Enterprise Report

September 2009

Ohio | Bureau of Workers' Compensation

Enterprise Report

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

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

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

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

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

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

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

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

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

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

August Financial Analysis

BWC's net assets increased by $383 million in August resulting in net assets of $3.5 billion at August 31, 2009 compared to $3.1 billion at July 31, 2009.

($ in millions)	**Fiscal YTD** July 31, 2009	**Month Ended** Aug. 31, 2009	**Fiscal YTD** Aug. 31, 2009
Operating Revenues	$168	$198	$366
Operating Expenses	(205)	(180)	(385)
Operating Transfers to ODNR & WCC	–	–	–
Net Operating Gain (Loss)	(37)	18	(19)
Net Investment Income (Loss)	532	365	897
Increase (Decrease) in Net Assets	495	383	878
Net Assets End of Period	$3,110	$3,493	$3,493

- Premium and assessment income of $201 million net of a $3 million provision for uncollectible accounts receivable resulted in operating revenues of $198 million in August.

- Benefits and compensation adjustment expenses of $174 million along with other expenses of $6 million resulted in operating expenses of $180 million in August.

- A $279 million increase in portfolio market value in August along with interest and dividend income of $86 million for the month, resulted in a net investment income of $365 million for the month after investment expenses. The increase in portfolio market value is comprised of $28 million in net realized gains and $251 million in net unrealized gains.

- Cash and cash equivalents include almost $1 billion in money market holdings in the outside investment manager accounts. These funds are committed to covering a $902 million net investment trade payable for transactions that will settle in September.

- Private employer premium payments for the six month policy period ended June 30, 2009 contributed to premium and assessment receipts of $499 million in August. Collections in August 2009 were 5.7 percent less than collections in August 2008, reflecting the 5 percent decrease in private employer rates effective for the policy period beginning July 1, 2008.

- Claim payments issued in August were $151 million compared to $159 million in July. July payments included $4 million in Ohio Hospital Association (OHA) settlement payments. Payments made in claim settlements and percent permanent partial (%PP) awards were approximately $3 million less in August compared to July payments.

Fiscal Year-to-Year Comparisons

BWC's total net assets have increased by $878 million for fiscal year-to-date 2010 resulting in net assets of $3.5 billion at August 31, 2009 compared to $2.5 billion at August 31, 2008.

($ in millions)	**Fiscal YTD** Aug. 31, 2009	**Projected FYTD** Aug. 31, 2009	**Fiscal YTD** Aug. 31, 2008
Operating Revenues	$366	$371	$365
Operating Expenses	(385)	(400)	(484)
Operating Transfer Out	–	(1)	(2)
Net Operating Gain (Loss)	(19)	(30)	(121)
Net Investment Income (Loss)	897	140	120
Increase (Decrease) in Net Assets	878	110	(1)
Net Assets End of Period	$3,493	$2,725	$2,503

- o BWC's operating revenues for fiscal year-to-date 2010 are $366 million compared to $365 million for the same period last year. Decreases in premium rates for private and state agency employers effective July 1, 2009 are off-set by increased unbilled receivables for DWRF and SIEGF.

- o Benefit and compensation adjustment expenses decreased by $96 million for fiscal year-to-date 2010 primarily due to a decrease in the change in reserves for compensation and compensation adjustment expenses. The reserves have increased $12 million in 2010 compared to $95 million in 2009. Net benefit payments have declined by $10 million primarily as a result of decreased claims settlements.

- o BWC's net investment income for fiscal year-to-date 2010 totaled $897 million, comprised of $103 million in net realized losses and $845 million in net unrealized gains, along with $156 million of interest and dividend income net of $771 thousand in investment expenses.

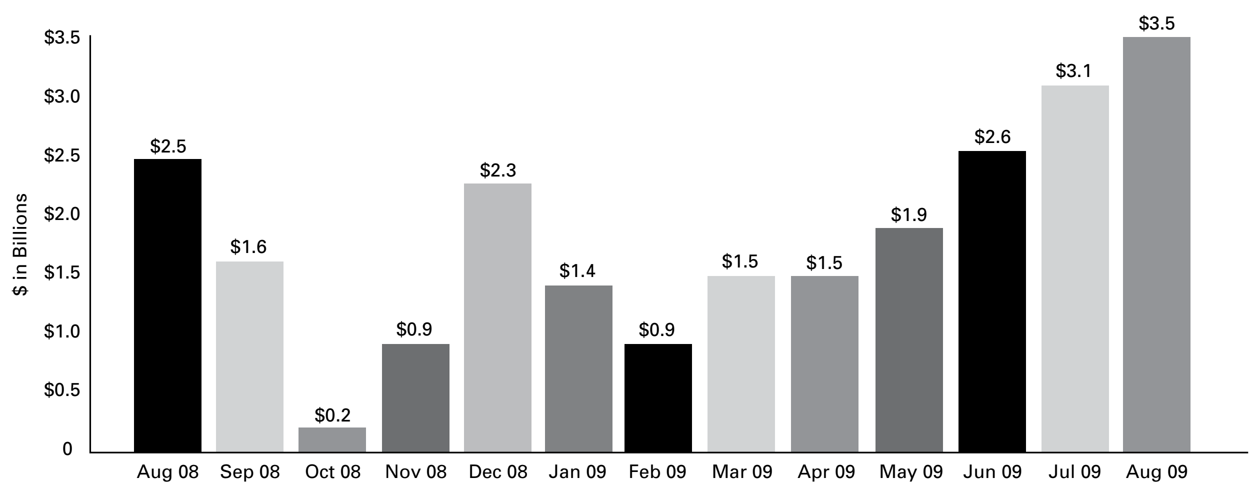
- o Fiscal year-to-date 2010 premium collections are $36 million less than projected at least partially due to differences in the timing of actual cash receipts as September collections have already exceeded projected amounts. Fiscal year-to-date 2010 premium collections are $44 million less than prior fiscal year-to-date, reflecting last year's 5 percent decrease in private employer premium rates.

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

- o Approximately 38,000 or 15.1 percent of private employers were lapsed effective September 1, 2009 due to untimely reporting and payment of premiums for the January 1 through June 30, 2009 coverage period. The percentage of employers lapsing is down from 16.6 percent for each of the last two collection cycles.

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

Net Assets

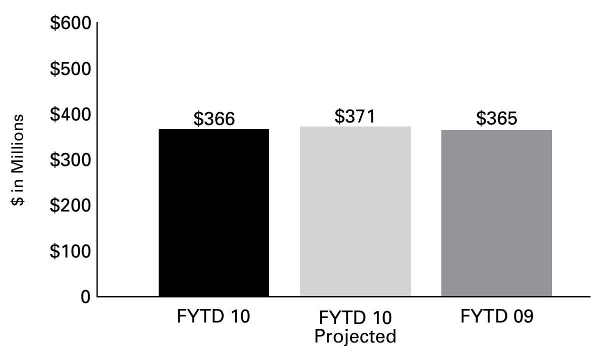


Statement of Operations

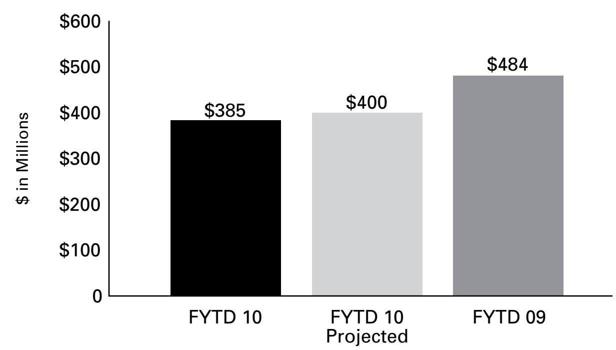
Fiscal year to date August 31, 2009

(in millions)	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
Operating Revenues					
Premium & Assessment Income	$384	$381	$3	$377	$7
Provision for Uncollectibles	(18)	(10)	(8)	(12)	(6)
Other Income	–	–	–	–	–
Total Operating Revenue	366	371	(5)	365	1
Operating Expenses					
Benefits & Compensation Adj. Expense	373	385	12	469	(96)
Other Expenses	12	15	3	15	(3)
Total Operating Expenses	385	400	15	484	(99)
Operating Transfers	–	(1)	1	(2)	2
Net Operating Gain (Loss)	(19)	(30)	11	(121)	102
Net Investment Income (Loss)	897	140	757	120	777
Increase (Decrease) in Net Assets	$878	$110	$768	$(1)	$879

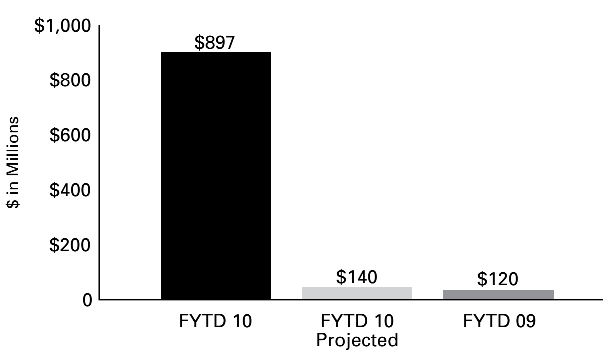
Operating Revenues



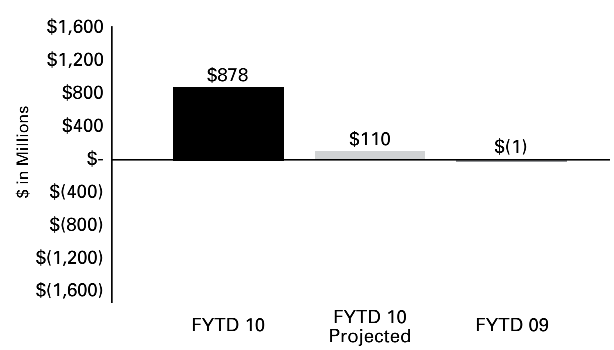
Operating Expenses



Net Investment Income (Loss)



Change in Net Assets



Statement of Operations – Combining Schedule

Fiscal year to date August 31, 2009

(in thousands)

