

**Board Agenda**  
**Friday, July 31, 2009**  
**William Green Building**  
Level 2, Room 3  
8:00 a.m. – 12:00 p.m.

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**Call to Order**

Bill Lhota, Board Chair

**Roll Call**

Larry Rhodebeck, Scribe

Bill Lhota, Chair

- Approval of minutes of the June 19, 2009 Board meeting
- Review meeting agenda

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**Committee Reports**

**Governance Committee**

Alison Falls, Committee Chair

1. Board advisory structure for input on medical issues (possible vote)
2. Approve FY 2009 Education report (possible vote)
3. Review FY 2010 Board education plan for submission to Workers' Compensation Council (possible vote)
4. Approve FY 2009 Board and Committee self-assessment (possible vote)

**Actuarial Committee**

Chuck Bryan, Committee Chair

1. Sponsorship Marketing - Rule 4123-17-61.1 (possible vote)

**Audit Committee**

Ken Haffey, Committee Chair

1. FY 2010 Financial Projections (Possible vote)
2. Net Asset Policy (Possible vote)

**Investment Committee**

Bob Smith, Committee Chair

1. Proposed Transition Strategy recommendation to implement Mandate 3 to buy U.S. small/mid cap equities exposure and reduce U.S. large cap equities exposure per the Russell 3000 benchmark index. (Possible vote to recommend approval to the Board of Directors on an asset allocation transition implementation strategy to effect the represented Mandate 3 transition)

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**Monthly Enterprise Report**

Tracy Valentino, Chief, Fiscal & Planning Division

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**Administrator Briefing**

Marsha P. Ryan, Administrator

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**Executive Session**

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**Adjourn**

Bill Lhota, Board Chair

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**Next Meeting: Friday, August 28, 2009**

\*Not all agenda items have material.

\*\*Agenda subject to change

# **Enterprise Report**

July 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.*

## June Financial Analysis

BWC's net assets increased by \$563 million in June resulting in net assets of \$2.5 billion at June 30, 2009 compared to \$1.9 billion at May 31, 2009.

<i>(\$ in millions)</i>	<b>Fiscal YTD</b> May 31, 2009	<b>Month Ended</b> June 30, 2009	<b>Fiscal Year</b> June 30, 2009
Operating Revenues	\$1,987	\$376	\$2,363
Operating Expenses	2,085	128	2,213
Operating Transfers to ODNR & WCC	(5)	–	(5)
Net Operating Gain (Loss)	(103)	248	145
Net Investment Income (Loss)	(507)	315	(192)
Increase (Decrease) in Net Assets	(610)	563	(47)
Net Assets End of Period	\$1,893	\$2,456	\$2,456

- o Premium and assessment income of \$406 million net of a \$30 million reduction in the provision for uncollectible accounts receivable resulted in operating revenues of \$376 million in June.
- o Premium and assessment income for June increased by \$20 million from the adjustment of accruals to actual premiums and assessments reported by private employers for the six month policy period ended December 31, 2008. Income also increased by \$75 million from the adjustment of accruals to actual premiums and assessments reported by public employer taxing districts for the policy year ended December 31, 2008. Net audit findings posted to employer accounts in June contributed to a \$51 million increase to premium income.
- o Benefits and compensation adjustment expenses of \$120 million along with other expenses of \$8 million resulted in operating expenses of \$128 million in June.
- o Benefits and compensation adjustment expenses were reduced by \$57 million in June as a result of adjustments from the recently completed actuarial audit. The impact of the discount rate reduction was off-set by lower liabilities for medical benefits and lump sum settlements.
- o A \$247 million increase in portfolio market value in June along with interest and dividend income of \$69 million for the month, resulted in a net investment income of \$315 million for the month after investment expenses. The increase in portfolio market value is comprised of \$113 million in net realized losses and \$360 million in unrealized gains.
- o Payments by private employers of the second 50/50 installment contributed to premium and assessment receipts of \$65 million in June.
- o Claim payments issued in June were \$163 million, including \$14 million in claim settlements and \$4 million in Ohio Hospital Association (OHA) settlement payments.

## Fiscal Year-to-Year Comparisons

BWC's total net assets have decreased by \$47 million for fiscal year 2009 resulting in net assets of \$2.45 billion at June 30, 2009 compared to \$2.5 billion at June 30, 2008.

<i>(\$ in millions)</i>	<b>Fiscal Year</b> June 30, 2009	<b>Projected FY</b> June 30, 2009	<b>Fiscal Year</b> June 30, 2008
Operating Revenues	\$2,363	\$2,170	\$2,161
Operating Expenses	2,213	2,634	2,682
Operating Transfer Out to ODNR	(5)	(6)	–
Net Operating Gain (Loss)	145	(470)	(521)
Net Investment Income (Loss)	(192)	1,046	719
Increase (Decrease) in Net Assets	(47)	576	198
Net Assets End of Period	\$2,456	\$3,079	\$2,503

- o BWC's operating revenues for fiscal year 2009 are \$2.4 billion, an increase of \$202 million compared to fiscal year 2008. This increase is primarily due to increases in accruals for unbilled premiums receivable related to increased DWRF and SIEGF reserves for compensation. Also contributing to increased operating revenues is a \$62 million increase in net billings to private employers for audit findings, rate adjustments, and discount programs.
- o Benefit and compensation adjustment expenses decreased by \$469 million in fiscal year 2009 primarily due to a decrease in the change in reserves for compensation and compensation adjustment expenses. The fiscal year 2009 reserves reflect a decline in the discount rate that is off-set by lower liabilities for medical benefits and lump sum settlements.

#### Changes in Reserves for Compensation and Comp. Adj. Expenses

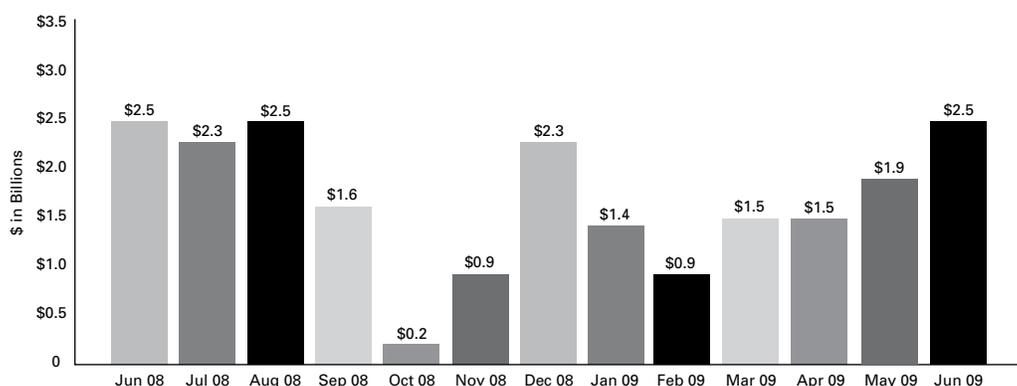
<i>(\$ in millions)</i>	Fiscal Year 2009	Fiscal Year 2008	Increase (Decrease)
<b>Reserves Beginning of Year</b>	<b>\$19,435</b>	<b>\$19,271</b>	<b>\$164</b>
Incurring Current Accident Year	2,034	2,219	(185)
Incurring Prior Accident Years	(785)	369	(1,154)
Decrease in Discount Rate	870	—	870
<b>Total Incurred</b>	<b>2,119</b>	<b>2,588</b>	<b>(469)</b>
Paid Current Accident Year	396	415	(19)
Paid Prior Accident Years	1,869	2,009	(140)
<b>Total Paid</b>	<b>2,265</b>	<b>2,424</b>	<b>(159)</b>
<b>Reserves End of Year</b>	<b>\$19,289</b>	<b>\$19,435</b>	<b>\$(146)</b>

- o BWC's net investment loss for fiscal year 2009 totaled \$192 million, comprised of \$355 million in net realized losses and \$570 million in net unrealized losses, partially off-set by \$738 million of interest and dividend income net of \$5 million in investment expenses.
- o Fiscal year 2009 premium collections are \$28 million less than the prior fiscal year, but \$119 million more than projected.
- o A total of \$185 million was redeemed from investment managers in fiscal year 2009 to meet operating cash flow needs. These redemptions compare to the \$155 million that was redeemed in fiscal year 2008.

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

- o Cash disbursements will increase as payments are made to settle the remaining \$10 million liability resulting from the OHA lawsuit disputing fee schedules that were not adopted through the Ohio Revised Code Chapter 119 rules process.
- o While fiscal year 2009 cash receipts from employer premiums were only 1% less than the prior fiscal year and almost 5% higher than projected, we are aware that these trends may not continue into this next fiscal year. Ohio's Office of Budget and Management indicates that Ohio employment decreased by 262,100 jobs during the 12 month period ended May 31, 2009. We expect this will negatively impact our premium collections.

#### Net Assets



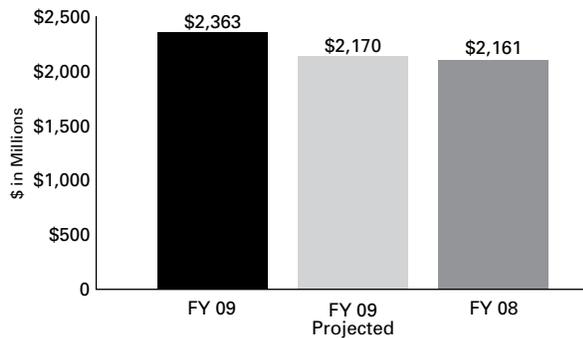
# Statement of Operations

Fiscal year June 30, 2009

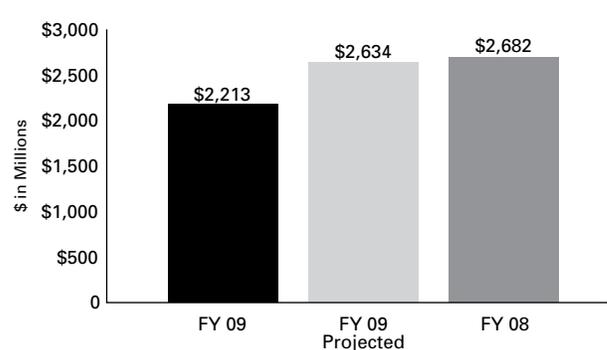
(in millions)

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
<b>Operating Revenues</b>					
Premium & Assessment Income	\$2,454	\$2,224	\$230	\$2,235	\$219
Provision for Uncollectibles	(108)	(73)	(35)	(96)	(12)
Other Income	17	19	(2)	22	(5)
<b>Total Operating Revenue</b>	<b>2,363</b>	<b>2,170</b>	<b>193</b>	<b>2,161</b>	<b>202</b>
<b>Operating Expenses</b>					
Benefits & Compensation Adj. Expense	2,119	2,543	424	2,588	(469)
Other Expenses	94	91	(3)	94	-
<b>Total Operating Expenses</b>	<b>2,213</b>	<b>2,634</b>	<b>421</b>	<b>2,682</b>	<b>(469)</b>
<b>Operating Transfers</b>	<b>(5)</b>	<b>(6)</b>	<b>1</b>	<b>-</b>	<b>(5)</b>
<b>Net Operating Gain (Loss)</b>	<b>145</b>	<b>(470)</b>	<b>615</b>	<b>(521)</b>	<b>666</b>
<b>Net Investment Income (Loss)</b>	<b>(192)</b>	<b>1,046</b>	<b>(1,238)</b>	<b>719</b>	<b>(911)</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$(47)</b>	<b>\$576</b>	<b>\$(623)</b>	<b>\$198</b>	<b>\$(245)</b>

