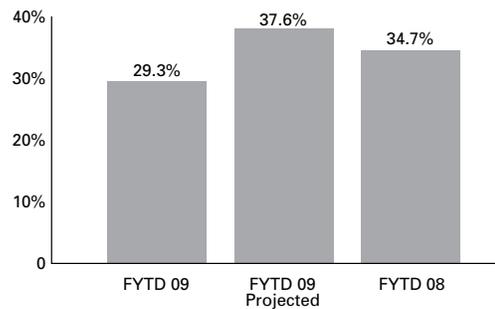
	Actual FY09 As of 2/28/09	Projected FY09 As of 2/28/09	Actual FY08 As of 2/28/08	Target
Loss Ratio	76.8%	89.9%	117.9%	
LAE Ratio - MCO	7.2%	8.7%	12.3%	
LAE Ratio - BWC	11.2%	13.4%	13.1%	
Net Loss Ratio	95.2%	112.0%	143.3%	120.0%
Expense Ratio	4.0%	4.1%	4.0%	5.0%
Combined Ratio	99.2%	116.1%	147.3%	125.0%
Net Investment Income Ratio	29.3%	37.6%	34.7%	
Operating Ratio (Trade Ratio)	69.9%	78.5%	112.6%	100.0%
Operating Cashflow Ratio	138.6%	139.4%	139.6%	118.0%
Total Reserves to Net Assets	21 to 1	7 to 1	8 to 1	7 to 1
Investments to Loss Reserves	82.2%	94.1%	90.2%	110.0%
Equities to Net Assets	2.63 to 1	1.14 to 1	1.29 to 1	
Bonds to Net Assets	13.5 to 1	4.8 to 1	5.5 to 1	
Funding Ratio (State Insurance Fund)	1.05	1.18	1.16	