	State Insurance Fund Account	Disabled Workers' Relief Fund Account	Coal–Workers Pneumoconiosis Fund Account	Public Work Relief Employees' Fund Account	Marine Industry Fund Account	Self–Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Totals
Operating Revenues:								
Premium & Assessment Income	$294,921	$25,562	$261	$37	$67	$7,142	$55,666	$383,656
Provision for Uncollectibles	(25,720)	7,410	–	–	–	219	395	(17,696)
Other Income	65	–	–	–	–	–	344	409
Total Operating Revenues	269,266	32,972	261	37	67	7,361	56,405	366,369
Operating Expenses:								
Benefits & Compensation Adj Expenses	298,836	34,200	168	(1)	34	7,108	32,294	372,639
Other Expenses	3,009	26	10	–	19	–	9,140	12,204
Total Operating Expenses	301,845	34,226	178	(1)	53	7,108	41,434	384,843
Net Operating Income (Loss) before Operating Transfers Out	(32,579)	(1,254)	83	38	14	253	14,971	(18,474)
Operating Transfers Out	(46)	–	–	–	–	–	(167)	(213)
Net Operating Income (Loss)	(32,625)	(1,254)	83	38	14	253	14,804	(18,687)
Investment Income:								
Investment Income	141,578	10,738	2,288	–	–	20	1,037	155,661
Net Realized Gains (Losses)	(103,576)	963	84	–	–	–	–	(102,529)
Net Unrealized Gains (Losses)	781,140	51,831	11,170	540	403	–	–	845,084
Total Realized & Unrealized Capital Gains (Losses)	677,564	52,794	11,254	540	403	–	–	742,555
Investment Manager & Operational Fees	(696)	(47)	(26)	(1)	(1)	–	–	(771)
Gain (Loss) on Disposal of Fixed Assets	–	–	–	–	–	–	(196)	(196)
Total Non–Operating Revenues, Net	818,446	63,485	13,516	539	402	20	841	897,249
Increase (Decrease) in Net Assets (Deficit)	785,821	62,231	13,599	577	416	273	15,645	878,562
Net Assets (Deficit), Beginning of Period	2,274,488	838,541	166,383	19,406	15,570	6,935	(706,999)	2,614,324
Net Assets (Deficit), End of Period	$3,060,309	$900,772	$179,982	$19,983	$15,986	$7,208	$(691,354)	$3,492,886

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 August 31, 2009

(in thousands)

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
Investment Income					
Bond Interest	$140,265	$108,820	$31,445	$180,114	$(39,849)
Dividend Income–Domestic & International	14,473	12,980	1,493	11,827	2,646
Money Market/Commercial Paper Income	363	832	(469)	1,334	(971)
Misc. Income (Corp Actions, Settlements)	560	800	(240)	293	267
Total Investment Income	155,661	123,432	32,229	193,568	(37,907)
Realized & Unrealized Capital Gains and (Losses)					
Bonds – Net Realized Gains (Losses)	(91,573)	–	(91,573)	(3,806)	(87,767)
Stocks – Net Realized Gains (Losses)	(10,956)	–	(10,956)	(3,513)	(7,443)
International Equity – Net Realized Gains (Losses)	–	–	–	–	–
Subtotal – Net Realized Gains (Losses)	(102,529)	–	(102,529)	(7,319)	(95,210)
Bonds – Net Unrealized Gains (Losses)	448,631	–	448,631	(76,516)	525,147
Stocks – Net Unrealized Gains (Losses)	398,410	17,240	381,170	10,989	387,421
International Equity – Net Unrealized Gains (Losses)	(1,957)	–	(1,957)	–	(1,957)
Subtotal – Net Unrealized Gains (Losses)	845,084	17,240	827,844	(65,527)	910,611
Change in Portfolio Value	742,555	17,240	725,315	(72,846)	815,401
Investment Manager & Operational Fees	(771)	(1,004)	233	(625)	146
Net Investment Income (Loss)	$897,445	$139,668	$757,777	$120,097	$777,348

Administrative Cost Fund Expense Analysis

August 2009

- o BWC Administrative Cost Fund expenses are approximately $7.9 million (16.03%) less than budgeted and approximately 4% more than last fiscal year.
- o Decreases in payroll, including Customer Service, Infrastructure and Technology, Special Investigations and Communications are due to a decrease in staff as a result of hiring controls implemented by OBM and a July payroll period not requiring health care premium payments.
- o The timing of the receipt of invoices for payment in fiscal year 2010 caused actual expenditures to be less than the amount budgeted in August. Timelier processing of payments for special counsel and fees paid to the Attorney General in fiscal year 2010 led to an increase in Personal Service. The first payment for William Green Building rent will be made in September.
- o Identification of additional costs savings, a payroll period not requiring health care premium payments in July and approved projects awaiting final cost estimates led to a reduction in the fiscal year 2010 budget as of August.
- o BWC's current fiscal year 2010 budget is approximately $31.5 million (9.6%) less than appropriated by the General Assembly.

Administrative Cost Fund Budget Summary

As of August 31, 2009

Expense Description	FTE's	Actual FY10	Budgeted FYTD10	FYTD10 Variance	FYTD10 Percentage Variance	FY10 Budget	FYTD09 Expenses	Increase (Decrease) in FY10	FYTD10 Percentage Increase (Decrease)
Payroll									
BWC Board of Directors	12	142,504	142,504	0	0.00%	774,875	163,441	(20,937)	-12.81%
BWC Administration	13	248,439	248,439	0	0.00%	1,594,938	146,149	102,290	69.99%
Customer Service	1,452	19,910,879	19,938,874	27,995	0.14%	109,958,714	21,817,851	(1,906,972)	-8.74%
Medical	131	2,080,272	2,080,521	249	0.01%	11,615,191	2,053,830	26,442	1.29%
Special Investigations	133	1,925,446	1,926,040	594	0.03%	10,825,446	2,176,053	(250,607)	-11.52%
Fiscal and Planning	69	947,961	953,244	5,283	0.55%	5,118,600	917,103	30,858	3.36%
Actuarial	24	376,615	375,979	(636)	-0.17%	2,384,312	318,361	58,254	18.30%
Investments	11	234,035	234,359	324	0.14%	1,342,984	220,378	13,657	6.20%
Infrastructure & Technology	303	5,264,496	5,300,109	35,613	0.67%	29,614,578	5,785,475	(520,979)	-9.00%
Legal	78	1,260,014	1,260,014	0	0.00%	7,003,892	1,267,282	(7,268)	-0.57%
Communications	21	306,478	306,946	468	0.15%	1,689,935	558,834	(252,356)	-45.16%
Human Resources	62	951,592	951,636	44	0.00%	5,294,171	1,064,376	(112,784)	-10.60%
Internal Audit	14	248,594	248,594	0	0.00%	1,332,697	257,971	(9,377)	-3.63%
Ombuds Office	8	105,135	105,135	0	0.00%	587,915	97,307	7,828	8.04%
Total Payroll	2,331	34,002,460	34,072,394	69,934	0.21%	189,138,248	36,844,411	(2,841,951)	-7.71%
Personal Services									
Information Technology		447,505	1,450,923	1,003,418	69.16%	8,574,145	427,372	20,133	4.71%
Legal - Special Counsel		1,764	252,500	250,736	99.30%	1,515,000	82	1,682	2051.22%
Legal - Attorney General		1,007,745	1,155,463	147,718	12.78%	4,621,850	0	1,007,745	100.00%
Other Personal Services		428,361	1,128,837	700,476	62.05%	7,058,983	412,009	16,352	3.97%
Total Personal Services		1,885,375	3,987,723	2,102,348	52.72%	21,769,978	839,463	1,045,912	124.59%
Maintenance									
William Green Rent		0	0	0	0.00%	19,871,795	0	0	0.00%
Other Rent and Leases		2,367,846	2,811,366	443,520	15.78%	13,754,639	2,161,326	206,520	9.56%
Software and Equipment Maintenance and Repairs		1,416,429	3,087,114	1,670,685	54.12%	18,539,264	1,223,367	193,062	15.78%
Inter Agency Payments		572,440	675,954	103,514	15.31%	3,676,023	454,297	118,143	26.01%
Communications		512,088	1,170,596	658,508	56.25%	6,852,637	732,866	(220,778)	-30.13%
Safety Grants and Long Term Care Loan		77,879	1,333,334	1,255,455	94.16%	6,000,000	302,469	(224,590)	-74.25%
Supplies and Printing		90,478	553,958	463,480	83.67%	3,384,877	205,002	(114,524)	-55.86%
Other Maintenance		487,959	641,167	153,208	23.90%	3,959,945	468,068	19,891	4.25%
Total Maintenance		5,525,119	10,273,489	4,748,370	46.22%	76,039,180	5,547,395	(22,276)	-0.40%
Equipment		15,630	1,004,939	989,309	98.44%	10,316,835	4,028	11,602	288.03%
Total Administrative Cost Fund Expenses		41,428,584	49,338,545	7,909,961	16.03%	297,264,241	43,235,297	(1,806,713)	-4.18%

Total Agency Appropriation	328,821,765
Budget to Appropriation Variance	31,557,524
Percentage Variance	9.60%

State Insurance Fund
Administrative Expense Summary

As of August 31, 2009

	Actual FYTD 2010	Encumbrance Balance	FYTD Actual & Encumbrance	Encumbrance Closing Date	Actual FYTD 2009
Investment Administrative Expenses					
UBS Securities LLC	$0	$0	$0	6/30/08	$0
JP Morgan Chase - Performance Reporting	5,792	2,959	8,751	6/30/08	11,083
Mercer Investment Consulting	39,583	496,910	536,493	6/30/10	79,166
Other Investment Expenses	93,548	465,488	559,036	6/30/10	12,972
	138,923	965,357	1,104,280		103,221
Actuarial Expenses					
Mercer Oliver Wyman	22,403	858,959	881,362	12/31/09	179,506
Oliver Wyman Consulting	82,556	1,336,390	1,418,946	12/31/09	0
Deloitte Consulting LLP	0	4,547,067	4,547,067	12/31/11	816,817
Shoenfelt Consulting	6,370	5,550	11,920	3/31/09	0
	111,329	6,747,966	6,859,295		996,323
Ohio Rehabilitation Services	0	0	0	6/30/09	605,407
TOTAL	$250,252	$7,713,323	$7,963,575		$1,704,951

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.