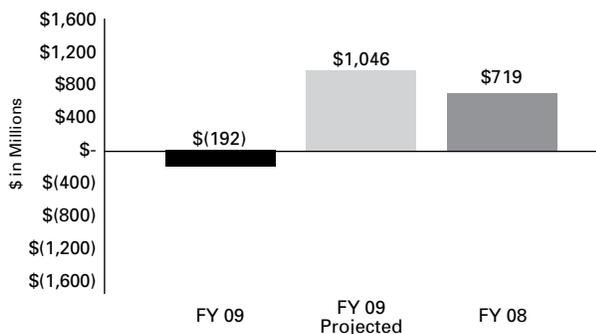
Operating Revenues



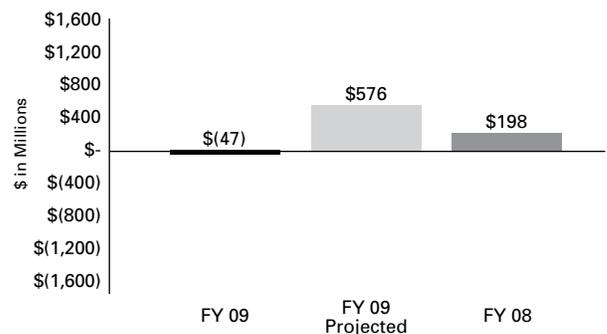
Operating Expenses



Net Investment Income (Loss)



Change in Net Assets



# Statement of Operations – Combining Schedule

Fiscal year June 30, 2009

(in thousands)

	State Insurance Fund Account	Disabled Workers' Relief Fund Account	Coal-Workers Pneumoconiosis Fund Account	Public Work Relief Employees' Fund Account	Marine Industry Fund Account	Self-Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Totals
<b>Operating Revenues:</b>								
Premium & Assessment Income	\$1,919,874	\$92,357	\$1,677	\$150	\$761	\$65,825	\$373,495	\$2,454,139
Provision for Uncollectibles	(96,224)	(3,055)	–	–	–	(133)	(9,208)	(108,620)
Other Income	10,186	–	–	–	–	–	7,011	17,197
<b>Total Operating Revenues</b>	<b>1,833,836</b>	<b>89,302</b>	<b>1,677</b>	<b>150</b>	<b>761</b>	<b>65,692</b>	<b>371,298</b>	<b>2,362,716</b>
<b>Operating Expenses:</b>								
Benefits & Compensation Adj Expenses	1,706,940	87,183	3,070	(327)	(624)	68,341	254,929	2,119,512
Other Expenses	23,215	329	90	1	80	1	69,970	93,686
<b>Total Operating Expenses</b>	<b>1,730,155</b>	<b>87,512</b>	<b>3,160</b>	<b>(326)</b>	<b>(544)</b>	<b>68,342</b>	<b>324,899</b>	<b>2,213,198</b>
Net Operating Income (Loss) before Operating								
Transfers Out	103,681	1,790	(1,483)	476	1,305	(2,650)	46,399	149,518
Operating Transfers Out	(3,289)	–	(4,540)	–	–	–	2,780	(5,049)
<b>Net Operating Income (Loss)</b>	<b>100,392</b>	<b>1,790</b>	<b>(6,023)</b>	<b>476</b>	<b>1,305</b>	<b>(2,650)</b>	<b>49,179</b>	<b>144,469</b>
<b>Investment Income:</b>								
Investment Income	672,646	48,263	10,258	667	499	668	4,784	737,785
Net Realized Gains (Losses)	(234,740)	(98,658)	(21,544)	–	–	–	–	(354,942)
Net Unrealized Gains (Losses)	(621,007)	42,049	8,603	132	99	–	–	(570,124)
Total Realized & Unrealized Capital Gains (Losses)	(855,747)	(56,609)	(12,941)	132	99	–	–	(925,066)
Investment Manager & Operational Fees	(4,353)	(276)	(161)	(4)	(3)	(2)	–	(4,799)
Gain (Loss) on Disposal of Fixed Assets	–	–	–	–	–	–	(220)	(220)
Total Non-Operating Revenues, Net	(187,454)	(8,622)	(2,844)	795	595	666	4,564	(192,300)
<b>Increase (Decrease) in Net Assets (Deficit)</b>	<b>(87,062)</b>	<b>(6,832)</b>	<b>(8,867)</b>	<b>1,271</b>	<b>1,900</b>	<b>(1,984)</b>	<b>53,743</b>	<b>(47,831)</b>
<b>Net Assets (Deficit), Beginning of Period</b>	<b>2,206,922</b>	<b>848,727</b>	<b>179,339</b>	<b>19,350</b>	<b>13,431</b>	<b>8,919</b>	<b>(773,399)</b>	<b>2,503,289</b>
<b>Net Assets (Deficit), End of Period</b>	<b>\$2,119,860</b>	<b>\$841,895</b>	<b>\$170,472</b>	<b>\$20,621</b>	<b>\$15,331</b>	<b>\$6,935</b>	<b>\$(719,656)</b>	<b>\$2,455,458</b>

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 June 30, 2009

(in thousands)

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
<b>Investment Income</b>					
Bond Interest	\$648,646	\$761,893	\$(113,247)	\$786,840	\$(138,194)
Dividend Income—Domestic & International	75,050	69,000	6,050	63,525	11,525
Money Market/Commercial Paper Income	5,378	9,759	(4,381)	17,493	(12,115)
Misc. Income (Corp Actions, Settlements)	8,711	3,600	5,111	4,311	4,400
Private Equity	—	—	—	4,621	(4,621)
Securities Lending Income, Net of Fees	—	—	—	—	—
<b>Total Investment Income</b>	<u>737,785</u>	<u>844,252</u>	<u>(106,467)</u>	<u>876,790</u>	<u>(139,005)</u>
<b>Realized &amp; Unrealized Capital Gains and (Losses)</b>					
Bonds – Net Realized Gains (Losses)	(157,200)	—	(157,200)	(85,728)	(71,472)
Stocks – Net Realized Gains (Losses)	(197,876)	—	(197,876)	35,761	(233,637)
Subtotal – Net Realized Gains (Losses)	<u>(355,076)</u>	<u>—</u>	<u>(355,076)</u>	<u>(49,967)</u>	<u>(305,109)</u>
Bonds – Net Unrealized Gains (Losses)	57,393	—	57,393	506,327	(448,934)
Stocks – Net Unrealized Gains (Losses)	(627,517)	207,000	(834,517)	(551,468)	(76,049)
Subtotal – Net Unrealized Gains (Losses)	<u>(570,124)</u>	<u>207,000</u>	<u>(777,124)</u>	<u>(45,141)</u>	<u>(524,983)</u>
Net Gain (Loss) – PE	134	—	134	(48,402)	48,536
<b>Change in Portfolio Value</b>	<u>(925,066)</u>	<u>207,000</u>	<u>(1,132,066)</u>	<u>(143,510)</u>	<u>(781,556)</u>
<b>Investment Manager &amp; Operational Fees</b>	<u>(4,799)</u>	<u>(5,022)</u>	<u>223</u>	<u>(14,120)</u>	<u>(9,321)</u>
<b>Net Investment Income (Loss)</b>	<u>\$(192,080)</u>	<u>\$1,046,230</u>	<u>\$(1,238,310)</u>	<u>\$719,160</u>	<u>\$(911,240)</u>

# Administrative Cost Fund Expense Analysis

June 2009

- o BWC Administrative Cost Fund expenses are approximately \$29.3 million (9.6%) less than budgeted and approximately 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 June. A closer evaluation of projects and the need for IT consultants continues to cause 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 2009.
- o Positions not yet filled led to a reduction in the fiscal year 2009 budget as of June. The payroll budget will be increased as employees are hired.
- o BWC's current fiscal year 2009 budget is approximately \$28.7 million (8.6%) less than appropriated by the General Assembly.

# Administrative Cost Fund Budget Summary

As of June 30, 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
<b>Payroll</b>									
BWC Board of Directors	12	927,417	925,085	(2,332)	-0.25%	925,085	809,017	118,400	14.64%
Workers' Comp Council		72,323	72,323	0	0.00%	72,323	0	72,323	100.00%
BWC Administration	8	835,391	835,391	0	0.00%	835,391	630,263	205,128	32.55%
Customer Service	1,484	111,299,931	111,421,256	121,325	0.11%	111,421,256	118,741,353	(7,441,422)	-6.27%
Medical	135	11,797,558	11,808,358	10,800	0.09%	11,808,358	10,495,934	1,301,624	12.40%
Special Investigations	141	11,153,018	11,154,759	1,741	0.02%	11,154,759	11,240,594	(87,576)	-0.78%
Fiscal and Planning	70	5,041,979	5,076,509	34,530	0.68%	5,076,509	4,787,108	254,871	5.32%
Actuarial	24	1,718,482	1,724,089	5,607	0.33%	1,424,089	1,560,561	157,921	10.12%
Investments	11	1,189,720	1,191,590	1,870	0.16%	1,191,590	1,005,090	184,630	18.37%
Infrastructure & Technology	364	29,685,132	29,891,335	206,203	0.69%	29,891,335	29,058,417	626,715	2.16%
Legal	77	6,725,236	6,725,056	(180)	0.00%	6,725,056	6,203,721	521,515	8.41%
Communications	22	2,429,507	2,427,535	(1,972)	-0.08%	2,427,535	2,770,428	(340,921)	-12.31%
Human Resources	63	5,468,280	5,468,970	690	0.01%	5,468,970	5,233,149	235,131	4.49%
Internal Audit	14	1,396,316	1,397,392	1,076	0.08%	1,397,392	1,481,543	(85,227)	-5.75%
Ombuds Office	9	574,819	575,118	299	0.05%	575,118	409,710	165,109	40.30%
Early Retirement Expenses				0	0.00%		780,793	(780,793)	-100.00%
<b>Total Payroll</b>	<b>2,434</b>	<b>190,315,109</b>	<b>190,694,766</b>	<b>379,657</b>	<b>0.20%</b>	<b>190,394,766</b>	<b>195,207,681</b>	<b>(4,892,572)</b>	<b>-2.51%</b>
<b>Personal Services</b>									
Information Technology		10,331,288	13,539,105	3,207,817	23.69%	13,539,105	14,440,776	(4,109,488)	-28.46%
Legal - Special Counsel		1,186,095	1,571,015	384,920	24.50%	1,571,015	1,613,734	(427,639)	-26.50%
Legal - Attorney General		4,224,601	4,444,085	219,484	4.94%	4,444,085	4,099,303	125,298	3.06%
Other Personal Services		5,740,376	8,221,661	2,481,285	30.18%	8,221,661	4,334,101	1,406,275	32.45%
<b>Total Personal Services</b>		<b>21,482,360</b>	<b>27,775,866</b>	<b>6,293,506</b>	<b>22.66%</b>	<b>27,775,866</b>	<b>24,487,914</b>	<b>(3,005,554)</b>	<b>-12.27%</b>
<b>Maintenance</b>									
William Green Rent		20,578,304	20,686,500	108,196	0.52%	20,686,500	20,237,720	340,584	1.68%
Other Rent and Leases		11,133,139	11,910,383	777,244	6.53%	11,910,383	10,484,342	648,797	6.19%
Software and Equipment Maintenance and Repairs		13,977,650	19,604,789	5,627,139	28.70%	19,604,789	14,993,916	(1,016,266)	-6.78%
Inter Agency Payments		3,389,176	3,659,962	270,786	7.40%	3,659,962	3,474,666	(85,490)	-2.46%
Communications		3,674,236	6,962,294	3,288,058	47.23%	6,962,294	3,664,013	10,223	0.28%
Safety Grants and Long Term Care Loan		3,878,339	6,000,000	2,121,661	35.36%	6,000,000	3,683,829	194,510	5.28%
Supplies and Printing		1,569,754	3,188,396	1,618,642	50.77%	3,188,396	2,224,813	(655,059)	-29.44%
Other Maintenance		3,143,150	3,748,222	605,072	16.14%	3,748,222	3,178,006	(34,856)	-1.10%
<b>Total Maintenance</b>		<b>61,343,748</b>	<b>75,760,546</b>	<b>14,416,798</b>	<b>19.03%</b>	<b>75,760,546</b>	<b>61,941,305</b>	<b>(597,557)</b>	<b>-0.96%</b>
<b>Equipment</b>		<b>1,456,589</b>	<b>9,680,865</b>	<b>8,224,276</b>	<b>84.95%</b>	<b>9,680,865</b>	<b>7,735,353</b>	<b>(6,278,764)</b>	<b>-81.17%</b>
<b>Total Administrative Cost Fund Expenses</b>		<b>274,597,806</b>	<b>303,912,043</b>	<b>29,314,237</b>	<b>9.65%</b>	<b>303,612,043</b>	<b>289,372,253</b>	<b>(14,774,447)</b>	<b>-5.11%</b>