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

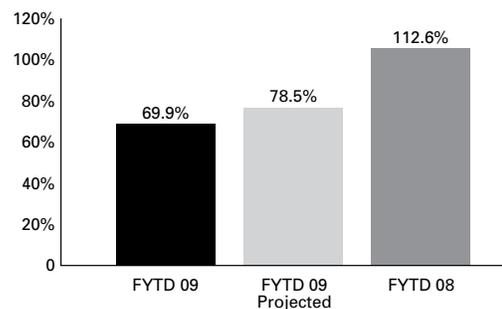
Combined Ratio



Investment Income Ratio

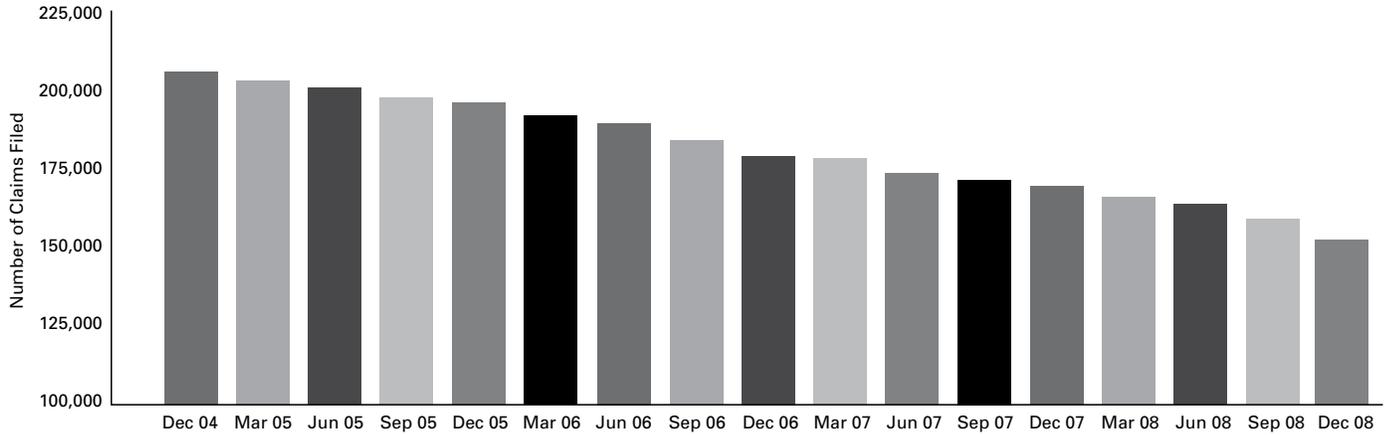


Operating Ratio

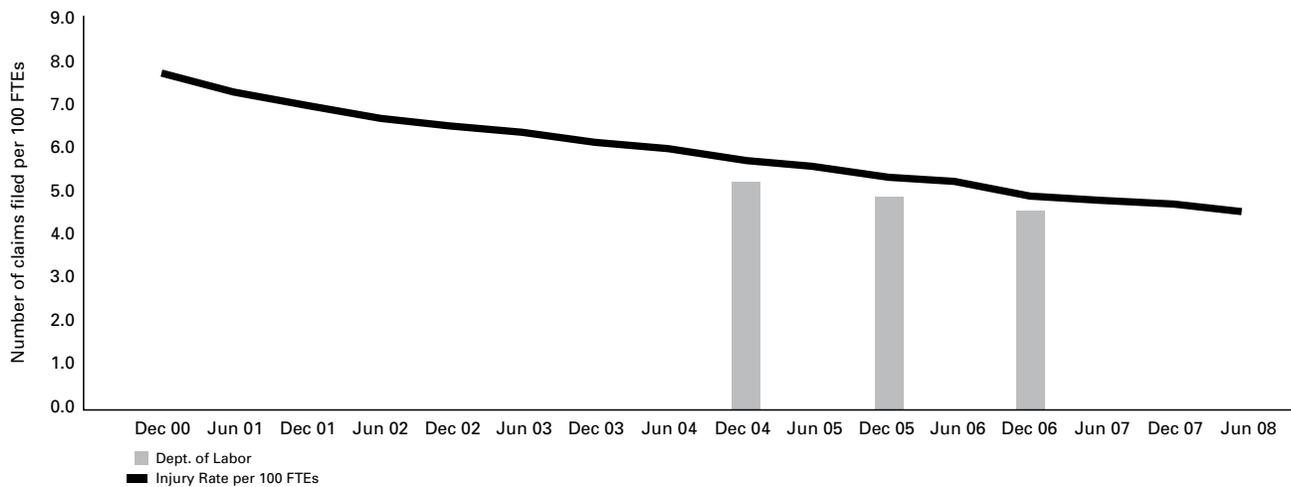


Operational Performance Metrics

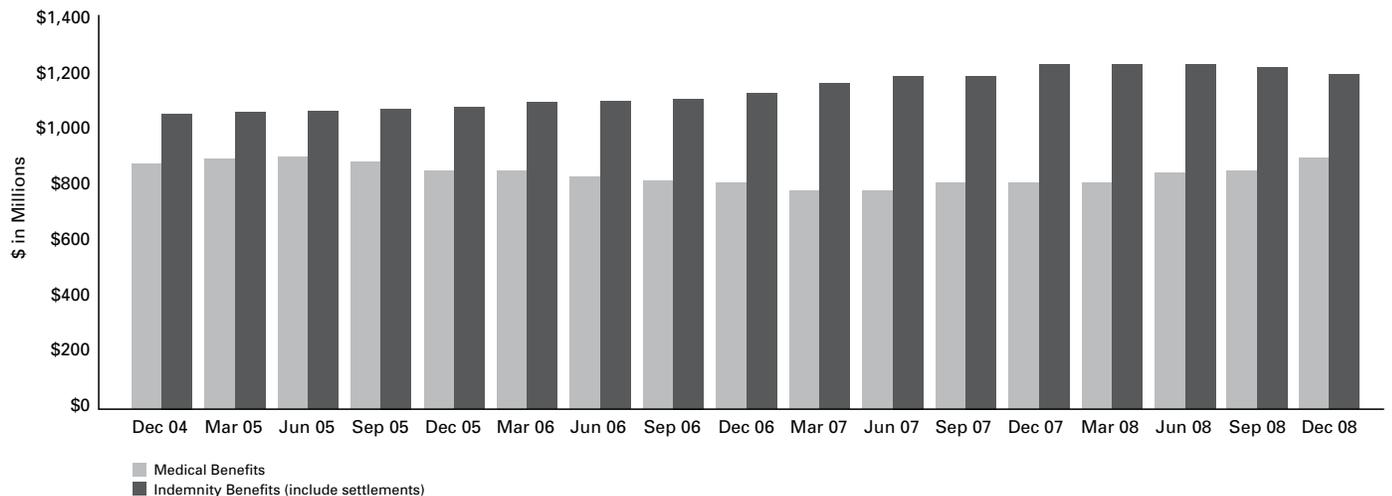
New Claims Filed - Twelve months ended



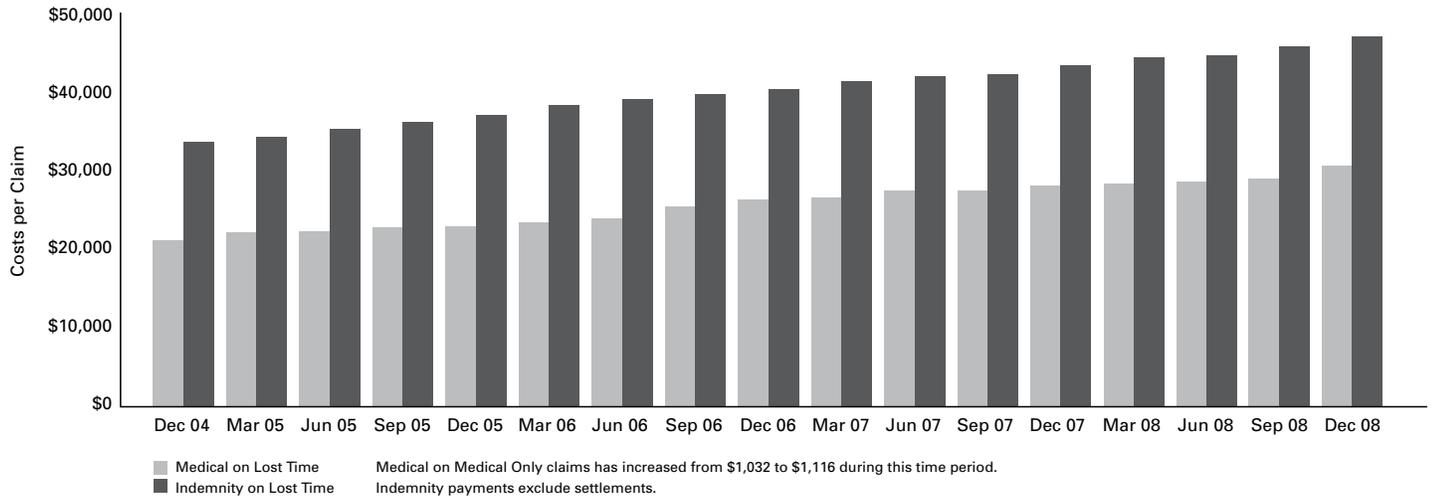
Frequency - Reported semi-annually



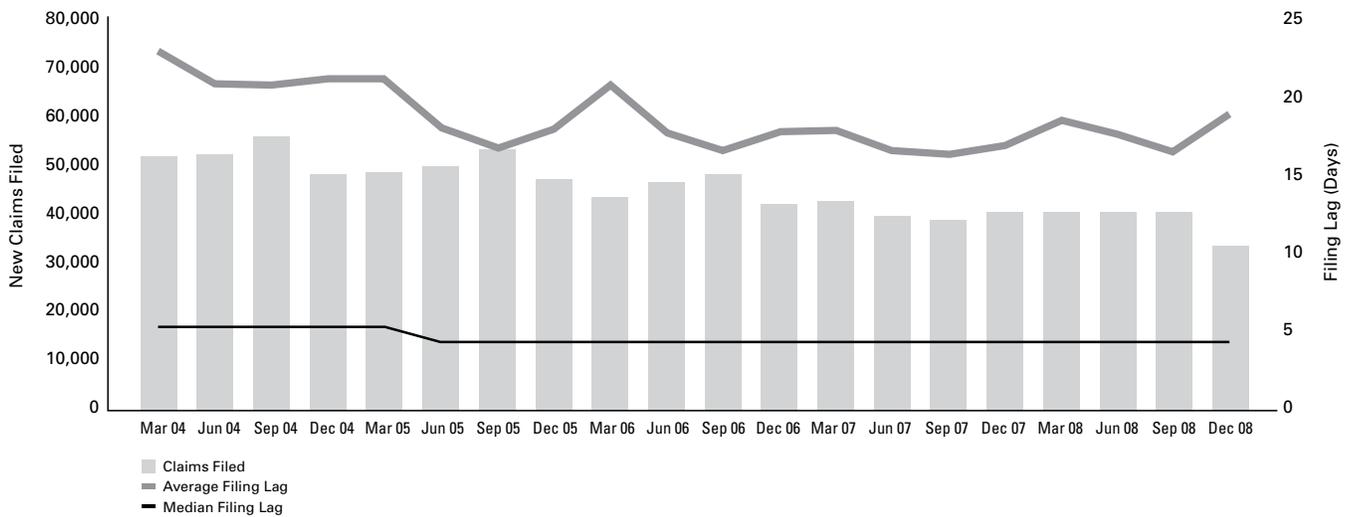
Benefit Payments - Twelve months ended



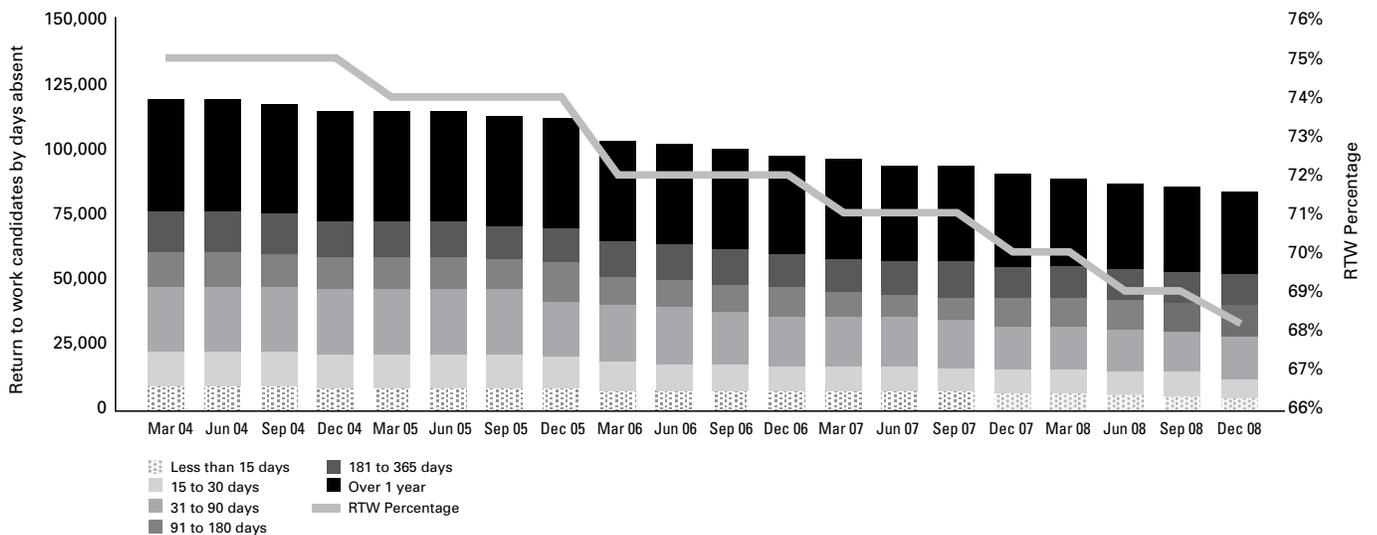
Severity



Claim Filing Lag



Return to work

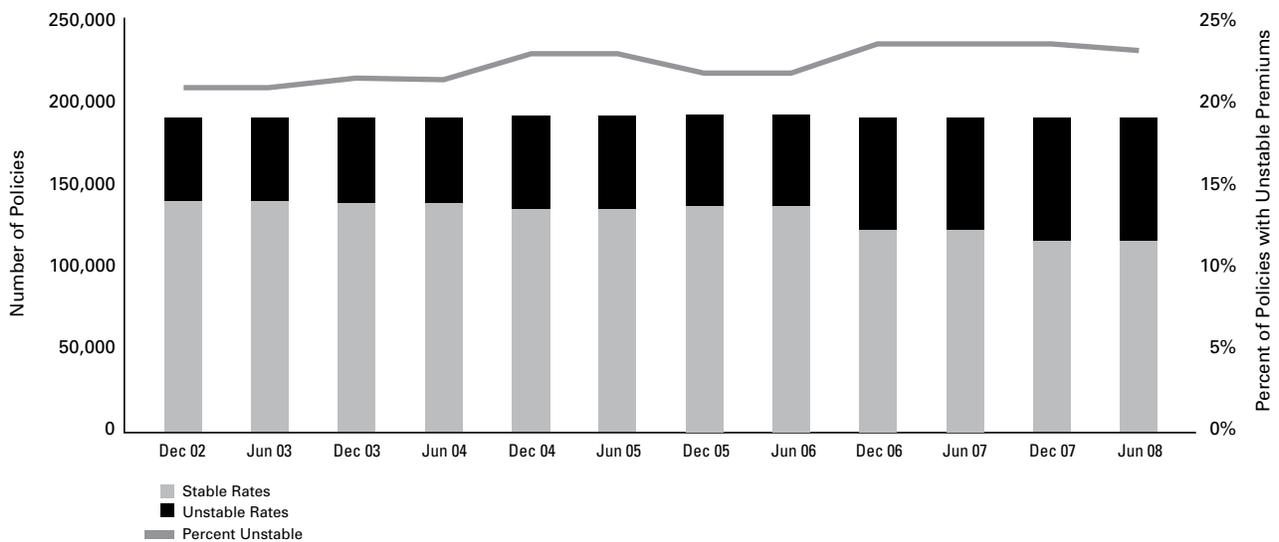


Aggregate Reported Payroll – Twelve Months Ending

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

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.

Statement of Operations

Month Ended February 28, 2009

(\$ in millions)	Fiscal YTD Jan 31, 2009	Month Ended Feb 28, 2009	Fiscal YTD Feb 28, 2009
Operating Revenues	\$ 1,288.1	\$ 186.2	\$ 1,474.3
Operating Expenses	1,325.1	177.2	1,502.3
Operating Transfer Out to ODNR	(3.3)	-	(3.3)
Net Operating Income (Loss)	(40.3)	9.0	(31.3)
Net Investment Income (Loss)	(1,016.4)	(515.3)	(1,531.7)
Increase (Decrease) in Net Assets	(1,056.7)	(506.3)	(1,563.0)
Net Assets End of Period	\$ 1,446.6	\$ 940.3	\$ 940.3

Net Investment Income

Month Ended February 28, 2009

(\$ in millions)	Fiscal YTD Jan 31, 2009	Month Ended Feb 28, 2009	Fiscal YTD Feb 28, 2009
Interest and Dividends	\$ 419.1	\$ 27.5	\$ 446.6
Net Realized Gains (Losses)	(146.7)	(21.1)	(167.8)
Net Unrealized Gains (Losses)	(1,286.0)	(521.3)	(1,807.3)
Investment Manager & Operational Fees	(2.8)	(0.4)	(3.2)
Net Investment Income	\$ (1,016.4)	\$ (515.3)	\$ (1,531.7)

Statement of Operations

Fiscal Year to Date February 28, 2009

(in millions)

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
<u>Operating Revenues</u>					
Premium & Assessment Income	\$ 1,514	\$ 1,488	\$ 26	\$ 1,539	\$ (25)
Provision for Uncollectibles	(46)	(30)	(16)	(36)	(10)
Other Income	6	8	(2)	7	(1)
Total Operating Revenue	1,474	1,466	8	1,510	(36)
<u>Operating Expenses</u>					
Benefits & Compensation Adj. Expense	1,441	1,667	226	2,205	(764)
Other Expenses	61	61	-	62	(1)
Total Operating Expenses	1,502	1,728	226	2,267	(765)
Operating Transfers	(3)	(4)	1	-	(3)
Net Operating Gain (Loss)	(31)	(266)	235	(757)	726
Net Investment Income (Loss)	(1,532)	697	(2,229)	985	(2,517)
Increase (Decrease) in Net Assets	\$ (1,563)	\$ 431	\$ (1,994)	\$ 228	\$ (1,791)



**Bureau of Workers'
Compensation**

30 W. Spring St.
Columbus, OH 43215-2256

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

ohiobwc.com
1-800-OHIOBWC

To: The BWC Board of Directors

From: Marsha P. Ryan, Administrator 

Subject: Annual Review of the Reserve Discount Rate
for the rate year commencing July 1, 2009

Date: March 20, 2009

At its February 2009 meeting, the Board of Directors voted to adopt a process for determining the reserve discount rate to be applied to BWC's reserves. The process specifies an annual review, culminating at the Board's March meeting with a recommendation from the Administrator to the Board for a specific discount rate.

The Board has been provided with information detailing the steps taken to arrive at this year's recommendation. In summary, my recommendation is consistent with industry standards for establishing reserve discount rates, and more accurately reflects the trends of the returns on the investment portfolio of the State Insurance Fund and on risk free investment yields.

For the rate year commencing July 1, 2009, my recommendation is that the reserve discount rate be set at **4.5%**.

Reserve Discount Rate Recommendation

The Reserve Discount Rate Policy approved by the Board in February, 2009 contained a series of steps, listed below, for the Administrator to complete as she considers her recommendation/conclusion. The Administrator recommends a reduction from a 5% to a 4.5% discount rate.

Policy Documentation

The Administrator met with senior executives on March 3 and 6, 2009, and followed the Actuarial Standard of Practice #20 and the Government Accounting Standards Board (GASB) Statement 10.

Following BWC Board policy, the Administrator considered the following questions.

- *Is the proposed discount rate consistent with BWC's practice of establishing a conservative discount rate?*

Yes. Table 1 shows a slow yet steady decline in our discount rate that reflects the slow yet steady decline in the yields of "risk free" investments.

TABLE 1

Fiscal Year	Discount Rate (FY)	Fiscal Year	Discount Rate (FY)
1996	7.0	2004	5.50
1997	6.75	2005	5.50
1998	7.00/6.75	2006	5.25
		2007	5.25
1999	6.50	2008	5.00
2000	6.25		
2001	6.00	Avg.	
2002	6.00	2004-2008 (5 years)	5.3
2003	5.80	1999 -2008 (10 years)	5.7

- *Is the proposed discount rate consistent with industry standards?*

Yes. Mercer has informed us that many entities select their discount rate based on the yields of a 10 year Treasury and the 10 year "AA" corporate bond.

In their August, 2008 presentation to the Board, Deloitte discussed a 4% "risk-free" discount rate. They compared Ohio's 5% discount rate to discount rates used by West Virginia (3.8%), New York (5%), Canada's monopoly fund (3.3%) and Australia's monopoly fund (6.5%). For FY 2009, the state of Washington is using a discount rate of 4.28% for their accident and pension fund, and 2.5% for their medical fund.

- *Is there a decreasing or increasing return on BWC's investment portfolio?*

Table 2 indicates annual returns over a ten year period. While there are year-over-year fluctuations, the five year investment average return is slightly higher than average Treasury yields. BWC returns for the five and ten year period are below corporate bond yields. (See Summary Table). Investment returns should exceed the discount rate. SIF investment returns exceeded the discount rate in just 6 of the past 10 years.

TABLE 2

Calendar Year	BWC SIF Investment Returns
1999	9.9
2000	5.8
2001	-3.1
2002	-4.7
2003	14.4
2004	7.3
2005	6.3
2006	6.3
2007	6.6
2008	-2.3
Avg.	
1/04 To 12/08	4.84 (5 yr. avg.)
1/99 To 12/08	4.65 (10 yr. avg.)

- *Are there changes in BWC's investment strategy?*

BWC's investment consultant, Mercer, is suggesting a change in our asset allocation policy and a new/revised Investment Policy Statement. Also please review the attached March 2, 2009 memo from Bruce Dunn.

- *What are the trends of risk free investment yields?*

While the GASB and the Actuarial Standards don't specifically define "risk free" yields, many practitioners in the field use the "AA" corporate bond yield or the 10 year Treasury yield. The trends in these yields are shown below. The five year average yields are consistently lower than the 10 year average yields. See Table 3.

TABLE 3

Calendar Year	"AA" Corporate Bonds		Treasuries	
	10-15 years	15+ years	10 yr.	20 yr.
1999	7.00	7.27	5.64	6.19

2000	7.53	7.83	6.03	6.23
2001	6.47	7.04	5.02	5.63
2002	5.93	6.73	4.61	5.43
2003	4.97	5.84	4.02	4.96
2004	5.15	5.87	4.27	5.05
2005	5.16	5.69	4.29	4.65
2006	5.82	6.07	4.79	4.99
2007	5.89	6.23	4.63	4.91
2008	6.27	6.79	3.67	4.36
Avg.				
1/04 To 12/08	5.66	6.13	4.33	4.79
1/99 To 12/08	6.02	6.54	4.70	5.24

Bond yields provided are month-end averages for each calendar year.

- *Do we anticipate changes in the financial markets?*

The following is an excerpt of the March 2, 2009 CIO report to the Administrator. Please see Document 3 for the complete report.