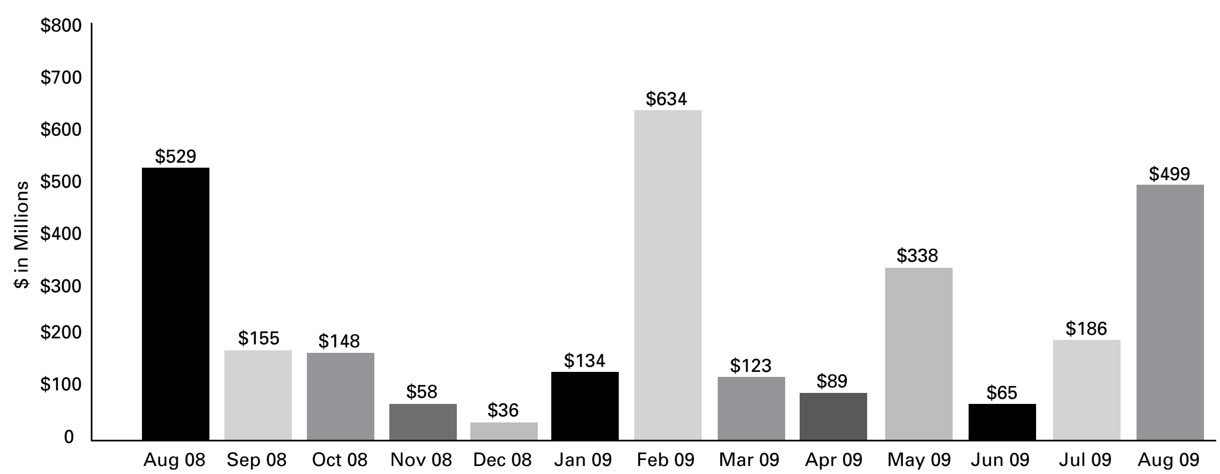
Statement of Cash Flows

Fiscal year to date August 31, 2009

(in millions)

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
Cash Flows from Operating Activities:					
Cash Receipts from Premiums	$685	$721	$(36)	$729	$(44)
Cash Receipts – Other	8	6	2	4	4
Cash Disbursements for Claims	(338)	(347)	9	(360)	22
Cash Disbursements for Other	(67)	(72)	5	(85)	18
Net Cash Provided (Used) by Operating Activities	288	308	(20)	288	–
Net Cash Flows from Noncapital Financing Activities	–	(1)	1	(2)	2
Net Cash Flows from Capital and Related Financing Activities	(1)	–	(1)	–	(1)
Net Cash Provided (Used) by Investing Activities	931	–	931	66	865
Net Increase (Decrease) in Cash and Cash Equivalents	1,218	307	911	352	866
Cash and Cash Equivalents, Beginning of Period	504	504	–	378	126
Cash and Cash Equivalents, End of Period	$1,722	$811	$911	$730	$992

Premium and Assessment Receipts



Statement of Net Assets

As of August 31, 2009

(in millions)	Actual	Prior Yr. Actual	Year to Year Increase (Decrease)
Assets			
Bonds	$13,092	$13,804	$(712)
Stocks	3,974	3,190	784
International Equities	356	–	356
Private Equities	–	3	(3)
Cash & Cash Equivalents	1,722	730	992
Total Cash and Investments	19,144	17,727	1,417
Accrued Premiums	4,318	4,157	161
Other Accounts Receivable	220	249	(29)
Investment Receivables	856	188	668
Other Assets	106	118	(12)
Total Assets	24,644	22,439	2,205
Liabilities			
Reserve for Compensation and Compensation Adj. Expense	$19,258	$19,530	$(272)
Accounts Payable	85	81	4
Investment Payable	1,613	76	1,537
Other Liabilities	195	249	(54)
Total Liabilities	21,151	19,936	1,215
Net Assets	$3,493	$2,503	$990

Statement of Net Assets – Combining Schedule

As of August 31, 2009

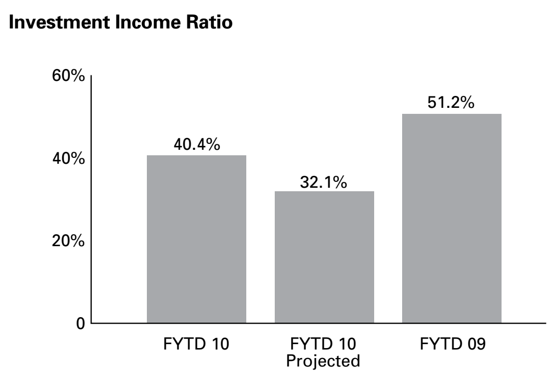
(in thousands)

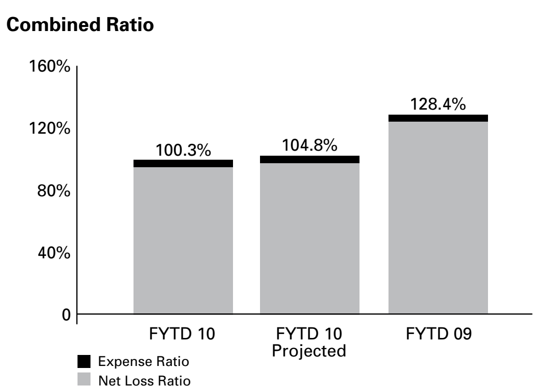
	State Insurance Fund Account	Disabled Workers' Relief Fund Account	Coal–Workers Pneumoconiosis Fund Account	Public Work Relief Employees' Fund Account	Marine Industry Fund Account	Self–Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Eliminations	Totals
Assets									
Bonds	$11,948,983	$ 907,775	$ 194,125	$ 23,545	$ 17,592	$ –	$ –	$ –	$13,092,020
Stocks	3,679,519	243,316	51,198	–	–	–	–	–	3,974,033
International Equities	355,760	–	–	–	–	–	–	–	355,760
Private Equities	52	–	–	–	–	–	–	–	52
Cash & Cash Equivalents	1,661,359	6,291	1,809	248	180	51,496	982	–	1,722,365
Total Cash & Investments	$17,645,673	$ 1,157,382	$ 247,132	$ 23,793	$ 17,772	$ 51,496	$ 982	$ –	$19,144,230
Accrued Premiums	1,781,085	1,592,891	–	151	–	723,351	219,882	–	4,317,360
Other Accounts Receivable	150,103	21,247	(8)	29	5	(355)	49,006	–	220,027
Interfund Receivables	12,970	63,947	263	–	178	4,263	137,388	(219,009)	–
Investment Receivables	819,361	30,933	5,388	–	–	9	–	–	855,691
Other Assets	25,218	22	–	–	–	–	81,147	–	106,387
Total Assets	$20,434,410	$ 2,866,422	$ 252,775	$ 23,973	$ 17,955	$ 778,764	$ 488,405	$ (219,009)	$24,643,695
Liabilities									
Reserve for Compensation & Compensation Adj. Expense	$15,397,000	$ 1,936,748	$ 68,598	$ 3,970	$ 1,706	$ 769,128	$1,081,000	$ –	$19,258,150
Accounts Payable	84,704	–	–	–	–	–	81	–	84,785
Investment Payable	1,592,081	17,793	3,321	–	–	–	–	–	1,613,195
Interfund Payables	205,438	10,994	104	16	29	2,428	–	(219,009)	–
Other Liabilities	94,878	115	770	4	234	–	98,678	–	194,679
Total Liabilities	17,374,101	1,965,650	72,793	3,990	1,969	771,556	1,179,759	(219,009)	21,150,809
Net Assets	$ 3,060,309	$ 900,772	$ 179,982	$ 19,983	$ 15,986	$ 7,208	$ (691,354)	$ –	$ 3,492,886

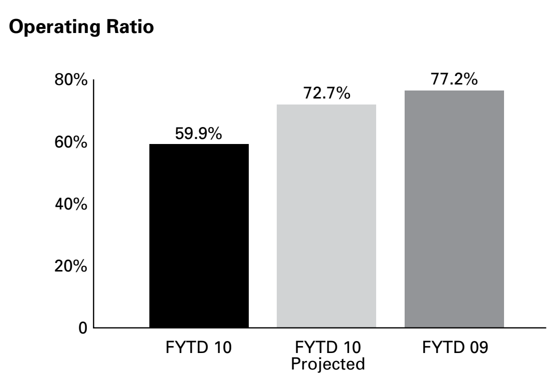
Financial Performance Metrics

	Actual FY10 As of 8/31/09	Projected FY10 As of 8/31/09	Actual FY09 As of 8/31/08	Guidelines
Funding Ratio (State Insurance Fund)	**1.21**	**1.17**	**1.15**	**1.02 to 1.35**
Net Leverage Ratio (SIF)	**5.13**	**6.71**	**7.31**	**3.0 to 8.0**
Loss Ratio	81.2%	82.1%	103.2%	
LAE Ratio - MCO	7.3%	7.5%	8.7%	
LAE Ratio - BWC	8.6%	11.4%	12.6%	
Net Loss Ratio	97.1%	101.0%	124.5%	120.0%
Expense Ratio	3.2%	3.8%	3.9%	5.0%
Combined Ratio	100.3%	104.8%	128.4%	125.0%
Net Investment Income Ratio	40.4%	32.1%	51.2%	
Operating Ratio (Trade Ratio)	59.9%	72.7%	77.2%	100.0%