Total Agency Appropriation 332,360,479  
 Budget to Appropriation Variance 28,748,436  
 Percentage Variance 8.65%

# State Insurance Fund

## Administrative Expense Summary

As of June 30, 2009

	Actual FY 2009	Encumbrance Balance	FYTD Actual & Encumbrance	Encumbrance Closing Date	Actual FY 2008
<b>Investment Administrative Expenses</b>					
UBS Securities LLC	\$275,191	\$0	\$275,191	6/30/08	\$5,094,342
Wilshire Associates Inc.	0	0	0		480,368
JP Morgan Chase - Performance Reporting	92,583	8,751	101,334	6/30/08	242,305
Mercer Investment Consulting	474,996	536,493	1,011,489	6/30/10	151,527
Other Investment Expenses	<u>218,498</u>	<u>253,811</u>	<u>472,309</u>	6/30/09	<u>257,882</u>
	1,061,268	799,055	1,860,323		6,226,424
<b>Actuarial Expenses</b>					
Mercer Oliver Wyman	626,083	881,364	1,507,447	12/31/09	829,051
Oliver Wyman Consulting	535,413	1,418,946	1,954,359	12/31/09	0
Deloitte Consulting LLP	1,550,095	0	1,550,095	12/31/08	580,255
Shoenfelt Consulting	6,370	5,550	11,920	3/31/09	0
AON Risk Consultants	<u>0</u>	<u>0</u>	<u>0</u>		<u>263,599</u>
	2,717,961	2,305,860	5,023,821		1,672,905
<b>Ohio Rehabilitation Services</b>	<u>605,407</u>	<u>0</u>	<u>605,407</u>	6/30/09	<u>605,407</u>
<b>TOTAL</b>	<b>\$4,384,636</b>	<b>\$3,104,915</b>	<b>\$7,489,551</b>		<b>\$8,504,736</b>

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.

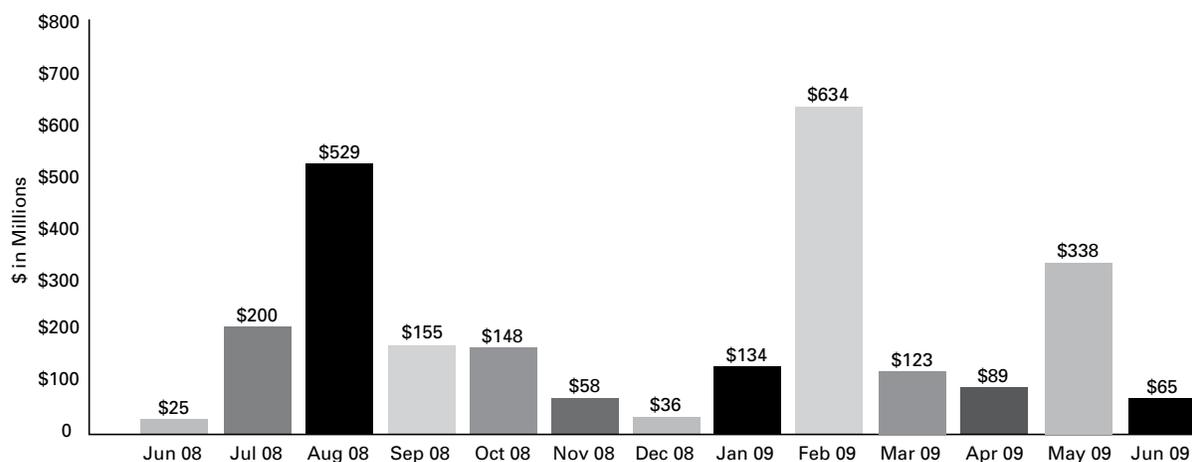
# Statement of Cash Flows

Fiscal year June 30, 2009

(in millions)

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
<b>Cash Flows from Operating Activities:</b>					
Cash Receipts from Premiums	\$2,510	\$2,391	\$119	\$2,538	\$(28)
Cash Receipts – Other	36	29	7	33	3
Cash Disbursements for Claims	(2,128)	(2,169)	41	(2,238)	110
Cash Disbursements for Other	<u>(428)</u>	<u>(446)</u>	<u>18</u>	<u>(455)</u>	<u>27</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	(10)	(195)	185	(122)	112
<b>Net Cash Flows from Noncapital Financing Activities</b>	(5)	(6)	1	–	(5)
<b>Net Cash Flows from Capital and Related Financing Activities</b>	(23)	(21)	(2)	(30)	7
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>163</u>	<u>168</u>	<u>(5)</u>	<u>202</u>	<u>(39)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	125	(54)	179	50	75
<b>Cash and Cash Equivalents, Beginning of Period</b>	<u>378</u>	<u>378</u>	<u>–</u>	<u>328</u>	<u>50</u>
<b>Cash and Cash Equivalents, End of Period</b>	\$503	\$324	\$179	\$378	\$125

## Premium and Assessment Receipts



# Statement of Net Assets

As of June 30, 2009

(in millions)

	Actual	Prior Yr. Actual	Year to Year Increase (Decrease)
<b>Assets</b>			
Bonds	\$13,043	\$13,724	\$(681)
Stocks	3,518	3,164	354
Private Equities	–	15	(15)
Cash & Cash Equivalents	503	378	125
Total Cash and Investments	17,064	17,281	(217)
Accrued Premiums	4,473	4,513	(40)
Other Accounts Receivable	211	185	26
Investment Receivables	532	282	250
Other Assets	108	118	(10)
<b>Total Assets</b>	<u>22,388</u>	<u>22,379</u>	<u>9</u>
<b>Liabilities</b>			
Reserve for Compensation and Compensation Adj. Expense	\$19,289	\$19,435	\$(146)
Accounts Payable	32	45	(13)
Investment Payable	394	130	264
Other Liabilities	217	266	(49)
<b>Total Liabilities</b>	<u>19,932</u>	<u>19,876</u>	<u>56</u>
<b>Net Assets</b>	\$2,456	\$2,503	\$(47)

# Statement of Net Assets – Combining Schedule

As of June 30, 2009

(in thousands)

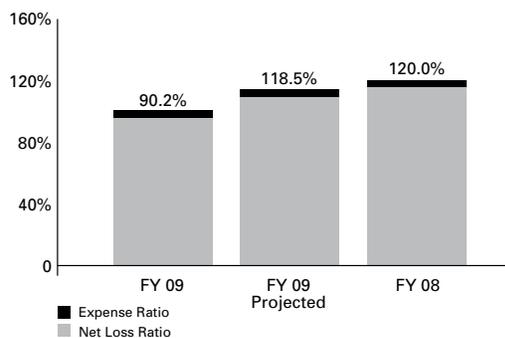
	State Insurance Fund Account	Disabled Workers' Relief Fund Account	Coal-Workers Pneumoconiosis Fund Account	Public Work Relief Employees' Fund Account	Marine Industry Fund Account	Self-Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Eliminations	Totals
<b>Assets</b>									
Bonds	\$ 11,940,709	\$ 875,403	\$ 186,336	\$ 23,221	\$ 17,349	\$ -	\$ -	\$ -	\$ 13,043,018
Stocks	3,251,985	220,142	46,322	-	-	-	-	-	3,518,449
Private Equities	197	-	-	-	-	-	-	-	197
Cash & Cash Equivalents	<u>429,350</u>	<u>6,913</u>	<u>1,846</u>	<u>132</u>	<u>200</u>	<u>54,570</u>	<u>9,531</u>	<u>-</u>	<u>502,542</u>
Total Cash & Investments	\$ 15,622,241	\$ 1,102,458	\$ 234,504	\$ 23,353	\$ 17,549	\$ 54,570	\$ 9,531	\$ -	\$ 17,064,206
Accrued Premiums	1,950,817	1,539,846	-	113	-	719,414	262,483	-	4,472,673
Other Accounts Receivable	181,778	20,173	-	29	5	(1,235)	9,852	-	210,602
Interfund Receivables	13,941	56,115	1	145	27	811	120,473	(191,513)	-
Investment Receivables	251,673	231,921	48,824	-	-	13	-	-	532,431
Other Assets	<u>25,340</u>	<u>22</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>82,325</u>	<u>-</u>	<u>107,687</u>
Total Assets	<u>\$ 18,045,790</u>	<u>\$ 2,950,535</u>	<u>\$ 283,329</u>	<u>\$ 23,640</u>	<u>\$ 17,581</u>	<u>\$ 773,573</u>	<u>\$ 484,664</u>	<u>\$ (191,513)</u>	<u>\$ 22,387,599</u>
<b>Liabilities</b>									
Reserve for Compensation & Compensation Adj. Expense	\$ 15,495,001	\$ 1,873,400	\$ 64,900	\$ 3,000	\$ 2,100	\$ 763,603	\$ 1,087,000	\$ -	\$ 19,289,004
Accounts Payable	32,497	-	-	-	-	-	-	-	32,497
Investment Payable	123,835	222,625	47,117	-	-	-	-	-	393,577
Interfund Payables	175,814	12,532	86	17	29	3,035	-	(191,513)	-
Other Liabilities	<u>98,783</u>	<u>83</u>	<u>754</u>	<u>2</u>	<u>121</u>	<u>-</u>	<u>117,320</u>	<u>-</u>	<u>217,063</u>
Total Liabilities	<u>15,925,930</u>	<u>2,108,640</u>	<u>112,857</u>	<u>3,019</u>	<u>2,250</u>	<u>766,638</u>	<u>1,204,320</u>	<u>(191,513)</u>	<u>19,932,141</u>
<b>Net Assets</b>	<u>\$ 2,119,860</u>	<u>\$ 841,895</u>	<u>\$ 170,472</u>	<u>\$ 20,621</u>	<u>\$ 15,331</u>	<u>\$ 6,935</u>	<u>\$ (719,656)</u>	<u>\$ -</u>	<u>\$ 2,455,458</u>