“Based on the most recent Mercer ALM presentation of February, 2009 and an anticipated asset allocation recommendation expected to be offered by Mercer at the March, 2009 Investment Committee meeting, an exercise of calculating expected future rates of return can be made on both the aggregate SIF fixed income portfolio and the SIF total portfolio. These calculations are made with the assumption that the BWC Board of Directors will approve such an asset allocation weighting split of 70% fixed income and 30% equity. These calculations reflect the current expected future rate of return (ROR) assumptions of on each asset class Mercer provides in the ALM presentation applicable for this asset allocation split, as illustrated for the smoothed discount rate method. The Mercer investment-grade fixed income expected weighted average annual future rates of return based on the Mercer 65% fixed income allocation (excluding the 5% allocation to high-yield bonds) is **5.24%** comprised as follows: 32% long duration bonds @ 5.4% ROR; 17% TIPS @ 5.0% ROR; 15% intermediate duration bonds @ 5.3% ROR; and 1% cash at 3.5% ROR. When the 5% weighted allocation for high-yield bonds @ 7.5% ROR and the 30% weighted allocation for public equities @ 8.4% ROR are included and added (alternative asset classes ignored for this calculation), the total SIF portfolio expected average annual return increases to **6.30%**. Although these projected theoretical rates of returns are certainly not risk-free, the premise can be made that they can be considered as reasonable expected annual returns over a long period of ten years or more.”

Summary Table

Calendar Year	“AA” Corporate Bonds		Treasuries		BWC SIF* Investment Returns	Discount Rate (applied FY)
	10-15 years	15+ years	10 yr.	20 yr.		
1996	6.93	7.66	6.44	6.82	8.8	7.00

1997**	7.05	7.51	6.35	6.68	19.4	7.00/6.75
1998**	6.39	6.84	5.26	5.72	12.8	6.75/6.50
1999**	7.00	7.27	5.64	6.19	9.9	6.50
2000**	7.53	7.83	6.03	6.23	5.8	6.25
2001**	6.47	7.04	5.02	5.63	-3.1	6.00
2002**	5.93	6.73	4.61	5.43	-4.7	6.00
2003**	4.97	5.84	4.02	4.96	14.4	5.80
2004**	5.15	5.87	4.27	5.05	7.3	5.50
2005**	5.16	5.69	4.29	4.65	6.3	5.50
2006	5.82	6.07	4.79	4.99	6.3	5.25
2007	5.89	6.23	4.63	4.91	6.6	5.25
2008	6.27	6.79	3.67	4.36	-2.3	5.00
Avg.						
1/04 To 12/08	5.66	6.13	4.33	4.79	4.84 (5 yr. avg.)	5.3
1/99 To 12/08	6.02	6.53	4.70	5.24	4.65 (10 yr. avg.)	5.7

* Calendar Year returns for State Insurance Fund only. Ancillary Funds not included.

** Dividends rebates paid from SIF to employers

DATE: March 2, 2009

TO: Marsha Ryan, Administrator

FROM: Bruce Dunn, CFA, Chief Investment Officer

SUBJECT: **CIO Discount Rate Setting Comments
State Insurance Fund
Fiscal Year 2010**

[**Introductory Note:** Historical State Insurance Fund portfolio performance and selected bond yield averages over each of the past ten years were previously provided to Don Berno for the purposes of producing a table of summary information useful for discount rate setting discussions and determination.]

In the Reserve Discount Rate Policy draft presented to the Board of Directors on February 20, 2009, it was stated that both GASB 10 and Actuarial Standard of Practice #20 standards recommend consideration of a risk-free investment yield. The difficulty with these standards is that guidance is not provided as to the definition of a risk-free investment yield. Deloitte Consulting has suggested focusing on a 10-year U.S. Treasury yield as the risk-free yield. A 10-year Treasury yield is by no means risk-free over a shorter time period in that 10-year Treasuries can produce a negative rate of return over a several year period if yield levels on Treasuries move even modestly higher (around 30-40 basis points per year) in the current low Treasury yield environment where 10 year maturity Treasuries are only yielding 3.0%. In fact, it is the view among many institutional money managers (including the BWC CIO) that Treasury yields are likely to increase over the next several years as the significant and growing federal budget deficit and federal government stimulus program will promote higher inflationary pressures. Only if one adopts a long-term time frame of ten years can an investor essentially be assured of earning the yield currently available from a ten-year maturity Treasury. In my opinion, a truly risk-free yield is an instrument such as a 3-month Treasury bill which is currently yielding an extremely low yield of around 0.25%. As a matter of information, the ten-year maturity Treasury note was in the 3.50-3.75% yield range one year ago during March, 2008 when BWC reaffirmed the current 5.0% discount rate for SIF effective for fiscal 2009.

The State Insurance Fund portfolio has earned an average per annum total return of **4.65%** over the past ten-year fiscal period 1999-2008 ended 6/30/08 and **4.84%** over the past five-year fiscal period 2004-2008. It is interesting to note that the 10-year average annual yield for 10-year maturity Treasuries over the ten-year calendar period 1999-2008 is 4.70% or almost identical to the 4.65% SIF average annual portfolio return over its most recent ten-year fiscal period. The 5-year average annual return of 10-year maturity Treasuries over calendar years 2004-2008 is 4.28% versus the 4.84% SIF average annual portfolio return over fiscal years 2004-2008. Given this historical information and performance results, the argument can be made to lower the SIF discount rate by at least ½% to 4.5% and possibly to 4.0%.

Based on the most recent Mercer ALM presentation of February, 2009 and an anticipated asset allocation recommendation expected to be offered by Mercer at the March, 2009 Investment Committee meeting, an exercise of calculating expected future rates of return can be made on both the aggregate SIF fixed income portfolio and the SIF total portfolio. These calculations are made with the assumption that the BWC Board of Directors will approve such an asset allocation weighting split of 70% fixed income and 30% equity. These calculations reflect the current expected future rate of return (ROR) assumptions of on each asset class Mercer provides in the ALM presentation applicable for this asset allocation split, as illustrated for the smoothed discount rate method. The Mercer investment-grade fixed income expected weighted average annual future rates of return based on the Mercer 65% fixed income allocation (excluding the 5% allocation to high-yield bonds) is **5.24%** comprised as follows: 32% long duration bonds @ 5.4% ROR; 17% TIPS @ 5.0% ROR; 15% intermediate duration bonds @ 5.3% ROR; and 1% cash at 3.5% ROR. When the 5% weighted allocation for high-yield bonds @ 7.5% ROR and the 30% weighted allocation for public equities @ 8.4% ROR are included and added (alternative asset classes ignored for this calculation), the total SIF portfolio expected average annual return increases to **6.30%**. Although these projected theoretical rates of returns are certainly not risk-free, the premise can be made that they can be considered as reasonable expected annual returns over a long period of ten years or more.

Given all of the above historical, current and projected information on yields and portfolio returns, the CIO would support a discount rate reduction to the 4.0% to 4.5% range for fiscal year 2010. Such a discount rate reduction from 5.0% would be both reflective of the downward trend of the risk-free returns (however defined) available in the U.S. financial markets as well as being set at a level not exceeding “highly probable investment returns over long periods of time” in the future, a critically important guiding principle of the Reserve Discount Rate Policy in my opinion.

Ohio Bureau of Workers' Compensation
Statement of Net Assets
As of January 31, 2009

(in millions)

	Actual	Reserve Discount Rate at 4.75%	Reserve Discount Rate at 4.50%	Reserve Discount Rate at 4.25%	Reserve Discount Rate at 4%
Assets					
Bonds	\$ 12,905	\$ 12,905	\$ 12,905	\$ 12,905	\$ 12,905
Stocks	2,773	2,773	2,773	2,773	2,773
Private Equities	-	-	-	-	-
Cash & Cash Equivalents	302	302	302	302	302
Total Cash and Investments	15,980	15,980	15,980	15,980	15,980
Accrued Premiums	4,680	4,714	4,769	4,828	4,890
Other Accounts Receivable	155	155	155	155	155
Investment Receivables	404	404	404	404	404
Other Assets	113	113	113	113	113
Total Assets	21,332	21,366	21,421	21,480	21,542
Liabilities					
Reserve for Compensation and Compensation Adj. Expense	\$ 19,383	\$ 19,645	\$ 19,923	\$ 20,215	\$ 20,521
Accounts Payable	40	40	40	40	40
Investment Payable	238	238	238	238	238
Other Liabilities	224	224	224	224	224
Total Liabilities	19,885	20,147	20,425	20,717	21,023
Net Assets	\$ 1,447	\$ 1,219	\$ 996	\$ 763	\$ 519
SIF Funding Ratio	1.09	1.07	1.05	1.04	1.02



DATE: March 19, 2009

TO: BWC Investment Committee
BWC Board of Directors

FROM: Guy Cooper, Rich Nuzum, Jordan Nault (Mercer)

SUBJECT: **Reserve Discount Rate Recommendation**

We have read the document titled “Reserve Discount Rate Recommendation” and we concur with the Administrator’s intent to lower the discount rate from 5% to 4.5% beginning July 1, 2009.

This action conforms to two criteria that we consider important in the annual consideration of the discount rate:

1. The discount rate should be set in the low end of the acceptable range of alternatives.
2. The discount rate should be held relatively stable from year to year.

The proposed action is also consistent, in our view, with current and projected bond yield levels and with the professional standards and practices that bear on the setting of a discount rate for insurance company reserves.

OMBUDS OFFICE

2008 Annual Report

Ohio

Ohio

Ombuds
Office

An Independent Service of
Ohio's Workers' Comp System

Columbus Office
30 West Spring St., L29
Columbus, OH 43215-2256
800-335-0996
Fax 614-644-1998

Ohio

**Ombuds
Office**

An Independent Service of
Ohio's Workers' Comp System

Cleveland Office
615 W Superior Avenue, L6
Cleveland, OH 44113-1889
800-335-0996
Fax 216-787-4454

March 10, 2009

Industrial Commission
Nominating Council

Dear Council Members:

The Ombuds Office for the Ohio workers' compensation system is pleased to present its 2008 annual report. In accordance with Ohio Revised Code section 4121.45, the report provides statistical information on the office's activities for the year, reviews the prior year's activities, and makes recommendations for improving the workers' compensation system.

In 2008 the Ombuds Office staff handled 9,477 inquiries from customers of Ohio's workers' compensation system. Of these inquiries, 2,457 were classified as complaints due to the customer expressing dissatisfaction with either the Bureau of Workers' Compensation (BWC) or the Industrial Commission (IC). The Ombuds Office analyzes these complaints to assist in making recommendations for improving Ohio's system.

As Ohio's economy continues to battle through an economic storm of unprecedented fury, the Ombuds Office stands by its legislative mandate: *"To assist claimants and employers in matters dealing with the Bureau of Workers' Compensation and the Industrial Commission."* The Ombuds Office will also continue its other key mission, to be an element for positive change and improvement within Ohio's system. This report provides detail on both of these areas, and as always, I await your comments or questions.

Sincerely,



Michael Travis, Esq.
Chief Ombuds Officer

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Executive Summary

Background

Ohio law (ORC 4121.45) creates a workers' compensation ombuds system. It is the responsibility of the Ombuds Office to assist employers, injured workers, and their representatives, in dealings with the Ohio workers' compensation system. The Ombuds Office answers inquiries and investigates complaints about the workers' compensation system, mainly as it relates to injured workers' claims and employers policies, facilitating resolution of issues when possible. All inquiry and complaint data is captured and categorized. The data is then analyzed in order to identify potential opportunities for improvement in the workers' compensation system. Both the inquiry/complaint data and those areas identified as opportunities for improvement are published annually in this report.

2008 Statistical Information

Total inquiries received in 2008 totaled 9,477. The table below segregates these inquiries between general inquiries and complaints, and compares the statistics to the prior year. Inquiries are classified as complaints when dissatisfaction is expressed with the Ohio workers' compensation system.

In calendar year 2008, the Ombuds Office had an increase of 28% in the volume of **complaints** handled compared with 2007. In calendar year 2008, the Ombuds Office volume of **general inquiries**, compared with 2007, was essentially flat, down 1%. The total volume of customer contacts for the Ombuds Office in 2008 was 9,477, which was up 5% from the same period in 2007. The top issue addressed by Ombuds staff continues to revolve around payment of indemnity benefits to injured workers. Another prominent issue was employer concerns about how their premium rates were calculated.

	2008	2007	Percent Change
Complaints	2,457	1,921	28% Increase
General Inquiries	7,020	7,124	1% Decrease
Total	9,477	9,045	5% Increase

Status of recommendations from prior years

Following are opportunities for improvement, from prior year's Ombuds Office annual reports. It should be noted that these prior recommendations fall into one of three categories: (1) items that have been resolved by action of BWC and/or IC, (2) items that have been addressed by BWC and/or IC, and are still a work in progress, and (3) items that have been dropped from review by the Ombuds Office because of new or changed circumstances.