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

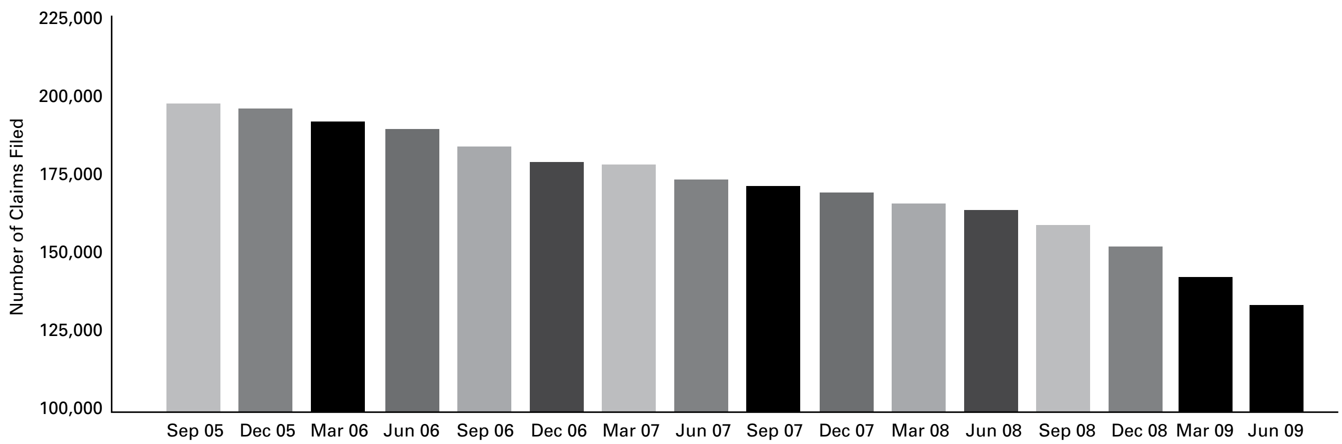




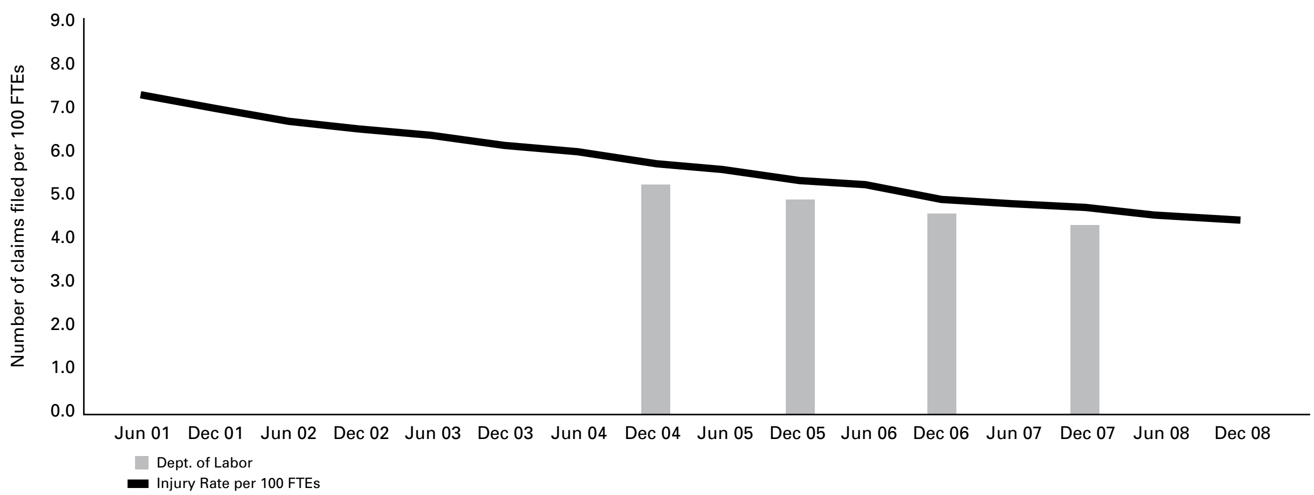


Operational Performance Metrics

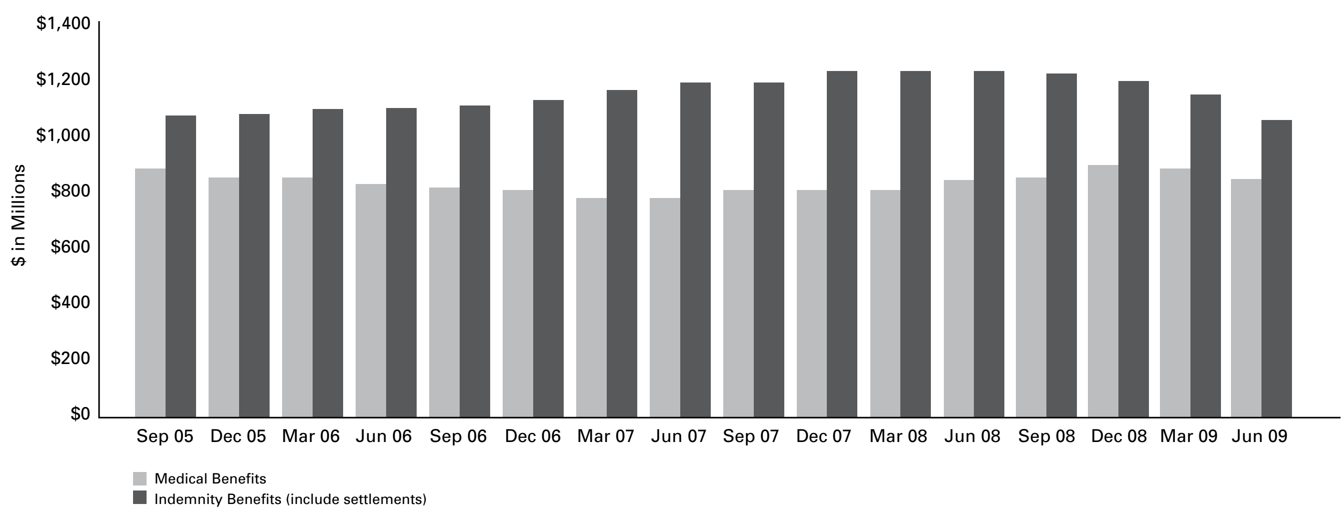
New Claims Filed - *Twelve months ended*



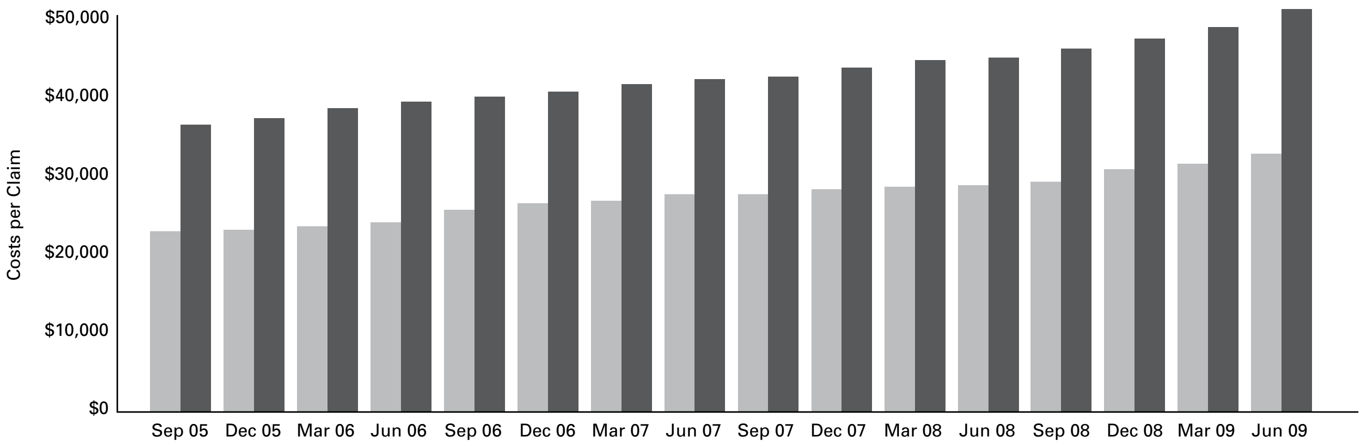
Frequency - *Reported semi-annually*



Benefit Payments - *Twelve months ended*



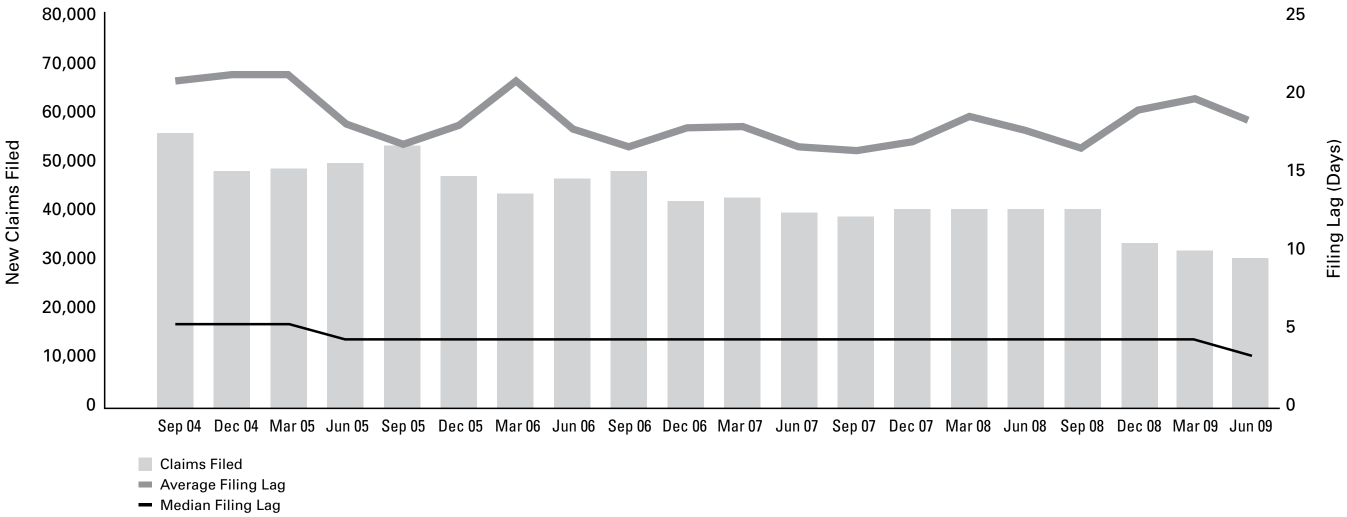
Severity



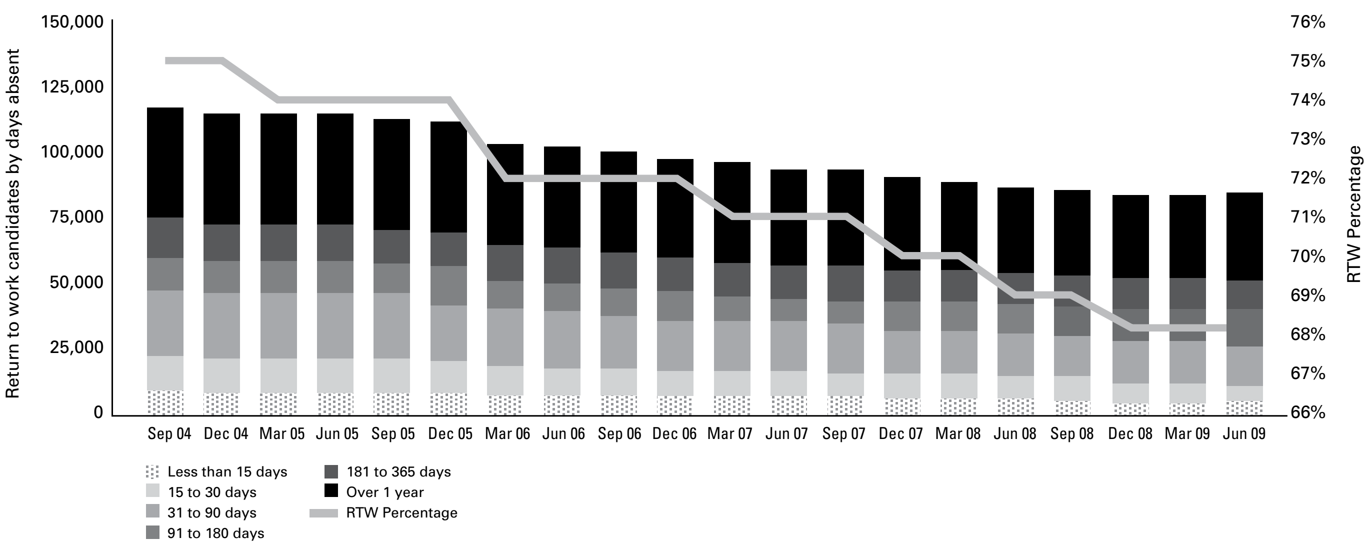
Medical on Lost Time
Indemnity on Lost Time

Medical on Medical Only claims has increased from $1,040 to $1,164 during this time period.
Indemnity payments exclude settlements.