# Financial Performance Metrics

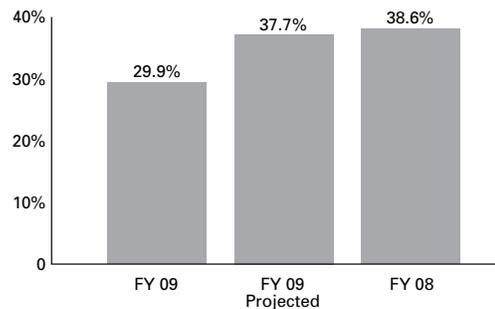
	Actual FY09 As of 6/30/09	Projected FY09 As of 6/30/09	Actual FY08 As of 6/30/08	Target
Loss Ratio	69.1%	92.6%	97.6%	
LAE Ratio - MCO	6.9%	8.5%	5.7%	
LAE Ratio - BWC	10.4%	13.3%	12.5%	
<b>Net Loss Ratio</b>	86.4%	114.4%	115.8%	120.0%
Expense Ratio	3.8%	4.1%	4.2%	5.0%
<b>Combined Ratio</b>	90.2%	118.5%	120.0%	125.0%
Net Investment Income Ratio	29.9%	37.7%	38.6%	
<b>Operating Ratio (Trade Ratio)</b>	60.3%	80.8%	81.4%	100.0%
<b>Operating Cashflow Ratio</b>	128.8%	124.6%	126.9%	118.0%
<b>Total Reserves to Net Assets</b>	8 to 1	6 to 1	8 to 1	7 to 1
<b>Investments to Loss Reserves</b>	88.5%	94.3%	88.9%	110.0%
<b>Equities to Net Assets</b>	1.43 to 1	1.12 to 1	1.26 to 1	
<b>Bonds to Net Assets</b>	5.3 to 1	4.7 to 1	5.5 to 1	
<b>Funding Ratio (State Insurance Fund)</b>	1.14	1.19	1.15	
<b>Net Leverage Ratio (SIF)</b>	8.22	6.35	7.93	

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.

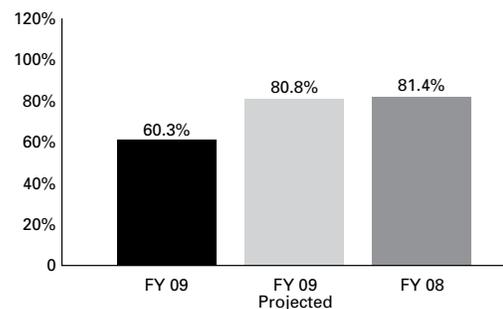
**Combined Ratio**



**Investment Income Ratio**

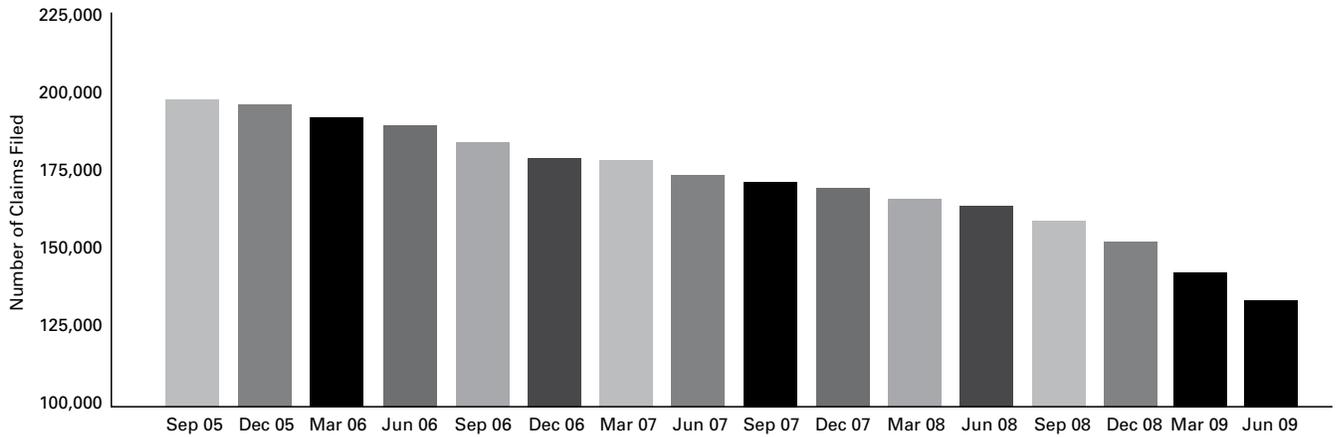


**Operating Ratio**

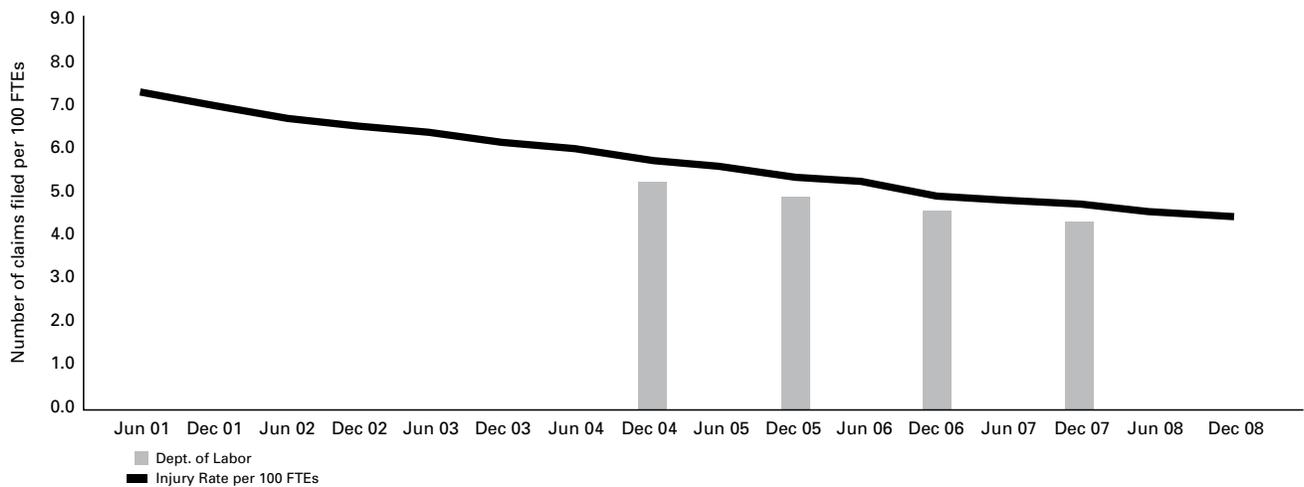


# Operational Performance Metrics

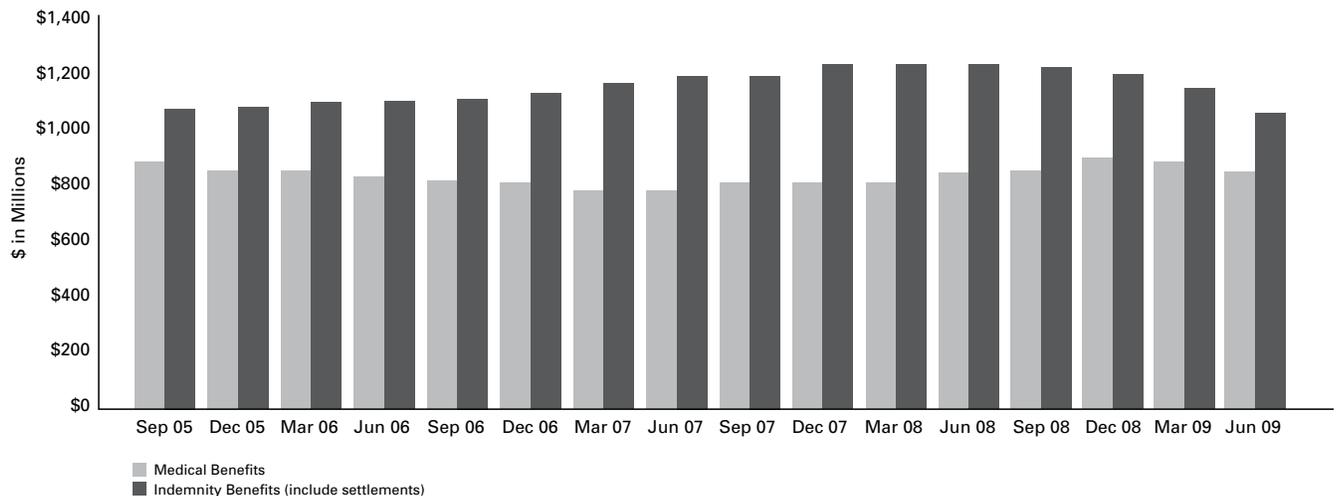
**New Claims Filed - Twelve months ended**



