

BWC Board of Directors

BOARD MEETING

Thursday, December 17, 2009, 8:00 A.M.

William Green Building

30 West Spring St. 2nd Floor (Mezzanine)

Columbus, Ohio 43215

MEMBERS PRESENT: William Lhota, Chair
James Harris, Vice Chair
Charles Bryan
David Caldwell
Alison Falls
Ken Haffey
James Hummel
Jim Matesich (arrived late)
Thomas Pitts
Larry Price
Robert Smith

Member Absent: None

Counsel Present: John Williams, Assistant Attorney General

CALL TO ORDER

Mr. Lhota called the meeting to order at 8:00 a.m. and the roll call was taken.

Mr. Lhota reported that Mr. Matesich would be late.

MINUTES OF NOVEMBER 20, 2009

Mr. Lhota requested that on page 2, *Chairman's Comments*, that the sentence in paragraph 2 read, "However, because there was a conflict with this change in date, *informal board* procedures direct that the date will not be changed." Mr. Smith requested that on page 7, final paragraph, that his name be stricken and replaced with Mr. Price.

Mr. Bryan moved to approve the November 20, 2009, minutes as amended. Mr. Haffey seconded and the motion was approved by a roll call vote of ten ayes and no nays.

AGENDA

Mr. Lhota added an action item to the Investment Committee report. He reported that there would be no executive session. He also reserved the right to recess the meeting at appropriate times, if necessary.

Mr. Hummel moved to adopt the agenda as amended. Mr. Caldwell seconded and the amended agenda was adopted by a roll call vote of ten ayes and no nays.

CHAIRMAN'S COMMENTS

Mr. Lhota reported that there was excellent attendance by directors at the five committee meetings of December 16. Of fifty-five opportunities, attendance was 91% by board members. This high level of attendance demonstrates the Directors' commitment to the fiduciary responsibilities of the Board. The Chair indicated he would regularly report on Committee meeting attendance.

COMMITTEE REPORTS OF DECEMBER 16

ACTUARIAL COMMITTEE

Mr. Bryan reported that there were no actions taken at the Actuarial Committee, but there was thorough discussion of new programs. New programs increase the flexibility of employers to manage their workers' compensation costs. The new large deductible program, for example, provides deductibles from \$25,000 to \$200,000. During the presentation, the Actuarial Committee observed the professionalism of Oliver Wyman Consulting in the presentation of William Hansen on the pricing of the program. Even though Deloitte Consulting begins as the BWC actuarial consultant, Oliver Wyman continues to provide excellent service. Mr. Bryan thanked the staff doing the presentations: Joy Bush, Director of Product Development; Tom Prunte, Director, Employer Management Services; and Tracy Valentino, Chief, Fiscal & Planning. Ms. Valentino's presentation was needed because the deductible and retrospective rating plans increase the risk to BWC and BWC must evaluate employer's ability to pay. BWC may need to consider additional reserves in financial statements to accommodate non-payment.

Mr. Bryan also reported there was a second installment on the educational session on reserves conducted by the two new credentialed actuaries on BWC staff. Mr. Bryan stated that with a new actuarial consultant, BWC may be getting different answers to its questions on reserves. The report of the Chief Actuarial Officer illustrates the great extent that actuarial resources are being used in legislative testimony.

GOVERNANCE COMMITTEE

Ms. Falls reported that the Governance Committee took no action at its meeting. The principal activity was an informative briefing on fiduciary liability insurance by James Barnes, Chief Legal Counsel.

INVESTMENT COMMITTEE

Mr. Smith reported that the Investment Committee had undertaken two actions at its meeting.

Mr. Smith reported that the investments of the Bureau had an estimated market value of \$18.6 billion as of December 15 and consisted of 68.4% in fixed income investments, 30.1% in equities, and 1.5% in cash. There was a slight decrease in market value of \$164 million (-0.9%) compared to the end of November largely due to a jump in interest rate levels. For the calendar year-to-date, the total portfolio return has been 9.6%; for the fiscal year-to-date, the total return has been 10.0% which more than offsets the calendar year 2008 losses.

Mr. Lhota requested the committee chairs make their reports now, and hold all votes on action items until Mr. Matesich arrived.

MEDICAL SERVICES AND SAFETY COMMITTEE

Mr. Harris reported that the Medical Services and Safety Committee took three actions.

Freddie Johnson, Director of Managed Care Services, and Anne Casto, Consultant, Medical Services, conducted a first reading of the outpatient hospital fee schedule, for adoption in January. There was also a first reading on adoption of OSHA rules for public employee safety. Mr. Johnson also reported on vocational service referral. Abe Al-Tarawneh, Superintendent of Safety and Hygiene, gave a presentation on the distinction between “guard” and “safeguard.”

Mr. Harris deferred approval of action items until later in meeting.

AUDIT COMMITTEE

Mr. Haffey reported there was one action item and three presentations at the Audit Committee meeting. The quarterly *Executive Summary Report* of Audit Division activities was conducted by Caren Murdock, Chief of Internal Audit, for the quarter ending September 30. The report included two consulting reviews: the first on the Employer Complaint and the Adjudicating Committee process. Internal Audit provided ten improvement recommendations and Mr. Barnes and the Legal Division are working to implement them. A second consulting review

was conducted on the Black Lung and Marine Funds and had thirteen recommendations. The audit of a Managed Care Organization (MCO) resulted in one material and five significant weaknesses. In regard to outstanding comments of past audits, only 64 remain outstanding, which is the fewest in the two years of the Workers' Compensation Board. There was a second presentation on the continuous monitoring of the investment function by Ms. Murdock, Karl Zarins, Internal Audit Director, and Michael Overmyer, Investment/Compliance Program Manager. There was also a presentation on the BWC Annual Report and a discussion on reinsurance led by Ray Mazzotta, Chief Operating Officer, and Ms. Valentino on pricing and options.