Claim Filing Lag



Return to work

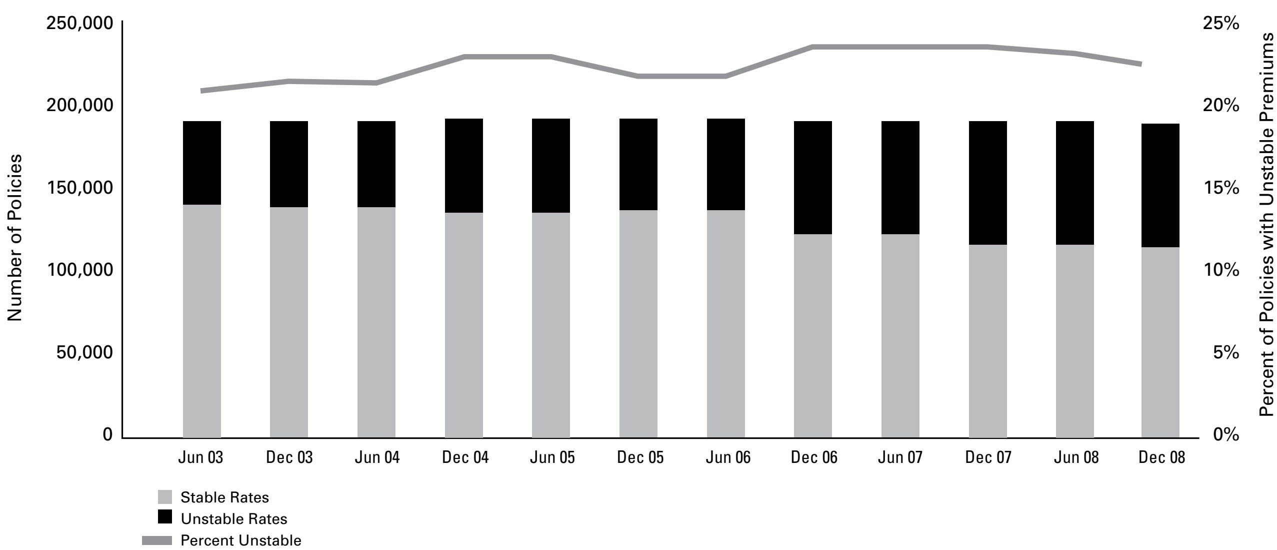


Aggregate Reported Payroll – *Twelve Months Ending*

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

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

Premium Stability



Performance Metrics Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Legislative Affairs Update
Prepared for the BWC Board of Directors
September 25, 2009

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

1. Summary of HB 249—As Introduced

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

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

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

Background

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

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

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

BWC Policy

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

Effect of Proposed Legislation

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

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

2. **Summary of SB 94—As Introduced**

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

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

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

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

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

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

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

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

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

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

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

This bill has not yet been assigned to committee.

Issues of Interest: Mandatory Reports

Sub. HB 79 (127th GA)—Un-codified provisions of this bill require the Administrator to examine the group rating program and make a plan to address the equity and adequacy of workers' compensation premiums for Ohio employers. This plan, in the form of a report, must be provided to House and Senate leadership and the Workers' Compensation Council by Sept. 15, 2009. Accordingly, copies of the report were forwarded to members of the General Assembly and the Workers' Compensation Council and posted on our web site last week.

Sub. HB 100 (127th GA)—Un-codified provision 512.50 requires the Administrator to provide a summary of the reviews of this section (independent actuarial review) and to present recommendations based on the review to the General Assembly, the Board of Directors and the Workers' Compensation Council. This written summary was forwarded to those parties and posted on our web site this week.

Administrator Ryan delivered oral remarks addressing both mandatory reporting requirements to the Workers Compensation Council on Wednesday of this week.

General Assembly—Committee and Session Schedule—September/October 2009

September 2009	**Senate**	**House**
Sep. 17	Committee Hearings	Committee Hearings
Sep. 22	Session	Session
Sep. 23	Session	Session
Sep. 24	Committee Hearings	Committee Hearings
Sep. 29	Session	Session
Sep. 30	Session	Session
October 2009	**Senate**	**House**
Oct. 01	Committee Hearings	Committee Hearings
Oct. 06	Session	Session
Oct. 07	Session	Session
Oct. 08	Committee Hearings	Committee Hearings
Oct. 13	Committee Hearings	Committee Hearings
Oct. 14	Committee Hearings	Committee Hearings
Oct. 15	Committee Hearings	Committee Hearings
Oct. 20	Session	Session
Oct. 21	Session	Session
Oct. 22	Committee Hearings	Committee Hearings
Oct. 27	Session	Session
Oct. 28	Session	Session
Oct. 29	Committee Hearings	Committee Hearings

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Administrator **Marsha P. Ryan**
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September 15, 2009

Virginia McInerney
Workers' Compensation Council
37 W. Broad St.
Columbus, OH 43215

Dear Ms. McInerney:

Please find the attached report regarding BWC's group experience rating discount program. This report is being provided to your office pursuant to Sub. HB 79 (127th General Assembly).

Sub. HB 79 requires the Administrator of BWC to examine the group rating program and make a plan to address the equity and adequacy of workers' compensation premiums for Ohio employers. This report is also being provided to Speaker Budish, Minority Leaders Cafaro and Batchelder, House Insurance Committee Chairman Dodd, and Senate Insurance Commerce and Labor Chairman Buehrer, and the Workers' Compensation Council.

Pursuant to R.C 101.68(D) this report is being submitted to you electronically and a copy of report is available online at http://www.ohiobwc.com.

When Sub. HB 79 was passed in December 2008 BWC's rate reform plan was well underway and continues even today. The aim of these efforts is to restore operational excellence and provide much-needed reform to the agency's rate-making and premium-setting functions.

I am pleased to report that the BWC Board of Directors has made considerable progress towards creating an actuarially sound and balanced rate-making system that provides all Ohio employers with fair, stable, and predictable premiums.

As we move forward, BWC will continue to engage all interested parties; including our legislative leaders. The attached report attempts to capture all of the essential information regarding rate reform. More detailed information and minutes of BWC Board of Directors meetings supporting the rate reform efforts can be found on the web at http://www.ohiobwc.com/basics/BoardofDirectors.

If you or your staff has any questions regarding the information contained within the attached report, please feel free to contact Christina Madriguera at 614-728-7614 or Gregg Paul at 614-728-6197.

Sincerely,

Marsha P. Ryan
Administrator

cc:
BWC Board of Directors

MPR/gp

Plan for Adequacy and Equity in Ohio's Group-Experience-Rating Program

Prepared in accordance with House Bill 79 of the 127th General Assembly

Tuesday, Sept. 15, 2009

Ohio | Bureau of Workers' Compensation

Introduction

On Jan. 6, 2009, Governor Ted Strickland signed Amended Substitute House Bill 79 (127th General Assembly) into law. The bill contained the following requirement: "The Administrator of Workers' Compensation shall examine the group-experience-rating program and make a plan to address the equity and adequacy of workers' compensation premiums for Ohio employers."

By law, the administrator must provide the report to the Speaker of the House of Representatives, the President of the Senate, the minority leaders of the House and Senate, the chairperson of any standing committee of the General Assembly that regularly considers workers' compensation bills and the Workers' Compensation Council by Sept. 15, 2009. This report fulfills that requirement.

Overview and progress of rate reform efforts

On March 20, the BWC Board of Directors (Board) approved BWC's comprehensive rate reform plan. BWC has implemented elements of the plan for the July 1, 2009, policy year for private-sector employers. BWC is in the process of implementing a similar plan for public employer taxing districts effective Jan. 1, 2010.

This landmark decision by the Board emphasizes BWC's ongoing commitment to all Ohio employers to establish the right rate for the right risk. By providing more accurate, competitive rates and new performance-based programs, Ohio's workers' compensation system can now become an asset for economic development and provide more options for all employers to reduce costs and improve safety.

Highlights of the plan include:

- Severing the connection between discounts for group-rated employers and the off-balance factor used to increase base rates to offset the discounts;
- Reducing base rates for July 1, 2009, by 25.3 percent on average;
- Increasing group-rated employers' premiums by an average of 9.6 percent;
- Capping increases in an employer's individual experience modifier (EM) at 100 percent if the employer's EM is 1.01 or greater and the employer agrees to participate in BWC-approved safety programs;
- Implementing two new program options (a deductible program and a group-retrospective-rating program) to provide more performance-based options for employers seeking to control costs.

The signature achievement of this plan is that non-group employers' rates more accurately reflect the level of risk they bring to the system and are not inflated to cover premium shortages caused by the group-experience-rating program. By setting the base rates for all employers independent of the pricing actions in group-experience rating, BWC eliminated any chance of non-group employers bearing any additional costs created by group formation.

This action, combined with an overall rate reduction of 12 percent based on downward trends in claims costs, resulted in an average base rate reduction of 25.3 percent. To ensure group employers paid premiums that reflect the costs they bring to the system, BWC implemented a break-even factor for group employers. This factor adjusts the discount level for all group participants to the right level for the risks that are in group. The application of this factor resulted in a 9.6 percent increase in group premium after all adjustments are made. Collectively, these changes will result in balanced premium collection. Non-group employers are paying the right rate and despite these changes, the majority of employers participating in group will continue to receive lower premiums through their participation.