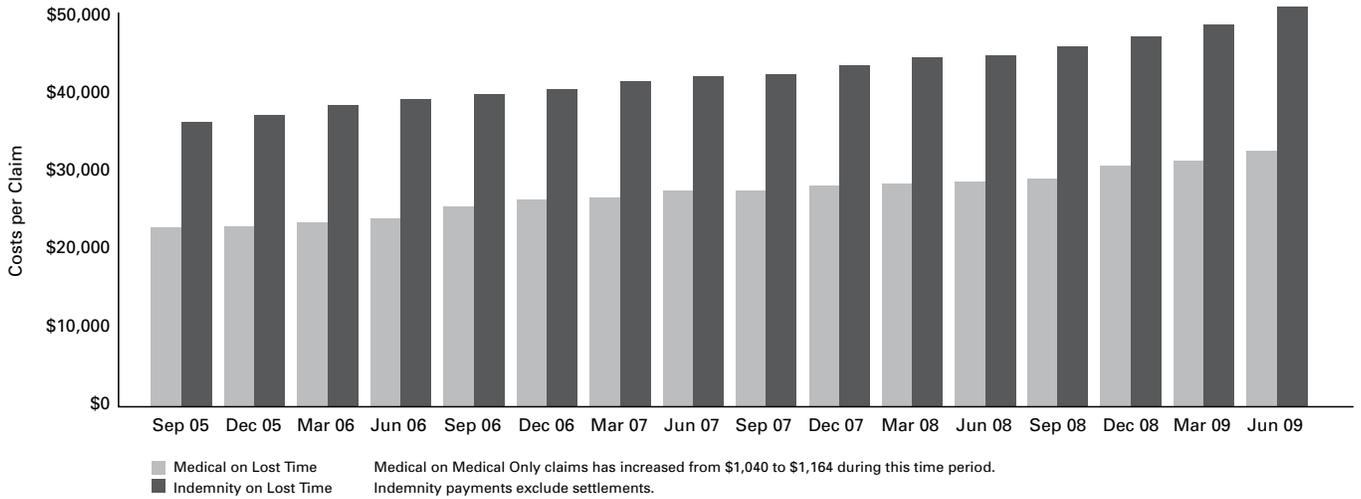
**Frequency - Reported semi-annually**



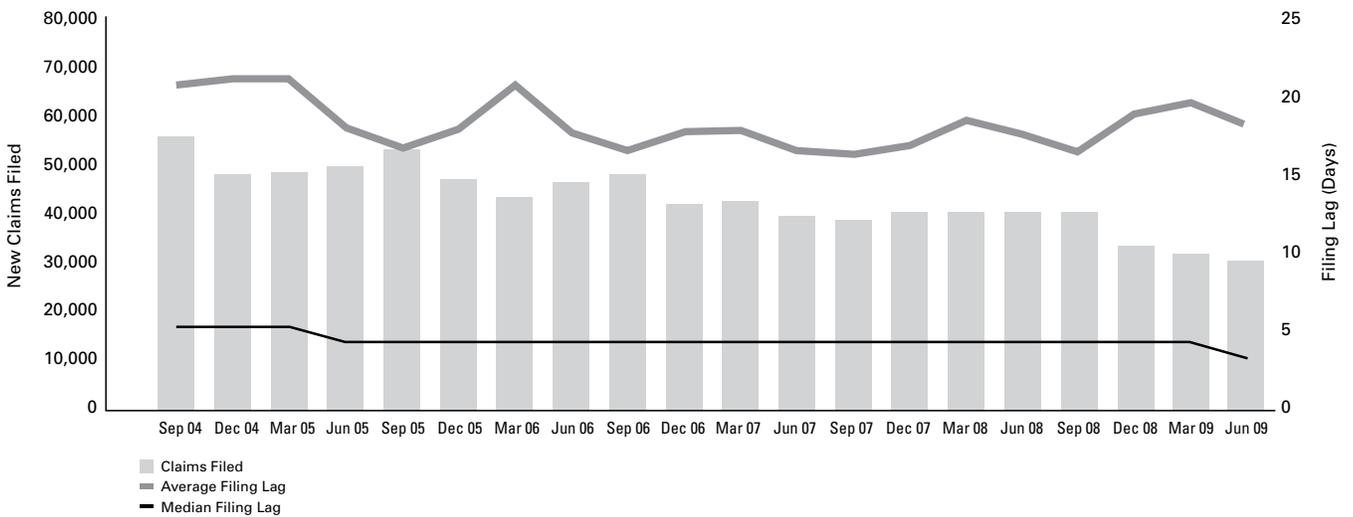
**Benefit Payments - Twelve months ended**



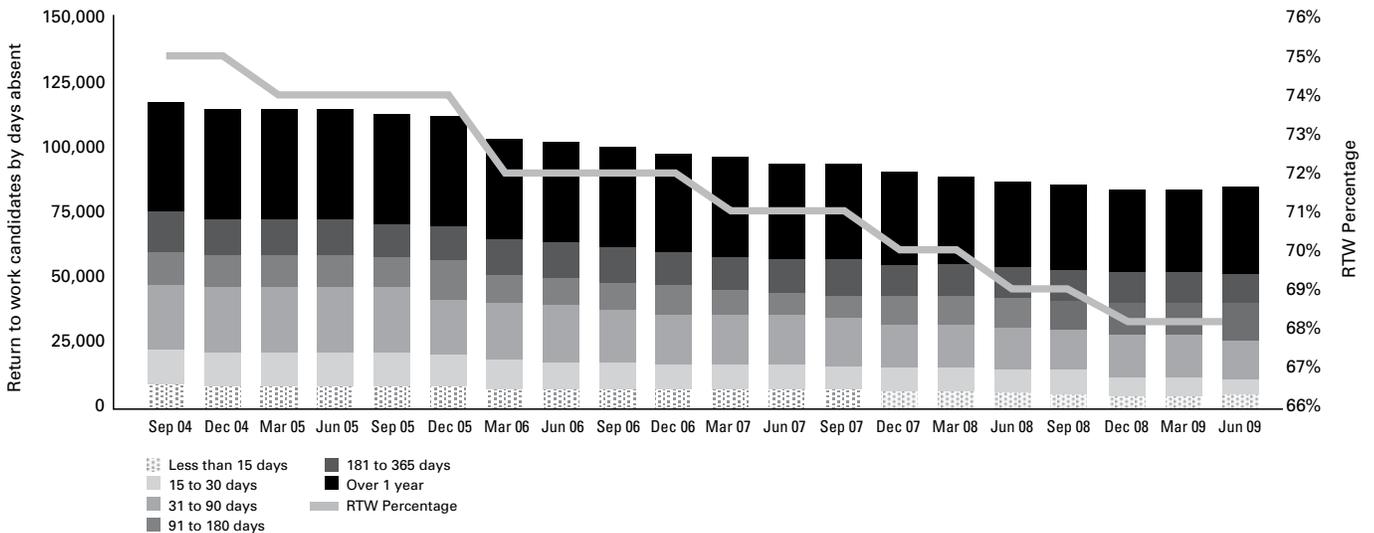
### Severity



### Claim Filing Lag



### Return to work

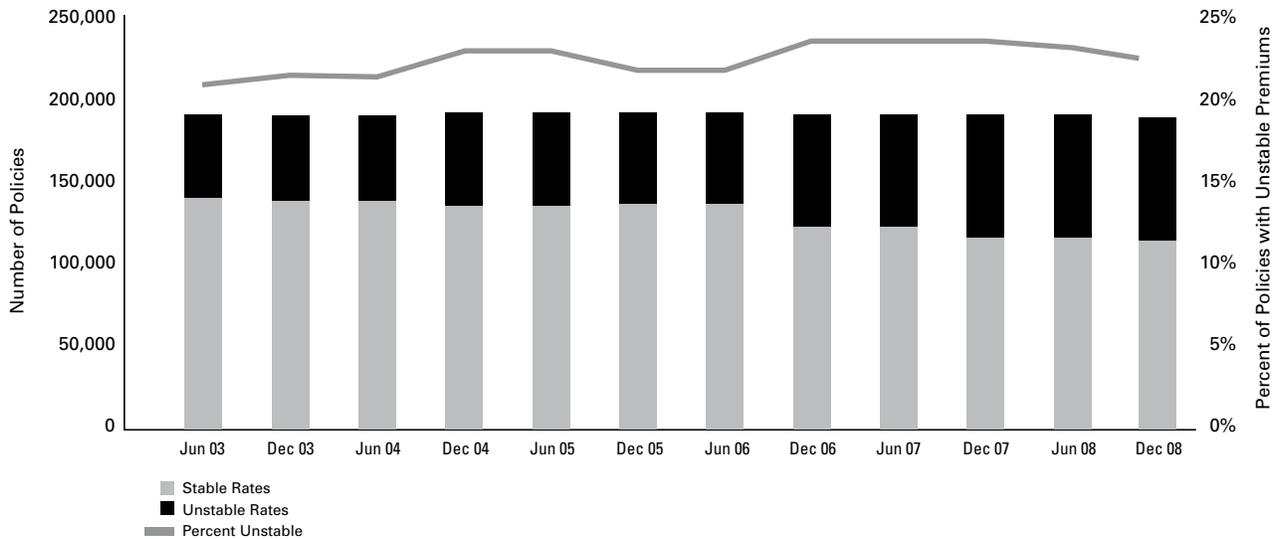


**Aggregate Reported Payroll – Twelve Months Ending**

(\$ 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
Dec 2008	\$94,580	\$19,778	\$7,065	\$134	\$5

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

**Premium Stability**



# Performance Metrics Glossary

## **Loss Ratio**

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

## **LAE Ratio**

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

## **Net Loss Ratio**

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

## **Expense Ratio**

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

## **Combined Ratio**

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

## **Net Investment Income Ratio**

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

## **Operating Ratio**

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

## **Operating Cash Flow Ratio**

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

## **Total Reserves to Net Assets**

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

## **Investments to Loss Reserves**

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

## **Equities to Net Assets**

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

## **Bonds to Net Assets**

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

## **Funding Ratio**

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

## **Net Leverage Ratio**

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

## **New Claims Filed**

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

## **Frequency**

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

## **Benefit Payments**

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

## **Severity**

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

## **Claim Filing Lag**

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

## **Return to Work Rates**

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

## **Aggregate Reported Payroll**

Measures reported payroll by employer type for a rolling twelve month period, updated semi-annually.

## **Premium Stability**

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

## Summary of Amended Substitute H.B. 15

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Governor Strickland signed Am. Sub. H.B. 15 on June 30, 2009. The main purpose of the Act is to adopt the BWC budget for the next two fiscal years. The budget allocations are:

	FY 2010	FY 2011
Total all budget fund groups	\$ 328,821,765	\$ 328,602,765

For comparison, here are the BWC budgets from the prior budget bill, H.B. 100:

	FY 2008	FY 2009
Total all budget fund groups	\$ 328,956,361	\$ 329,210,479

The following are key substantive provisions of Am. Sub. H.B. 15 as signed by the Governor, which includes four vetoes. The descriptions of the Act are based upon the LSC Bill Summary.

- R.C. 121.52: Creates in the state treasury the “Deputy Inspector General for the Bureau of Workers’ Compensation and the Industrial Commission Fund” and requires the Inspector General to use the Fund to pay the costs incurred by the Deputy Inspector General for the BWC and the IC in the performance of the Deputy Inspector General’s duties.
- R.C. 4123.34(B): Makes the existing law Surplus Fund an account within the State Insurance Fund. Eliminates the requirement that 10% of the money paid into the State Insurance Fund be set aside to create the Surplus Fund and the other limits specified for the amount of money that must be allocated to the Surplus Fund. Allows the Administrator to transfer a portion of the State Insurance Fund to the Surplus Fund Account as the Administrator determines is necessary to satisfy the needs of the Surplus Fund Account and to guarantee the solvency of the Fund and the Account.
- R.C. 4121.12(C): Changes the date by which the Bureau of Workers’ Compensation Board of Directors Nominating Committee must submit to the Governor an initial list of names to fill a vacancy due to term expiration on the BWC Board of Directors to at least 30 days prior to the term expiration, rather than within 60 days after the term expires as under current law. Specifies that if the Governor appoints an individual to fill a vacancy resulting from the expiration of a term, the individual appointed begins serving as a Board member when that term expires or, if the term already has expired, immediately upon appointment by the Governor, whichever occurs later.
- R.C. 4121.125(C)(3): Changes the date by which the Board of Directors must submit to specified entities the annual actuarial report required under continuing law to a point in time that is on or before the first day of November following the year for which the valuation was made, rather than not later than the first day of September as under current law.
- R.C. 4121.12(F)(12): Requires the Board to submit a report annually on the performance and value of each investment class to the Workers’ Compensation Council in addition to other entities already specified in continuing law.
- ~~R.C. 4123.29(A)(4)(g): Requires that an employer that is merging operations with another employer shall notify the administrator of workers’ compensation of the merger not more than thirty days after the merger takes effect, and that BWC shall notify the TPA and group sponsor. [Note: Governor Veto].~~
- ~~R.C. 4123.29(B): Requires that the administrator shall supply an employer, at the time the employer institutes coverage and first selects a managed care organization under the health partnership program,~~