Prior year's Opportunities for Improvement worth noting include:

- *BWC could improve the accuracy of the premium rate calculations at the National Council on Compensation Insurance (NCCI) manual classification level if they would assign the correct NCCI to claims more precisely.*
 - BWC senior management has stated in its "Director's Flexible Performance Agreement" that two key goals are to "identify and apply standard actuarial principals to all aspects of BWC rates" and also to ensure that "Ohio's employers will have access to a robust and informative claims reserving system." Both of these goals will ensure that proper insurance rates are charged for each employer's specific risk.
- *BWC could provide better customer service by monitoring the service provided by claims representatives and ensuring timely, accurate service.*
 - The Ombuds Office will continue to monitor this concern, as data shows that 33% of all complaints in 2008 were related to BWC claims representatives.
- *BWC could improve on the accuracy of claims determination, when the question of interstate jurisdiction arises.*
 - In 2008, BWC implemented several actions that have reduced Ombuds Office concerns in this area. First, BWC made available to all Ohio employers and third party administrators detailed information that provided answers to common interstate jurisdiction coverage issues. Second, in the Bureau's cover letter accompanying the semi-annual payroll reports, sent to all 240,000 Ohio employers, BWC prominently mentioned the new Ohio statute that permits Ohio employers to segregate out payroll for work performed in other states.

While the Ombuds Office continues to receive a small volume of complaints related to interstate jurisdiction, this initiative will be dropped from further monitoring and review as a stand-alone subject, based on the above findings.

- *Every employer in Ohio needs to pay accurate premiums, based on actuarially appropriate rates.*
 - This opportunity for improvement is a carry-over from previous Ombuds Office annual reports, but remains a key initiative. As stated above, the Ombuds Office notes that BWC continues to make this concept of actuarial accuracy for Ohio employer workers' compensation premiums a top priority.

Under the overall concept of actuarial accuracy the Bureau continues to work on three key initiatives, all of which the Ombuds office will monitor and report on. These include:

MIRA II - Per statutory mandate from the Ohio General Assembly, BWC implemented a new claims reserving methodology in 2008, MIRA II. Through this complex computer program, BWC seeks to increase the accuracy of setting reserves at the individual claim level, which will lead to more accurate setting of employer premiums.

Group Rating - BWC continues a multi-year initiative to reduce inequities in the workers' compensation group rating program. The Ombuds Office continues to monitor and report on the politically charged changes in both BWC practice and procedures, related to group rating.

Deloitte Study - In 2008, BWC Board of Directors commissioned a \$1.5 Million detailed study of BWC risk and actuarial functions, conducted by the independent consulting firm of Deloitte. The final report, containing findings and recommendations, will be released in March 2009. The Ombuds Office will monitor and report all major actions taken, as they relate to opportunities for improvement.

- *BWC could improve the alternative dispute resolution process for employer disputes, including but not limited to, the BWC's Adjudicating Committee process.*
 - The Ombuds Office notes that this proposed opportunity for improvement was acted upon by BWC. In 2008, BWC conducted a *Kaizen* Quality Initiative, addressing both substantive and procedural problems with the existing system of handling employer protests related to risk and premium issues. The Adjudicating Committee reconfigured the entire employer appeals process, leading to quantifiable improvements in scheduling, consistency, and outcome timeliness. The Ombuds Office will continue to monitor and report all major activities, as they relate to this opportunity for improvement

Based on this outcome, BWC in 2009 will be revamping the process of another problem area of alternative dispute resolution, how disputes related to medical treatment decisions are adjudicated. Such medical disputes total over 40,000 per year, and involve almost 30 full time employees, so process improvements similar to those of the Adjudicating Committee are to be expected. The Ombuds Office will monitor and report on efforts in this area of medical alternative dispute resolution.

- The Industrial Commission should examine and seek to correct the lack of consistency in Industrial Commission hearing outcomes, state-wide.
 - This remains a consistent and long-standing complaint, raised by both Ohio employers and injured workers to the Ombuds Office. Both stakeholder groups are concerned that similar fact patterns receive substantially different outcomes, from IC hearing officers across the State of Ohio.

In 2008, the Ombuds Office met with senior staff at the Industrial Commission on this issue, and they agreed with the concerns raised by this office. The Executive Director of the Industrial Commission has stated that two key goals for 2009, related to the hearing process, are *consistency* and *accountability*.

The expectation of the Ombuds Office related to consistency is that the same workers' compensation facts, argued anywhere in the state, in front of any hearing officer, will result in similar outcomes.

The expectations of the Ombuds Office, related to accountability is that the Industrial Commission will implement policies and procedures to ensure that orders can be tracked and monitored for quality control, down to the level of individual hearing officer. The Industrial Commission currently has aggregate data on the 175,000 orders drafted annually but little quality control at the individual hearing officer level. The Ombuds Office will be monitoring Industrial Commission actions in 2009 related to these concerns, and will be reporting activities and outcomes.

- *BWC could take actions to reduce the economic costs of the large real-estate vacancy rate within the William Green Building (estimated 35%) and other BWC sites across Ohio.*
 - The Ombuds Office notes that both BWC and the Industrial Commission are taking strong pro-active actions on this issue. In 2008 a major restacking of staff and offices within the William Green Building in Columbus, the headquarters for both agencies, was started.

The result of this consolidation was vacating five floors and 100,000 square feet of office space. The State of Ohio is looking for various state agencies to move into this space, saving both taxpayer dollars and employer assessments.

In 2009 both BWC and IC will be conducting cost/benefit analysis of real estate needs, related to service office locations across Ohio. The results of these studies will help both agencies to achieve substantial reductions in operating expenses, reducing the burden on Ohio employer premiums.

- *BWC and IC could take action to evaluate workers' compensation forms, (currently 139 different forms), to streamline and simplify the reporting requirements for the main stake-holder groups: employers and injured workers.*
 - In 2008 the Ombuds Office worked with BWC's I.T. Division, in tracking utilization of forms state-wide, by all stakeholder groups. Results show that a small number of forms are heavily used, while many forms are rarely, if ever, used. In 2008, a total of 8.1 million forms were submitted to BWC and/or IC. In 2009, the Ombuds Office will make recommendations to BWC and IC on forms that can either be eliminated or combined. Such actions would potentially reduce paperwork, improve productivity, and simplify the workers' compensation system for stakeholders.
- *BWC should explore options and then develop best-practices for employer non-compliance education, and enforcement.*
 - The Ombuds Office notes that the Bureau has acted on this recommendation, and the Bureau's initial actions appear to be successful. In 2008, BWC started an Employer Compliance Team with a staff dedicated to finding employers that continue to operate in Ohio, while not paying their legally required workers' compensation premiums.

Employees injured while working for non-complying employers are eligible for full benefits, even if their employer failed to pay premiums, while complying employers

are unfairly forced to subsidize these costs. Through the close of calendar year 2008, this start-up unit has resolved over 2,000 delinquent employer policies and collected over \$38 million in past-due premium from these non-complying employers.

- *BWC should compile comments, evaluate, and make recommendations regarding the fast-track lump sum settlement process, which was introduced in September 2006.*
 - The Ombuds Office notes that BWC has acted on this recommendation. In early 2008 the Bureau authorized a detailed review of the lump sum settlement process, and extensive findings and recommendations were received from an outside consultant in December 2008. The Ombuds Office notes that settlements are a substantial cost for the workers' compensation system, with lump sum settlements to injured workers totaling \$983 million for the five year period from 2004-2008.

A Settlement Enhancement Team, comprised of staff from BWC Legal, I.T. and Claims Management, is evaluating the findings contained in this report, and will be implementing changes in 2009. BWC is planning a multi-step implementation process, first establish improved internal controls and measurements, next determine how best to proactively identify claims for potential lump sum settlements, and finally establish how settlements properly fit into the overall risk and claims life cycles. External stakeholder comments will be solicited in the final stages of this settlement review process. Throughout 2009, the Ombuds Office will monitor the activities of the Settlement Enhancement Team, and report on actions, as warranted.

- *BWC should evaluate potential solutions to the ongoing problem of medical management of out-of-state workers' compensation claims.*
 - Calls continue to be received by the Ombuds Office from injured workers, primarily those on permanent total disability, complaining about the difficulty in getting proper medical care through managed care organizations (MCO), when the injured worker no longer resides in Ohio. Even if the medical treatment has been preauthorized by the MCO, many non-Ohio providers will not honor such approvals, and require up-front payment from the injured worker.

In 2008, the Ombuds Office brought these concerns to the attention of BWC, and the Bureau's Medical Management staff, in conjunction with MCOs, in developing options to address this problem. The Ombuds Office will monitor activities related to this concern and report on actions, as warranted.

2008 Administrative Update

Expenditures to operate the Ombuds Office in calendar year 2008 totaled \$584,285. This total includes payroll costs for staff of \$511,644 and operating expenses of \$72,641.

Total payroll costs for 2008 vs. 2007 were up 18%, and this increase was a planned-for budget item, reflecting the July 2008 transfer of two additional staff members from the Bureau's Complaint Handling Unit to the Ombuds Office. In calendar year 2008, a very minimal amount of overtime was paid, \$223.00, incurred during the busy February time period when employer premiums are due, and employer related call volume spikes up.

Operating costs for the Ombuds Office for 2008 declined from \$84,488 in 2007 down to \$72,641 in 2008, reflecting a 14% reduction. The largest operating expenses are for rent, postage, and telephones.

In December 2008 the Ombuds Office implemented the ePowerCenter tracking software. Benefits of this industry standard software will include:

- Improved tracking of individual complaints and inquires
- Improved consistency of information provided to Ombuds Office customers
- Quicker recall history of prior discussions with customers
- Quicker access to injured worker claims data
- Quicker access to employer risk data
- Improved report generating capabilities
- Improved data trend analysis capabilities

Marketing of Ombuds Office Services

Over the last few years, through the end of 2007, the overall volume of complaints and inquiries handled by the Ombuds Office showed a slight but steady decline. Some of this downward trend is attributable to overall lack of awareness and utilization of Ombuds services. In a multi-faceted effort to improve this utilization trend, and increase the volume of customer contacts, the Ombuds Office implemented several marketing efforts in 2008. These included:

Printed Material

The Ombuds Office developed a new and updated capabilities brochure, designed to answer questions and provide information to the major stake-holder groups - employers and injured workers. The brochure was produced and printed at minimal cost by BWC Communications and Office Services staff.

Marketing to Industrial Commission

The Ombuds Office increased the marketing of its services to the Industrial Commission in 2008 in several ways. These included:

- Distributed new Ombuds Office brochure, as described above, in all IC hearing locations, state-wide
- Met first-hand with IC support staff, in IC offices state-wide, to discuss available Ombuds Office services
- Presentation to all IC hearing officers at state-wide training seminar in May 2008
- Enhanced placement of link to Ombuds Office information on IC's Web site, www.ohioic.com

Marketing to Bureau of Workers' Compensation

The Ombuds Office increased the marketing of its services to the BWC in 2008, in several ways. These included:

- Met first-hand with BWC service office managers and claims staff, to discuss available Ombuds Office services
- Met first-hand with BWC risk staff and employer services specialists, to raise awareness of Ombuds Office services available to Ohio employers
- Met first-hand with Safety & Hygiene Division staff, both at headquarters in Pickerington, and in locations across Ohio, to increase awareness of Ombuds Office services available to Ohio employers
- Met first-hand with BWC business consultants, state-wide, to increase their awareness of Ombuds Office services

- Worked with BWC's 1-800-OHIO-BWC call center staff to increase awareness of Ombuds Office services and to increase referrals
- Enhanced placement of link to Ombuds Office information on BWC's Web site, www.ohiobwc.com

Marketing to Ohio Employers

In 2008 the Ombuds Office increased the marketing and awareness of its services to Ohio employers in several ways. These include:

- Distributed Ombuds Office capabilities brochure to business trade groups for dissemination to their members
- Spoke at special events and/or seminars with target audiences present, including Workers' Compensation Universities
- Ensured that business trade groups Web sites provide a direct link to information on the Ombuds Office
- Provide information on Ombuds Office services to local and regional chambers of commerce and safety councils

Marketing to Government Officials

In 2008 the Ombuds Office increased the marketing and awareness of its services to various Ohio government entities. These include:

- Provided information on the services available through the Ombuds Office to members of the Ohio General Assembly, and their staff, as a resource when handling complaints and inquiries from constituents
- Provided information on Ombuds Office services to call centers and action lines of local government entities, including Ohio cities, counties, and townships

Marketing to Labor Groups

In 2008 the Ombuds Office increased the marketing of its services to Ohio labor groups in several ways. These include:

- Distributed new Ombuds Office capabilities brochure to local unions, across Ohio
- Spoke at labor seminars, including AFL-CIO and UAW
- Provided links to Ombuds Office information on the Web sites of local unions
- Conducted personal meetings with local union stewards, to increase their awareness of the services offered by the Ombuds Office

2009 Ombuds Office Opportunities for Improvement

Listed below is a key opportunity for improvement for action in calendar year 2009, by the Ombuds Office. At the request of the Industrial Commission Nominating Council, specific opportunities for improvement for 2009 related to process improvements within Ohio's workers' compensation system are not included in this year's Ombuds Office annual report.