In addition, BWC implemented changes in other areas related to the group-experience rating program. BWC initiated sweeping changes with respect to the rules governing which associations are eligible to sponsor a group-experience-rating or group-retrospective-rating program.

Previously, BWC never re-evaluated approved associations. Now, BWC must recertify sponsors at least once every three years. In addition, BWC will evaluate these applications while having access to additional information, including marketing materials, affiliate sponsors, articles of incorporation and financials. BWC will also require group-experience-rating employers that sustain a claim while in group to attend two hours of safety training.

History and background

The problems inherent in the group-experience-rating program have been chronicled since its inception in 1991. By the time the 127th General Assembly passed House Bill (HB) 100, creating the BWC Board of Directors and giving it the same fiduciary duties as the administrator, nine studies by independent actuarial firms detailed the inequities and flaws within group-experience rating and pointed to methods that could restore fairness and equity to the program.

Deloitte Consulting LLP conducted a 10th independent actuarial study as a part of the comprehensive study, which HB 100 also required. In the report Deloitte states, “Addressing the group-experience rating inequity is also recommended as one of the highest priorities. In this Executive Summary and the underlying report we suggest alternatives to repair and/or replace the current group-experience rating process.”

The largest flaw of the group-experience-rating program is that employers participating in the program do not pay sufficient premiums to cover their costs. On average, there are approximately 100,000 employers that join a group. The majority of these employers expect significant premium discounts in exchange for their participation. As a result, sponsors and their third-party administrators (TPAs) have become hyper-focused on remaining able to offer discounts that have historically been as high as 95 percent to attract and retain employers.

To provide such deep discounts, most groups reform annually by shedding employers who have losses. This allows groups to become very large and achieve target discount levels. Most groups are formed with little claims losses in their experience to achieve the largest discount possible. When filed, they take advantage of a rate setting system that calculates significant discounts because their size and loss history has been gleaned to suggest they present little risk and extremely low (or non-existent) costs. In reality, most groups have losses during the policy year that far exceed the level they were expected to incur, which means their discounts are too high.

Giving group (or class) discounts is a common practice and it is not, on its face, unfair or unsound. Done properly, these types of discounts may provide safety incentives. That was the original intent of the group-rating-experience plan as implemented in Ohio.

While part of the challenges with respect to group-experience rating revolve around discounts, it is also unclear how effective groups have been in improving safety among their member employers. Part of the impetus for the creation of group-experience rating was that sponsoring associations and TPAs could improve accident prevention among employers by working with them over a period of years to identify and mitigate hazards while strengthening their safety culture. This was designed to help them achieve lower rates.

However, the massive size of some groups and the constant turnover among most rosters suggests that safety efforts offered by sponsors may be at risk. In the past two years, incurred losses among group and non-group employers in the aggregate are relatively the same even though there are approximately 35 percent more non-group employers. While discounting remains the primary factor when evaluating loss ratios, an erosion of safety efforts may also be contributing to the situation.

BWC must annually collect enough premiums to cover expected losses within the policy year. Because groups generate losses that are greater than expected, BWC has historically inflated base rates to ensure sufficient overall premium. With higher base rates, non-group employers must pay additional premium to offset this imbalance. Further, group employers historically received significant discounts, but they are also based on these inflated rates.

Since 2005, BWC has modified the maximum discount level from 95 percent to 77 percent to reduce the imbalance. However, group reformation has continually eroded those gains, as more and more employers receive discounts that are at or near the maximum discount. The Deloitte study suggested additional solutions, including alternatives to this program. These included changing the structure of group-experience rating to improve equity within the system. Deloitte also suggested applying a separate group-experience rating off-balance adjustment to the group discount factors, rather than applying an overall off-balance adjustment to all employers through class rating.

Components of 2009 plan for rate equity

At the same time that Deloitte brought the comprehensive study to a close earlier this year, BWC established a plan to set rates more accurately and equitably for non-group employers, and ultimately for employers also in group-experience-rating programs. To establish accurate and equitable prices for all employers, BWC set out to accomplish four things:

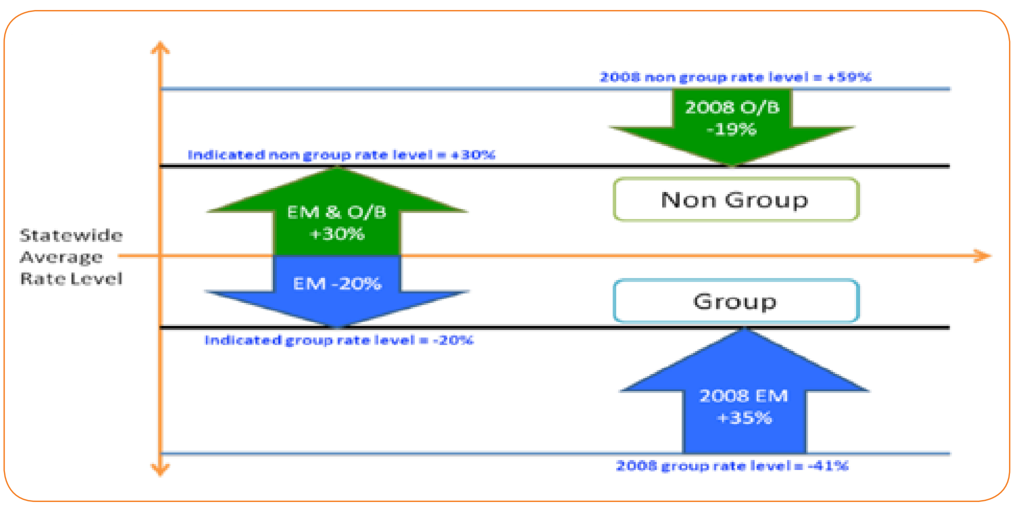
1) Study the performance differentials among all private-sector, state-fund employers to identify the cost levels of group and non-group employers;
2) Set more accurate, equitable rates for non-group employers based on the underlying cost differences;
3) Improve the performance of the group-rating program; and
4) Control for premium volatility in extreme circumstances.

Cost differential study

An analysis performed by BWC's actuarial consultants indicates there is a noticeable and consistent difference in cost levels between group and non-group employers. The analysis shows claim costs for non-group rated employers are 30 percent higher than the statewide average for all employers. In addition claim costs for group-rated employers are 20 percent lower than the statewide average.

Set accurate rates for non-group employers

When comparing cost levels relative to pricing levels, it is clear that an imbalance exists. While non-group employers bring costs that are 30 percent higher than average, they pay premiums that are 59 percent higher than the statewide average. Conversely, group employers pay premiums that are an average of 41 percent lower than the statewide average when their cost levels are only 20 percent less.



The analysis shows the average impact of experience rating for non-group employers is a debit of 7 percent. To achieve the 30-percent target, the system off balance should be set to increase costs approximately 23 percent.

The Board approved BWC's recommendation to set the policy year off-balance factor at 1.23. This accomplished two things. First, it results in non-group employers' premium levels accurately reflecting the costs they present to the system. When combined with the 7-percent debit achieved through experience rating, non-group employers' premiums are priced to be 30 percent higher than the statewide average – precisely in line with the results of the cost differential study.

Second, the reduction in the overall system off-balance factor from 1.49 (the average of July 1, 2008), to 1.23 resulted in a significant reduction in base rates. When combined with BWC's overall recommendation to reduce base rates because of an overall reduction in claims costs, the net effect is an average decrease of 25 percent.

Improve performance of group-rating program

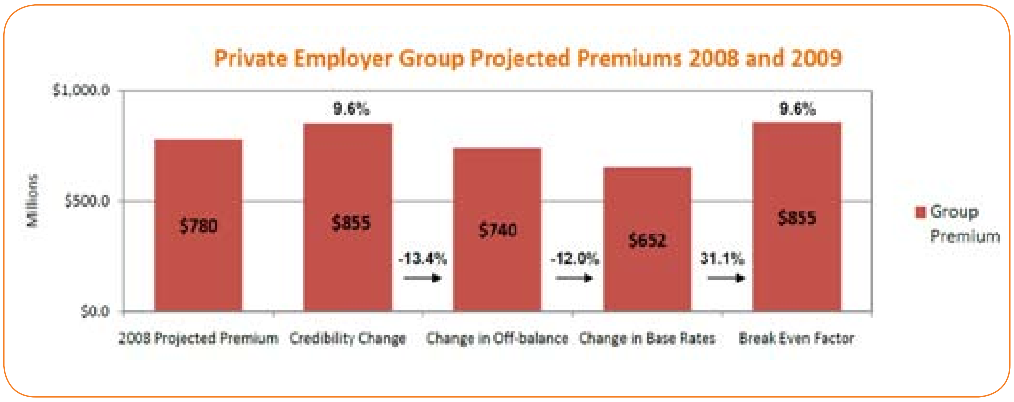
In June 2008, the Board approved BWC's recommendation to reduce the credibility table such that the maximum possible discount for employers was 77 percent. BWC expected this action to improve performance and equity among group-rating participants by increasing the average premium for a group-rated employer by 9.6 percent.

BWC anticipated similar progress as a result of prior reductions in credibility. However, when evaluating prior reductions in credibility (93 to 90 percent effective July 1, 2007, 90 percent to 85 percent effective July 1, 2008), actuarial studies have shown virtually no progress was made in reducing the overall shortfall.

While the maximum possible discount decreased, the number of employers receiving the maximum discount continued to increase. Thus, employers remaining at the maximum discount each year saw premium increases. But those increases were offset by more and more employers receiving discounts at or near the maximum level which were much greater than they received in prior years. As a result, progress stagnated.

To ensure BWC captured the 9.6 percent premium increase, BWC introduced a break-even factor of 1.311 for the July 1, 2009, policy year. The factor was intended to offset the overall 25.3 percent reduction in base rates that was achieved both through a decrease in overall claims costs and a reduction in the system off-balance factor.

In essence, the average group employer's premium would remain at the same level as for the July 1, 2008, policy year (assuming all other factors such as loss history and payroll remained the same). The only exception to this is the premium impact generated through reducing the maximum discount.



While the flat break-even factor did lead to some employers becoming ineligible for group, there was only a 5-percent overall decrease in private-sector group-experience-rating participation (approximately 100,000 employers participated in group for the July 1, 2008, policy year relative to approximately 95,000 for the July 1, 2009, policy year). Furthermore, it achieved its intended effect by reducing the shortfall dramatically.