## Summary of Amended Substitute H.B. 15

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~~with a list of all groups participating in the group rating program and a list of all premium discount programs offered by BWC. [Note: Governor Veto].~~

- R.C. 4123.29(A)(6): Requires certified health care providers to bill employers participating in the Medical-Only Program the same rates for services as the provider bills the Administrator, and prohibits certified health care providers from billing the employee for any amount in excess of the rate charged to the employer.
- ~~R.C. 4123.29(D): Requires the Administrator to adopt rules revising a program or alternative premium plan not later than the first day of September prior to the policy year in which the program or alternative premium plan is to be in effect. [Note: Governor Veto].~~
- ~~R.C. 4123.34(G),(H): Requires the Administrator to offer a Drug Free Workplace Program and a Workplace Safety Program and to offer a discount for participation in those programs to both employers who and who do not participate in the group rating program. [Note: Governor Veto].~~
- R.C. 4123.34(I): Requires that the Administrator shall not place a limit on the length of time that an employer may participate in the BWC drug free workplace and workplace safety programs.
- R.C. 4123.35(R)(6): Allows a municipal power agency to self-insure a construction project.
- Section 220: Requires the Bureau to offer a construction industry cap to eligible construction industry employers for a specified period of time.
- 4123.82(D): Gives the Superintendent of Insurance the sole authority to regulate any insurance products that indemnify or insure employers against workers' compensation losses.
- Section 215.01, amending Section 512.45 of H.B. 100 of the 127th General Assembly: Permits, instead of requires, the Workers' Compensation Council to contract with an actuary to perform an actuarial valuation of the assets, liabilities, and funding requirements of the Workers' Compensation funds.
- R.C. 4121.75: Splits the appointing authority of the Speaker of the House of Representatives and the President of the Senate for the Workers' Compensation Council.
- R.C. 4121.62(A)(4); (B): Removes the authority of the Administrator to establish, under the supervision of the Director of Rehabilitation who is appointed by and responsible to the Administrator, the BWC Division of Rehabilitation.
- R.C. 4121.62(C): Removes the language that the Administrator shall establish fees for use of services offered by the BWC Division of Rehabilitation.
- R.C. 4121.70(B): Eliminates the requirement that the Labor-Management Council submit a list of names of individuals to the Administrator from which the Administrator must appoint an individual to serve as the Director of Rehabilitation.
- R.C. 4121.70: Adds ~~two~~ three members to the Labor-Management Government Advisory Council. The additional members are persons who by training and vocation represents nonprofit vocational rehabilitation services providers that deliver services to injured workers, and one each is appointed by the speaker of the house of representatives, the president of the senate, and the Governor. *[Note: Conference Committee added third additional LMG member to bill as reported by the Senate].*

## Summary of Amended Substitute H.B. 15

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- ~~Creates the Competitive Workers' Compensation Task Force for the purpose of reviewing the feasibility of allowing employers the option to obtain private insurance to insure their obligations under the Ohio Workers' Compensation system. [Note: Conference Committee deleted this language from the bill as reported by the Senate].~~

As a budget bill, the Act is effective immediately upon the Governor's signature (6-30-09). This rule applies to the budget itself, and some of the other provisions. However, pursuant to Section 313 of the Act, designated portions of the Act are subject to referendum, and thus effective on the 91st day the Act is filed with the Secretary of State.

Provisions subject to referendum:

- R.C. 4123.29(A)(4)(g): Merger notice (vetoed)
- R.C. 4123.29(B): Notice of groups to new employers (vetoed)
- R.C. 4123.34(B): Surplus fund accounting changes
- R.C. 4121.12: Workers' Compensation Board of Director changes
- R.C. 4121.125: Actuarial report notice
- R.C. 4121.62: BWC Rehabilitation division changes
- R.C. 4121.70: LMG
- R.C. 4123.35: Self-insured for municipal power agency

# Recently Introduced Legislation

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

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

Primary sponsors—Rep. Tracy Heard (D-Columbus), Rep. Tom Letson (D-Warren)

Cosponsors—Reps. Matt Lundy (D-Elyria), Barbara Boyd (D-Cleveland Hts.), Robert Hagan (D-Youngstown), Jay Goyal (D-Mansfield), Dennis Murray (D-Sandusky).

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

HB 249 was recently introduced and assigned to House Civil and Commercial Law Committee—Chair Rep. Mark Okey (D-Carrollton). No hearings are scheduled.

## **Background**

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

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

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

## **BWC Policy**

It is clear from existing statute that injured worker contact information is not a public record. BWC is statutory steward of this sensitive information and, therefore, must properly assess whether an individual purporting to be

# Recently Introduced Legislation

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a journalist under the statute is gathering the information for a public purpose and with the intent to disseminate to the general public.

## **Effect of Proposed Legislation**

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

## **General Issues for Consideration**

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

## **2. Summary of SB 94—As Introduced**

Primary sponsors—Sen. Tom Patton (R-Strongsville)

Cosponsors—Sens. Jimmy Steward (R-Albany), Tim Schaffer (R-Lancaster), Jim Hughes (R-Columbus), Dale Miller (D-Cleveland)

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

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

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

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

This legislation is currently pending in the Senate Insurance, Commerce and Labor Committee. Sen. Patton provided sponsor testimony on May 19<sup>th</sup>.

# Recently Introduced Legislation

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## **Background**

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

## **Activity in Other States**

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

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

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

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

Primary sponsor—Rep. John Carney (D-Columbus)

Cosponsors—Reps. John Domenick (D-Smithfield), Dennis Murray (D-Sandusky), David Daniels (R-Greenfield)

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

This legislation is intended to update Ohio's PEO statutes and better harmonize our state's laws with those of neighboring states. Rep. Carney provided Sponsor Testimony on 6/30 before House Commerce and Labor Committee. No further hearings are scheduled.

## **Background**

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

## Recently Introduced Legislation

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concerns to Rep. Carney. The Ohio Department Taxation is continuing their analysis of PEO policies to determine the extent of employer withholding issues.

BWC Board of Directors

**Board Agenda**

**Friday, July 31, 2009**

**William Green Building**

Level 2, Room 3

8:00 a.m. – 12:00 p.m.

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**Call to Order**

Bill Lhota, Board Chair

**Roll Call**

Larry Rhodebeck, Scribe

Bill Lhota, Chair

- Approval of minutes of the June 19, 2009 Board meeting
- Review meeting agenda

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**Committee Reports**

**Governance Committee**

Alison Falls, Committee Chair

1. Board advisory structure for input on medical issues (possible vote)
2. Approve FY 2009 Education report (possible vote)
3. Review FY 2010 Board education plan for submission to Workers' Compensation Council (possible vote)
4. Approve FY 2009 Board and Committee self-assessment (possible vote)

**Actuarial Committee**

Chuck Bryan, Committee Chair

1. Sponsorship Marketing - Rule 4123-17-61.1 (possible vote)

**Audit Committee**

Ken Haffey, Committee Chair

1. FY 2010 Financial Projections (Possible vote)
2. Net Asset Policy (Possible vote)

**Investment Committee**

Bob Smith, Committee Chair

1. Proposed Transition Strategy recommendation to implement Mandate 3 to buy U.S. small/mid cap equities exposure and reduce U.S. large cap equities exposure per the Russell 3000 benchmark index.  
(Possible vote to recommend approval to the Board of Directors on an asset allocation transition implementation strategy to effect the represented Mandate 3 transition)

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**Monthly Enterprise Report**

Tracy Valentino, Chief, Fiscal & Planning Division

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**Administrator Briefing**

Marsha P. Ryan, Administrator

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**Executive Session**

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**Adjourn**

Bill Lhota, Board Chair

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**Next Meeting: Friday, August 28, 2009**

\*Not all agenda items have material.

\*\*Agenda subject to change

## Accomplishments Overview

### 2008

- Jan. 25, 2008 The BWC Board of Directors hires Mercer Investment Consulting Inc. as the bureau's full-service investment consultant.
- Deloitte Consulting LLP awarded contract to perform an intense study of BWC operations and programs.
- Jan. 29, 2008 BWC provides outreach to public employers in an effort to promote safety initiatives.
- Feb. 5, 2008 Raymond R. Mazzotta named as BWC chief operating officer.
- Feb. 27, 2008 Investigators from a multi-agency task force recognized for their work related to fraudulent BWC investment activities and other matters. The investigation resulted in 21 persons charged and 19 criminal convictions.
- March 28, 2008 The BWC Board of Directors approves a 5-percent overall premium rate decrease for private employers. Effective July 1, 2008, the reduction is the first premium rate decrease for Ohio's private employers since 2001.
- April 4, 2008 BWC launches a new, multi-language help line to better serve the needs of non-English speaking customers. The telephonic interpreting service provides real-time response and seamless multilingual services. It offers 150 languages and dialects.
- April 24, 2008 The BWC Board of Directors holds the first of two public forums on medical services. The forum enables employers, injured workers and other interested parties to discuss their perspective on the role of medical providers as related to workers' compensation.
- April 25, 2008 The BWC Board of Directors approves a 10-percent, premium-rate reduction for 106 state agencies, 16 state universities and four university hospitals. The rate reduction saves these Ohio employers approximately \$7.3 million for the upcoming program year. The reduction is the first for these employers since 1999.
- May 12-16, 2008 BWC leads Ohio government improvement efforts, piloting the state's first Kaizen system of quality control event. BWC applies the system to its employer adjudication process. It cuts the average process time from 169 days to an average of 50 days.
- June 26, 2008 The BWC Board of Directors holds its second public forum on medical services. This forum focuses on the scope of coverage and level of benefits for medical, vocational rehabilitation and pharmaceutical services. It also concentrates on reimbursement methodologies for these treatments and services. In addition, it focuses on best practices for assuring efficient and effective delivery of the managed care process.
- June 27, 2008 BWC takes its first steps toward adopting a rate-reform plan designed to improve pricing accuracy and premium equity among group-experience- and non-group-experience-rated employers. The board reduces the maximum credibility discount for group-rated employers from 85 percent to 77 percent for the July 1, 2009 program year. It also gives staff authority to proceed in the research and development of improved rate-making processes and programs.
- July 1, 2008 As mandated in House Bill 100, BWC implements Micro Insurance Reserving Analysis II (MIRA II). MIRA II is a new, more accurate and transparent system to calculate reserves for medical claims filed by injured workers.
- July 16, 2008 BWC creates an employer compliance unit. The unit will aggressively pursue businesses in Ohio operating without workers' compensation coverage to protect the health and well-being of their employees.