Instead, the Industrial Commission Nominating Council will be embarking on a detailed analysis to determine how the resources of the Ombuds Office can best be utilized for system improvements. Specific opportunities for improvement arising out of this Industrial Commission Nominating Council analysis will be reported, at a future date.

Ombuds Office Best Practices

Research and compile best-practices of how other Ombuds Offices are structured and function, and how they are used as elements for positive change.

- This opportunity for improvement will involve multiple processes, first compile data, next to analyze this data, and then determine which elements can be effectively applied to Ohio's system. Information will be compiled from Ombuds offices in both the public and private sectors, across a wide range of industries. This data will be used as a continuous improvement tool, applied to a wide variety of Ombuds Office future opportunities for improvement.

**Ohio Bureau of Workers' Compensation
Year-End Statistics**

	FY 2008	FY 2007	FY 2006
State-fund claims filed			
Lost time	18,738	19,487	20,363
Medical only	122,540	133,221	144,828
Occupational disease	1,685	1,793	1,666
Death	236	176	196
Disallowed or dismissed	16,412	17,015	18,179
Total	<u>159,611</u>	<u>171,692</u>	<u>185,232</u>
 Net Allowed Injuries	 143,199	 154,677	 167,053
 Note: Every claim is evaluated at 60 days after filing for purposes of claim type, state fund versus self-insured, combine status and allowance status. Values exclude combined and self-insured claims.			
 Open claims (Per statute)			
Lost time	486,942	532,262	571,532
Medical only	928,549	1,008,281	1,092,836
Total	<u>1,415,491</u>	<u>1,540,543</u>	<u>1,664,368</u>
 Benefits paid			
Medical benefits paid	\$839,466,966	\$788,735,401	\$845,182,432
 Compensation paid			
Wage loss	\$18,351,000	\$19,566,863	\$21,758,719
Temporary total	254,370,076	257,483,825	271,659,951
Temporary partial	69,398	151,507	123,555
Permanent partial	23,812,862	25,871,729	26,668,619
% permanent partial	80,295,738	88,224,580	88,390,515
Lump sum settlement	312,317,176	242,020,469	162,657,161
Lump sum advancement	20,396,760	16,543,090	15,007,602
Permanent total & DWRF	385,273,687	383,661,796	379,697,201
Death	81,991,570	79,870,369	79,350,218
Rehabilitation	40,371,244	37,774,178	36,304,628
Other	7,148,595	10,867,270	7,977,627
Total compensation paid	\$1,224,398,106	\$1,162,035,675	\$1,089,595,795
 Total benefits paid	 <u>\$2,063,865,072</u>	 <u>\$1,950,771,076</u>	 <u>\$1,934,778,227</u>

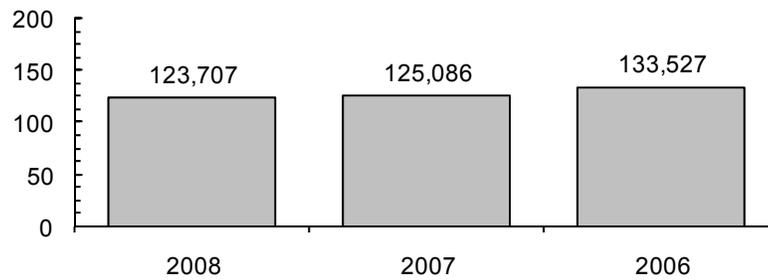
BWC year-end statistics continued

	FY 2008	FY 2007	FY 2006
Fraud statistics			
Fraud dollars identified	\$73,528,436	\$100,019,724	\$90,654,585
Dollars spent to dollars saved ratio	1 to 5.99	1 to 8.33	1 to 7.80
Prosecution referrals	314	301	239
Active employers by type			
Private	264,870	270,499	283,038
Public (local)	3,810	3,783	3,771
Public (state)	125	126	126
Self-insured	1,174	1,139	1,136
Black lung	39	37	36
Marine fund	92	95	91
Total	<u>270,110</u>	<u>275,679</u>	<u>288,198</u>
BWC personnel	2,412	2,542	2,578
IC personnel	486	488	484
MCO fees paid	\$168,327,075	\$173,138,584	\$172,822,429
BWC Combined Funds Financial Data (000s omitted)			
Operating revenues			
Premium and assessment income, net of provision for uncollectibles	\$2,138,402	\$2,395,421	\$2,095,060
Assessment income due to statutory change		1,875,512	
Other Income	22,247	<u>17,703</u>	15,326
Total operating revenues	<u>\$2,160,649</u>	<u>\$4,288,636</u>	<u>\$2,110,386</u>
Non-operating revenues			
Net investment earnings	\$863,380	802,270	658,866
Increase (decrease) in fair value	(143,510)	109,160	104,946
Net investment income (loss)	<u>\$719,870</u>	<u>911,430</u>	<u>763,812</u>
Dividends, rebates and credits			
Dividends and credits	\$-	\$-	\$(8,229)
Total BWC assets	\$22,381,974	\$22,140,786	\$19,537,704
Total net assets (deficit)	\$2,503,289	\$2,305,546	\$(126,621)

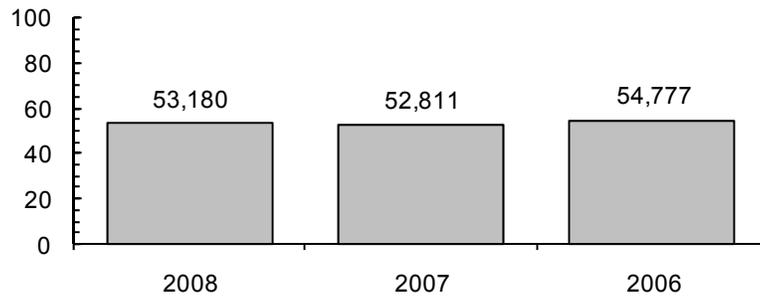
Note: Due to improvements in BWC data capture and reporting systems, prior year data may not agree with amounts previously reported.

Industrial Commission 2008 Year End Statistics

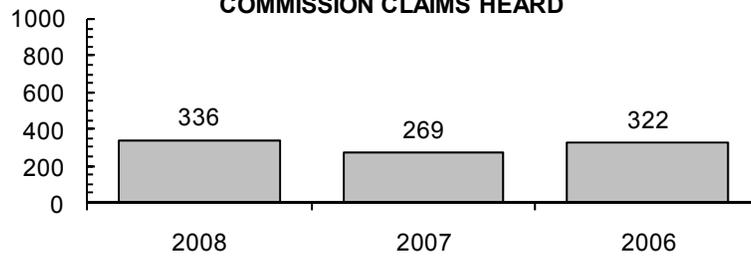
DHO CLAIMS HEARD



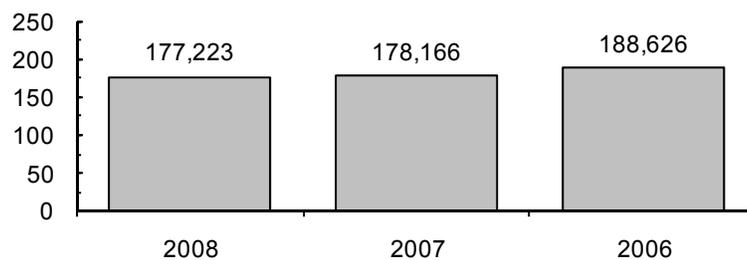
SHO CLAIMS HEARD



COMMISSION CLAIMS HEARD



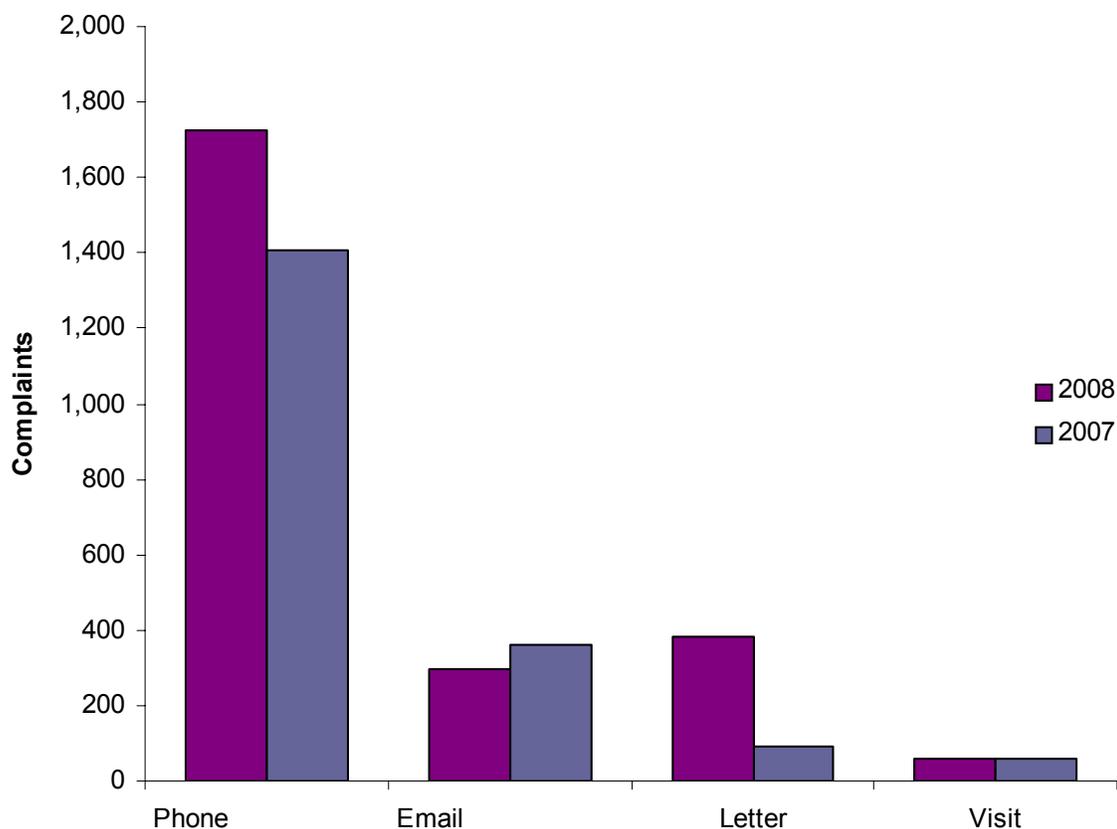
TOTAL CLAIMS HEARD



Statistical Information

Complaint Type

The Ombuds Office resolved 2,457 complaints during 2008. The complaints were received by the following methods:

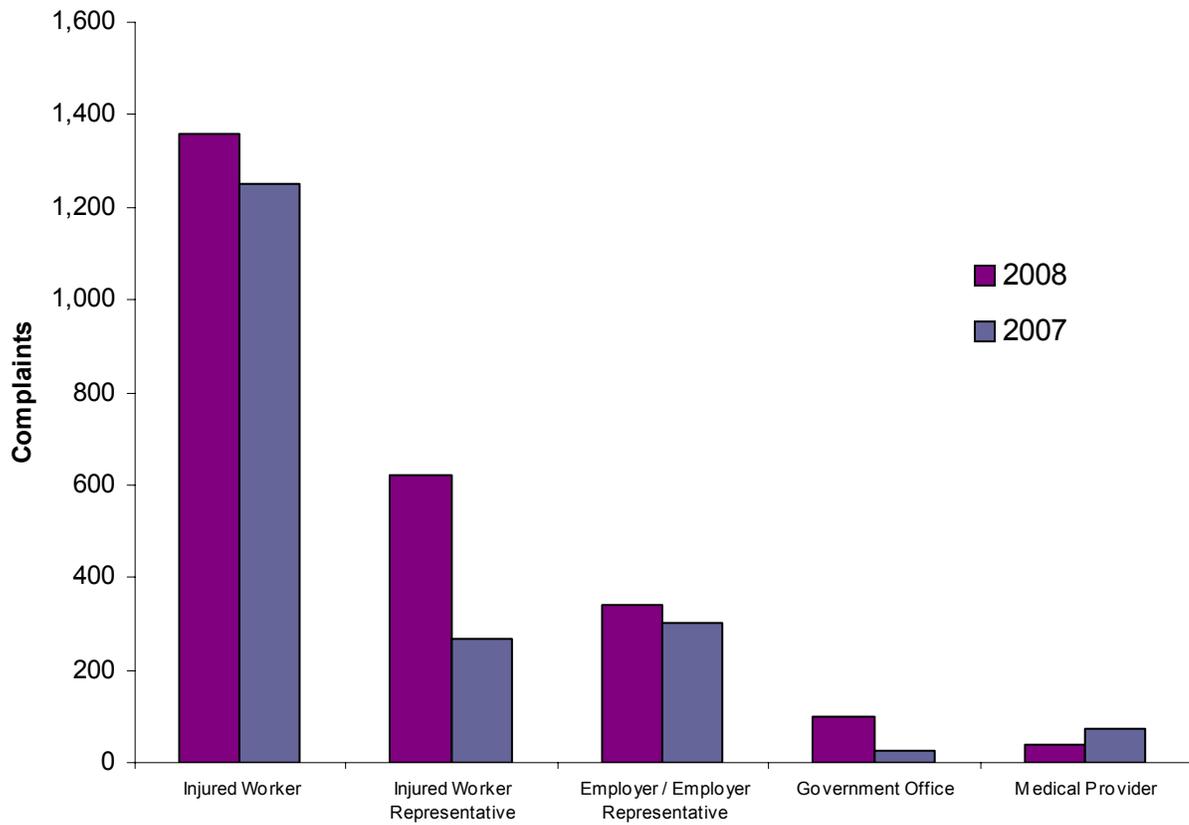


	2008	2007	Percent Change
Phone	1,724	1,406	23%
Letter ¹	381	94	305%
Email	294	361	-19%
Visit	58	60	-3%
Total	2,457	1,921	28%

¹A large portion of this increase was due to a planned letter writing campaign regarding employer group rating

Originator Report

Complaints are recorded for the purpose of identifying which group of individuals use the Ombuds Office services. Injured workers and injured worker representatives were accountable for more than 70 percent of our business in 2008.