Control premium volatility

One of the biggest criticisms of Ohio's workers' compensation system is that some employers experience significant premium increases from one year to the next. To mitigate these circumstances, BWC instituted an EM cap for employers whose EM increased by more than 100 percent resulting in their individual EM exceeding 1.0.

With this cap, approximately 1,700 employers will see their premiums collectively reduced by $25 million. In addition, the capping program requires them to invest in completing the 10-Step Business Plan for Safety. This will provide a strong foundation for strengthening risk and claims-management practices and allow employers to improve their workplace safety efforts.

Involving stakeholders

Throughout the process, BWC worked closely with multiple sponsoring associations and TPAs to devise a solution that reduced base rates and improved equity and performance throughout the system. From Jan. 23 and March 19, 2009, BWC participated in at least 23 meetings with various stakeholders working to implement the changes outlined above.

Looking forward

BWC will continue its reform efforts focused on ensuring overall equity in premium levels for all employers. This will include:

Further examination of the maximum discount afforded by the credibility table: The implementation of the break-even factor reduced the maximum discount and improved equity in group pricing. However, this fix is short term because it doesn't effectively distinguish among the individual groups and accurately reflect each group's individual premiums and losses within a policy year. BWC continues to examine solutions that move more toward matching premium with group performance.

Improving ratability of groups through the group-experience-rating program: BWC is continuing efforts to identify precisely what characteristics within group-experience rating generate reduced costs relative to the statewide average. As it defines those components, BWC intends to highlight them to encourage continued emphasis on keeping losses low.

Examining segments of employers and performing underwriting to determine eligibility for group-experience rating: BWC has begun analyzing the statewide book of business to determine whether all segments should be able to obtain the highest possible discounts. By examining premiums and losses based on sizes and industries, BWC may consider underwriting criteria that improve the overall performance of the group-experience-rating program.

Continuing to evaluate and improve the sponsorship certification: To ensure sponsoring associations provide value to employers that participate in their groups beyond just group-experience rating while also helping Ohio's workers' compensation system to achieve desired outcomes, BWC will continue to monitor its rules governing sponsorship and make improvements where appropriate.

Discouraging rejection of members from group-experience rating: A comprehensive solution for the group-experience-rating program should not encourage sponsors or their TPAs to remove employers to improve a group's discount level. Furthermore, improved group retention will improve BWC's ability to accurately price these groups and collect premiums that reflect their risk.

You can find a complete historical record of the Deloitte study and action taken to date by the Board's Actuarial Committee, which supports various decisions with respect to rate reform at http://www.ohiobwc.com/basics/BoardofDirectors/bdcommittee.asp#act. BWC will provide further recommendations to the Board during the coming months as BWC continues its reform efforts.

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

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

ohiobwc.com
1-800-OHIOBWC

September 23, 2009

Dear Member:

HB 100 (127th GA) required the Ohio Bureau of Workers' Compensation (BWC) to commission an outside consulting firm to perform a comprehensive review of the base rate of premiums paid by employers and of all rating programs used by BWC to determine an employer's premium.

Following an extensive competitive bidding process, Deloitte Consulting LLC was awarded the study in January 2008. Following its year-long study, Deloitte's insurance experts unveiled details of this comprehensive review of Ohio's workers' compensation system to the Ohio General Assembly and the public in April 2009. Please see the attachment which summarizes the recommendations made in this comprehensive review. The complete report is available online at ohiobwc.com/deloitte.

Since April 2009, BWC has performed an intensive analysis of the recommendations detailed in the study. In our review, and in consultation with the Board of Directors, we are preparing a schedule which prioritizes the study's recommended changes.

Of the 146 recommendations detailed in the report, a number have already been implemented. These are detailed in the attachment which lists BWC's accomplishments to date and our Fiscal Year 2010 priorities. Recommendations implemented include rate making improvements and the recent adoption of a comprehensive rate reform plan. The rate reform plan has lowered base rates for Ohio employers each of the last two years. We have also added proven insurance products including a new deductible program and a group retrospective rating program to assist employers in managing their workers' compensation costs. With rate reform, BWC and our Board of Directors have significantly improved the fairness and equity of rates and premiums for group and non-group rated employers.

Under the Board's direction, recommendations from the comprehensive review will continue to help us set a solid course for the future. We will utilize the review findings to implement more insurance industry best practices, strengthen our actuarial functions, and bring more transparency and improved customer service to Ohio's workers' compensation system.

I look forward to working with you in the future. If you have any questions or comments regarding the comprehensive review or any other BWC-related issue, please feel free to contact Christina Madriguera at 614-728-7614 or Gregg Paul at 614-728-6197.

Sincerely,

Marsha P. Ryan

Marsha P. Ryan
Administrator

MPR/cm

cc: Ohio Bureau of Workers' Compensation Board of Directors
Workers Compensation Council

September 22, 2009

Ohio Bureau of Workers' Compensation

Comprehensive Review

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

Bureau of Workers' Compensation

BWC Comprehensive Review

Performed by Deloitte Consulting LLC

Statutory Requirement per House Bill 100 (127th General Assembly)

SECTION 512.50. (A) The Administrator of Workers' Compensation shall commission a reputable outside consulting firm that the Bureau of Workers' Compensation has not retained to conduct similar reports over the five years prior to the effective date of this section to perform a comprehensive review of the base rate of premiums paid by employers and of all of the rating programs used by the Administrator to determine an employer's premium rate under Chapters 4121., 4123., 4127., and 4131. of the Revised Code. In conducting the review required under this section, the Administrator shall do all of the following:

(1) Compare the rates and programs used in this state to the rates and programs used in other states;

(2) Study the effect of the rates in reducing the number and severity of workers' compensation claims in this state;

(3) Study the effect that saving money has had on safety in workplaces in this state;

(4) Identify methods of rate setting and reserving that the Administrator could use to make the rate setting and reserving process more transparent for employers and employees.

Conclusions of the comprehensive study

(1) Compare the rates and programs used in this state to the rates and programs used in other states.

Base rate of premiums paid comparison

- "Ohio's base rates are much higher than those of other states, largely as a result of the significant off-balance created by group rating" (Deloitte, Ohio Bureau of Workers' Compensation Comprehensive Study: Report 1.1, p. 1).
- "The actuarial methodology for establishing classification rates is reasonable, but improvements could be made to the process" (Report 1.1 p. 2).

Rating programs used to determine premium rates

- "The overall statewide rate level indication process uses a fairly standard actuarial approach. However, there are significant differences in the methodology compared to peer states" (Executive Summary, p. 14).
- "Individual-experience-rating plan includes features that are inconsistent with industry practice. Nevertheless, our analysis indicates that the individual-experience-rating plan appears to perform adequately" (Executive Summary, p. 2).
- "In contrast to experience rating, the performance results of the group- rating program indicate a substantial lack of actuarial soundness with respect to equitable rating" (Executive Summary, p. 2). "The current pricing structure has created substantial inequity in the premiums paid by different employers in the state of Ohio" (Report 1.1, p.1). Policyholders "experience significant variability in their pricing as they move in to a group, to another group, or out of a group, which occurs frequently. We are unaware of any other state that has a program which functions as poorly as the existing group rating program does in Ohio" (Executive Summary, p. 12).
- "The other discount programs offered by BWC appear to be similar to those offered in other states, though in some cases the credits given by the BWC are much larger than in other states" (Report 1.1, p. 2). "[I]n general, these programs do not appear to be effective" (p. 2). "Premium slippage is charged to all policyholders to account for more rate discount being provided to program participants than is actuarially indicated from the resultant change in participants' loss ratios" (p. 2).

Performance assessment summary (Benefits and Compensation Industry Comparison, Report 2.2, p. 16).

- Effectiveness and efficiency - The benefit structure in Ohio is more complex than most with more specific benefit types and BWC administration associated with managing more MCOs than in most states.
- Financial strength and stability - Stability of benefits to injured workers is maintained consistent with other jurisdictions (e.g. annual average weekly wage, maximum rate and COLA adjustments). Benefit controls related to treatment ongoing benefit eligibility and duration are well institutionalized.

- Transparency - All benefits appear accessible to injured workers and their representatives, and to all constituents. The BWC Web site is a strong media for communicating benefits and changes.
- Ohio economic impact - Ohio's workers' compensation benefit structure appears to support the overall mission of providing adequate benefits to injured workers at a reasonable system cost.

Summary of benefits and industry comparison findings (Report 2.2, p. 16)

1. Ohio is largely consistent with other states with respect to benefit and compensation levels.
2. Ohio's number of benefit types is more extensive than found in most other jurisdictions.
3. Medical benefits provided in Ohio are generally consistent with other states.
4. Temporary total disability benefits are slightly higher than in most other states (maximum wage replacement rates and percentage-of-wage benefit calculations for first 12 weeks).
5. Permanent partial disability, fatality survivor benefits and scheduled loss of benefits align well with other jurisdictions.
6. Ohio is one of 30 states that authorize the use of Managed Care Organizations (MCOs)
7. Ohio is one of 19 states with a dedicated fund for rehabilitation expenses.
8. Permanent partial disability income benefits for injuries in Ohio are consistent with most other states.
9. For fatality survivor benefits, Ohio is in the middle (both mean and median) in eight peer state comparisons.
10. Ohio is one of 18 selected states that have cost of living adjustments for permanent disability cases.
11. Twenty-two states, including Ohio, contain specific offset provisions to limit aggregate benefits received from other sources.

(2) Study the effect of the rates in reducing the number and severity of workers' compensation claims in this state.

No apparent effect in Ohio. "We examined the impact of rates on frequency, severity and loss ratios by comparing results for private employers between policy years 2004 and 2005 for employers with large rate changes between years. We compared frequency, severity and loss ratios using both charged premium and base premium. Our findings suggest that there is no observable impact of large rate changes on frequency, severity, and loss ratios" (Report 3.1, p. 22)

(3) Study the effect that saving money has had on safety in workplaces in this state.

No apparent effect in Ohio. "Large changes in charged rates are associated with employers moving in and out of groups. The loss ratio differences using base premium indicate no real difference between employers who have had rate increases or decreases, regardless of the size of the change in charged rate" (Report 3.1, p. 27).

(4) Identify methods of rate setting and reserving that the Administrator could use to make the rate setting and reserving process more transparent for employers and employees.