- July 25, 2008 BWC collects \$50 million in original principal investments related to the 2005 Coin Fund scandal through collections from asset sales and negotiated settlements.
- Aug. 8, 2008 Governor Ted Strickland announces his selections to fill three seats on the BWC Board of Directors. He re-appoints James Hummel and Larry Price, and names Thomas Pitts as a new member. All will serve three-year terms.
- Sept. 1, 2008 The Legislature enacts a new interstate jurisdiction law to help Ohio businesses operating across state lines save on future workers' compensation costs. Employers are no longer required to include employees working outside of Ohio on their payroll report if they carry workers' compensation coverage in the other states.
- Sept. 2, 2008 Robert J. Balchick, M.D., M.B.A., a bioscience, technology and health-care expert, named as BWC's medical director.
- Sept. 26, 2008 The BWC Board of Directors approves a new medical provider fee schedule. It brings Ohio's medical fee payments to marketplace standards and in line with those of other states.
- Oct. 7, 2008 BWC strengthens efforts to promote workplace safety within Ohio's group-rating program. It pairs agency safety consultants with group sponsors to assist in the development of an appropriate safety program.
- Nov. 1, 2008 The BWC Board of Directors votes to decrease premium rates for 3,900 public employers by an average of 5 percent, effective Jan. 1, 2009. Public Employer Taxing Districts represent Ohio cities, counties, townships, villages, schools and special districts.
- Dec. 1, 2008 Caren Murdock appointed as BWC's chief of internal audit. Thomas Croyle named, BWC's chief information officer. Murdock is formerly the director of internal audit and Croyle served as director of the enterprise data management section.
- Dec. 18, 2008 The BWC Board of Directors approves payment relief for Ohio employers by allowing them more time to pay premiums through the agency's 50/50 program.

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**2009**

- Jan. 23, 2009 The BWC Board of Directors approves a cap on premium increases to limit extreme cost swings for many employers. The capping plan stabilizes premiums and provides relief for small businesses.
- Jan. 29, 2009 Maria Smith appointed as chief communications officer. Smith formerly served as director of community relations.
- Feb. 19, 2009 The BWC Board of Directors hosts an open topic public forum.
- Feb. 20, 2009 The BWC Board of Directors approves a plan to create a new deductible program. The program gives employers a premium discount for taking on a degree of risk.
- Feb. 28, 2009 BWC's customer contact center holds seasonal Saturday hours for the first time. Staff provides support to Ohio employers meeting their deadline for premium payment.
- March 5, 2009 BWC and the Industrial Commission of Ohio consolidate the Springfield and Dayton customer service offices. By closing the Springfield Customer Service Office and relocating staff to the Dayton facility, 26 miles away, the agencies expect a total annual cost savings of \$1 million.
- March 13, 2009 BWC launches a series of informational, online videos on ohiobwc.com. Created for medical providers, the videos orient newly certified medical professionals with BWC's systems and processes. They also enhance their overall knowledge of the workers' compensation system.

- March 20, 2009 The BWC Board of Directors votes to decrease workers' compensation rates for non group-rated employers by up to 25.3 percent. The rate-reform plan provides a solution to the long-term challenge of ensuring premium equity among group-rated and non group-rated state-fund employers. The plan takes effect July 1, 2009.
- March 30, 2009 Ibraheem (Abe) Tarawneh, Ph.D. appointed as superintendent of the Division of Safety & Hygiene. Tarawneh oversee BWC's efforts to ensure Ohio employers and workers have access to the latest safety techniques and practices.
- April 1, 2009 BWC unveils details of the year-long comprehensive study of Ohio's workers' compensation system by Deloitte Consulting LLP. The study measures the performance of Ohio's workers' compensation system and benchmarks it against other state and private systems. Recommendations will help guide BWC's direction in the coming years.
- April 29, 2009 The BWC Board of Directors hosts a public forum on the claims-management system. The discussion centers on shifting the model from disability management to disability prevention.
- April 30, 2009 The BWC Board of Directors votes to update the state-fund investment policy statement. The State Insurance Fund investment portfolio will be comprised of 70 percent bonds and 30 percent equities.
- April 30, 2009 The BWC Board of Directors approves the creation of a Group-Retrospective-Rating Program, effective July 1. BWC believes employers will achieve better workplace safety through the performance based program.
- May 29, 2009 The BWC Board of Directors approves a premium rate decrease for Ohio state agencies, universities and university hospitals.
- May 29, 2009 The BWC Board of Directors approves an implementation strategy for diversifying both fixed and equity investments within the state insurance fund. The portfolio will remain 100 percent passively managed and comprised of 70 percent bonds and 30 percent equities. The plan also calls for the issuance of a Master Passive Index Manager Request for Proposal to select passive-investment managers to execute the new investment strategy.
- June 9, 2009 BWC introduces BWC Education on Demand. The program is a partnership with statewide business organizations and associations to deliver specialized, daylong educational opportunities for Ohio employers.
- June 12, 2009 Governor Ted Strickland re-appoints David Caldwell, Ken Haffey, Jim Matesich and Bob Smith to the BWC Board of Directors. All four members will serve three-year terms, which expire July 12, 2012.
- June 19, 2009 The BWC Board of Directors presents its annual evaluation of Administrator Marsha Ryan's performance. The board gives her an excellent/plus, citing her leadership in bringing greater parity between group- and non group-rated employer premium rates. BWC also presents strategic goals for fiscal year 2010.
- June 19, 2009 The board approves the selection of Deloitte Consulting LLC as BWC's actuarial consultant in rate making, reserving and special projects.
- June 30, 2009 Governor Ted Strickland signs BWC's operating budget for fiscal years 2010 and 2011. The budget, \$328 million for each year, funds the system that provides insurance protection to Ohio's injured work force. BWC's budget request did not include an increase in appropriation from fiscal year 2009.

**OHIO BUREAU OF WORKERS' COMPENSATION  
FY 2009 – BOARD OF DIRECTORS SELF-ASSESSMENT**

**SUMMARY OF DIRECTOR RESPONSES**

**Dated: July 31, 2009**

**Rank the following questions on a scale from 1 – 5**

**Key: 1=Room for improvement 3=Satisfied 5=Area of considerable strength**

**Note:** Following each rating table is a summary of individual director comments with respect to the rated topic.

The Governance Committee of the Board of Directors of the Ohio Bureau of Workers' Compensation (BWC) hereby submits, for consideration by the BWC Board of Directors, a summary of director responses to the self-assessment process voluntarily undertaken by the Board and related action steps. The self-assessment process included the use of a numerical rating system and input was solicited from all Board members. The summary reflects an overall numerical assessment rating for FY 2009 of 4.58 on a rating scale in which 5.0 = "Area of considerable strength" and 3.0 = "Satisfied." The overall rating for FY 2008 was 4.56 on this scale. The objective of the self-assessment process was for the Board to take time to be introspective and then use the individual Director responses to be proactive in recommending action steps in an effort to continuously improve the Board's processes and effectiveness.

**1. I believe I am well informed about the BWC's:**

	Rating
Mission and strategic plans	<b>4.7</b>
Insurance business	<b>4.3</b>
Actuarial soundness	<b>4.5</b>
Investment portfolio	<b>4.7</b>
Financial performance	<b>4.6</b>
Cumulative Rating	<b>4.6</b>

The cumulative rating for this item for FY 2008 was 4.2. The directors generally believe that the Administrator and staff are doing a very good job in providing information to the Board and are comfortable with the level of information received and that significant progress has been made in this regard on all fronts. Also noted were the responsiveness to specific questions of the Administrator and staff, as well as the helpfulness of the presentations by professionals of information and analysis to the Board. Further, the educational sessions conducted by the BWC staff and outside advisors have been very helpful to the Board. Some directors believe that the BWC could do a better job explaining the development of its strategic planning and providing insight as to how issues reach center stage and are implemented. It was also noted that improved competitive information on insurance premiums is very important.

**2. I believe the information I am sent for Board and Committee meetings is:**

	Rating
Timely	<b>4.4</b>
Complete	<b>4.1</b>
Understandable	<b>4.3</b>
Cumulative Rating	<b>4.3</b>

The cumulative rating for this item for FY 2008 was 4.3. The directors were generally very complimentary of the efforts of the Administrator and staff in providing complete and understandable information in the Committee and Board books in advance of the meetings. Although the improvements in providing information over the prior year were noted, the primary criticism centered on the timeliness of the information provided. On the one hand, given the amount of information provided and the unpredictable timing of certain issues coming before the BWC, it is understandable that some information may not be available until the meetings. On the other hand, it was noted that the most important decision-making information is usually received the latest, and that written documentation providing the rationale with respect to recommended actions is the most important information for pre-Board meeting reading, as opposed to power points, which are most helpful for in-meeting presentations. One director suggested, in order to remedy the occasions when significant parts of the board packet aren't provided for review prior to meetings, that this information be transmitted via e-mail or other appropriate means for review prior to meetings.

**3. I believe I receive information of sufficient clarity and quality to enable me to understand BWC's business and financial risks.**

Rating	<b>4.5</b>
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The rating for this item for FY 2008 was 4.2. The comments on this item echo the responses to the prior item. The directors generally believe that the information provided is of sufficient clarity to enable them to understand the business and financial risks of the BWC and that the information is of excellent quality. One director expressed a concern that, while the Committee Chairs appear to understand what is going on at the Committee meetings, there are occasions where the Committee members or the other directors in attendance at the Committee meetings may not share that understanding.

**4. I believe management's regular presentations on various aspects of the BWC's business are:**

	Rating
Clear and understandable	<b>4.3</b>
Helpful in providing an accurate picture of the BWC's performance	<b>4.3</b>
Cumulative Rating	<b>4.3</b>

The cumulative rating for this item for FY 2008 was 4.7. The directors were generally very appreciative of the ability of the Administrator and staff to present information at board and committee meetings and tailoring their presentations to bring about a level of understanding necessary for the Board to adequately comprehend the issues. The improvements in this area were noted, as was the patience of the staff in their willingness to answer questions. The educational presentations and "deep dives" presented by the Chief of Fiscal and Planning in the Audit Committees and Board meetings with respect to the Enterprise Report were seen as indicative of the commitment the staff has to helping the Board understand the intricacies of the BWC. It was further noted that receiving stakeholders' comments with rule reviews is extremely helpful and that including opposing views and/or potential negatives, where applicable, in non-rule presentations would be appreciated. It was also noted that a better job could be done in advising the Board of how the overall strategic planning of the BWC is developed and how this translates into performance.

**5. The process by which the Board evaluates the Administrator's performance works well.**

Rating*	<b>4.9</b>
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[\*Note: The 10 directors who participated in the evaluation process responded.]

The rating for this item for FY 2008 was 4.9. The directors were unanimous in the strong expression of satisfaction with the process by which the Board evaluated the performance of the Administrator for FY 2009. The process is seen as efficient and effective. In particular, the leadership of the Governance

Committee was commended, both with respect to the development of the evaluation form and the conducting of the process.

**6. I believe the rationale for proposed Board and Committee actions is adequately explained prior to action being taken.**

Rating	<b>4.3</b>
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The rating for this item for FY 2008 was 4.4. In general, the directors believe that the rationale for proposed Board and Committee actions is explained well. It was noted, however, that occasionally more time needs to be given for explanation and questions on more complicated issues. In a similar vein, it was noted that the first and second reading of motions is extremely beneficial, but there are still times when more Committee time is needed to discuss and understand an issue. Further, the importance of complete and clear documentation of the rationale for recommendations and actions was noted. One director observed that the Committee professionals are very willing to make sure the non-professional members are brought up to speed on the issues before action.

**7. The pre-meeting reading materials are generally helpful and relevant.**

Rating	<b>4.5</b>
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The rating for this item for FY 2008 was 4.5. The directors generally believe that the pre-meeting materials are helpful and relevant, subject to comments offered in connection with the items previously addressed regarding timeliness of the information provided. The thorough preparation of the staff for Board meetings is seen as a strength.