Originator Type	2008	2007	Percent Change
Injured Worker	1,358	1,251	9%
Employer / Employer Representative	621	266	133%
Injured Worker Representative	342	302	13%
Medical Provider	99	27	267%
Government Office	37	75	-51%
Total	2,457	1,921	28%

Executive Summary of Complaint Statistics

Charts on the next three pages analyze the volume of complaints received and processed by the Ombuds Office. In calendar year 2008 the Ombuds Office handled 2,457 separate complaints, up 28% from the same period of 2007.

The first chart, *Initial Complaint Report*, shows who or what was initially established by Ombuds Office staff to be the subject of the complaint.

The second chart, *Accountability Report*, identifies who is the party ultimately responsible for the problem. This determination is made by Ombuds Office staff after the complaint has been fully researched.

The third chart, *Complaint Resolution Report*, denotes what the Ombuds Office staff found to be the problem. This determination is made after a complete review and analysis of this complaint has been made, by Ombuds Office staff.

Note that all three of these reports are useful tools in determining trends and identifying areas where the workers' compensation system can be improved. With the Ombuds Office implementing ePowerCenter database software in December 2008, data analysis should be simplified and trends, both positive and negative, should be easier to identify.

Initial Complaint Report

The codes below are used to describe what the Ombuds Office staff considered to be the problem, when the complaint was initially received.

Complaint Type	2008	2007	Percent Change
Bureau of Workers' Compensation	540	299	81%
Employer Policy Issues	537	190	183%
Compensation	489	571	-14%
Processing Delay	203	222	-9%
Industrial Commission - Hearing Issues	159	152	5%
MCO - Medical Bills Non Payment	116	65	78%
Employer Delay of Claim Processing	106	103	3%
Claim Denied	73	66	11%
Pharmacy Benefits Manager	69	43	60%
MCO - Authorization of Medical Treatment	59	66	-11%
Medical Provider	45	31	45%
Attorney Delay	26	27	-4%
<u>Santos</u> - Subrogation Refund ¹	19	83	-77%
MCO - Locate Medical Provider ²	13	NA	NA
Injured Worker Attorney Fee Disputes	3	3	0%
Total	2,457	1,921	28%

¹Class action lawsuit settled in 2006

²New category added in 2008, with less than twelve months of tracking

Accountability Report

This chart identifies the area that the Ombuds Office staff found to be responsible, for the complaint, after investigation.

Accountability	2008	2007	Percent Change
Injured Worker	749	688	9%
Employer	683	281	143%
Bureau of Workers' Compensation	605	533	14%
Medical Provider	175	140	25%
Injured Worker Representative	74	71	4%
Industrial Commission	71	89	-20%
Managed Care Organization	53	47	13%
Employer Representative	23	29	-21%
Pharmacy Benefits Manager	9	3	200%
Government Office	9	8	13%
U. S. Post Office	5	14	-64%
Financial Institution	1	18	-94%
Total	2,457	1,921	28%

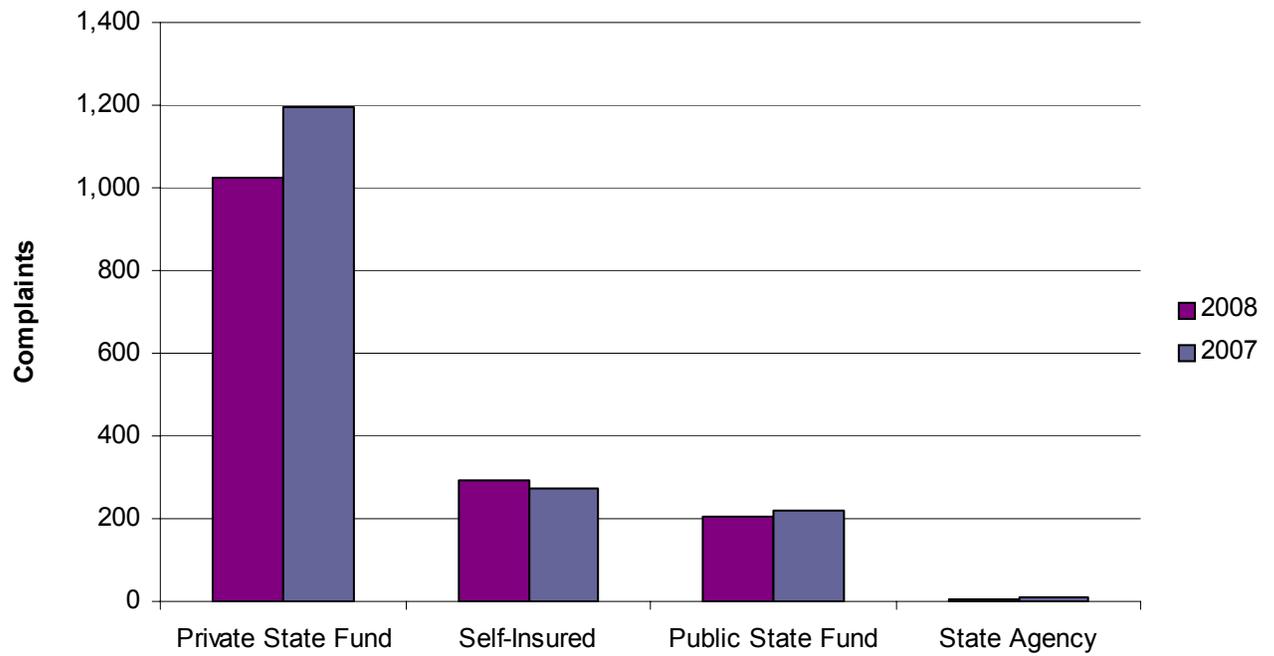
Complaint Resolution Report

This chart denotes what the Ombuds Office staff found to be the problem, after investigating the complaint.

Resolution	2008	2007	Percent Change
Unjustified Complaint	600	300	100%
Claims Representative / Information	478	311	54%
Claims Representative / Clerical Error	306	340	-10%
Appeals	221	254	-13%
Information Missing	174	168	4%
Employer Error	149	75	99%
Treatment / Bills Denied	106	77	38%
Policy Services Error	77	36	114%
Medical Exam / Review Required	55	52	6%
Injured Worker	49	63	-22%
Provider Error	47	33	42%
Wanted Claim Expedited	43	71	-39%
Claim Disallowed	30	14	114%
Employer Representative Error	27	19	42%
Unresponsiveness by BWC claims staff	27	23	17%
New Claim Status	17	19	-11%
Warrant Returned / Reissued	15	13	15%
Overpaid	8	6	33%
Hearing Problems	6	13	-54%
Injured Worker Out of State	6	2	200%
Claim Settled	5	4	25%
Claim Inactive	4	5	-20%
Statute of Limitations	4	12	-67%
Warrant Lost or Stolen	3	11	-73%
Total	2,457	1,921	28%

Complaint by Claim Type

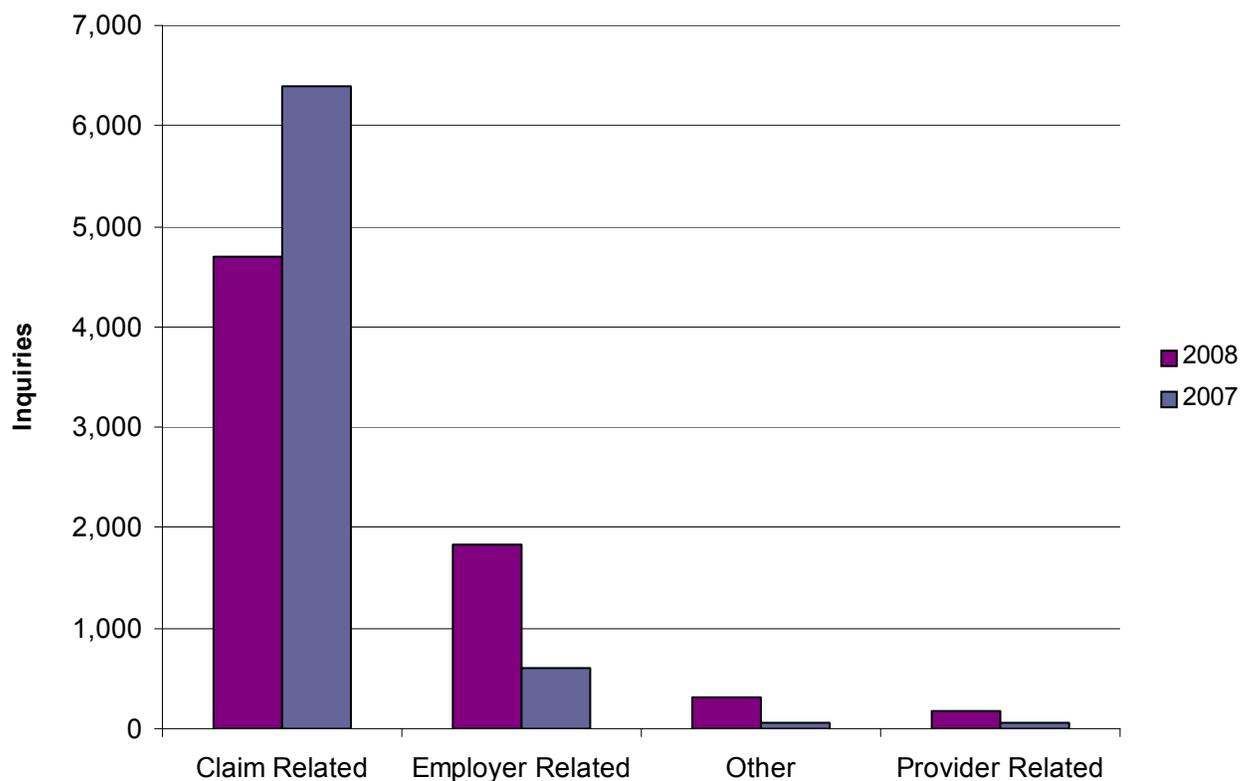
The data and chart below provide information on the type of claim, giving rise to the initial complaint.



Claim Type	2008	2007	Percent Change
Private State-Fund			
Lost Time	781	957	-18%
Medical Only	245	238	3%
Total	1,026	1,195	-14%
Self-Insured			
Lost Time	185	188	-2%
Medical Only	108	87	24%
Total	293	275	7%
Public State-Fund			
Lost Time	145	159	-9%
Medical Only	58	61	-5%
Total	203	220	-8%
State Agency			
Lost Time	4	9	-56%
Medical Only	2	0	200%
Total	6	9	-33%
Grand Total	1,528	1,699	-10%

General Inquiries

This data and chart below provide information on the various types of general inquiries, that are not categorized as complaints.