More transparency

- Today's reserving rules suppress the reserves on medical-only claims. Deloitte warned, "[t]hese rules are not standard industry practice, potentially erode the effectiveness of experience rating, and contradict a key underlying premise of experience rating by ignoring the excluded claims" (Report 1.1, p. 49). To be more transparent and accurate, Deloitte recommended that BWC "prohibit the exclusion of claims from the experience rating calculation" (p. 53).
- Under current Ohio law, the Salary Continuation and $15k programs allow Ohio employers to self-insure portions of their exposure to losses. However, they "have a potentially negative effect on productivity and the Ohio economy" (Report 1.1, p. 63). They are inconsistent with industry practices (p. 3). They allow employers to avoid reporting workers' compensation costs to the system (p. 63) which compromises rating accuracy and causes rating in-equity among employers (p. 64). They cause the possibility of reserve estimates being under-stated (p. 64). They forego opportunities for early medicalintervention, effective claim management, and loss control techniques which increases the costs to employers in the state overall (p. 64). Salary continuation provides a financial disincentive for injured workers to return to work (p. 64). Deloitte recommends an appropriately priced deductible program as an industry standard alternative (p. 66). A deductible program accommodates employers who wish to self-insure a portion of their exposure to losses (p. 66) without compromising experience

rating integrity, accuracy, and equity. Employing the industry best practice of including medical-only claim costs in rate calculations (p. 53) makes the benefits of salary continuation and the $15k program mute to the employer.

- "[T]he depth of detailed data desirable to do analysis is not typically and/or easily available" (Executive Summary, p. 2). Expanding the capability of the actuarial department and sound data management are among the highest priorities in order to assess the efficiency and effectiveness of the system and communicate information to the public (p.3).

(B) The Administrator shall commission a reputable outside consulting firm that the Bureau has not retained to conduct similar reports over the five years prior to the effective date of this section to perform a comprehensive review of the adequacy of the surplus fund created under section 4123.34 of the Ohio Revised Code and the general reserving methods used for the State Insurance Fund and all other funds specified in Chapters 4121., 4123., 4127., and 4131. of the Ohio Revised Code.

Conclusions of the comprehensive study

Adequacy of the surplus fund

- As of June 30, 2008, "BWC's net assets currently do not indicate sufficient financial strength when compared to their peers" (Executive Summary, p. 4).
- "BWC should develop and implement a policy for the level of net asset to maintain for each fund" (Executive Summary, p. 5).
- BWC should "[c]onsider reinsurance to provide financial protection" (Executive Summary, p.6).
- As of June 30, 2008, "[t]here is significant uncertainty in the estimates used to select a reserve and therefore a relatively small percentage difference in the actual costs versus the estimate costs could consume the net asset of $2.0 billion held as of that date. Therefore, formulating a reserve funding policy in conjunction with a net asset policy is of highest priority" (Executive Summary, p. 2).

General reserving methods used

- "The sole use of claim reserve predictions generated by MIRA II to set individual claim reserves is not an industry standard. Standard practice is to have a trained and supervised personnel is a claim function set claims reserves and settlement values" (Executive Summary, p. 2) using tools like MIRA II to assist.
- A number of rate-setting practices allow employers to avoid reporting workers' compensation costs to the system (Report 1.1, p. 63), which compromises rating accuracy and causes rating inequity among employers (p. 64). These practices "have a potentially negative effect on productivity and the Ohio economy" (p. 63). They are inconsistent with industry practices (p. 3). They cause the possibility of reserve estimates being under-stated (p. 64). They forego opportunities for early medical intervention, effective claim management, and loss control techniques which increases the costs to employers in the state overall (p. 64).

(C) The Administrator shall provide a summary of the reviews required under this section and shall present recommendations based on the review to the General Assembly and the Bureau of Workers' Compensation Board of Directors not later than two years after the effective date of this section.

- Presented to the Workers' Compensation Council, Sept. 23, 2009.

(D) This section of law, as enacted by this act, is subject to the referendum. Therefore, under Ohio Constitution, Article II, Section 1c and section 1.471 of the Ohio Revised Code, this section takes effect on the 91st day after this act is filed with the Secretary of State. If, however, a referendum petition is filed against this section of law as enacted by this act, this section of law as enacted, unless rejected at the referendum, takes effect at the earliest time permitted by law.

BWC Comprehensive Review

September 2009
Executive Summary
Marsha P. Ryan, Administrator

Fast facts

There are seventeen reports and approximately 900 pages.

We will address 48 percent of 146 recommendations to be addressed in fiscal year 2010.

There are seventeen projects at a cost of $ (to-be-determined).

Nine recommendations require statute change to be implemented.

Complete April 9, 2009, comprehensive study report available at www.ohiobwc.com/deloitte.

Accomplishments to date

Feasibility assessment of all recommendations complete.

Sixteen recommendations (11percent) implemented to date.

54 percent evaluating; 3 percent planning projects; 24 percent designing solutions;

6 percent implementing; 2 percent no action planned.

Enacted a policy for guiding net asset levels.

Non-group employer rates no longer inflated to cover shortages from group employer discounts.

Group employers' paid premiums now reflect costs they bring to the system.

Replaced ineffective programs (e.g. PDP+) with standard insurance products (e.g. deductible program).

Safety intervention grants now more accessible to more Ohio employers.

FY10 priorities (# recommendations)

Comprehensive rate reform: Group rating and Experience rating (25)

Financial stability: Catastrophic loss insurance and self-insured employers (14)

Quality care for injured workers: Managed care and MCO effectiveness (13)

Claims prevention through safety (3)

Accomplishments to date

Recommendations Implemented as of Aug. 30, 2009 • Direct impact o Indirect impact	Impact Category									
	Better services	Ops efficiency and effectiveness	Cost savings	Financial stability	Transparency and accountability	Actuarial soundness	Stable costs	Accurate rates	Ohio Economic impact	Safe workplaces
Net asset level - In July 2009, the BWC board of directors adopted a net assets policy. This policy contains guidelines to drive net asset level decisions as financial and market circumstances change (Comprehensive Study recommendations 2.4.1-4). Net asset levels determine the financial solvency of the state insurance fund's ability to cover the obligations for injured worker care.				•			•			
Comprehensive rate reform - Eliminated the employer off-balance adjustment factor for class base rates (1.1.7). Non-group employers are now paying fair premium.						•		•	•	
Group rating - Developed a group discount factor (1.1.16). Changed credibility for individual experience (1.1.30). Premiums are now more in line with loss exposure. Launched a group-retro plan as a group-rating alternative (1.1.27).	o					•		•	•	o
Safe workplaces - Eliminated the requirement to have a past claim to qualify for a Safety Intervention Grant (3.2.1). Added a requirement to submit an overall safety plan with a grant application (3.2.2).										•
Self-insurance participation requirements - Continuation of collecting security upon return to the self-insured program (1.4.11). Require organization documents for self-insured applications (1.4.9).				•						
Rating programs effectiveness - Eliminated the ineffective Premium Discount Program + (1.1.38). Un-stacked discounts for group rating participants (1.1.38). Developed an appropriately priced Deductible Program as an alternative to salary continuation and the $15K Medical-Only program (1.1.37).	•		•			•	•	•	o	
MCO effectiveness - Sustained the trend of decreasing numbers of participating Managed care organizations (MCOs) from 25 to 18 (2.6.1). Adopted routine public forums as a means of collecting stakeholder input regarding MCO effectiveness (2.6.9).	•	o			•					
BWC actuarial capabilities - Expanded the Actuarial Division responsibilities and capabilities by adding actuarial analysis and reserving experts to the staff (4.4.5). Contracted with Deloitte as an external consultant to supplement internal actuarial resources (4.4.7).		•			o	•				
Premium auditing - Most employers audited every three to five years as part of our audit plan (4.1.3).				•				•		

Fiscal year 2010 priorities

Recommendation Implementation Plans **To be addressed in fiscal year 2010** • **Direct impact** o **Indirect impact**	Impact Category									
	Better services	Ops efficiency and effectiveness	Cost savings	Financial stability	Transparency and accountability	Actuarial soundness	Stable costs	Accurate rates	Ohio economic impact	Safe workplaces
Group Rating - The root cause of Ohio's unfavorable rates position is the group-rating design. Now that rate reform is addressing rating inequities, BWC's challenge is to design a group-rating structure based on sound actuarial science and insurance industry best practices. BWC and stakeholders are evaluating several alternative approaches recommended by Deloitte.	*	•		•	•	•	•	•	•	o
Experience rating - BWC will address unconventional claim cost reserving practices that compromise rate accuracy. New industry standard rating programs (e.g. split rating, retro, deductible) will allow BWC to better align with prevailing workers' comp practices and achieve more accurate rates for all Ohio employers.						•	•	•	o	
Managed care - BWC is adopting several recommendations to streamline treatment approval, improve managed care performance measurements, simplify dispute resolution, and control costs. MCO performance and payment metrics.	•	•	•		o				o	
Medical payments - Bringing fee schedules up to date allows BWC to remain responsive to market conditions and improve provider quality. Improving medical provider quality improves injured worker care and improves injured worker return to work. Strategies include the development of provider performance measures with the subsequent creation of commensurate performance incentives and compliance sanctions and the creation of a blue ribbon provider panel. In addition, BWC is focusing on cost-containment by improving clinical editing to ensure correct payment for the service provided.	•	•	•		o				o	
Self-insurance (SI) **-** BWC is working with the SI community to establish more objective criteria for granting the privilege of self insurance. Stronger entry requirements and more data for accurate underwriting will mitigate risk to the guarantee fund by preventing unqualified applicants into self insurance. A more contemporary method for collateralizing exposure SI's bring to the guarantee fund will also be addressed by the work group. BWC is evaluating re-insurance for catastrophic losses.		•		•	o		•		o	o
Safety Programs (DFWP) **-** Deloitte encouraged making BWC's safety programs more effective and more accessible to more Ohio employers. BWC's Drug-Free Workplace Program (DFWP) will be the first program BWC re-tools for this purpose. Benchmarking, academic research, integration with safety best practices, stakeholder involvement, performance monitoring and actuarially-based pricing will all be part of the DFWP re-tooling process.	•	•		o	o				o	•
Administrative costs - Deloitte found considerable variability in the loss adjustment expenses (LAE) proportion of the administrative cost fund. Current proportion is higher than industry standards. This proportion impacts the actuarial estimate of reserves for LAE and, thus, the level of net assets. BWC will re-evaluate the expense-allocation process to address the variability in LAE.				•	o					