**8. I am satisfied with the conduct of Board meetings in these respects:**

	Rating
Agendas	<b>4.9</b>
Opportunity for discussion	<b>4.9</b>
Frequency	<b>4.8</b>
Cumulative Rating	<b>4.9</b>

The cumulative rating for this item for FY 2008 was 4.9. The directors strongly expressed satisfaction with the conduct of the Board meetings in terms of the agendas and the opportunity for discussion. Also commended was the leadership of Chairman Lhota and the atmosphere of mutual respect for differing views as expressed by individual directors as well as Board and Committee chairs. As to frequency of meeting, it was noted that the Board meetings are held monthly as required by HB 100; however, the point was made that the frequency of meeting is a considerable time burden on the staff. One director observed that, if progress continues to be made at the BWC, less frequent meetings is a topic that the Board may wish to revisit with the Legislature and the Governor at the appropriate time, which was suggested as five years after the passage of HB 100.

**9. Overall, I believe each of the Board's committees work well:**

	Rating
Actuarial Committee	<b>4.7</b>
Audit Committee	<b>4.7</b>
Investment Committee	<b>4.8</b>
Governance Committee	<b>4.9</b>
Cumulative Rating	<b>4.8</b>

The cumulative rating for this item for FY 2008 was 4.9. The directors were united in their strong expression of belief that each of the Board's committees work well. It was specifically mentioned that the committees under the leadership of the professionals work well and the collegial nature of the members is excellent in fulfilling the fiduciary responsibilities of the members of the Committees and Board. Also commended was the high standard of committee process and work that is evident among all committees. One director expressed satisfaction with the changes to realign committee responsibilities, noting that Audit is now able to spend more time on substantive audit and financial issues and that the Governance Committee has dedicated substantial additional time to rules review. The consensus was that all of the committees are well run and the cross-participation provides synergy between the committees. One director noted that the Administrator's suggestion for an additional committee or sub-committee to focus just on the delivery of medical services is an excellent idea that should be explored.

**10. I believe the Board's review of the BWC's audit, audit process, accounting policies and financial statements enables me to gain a clear picture of the state of BWC's overall health.**

Rating	4.5
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The rating for this item for FY 2008 was 4.3. The directors generally believe that the Board is receiving the right level of information and conducting the right level of discussion on financial and audit issues. Several directors commented that the chief financial officer's reports and explanations provided a good comfort level in respect to understanding the financial position of the BWC. It was also noted that there is commendable transparency in the reports given on BWC's financial position and that questions that arise are addressed immediately. The improvement in the format and content of the Enterprise Report was also noted. One director warned against complacency and expressed the belief that, although the Board members are in a better place than they were when the Board started, the emphasis on continual education should not be forgotten.

**11. Overall, I believe I am provided the resources and tools I need to effectively exercise my fiduciary and oversight responsibilities.**

Rating	4.5
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The rating for this item for FY 2008 was 4.5. The directors were generally united in their satisfaction that they are provided the resources and tools needed to effectively exercise their fiduciary and oversight responsibilities. Good information in advance and strong dialogue during our meetings were noted as particular strengths. One director noted that it would be helpful to have more informal interaction with staff, to get to know some of the people better and to better understand how each person contributes to the Board's work; it was also noted that this is a developing process.

**12. Overall, I believe the Board makes the appropriate use of the skills and experience of its members.**

Rating	4.6
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The rating for this item for FY 2008 was 4.7. The directors were generally of the strong belief that the Board makes appropriate use of the skills and experience of its members. The diversity of experience and expertise represented on the Board was noted, as well as the balance and strength that those qualities bring to the Board, all of which ultimately benefit Ohio's employers and workers. The ability of Chairman Lhota to promote a culture of openness for all Board members to provide input and create a constructive dialogue for sound and fully informed decision-making was commended. At least one director believes that this is a developing process that is headed in the right direction, but that more could be done.

**13. Overall, I believe the Board engages in full and candid discussions of the issues before it and personally feel comfortable expressing my views at Board and Committee meetings.**

Rating	4.9
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The rating for this item for FY 2008 was 4.9. The directors were unified in their belief that the Board engages in full and candid discussions of the issues before it. The directors were unanimous in stating that they personally felt comfortable expressing their views at Board and Committee meetings. This was noted as being a strength of the Board. Also noted was that attendance at Board and Committee meetings has been exceptional.

**14. If there is one change I would make, it is . . .**

Some directors expressed that they did not see the need for any changes at this time. Others expressed specific comments, as follows:

- We need to address the perception that the Board is too responsive to staff recommendations.
- More frequent public hearings.
- Improvement in the follow-up and updates to the Board as a result of the public hearings, including the actions that staff has taken regarding the issues raised during these hearings.
- Having the opportunity during the Board's open forums to interact with the presenters rather than just listen to their remarks. The open forums would be much more effective if Board members could ask questions and engage in dialogue with the presenters.
- If and when the Board decides to implement selective active management in the investment portfolio, we will need to provide for additional time for the Investment Committee to be educated, review performance and discuss critical investment options. The work in the Committees is detailed and intensive.
- The Committee Chairs seem to have information that the rest of the Committee doesn't have, although this may be understandable as the Committee Chairs have to be informed prior to Committee meetings.

Recommendations – Specific Follow-Up Action Steps

After a review and discussion of the summary results, the Governance Committee recommends that the Board affirm the following action steps:

1. The Board would encourage the Committee Chairs to include in their reports at the Board meetings a more fulsome summary of the matters discussed at the meetings, including information regarding the approximate length of the meeting and the number of non-Committee directors in attendance as well as a summary of the matters addressed with detail, where appropriate, indicating which items spurred robust discussion and providing summaries of those discussions. Further, it is encouraged that the Board minutes reflect this information with respect to each Committee report presented. As a substantial amount of time and effort is devoted by the directors and staff to the affairs of the BWC in Committee meetings, and as many non-Committee Board members are in attendance at the Committee meetings, the purpose of the foregoing recommendations is to provide more clarity and transparency as respects the contributions of the Committee deliberations to the overall decision-making process of the Board.

2. The Board would encourage continued attention to timely delivery of materials to the directors prior to Board and Committee meetings, and would recommend to the Administrator that Board materials that are not included with the monthly Board book due to timing constraints be transmitted to the directors at the earliest possible time thereafter via fax, email or other expedited means when and if appropriate.

3. The Board would encourage, at the public forums, interaction by the directors with the presenters where appropriate, such as asking of questions and engaging in dialogue, while keeping in mind the time limitations with respect to individual presenters.

4. The Board would encourage, at Committee meetings where technical information is being presented, that the presenters who are professionals in the area being discussed (e.g., actuarial, investments, audit) use terminology that is readily understandable to the directors in attendance who are not professionals in that area or, if technical terminology is used, to clearly define those technical terms to promote better understanding and more clarity in these presentations.

**Net Asset Policy**  
**Ohio Bureau of Workers' Compensation**  
**Board of Directors**  
**July 31, 2009**

BWC requires a prudent level of net assets to protect the fund against financial and operational risks that may threaten the ability to meet future obligations. These financial and operational risks include, but are not limited to, the following:

- Uncertainty in the ultimate amount and timing of future payments on known claims;
- Legislative and court actions that may affect future operations;
- Substantial catastrophic events, either through acts of nature or acts of man;
- Significant market fluctuations resulting in material changes in the valuation of the investment portfolio; and
- Economic factors impacting BWC's ability to collect premiums.

In an effort to maintain a solvent and stable state fund, BWC should maintain a sufficient level of net assets to handle these risks.

**Business Rationale**

- Adoption of a net asset policy will enable the organization to maintain prudent funded net assets to support the financial strength of the State Insurance Fund and maintain stability in premium costs.
- Adoption of a net asset policy will enable the organization to fulfill the statutory requirements of maintaining a solvent state fund while keeping premiums as low as possible.
- Adoption of a net asset policy with guidelines provides flexibility in decision-making with respect to options such as premium credits or surcharges.

**Methodology**

- Should use methodology supported by customized metrics to calculate key results used in measuring funding adequacy.
  - Funding Ratio is defined as funded assets divided by funded liabilities (funded assets= cash, investments, and current receivables less deposits and current payables; funded liabilities=reserves for unpaid claims and

- funded claim expenses, excluding any risk margin, discounted at a rate as approved by the Board of Directors).
- Net Leverage Ratio is premium income plus reserves for compensation and compensation adjustment expense divided by net assets.

### **Guiding Principles**

- Sound fiscal principles would dictate the need to maintain sufficient assets to meet current and future obligations. Therefore, as a matter of policy, the minimum guideline for a funding ratio should never be below 1.00.
- Should reflect the unique characteristics of the Ohio system. We have less stress on premiums and have more flexibility on the level of liabilities than a private carrier. The guidelines also reflect the statutory obligation to maintain a solvent fund with the lowest possible premiums.

### **The Net Asset policy**

- Should incorporate the concept of ranges to be responsive to changes and to maintain a degree of stability in operating results over time.
- Should incorporate appropriate options for premium credits or surcharges, if metrics indicate excessive or inadequate financial reserves.
- Should enable BWC to make limited peer comparisons.
- Should be tailored to each fund where a material amount of a fund's obligations are funded, as opposed to pay-as-you-go (Pay-as-you-go funds include the DWRF I and II, SIEGF and ACF).
- Should include consideration of risks associated with estimates inherent in financial reporting including, but not limited, to medical inflation, discount rate, and portfolio market valuation.

The following steps should be taken when establishing guidelines for the funding ratio and net leverage ratio:

1. The Administrator, with approval from the BWC Board of Directors, should establish guidelines for a Funding Ratio and a Net Leverage Ratio.
2. The guidelines for a Funding Ratio and a Net Leverage Ratio should be monitored as a component of the monthly Enterprise Report (or comparable financial report).
3. Deviations from the established guidelines shall be reported monthly and evaluated at least annually. At least annually, the Administrator, in conjunction with the appropriate senior executives, should prepare a recommendation to address variations from the guidelines.

4. The Administrator shall present these recommendations to the Board of Directors for review and approval.
5. The Board of Directors shall review guidelines for the Funding Ratio and Net Leverage Ratio on an annual basis.

**On July 31, 2009, the Board of Directors considered the Administrator's recommendation for a funding ratio guideline between 1.02-1.35 and a net leverage ratio guideline between 3.0:1 and 8.0:1.**

### **Policy Guidelines**

Review Date	Funding Ratio Guideline	Net Leverage Ratio Guideline
July 31, 2009		

### **Historical State Insurance Fund Information\***

FY Ended June 30	Net Assets (in millions)	Funding Ratio	Net Leverage Ratio
2000	\$6,644,827	1.552	2.1555
2001	\$4,643,351	1.373	3.1594
2002	\$1,886,585	1.148	8.3538
2003	\$417,937	1.029	39.8767
2004	\$644,444	1.044	26.4196
2005	\$507,491	1.038	34.4908
2006	\$1,278,845	1.091	13.5202
2007	\$2,080,045	1.144	8.2621
2008	\$2,206,923	1.152	7.9323
Policy Guidelines 2009			

\*Net asset policy with Guidelines adopted by the Board of Directors in 2009. Data previous to 2009 is for historical purposes only.