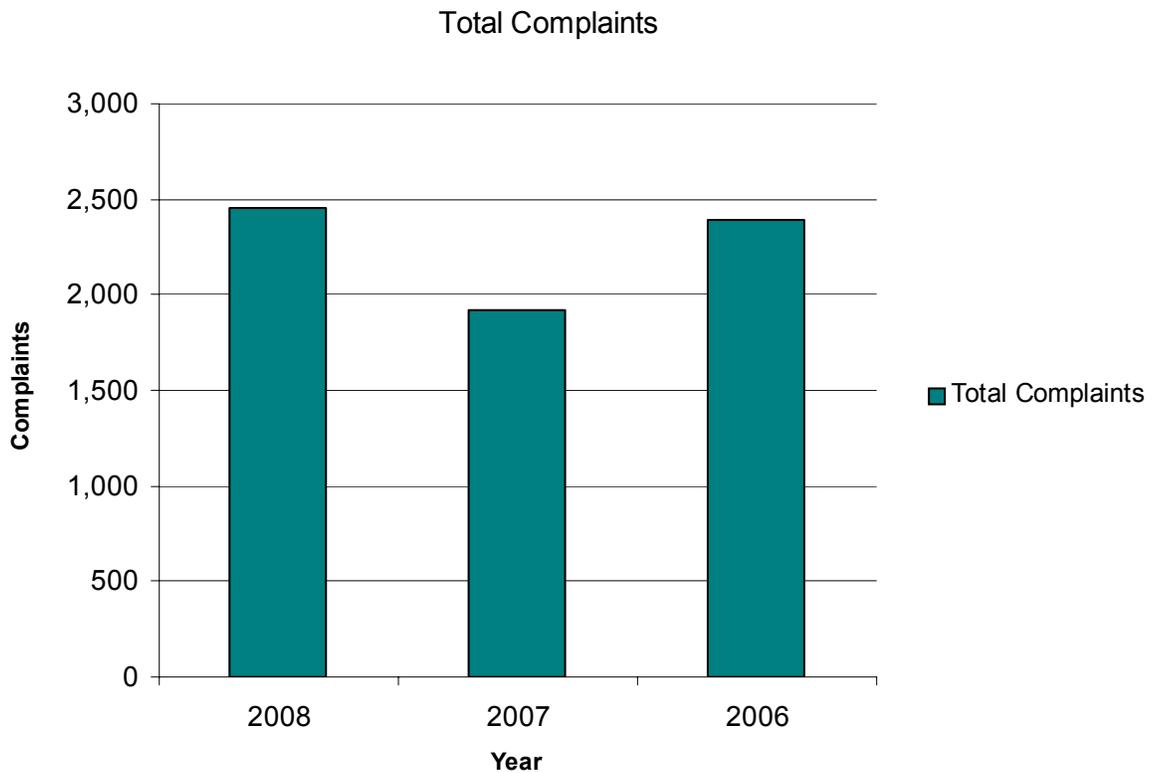


General Inquiries	2008	2007	Percent Change
Claim Related	4,691	6,403	-27%
Employer Related	1,841	609	202%
Other ¹	318	62	413%
Provider Related	170	50	240%
Total	7,020	7,124	-1%

¹Primarily calls related to other government benefits.

Ombuds Office Complaint History

This chart shows the recent trend of total complaint volume, handled by the Ombuds Office.



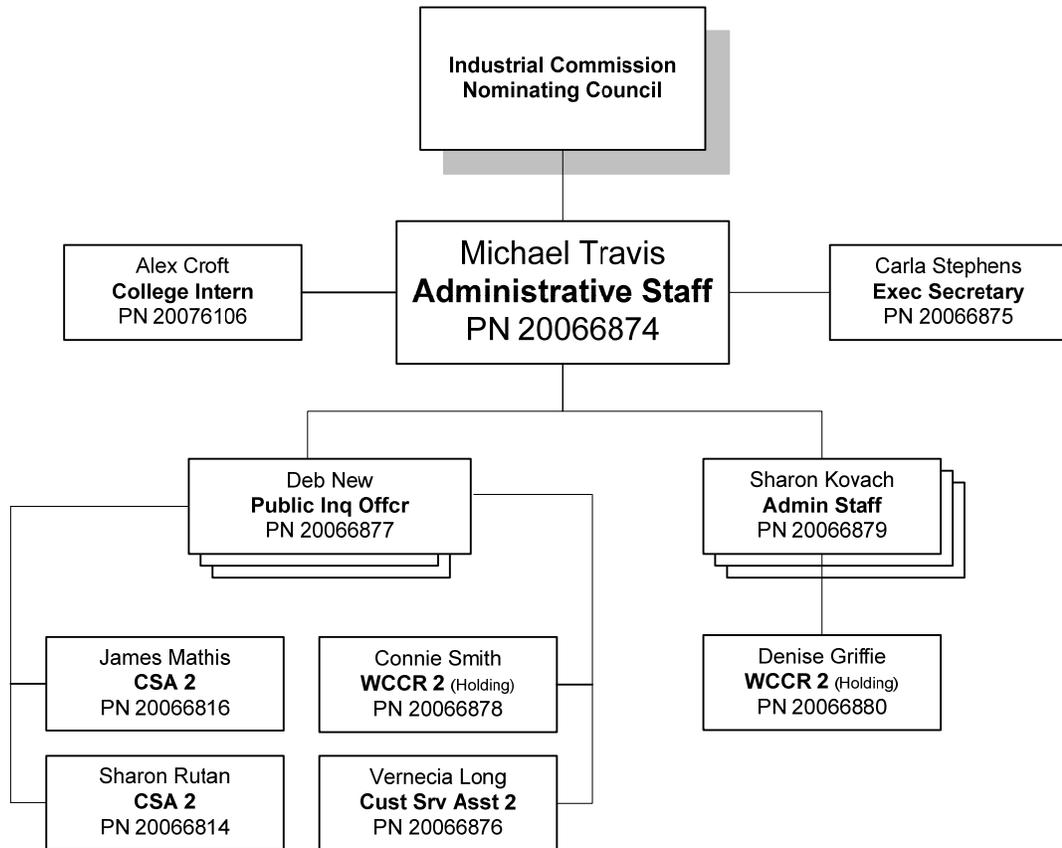
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Total Complaints	2,457	1,921	2,395

BWC OMBUDS OFFICE EXPENDITURE REPORT - CALENDAR YEAR 2008

OBJECT CLASS	JAN.	FEB.	MAR.	APR.	MAY	JUN.	JUL.	AUG.	SEP.	OCT.	NOV.	DEC.	TOTAL EXPENSES
10 Payroll	35,412	36,046	34,141	33,186	53,428	17,828	56,968	40,340	41,055	45,782	69,646	46,624	510,456
10 Overtime Paid	0	209	0	0	0	0	0	0	0	0	14	0	223
13 Personal Service	0	0	0	0	0	0	0	0	149	0	0	79	228
15 Other P.S.	0	278	78	100	0	0	182	0	0	99	0	0	737
Total 100	35,412	36,533	34,219	33,286	53,428	17,828	57,150	40,340	41,204	45,881	69,660	46,703	511,644
20 Edible Products	0	0	0	0	0	0	0	0	0	0	0	0	0
21 Supplies	112	0	0	0	0	7	0	20	0	0	31	0	170
21I INTRNL SUPPLIES	36	7	6	69	223	249	28	30	113	47	73	277	1,158
22 Vehicle Maintenance	0	0	0	0	0	0	0	0	0	0	0	0	0
22I INTRNL VEHICLE	0	83	88	0	87	192	88	81	83	815	249	0	1,766
23 Travel Fees	0	0	0	0	0	0	0	0	0	0	0	0	0
24 Communications	124	127	7	235	(6,059)	114	114	41	228	233	0	244	(4,592)
24I INTRNL COMM	509	2,169	(4,091)	667	561	953	670	954	33	590	895	627	4,537
25 Fuel/Utilities	0	0	960	0	0	1,170	0	0	647	0	0	1,213	3,990
26 Maintenance	0	0	2,181	0	0	883	0	0	7	0	0	3,206	6,277
27 Rentals	0	0	44,885	0	0	2,284	0	0	5,257	0	0	0	52,426
28 Printing/Advertising	0	0	0	80	0	0	0	0	0	0	0	0	80
28I INTRNL PRT/ADV	84	224	11	139	1,147	223	54	312	83	205	108	42	2,632
29 General/Other	336	561	389	0	527	244	247	342	311	308	317	615	4,197
29I GENERAL	0	0	0	0	0	0	0	0	0	0	0	0	0
Total 200	1,201	3,171	44,436	1,190	(3,514)	6,319	1,201	1,780	6,762	2,198	1,673	6,224	72,641
30 Food Equip	0	0	0	0	0	0	0	0	0	0	0	0	0
31 Office Equip	0	0	0	0	0	0	0	0	0	0	0	0	0
32 Motor Vehicles	0	0	0	0	0	0	0	0	0	0	0	0	0
33 Construction	0	0	0	0	0	0	0	0	0	0	0	0	0
34 Communications Equip	0	0	0	0	0	0	0	0	0	0	0	0	0
35 Medical/Lab Equip	0	0	0	0	0	0	0	0	0	0	0	0	0
36 Educational/Rec Equip	0	0	0	0	0	0	0	0	0	0	0	0	0
37 Data Processing Equip	0	0	0	0	0	0	0	0	0	0	0	0	0
37I INTRNL DP EQP	0	0	0	0	0	0	0	0	0	0	0	0	0
38 Copy/Print Equip	0	0	0	0	0	0	0	0	0	0	0	0	0
39 Other Equip	0	0	0	0	0	0	0	0	0	0	0	0	0
Total 300	0	0	0	0	0	0	0	0	0	0	0	0	0
Grand Total	36,613	39,704	78,655	34,476	49,914	24,147	58,351	42,120	47,966	48,079	71,333	52,927	584,285

Note: Mass Allocations included in March, June, September, and December.

OMBUDS OFFICE TABLE OF ORGANIZATION



Industrial Commission Nominating Council
Roster current as of March 10, 2009

Employer Representatives:

Eric Burkland *
Ohio Manufacturers Association

Andrew E. Doehrel
Ohio Chamber of Commerce

Catherine Duhigg
Eaton Corporation

John C. Mahaney, Jr.
Ohio Council of Retail Merchants

Public Members:

Carol A. Caruso
Greater Cleveland Partnership

Mark Sanders
Ohio Association of
Professional Firefighters

Labor Representatives:

Peggy Griffith ***
C.W.A. Local 4302

David Prentice**
United Steelworkers

Tim Burga
Ohio AFL-CIO

JoAnn Johntony
Ohio Association of Public
School Employees Union

*Chairperson
** Vice Chairperson
***Secretary

Discussion Draft

Ohio Bureau of Workers' Compensation Establishment of a Funding Ratio for the Net Asset Funding Policy

BWC is responsible for administering a number of workers' compensation funds that provide wage and medical benefits to workers injured in the course of their employment. These future benefit obligations are supported by the assets of the Bureau. The financial strength of an organization charged with ensuring that these future obligations or liabilities will be fulfilled is measured by the level that its assets exceed those liabilities or what is termed the level of its "net assets" as reflected in BWC's financial statements.

BWC is establishing this policy to provide guidance as to the appropriate level of net assets that BWC should have to fulfill its long term obligations to the stakeholders of the workers' compensations system in Ohio, most importantly for protecting the future benefits of injured workers. The BWC Board of Directors and Administration will establish that level of net assets balancing the major pillars of its mission: to provide for the solvency of the fund and to maintain the lowest possible rates for employers consistent with solvency.

Deloitte's 2009 report stated that "the ability to make peer comparisons to BWC is limited due to differences in organizational form, applicable accounting standards, applicable laws/regulations, reserve margins, and other explicit margins". For these reasons, we have chosen to adopt the concept of a "Funding Ratio" as proposed by Deloitte to determine an appropriate net asset level range for BWC.

As evidenced in recent months, BWC's balance sheet can be subject to external forces that can cause significant variations on both the asset and liability side of the balance sheet. The goal of establishing a funding ratio range is to insulate the organization from volatility and to provide guidance to the pricing and investment policies of the Bureau. The funding policy is designed to preserve BWC's net assets at a minimum level with a selected high 95% confidence level, or achieving such a minimum target level for 19 out of 20 years on average in the future. The funding policy does not address potential financial issues with "pay-as-you-go" funding.

Business Rationale

- The funding ratio allows the Administration, Board, and public to better measure and understand the ability of the Bureau to meet its future obligations.
- The funding ratio provides an assurance to claimants that future obligations can be met, and assurance to employers that premium levels will not have unpredictable fluctuations.
- The funding ratio provides guidance in the determination of investment policy and the establishment of premium rates to achieve the desired future levels of net assets.
- The funding ratio provides a target range for net assets.

Guiding Principles

- The range for the funding ratio shall be such as to ensure the long term solvency of the fund. Short term solvency is measured by a cash flow ratio and other financial analysis tools.
- The range for the funding ratio shall be such as to ensure stability of premium levels.
- The funding ratio should enable management to focus on enterprise goals.
- A funding ratio should be developed for each of the funds administered by the Bureau.
- The funding ratio is a key component of the net asset policy.

Methodology and Process

The following formula is used to calculate the funding ratio:

$$\text{Funding Ratio} = \frac{\text{Funded Assets (cash, investments and current receivables less deposits and current payables)}}{\text{Funded Liabilities (Reserves for funded unpaid claims and funded claim expenses, discounted at the current approved discount rate)}}$$

At least annually:

- BWC Staff provides the Board of Directors with the relevant data on the components of the Funding Ratio formula.
- The Board of Directors reviews information provided by staff
- The Board of Directors approves a target range for the funding ratio.

If the funding ratio falls below the minimum or above the maximum target range as approved by the Board, BWC staff shall notify the Board of the variation at the next regularly scheduled meeting. At that time, the staff will make either a recommendation on how to return the ratio back to within the approved target range or, alternatively, a recommendation to change the approved target range.

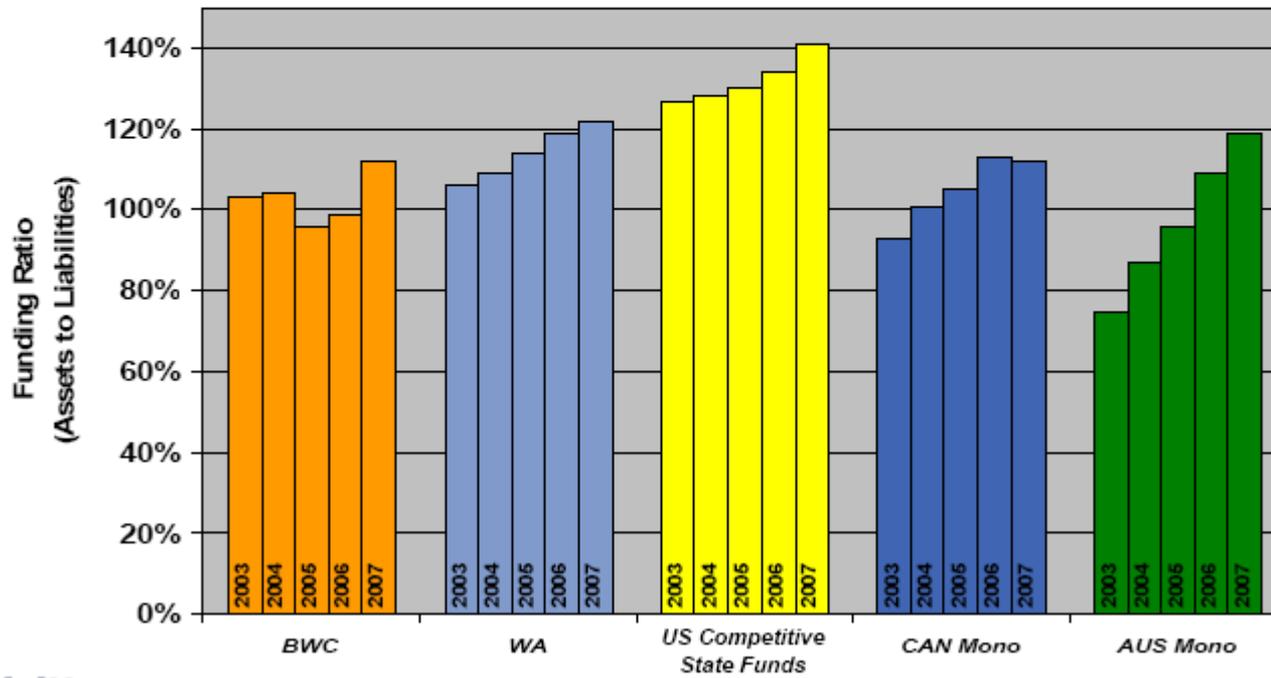
**Development of a
Funding Ratio
For the
Net Asset Policy**

Net Asset Level

Review & Analysis:

Overall Financial Strength: **Funding Ratio** – Measures the ability and strength to withstand unexpected risks in the insurance and investment operations.

Observations: BWC's peers have strengthened their positions over the past 5 years. BWC's financial strength is weaker than its peers.



Deloitte.

- 28 -

Net Asset Level – Funding Ratio

Review & Analysis:

The definition of the Funding Ratio used for this analysis:

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

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

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

Funding ratio = Funded Assets/Funded Liabilities

Funded Assets	15,934 (Total Cash and Investments)
	+ 4,318 (Accrued Premiums)
	+ 131 (Other Accounts Receivable)
	+ 360 (Investment Receivables)
	+ 112 (Other Assets)
	- 94 (Accounts Payable)
	- 221 (Investment Payable)
	- <u>224 (Other Liabilities)</u>
\$20,316 (Funded Assets)	

Funding ratio=	$\frac{\$20,316 \text{ (Funded Assets)}}{\$19,376 \text{ (Funded Liabilities)}} = 1.05$
----------------	---

Assets

Liabilities

Premiums

Economic downturn
Drop in payrolls
Slippage

Reserves

Claims/frequency/severity
Payment patterns
Medical inflation
Estimation
Legal changes
other environmental changes

Discount rate

Investments

Market Swings

IPS

CAT/
reinsurance

Desired Net Assets

Solvency

RC 4123.34: "...fix and maintain...the lowest possible rates of premium consistent with the maintenance of a solvent state insurance fund..."

Introduced Legislation

HB 15-BWC Budget-Rep. Sykes (D-Akron)

Overview of BWC Budget Process:

- Assigned to House Insurance Committee, Rep. Dan Dodd, Chair (D-Licking Township)
- Per R.C. 4121.75(A) the Workers' Compensation Council (WCC) is to review any legislation involving or affecting the workers' compensation system. The WCC is scheduled to meet on March 11th
- Following WCC review, the bill is referred to the House Finance Committee, Rep. Sykes, Chair (D-Akron) for approval and recommended passage to the full House
- Once approved by the full House, the bill is referred by the Senate Rules and Reference Committee to the appropriate Senate Committee for similar legislative action (Senate Insurance, Commerce and Labor Committee)

Legislative Action to date (March 6th):

- **February 18th**—Proponent Testimony provided by Administrator Ryan and BWC staff.

The following are statutory changes contained in HB 15:

- Elimination of the set-aside requirement and the \$100,000 statutory cap contained in existing R.C. 4123.34(B). To allow the Administrator to transfer the amount necessary to cover the costs charged to the Surplus Fund Account.
 - To revise existing R.C. 4121.12, related to BWC Nominating Committee. Permits BWC Nominating Committee the authority to submit names of prospective Board members to the Governor 30 days prior to the expiration of the exiting member's term.
 - To revise existing R.C. 4121.125(C) (3) regarding the submission of actuarial valuation reports to the appropriate committees of the General Assembly. BWC requests 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.
 - To revise existing R.C. 4121.70(B) and 4121.62(A)(4), (B) and (C) relating to the Rehabilitation Division and Director of Rehabilitation. Restructuring of the agency several years ago eliminated the Rehabilitation Division.
- **February 19th**—No testimony provided
 - **February 24th**—Testimony provided by Marty Herf, President, Drug Free Solutions in support of continuation of BWC drug free and safety incentive programs.

- Below is a brief description of the amendments that were adopted unanimously by the committee and will be included in the substitute bill:
 - Specifying that a new director's appointment does not take effect until the expiration of the current director's term;
 - Includes the WCC in the list of recipients of the Annual Investment Class Report;
 - Removes the 10% language and allows the Administrator to transfer the funds necessary to balance the Surplus Fund Account;
 - Establishes the WCC independent line item number and appropriation;
 - Relocates from uncodified to codified law the quarterly billing reimbursement procedures for the Deputy Inspector General to BWC and IC.

- Below is a brief description of amendments that were tabled along party-line vote:
 - To prohibit the Administrator or Board of Directors from modifying or eliminating the BWC Drug-Free Workplace Discount Program from July 1, 2009 – June 30, 2011—Motion to table the amendment approved 9-8;
 - To require the Administrator in adopting rules that deal with the adjustment of premium rates or programs that effect premium rates, must adopt the rules no sooner than 1 year before the proposed rules take effect—Motion to table the amendment approved 9-8;
 - To prohibit the Administrator from charging the experience of an employer for injuries to employees caused by a third party. Requires compensation to be paid from the surplus fund.—Motion to table the amendment approved 9-8.

HB 16—Industrial Commission Budget Rep. Sykes (D-Akron)

- Assigned to House Insurance Committee, Rep. Dan Dodd, Chair (D-Licking Township)
- **February 18th**—Proponent Testimony provided by Chairman Gary DeCeglio
- **February 19th**—No testimony provided
- **February 24th**—Reported out of committee by unanimous vote
- **March 11th**—WCC review

SB 3-Regulatory Flexibility-Senator Faber (R-Celina)

- Assigned to Senate State & Local Government & Veterans Affairs Committee, Sen. Jim Hughes, Chair (R-Columbus)
- To require a rule-making agency to prepare a cost-benefit report for, and regulatory flexibility analysis of, rules that may have any adverse impact on small businesses and submit them to the new Ohio Small Business Ombudsperson in the Office of Small Business, to create the Small Business Regulatory Review Board
- **February 24th**—Sponsor testimony provided by Senator Faber
- **March 3rd**--Senate State and Local Government Committee—2nd Hearing—All testimony
- Testimony provided by the following:
 - Steve Millard, President and Executive Director of the Council of Smaller Enterprises in Cleveland, testified on behalf of the bill.
 - Ohio Restaurant Association provided written testimony in support
 - Amy Kobe, Executive Director of the Ohio Architects Board, testified against the bill.

SB 4--Performance-Based Auditing--Senator Schaffer (R-Lancaster)

- Assigned to Senate State & Local Government & Veterans Affairs Committee
- To require the Auditor of State to conduct performance audits of the Bureau of Workers' Compensation, Environmental Protection Agency, Department of Natural Resources, Department of Agriculture, and Department of Health
- **February 24th**—Sponsor Testimony provided by Senator Schaffer

SB 7--Fraud Reporting--Senator Wagoner (R-Sylvania)

- Assigned to Senate State & Local Government & Veterans Affairs Committee
- To create a system for residents and public employees to anonymously report fraud and misuse of public funds. State and local governments would be required to inform employees about the reporting options and the state auditor would have to verify they received the information
- The legislation would also extend legal protection under the state's Whistleblower Protection Act to employees who report suspected misuse of funds to the Auditors' Office
- **February 24th**—Sponsor Testimony provided by Senator Wagoner

Appointments

Labor-Management Governor Advisory Council (“LMG”)

- Mark Johnson, Utility Workers Union of America appointed by Speaker Budish (D-Beachwood as labor representative to fill seat vacated by Gary Dwyer.
- Senate President appointed Sen. Buehrer (R-Delta) as ex-officio member. Per House Majority Caucus, Rep. Yuko (D-Richmond Hts.) will be appointed as ex-officio member.

Workers’ Compensation Council

- HB 15 and HB 16 have been referred to the WCC for review on March 11th
- The following members of the 128th General Assembly have been appointed:
 - Rep. Tom Letson (D-Warren)
 - Rep. Dan Dodd (D-Licking Township)
 - Rep. Lynn Wachtmann (R-Napolean)
 - Sen. Stephen Buehrer (R-Delta)
 - Sen. Keith Faber (R-Celina)
 - Sen. Joe Schiavoni (D-Youngstown)
- The following are public member appointees:
 - Stephen K. Sesser, Taylor Lumber, McDermott, OH (Representing Employers of 100 or more employees)
 - Tracie Sanchez, Lima Pallet Company, Inc. Lima, OH (Representing Employers of less than 100 employees)
 - Roger Insprucker, Teamsters Joint Council No. 26, Cincinnati, OH (Representing Employees)
 - Robert Kendis, Kendis & Association Co., L.P.A, Cleveland, OH (Representing Injured Workers)
 - Vacant, (Representing the Public)

BWC Board of Directors Nominating Committee

- Pursuant to R.C. 4121.12(C), the Nominating Committee will meet within 60 days following the expiration of BWC Board of Directors member's term to submit an initial list names for each vacancy.
- Pursuant to R.C. 4121.123, the Nominating Committee is being formed and will meet on April 20th.

Self-insuring Employers Evaluation Board

- Christopher Royer, The Timken Company, recommended for appointment by the Governor as representative of the Ohio Self-Insurance Association replacing William Holt.

Legislative Issues

Privatization

Legislative Affairs continues to monitor legislative proposals to privatize workers' compensation or efforts to allow private insurance carriers to underwrite workers' compensation in Ohio. No such legislation has been introduced to date.

Professional Employer Organizations

Legislative Affairs to continue discussions on Professional Employer Organizations (PEO) statute revisions. Discussions have involved BWC, Department of Jobs and Family Service, Department of Taxation and the National Association of Professional Employer Organizations. Pursuant to R.C. 4125, BWC is the regulatory agency charged with licensing PEO operating in the state.

Journalist Exemption

Exemption to general rule of confidentiality of claimant file information--R.C. 4123.88. Anticipating introduction of legislation or amendment that would loosen exemption criteria. Ohio Association for Justice and business groups oppose any attempts to open injured worker contact information to possible solicitation or marketing.

Implementation of Enacted Legislation

HB 648—Database Searches

- Signed by Governor Strickland on January 6, 2009. New provisions of law become effective 90 days following Governor's signing
- Requires state agencies to adopt rules governing access to the confidential personal information that they keep, to create a civil action for harm resulting from an intentional violation of these rules and, to impose a criminal penalty for such an intentional violation
- BWC Legal is drafting new rules and developing policy to comply with the new provisions of law

HB 420—Agency Grant and Contract Reporting Requirements

- Signed by Governor Strickland and effective December 30, 2008

- Requires state agencies to maintain a website to post grant award information. Requires the Department of Administrative Services (DAS) to provide a link to each agencies website. DAS must also establish a separate website to post information on state contracts over \$25,000
- BWC IT, Communications, Safety and Hygiene and Legal have identified the grants to be posted. Final implementation and creation of weblink expected in April 2009