Ms. Valentino added with respect to the Towers Perrin report on reinsurance that following the December 16 meeting of the Audit Committee, BWC began pulling together all information on reinsurance and will present it to the Workers' Compensation Board within several days.

MONTHLY ENTERPRISE REPORT

Ms. Valentino delivered the December Enterprise Report. Net assets have increased by \$476 million, from \$3.7 billion in October to \$4.2 billion in November. Premium and assessment income was \$190 million and a \$16 million reduction in the provision for uncollectible accounts resulted in operating revenues of \$206 million. Benefit and compensation expense was \$193 million along with \$9 million in other expense for total operating expense of \$202 million. The November payments included the quarterly performance payment to MCOs of \$6 million. Compensation and expenses contained \$7 million in additional payments because of three administrative payrolls. In contrast there was one fewer payment in November than October for injured workers.

Interest and dividend income was \$57 million. Net realized gains were \$4 million and net unrealized gains were \$412 million. Cash and cash equivalents included \$1 billion because of funds committed to investment trades in December. Premium and assessment income was \$140 million because of the second half of the 50/50 payment program. BWC received \$12.7 million in payments on securitizations provided by self-insuring employers to cover claims costs in the event of default.

In the statement of operations, the \$1.6 billion increase in net assets led to an increase in the net asset balance to \$4.2 billion. In contrast, for November 2008, the net asset balance was \$945 million. Premium assessment income for the fiscal year-to-date is \$920 million, compared to \$928 million for 2008. The decrease is caused by the reduction in private and public employer premium rates. Compensation and compensation expense increased by \$21 million. The decrease in income was offset somewhat by lower than expected compensation payments.

Net investments increased \$1.7 billion and included \$646 million in net realized losses and \$2 billion in net realized gains. Investment expense was \$ 2 million. BWC collected \$119 million less than projected in premiums fiscal year-to-date. This was less because of rate decreases and payroll decreases. The amount was \$151 million less than in fiscal year 2009. Subsequent to the second 50/50 payment, 2700 employers had their coverage lapsed. This was 14% of the employers who participated in the program and typical of prior years. Of these, 1500 are still in lapse because of payments received prior to December 15. The remaining unpaid amounts have been certified to the Attorney General for collection.

Concerning administrative costs, BWC continues to spend less than its budget. There have been decreases in staff and continuation of hiring controls by the Department of Administrative Services (DAS). BWC staff have used 56% of cost savings days (CSD), leading to savings of \$3.1 million.

Mr. Bryan asked if the CSDs would lower premiums. Ms. Valentino responded that the savings would be a factor in calculation of the Administrative Cost Fund (ACF) assessments.

Mr. Harris asked if the Administration is in discussion with the unions about CSDs. Marsha Ryan, BWC Administrator, replied that Mike Duco, Office of Collective Bargaining, and Hugh Quill, Director of DAS, discuss the CSDs with union leadership. BWC tracks the days which its staff takes. Mr. Harris stated because the staff payroll is not part of the general revenue accounts, should they not be distinguished. Ms. Ryan replied no distinction is made at the Officer of Collective Bargaining. The CSD provision applies equally to all members of the bargaining units.

Mr. Hummel asked if CSD's affect work-load and lead to overtime. Ms. Valentino responded she is seeing little overtime. Staff is required to work smarter and is using CSDs in place of vacation. Ms. Ryan added that the jury is still out on the affect of CSDs on productivity and overtime. Anecdotally, IT staff is taking some overtime, but their assignments are *sui generis*. BWC will look carefully in the future on productivity. In speaking with other cabinet officers, some have concerns because of their need for twenty-four hour nursing and incarceration services.

Mr. Haffey reported that in his discussions with Ms. Murdock, individual audits will need re-direction and re-ordering in order to accommodate staff CSDs.

Ms. Valentino further reported on timing issues. Invoices are slower in submission. BWC is looking at all vendors for possible savings in expense. The BWC budget is \$35 million, and is \$10 million less than appropriations.

Mr. Price objected to DAS restrictions on spending of funds collected by BWC. Ms. Valentino replied that BWC is subject to the oversight of DAS on equipment purchases.

Ms. Valentino also reported that in November 2009 BWC collected \$140 million in premium and assessment receipts, versus collecting \$58 million in November 2008. The Statement of Net Assets—Combining Schedule, gives information on separate BWC funds, amounts, and uses. For November, the State Insurance Fund net asset balance rose to \$3.7 billion. The Funding ratio was 1.25 and Net Leverage Ratio was 4.4, both within the guidelines set by the Workers' Compensation Board.

Mr. Haffey commented that it has been a challenging year financially for the United States and the State of Ohio. Despite this, November reflected a net operating gain at BWC. Few months in the experience of the Workers' Compensation Board show gains. This reflects on the strong fiscal management by Ms. Ryan and BWC management, who should be commended for these operating results.

ADMINISTRATOR BRIEFING

Ms. Ryan reported that the William Green Building gained a new tenant during November, the Ohio Ethics Commission.

The month was busy for legislative activity. SB213 requires BWC to take a pause in rate reform. The Workers' Compensation Board has been sent all testimony of the most recent hearing of the Senate Committee for Insurance, Commerce, and Labor, including that of John Pedrick, the Chief Actuarial Officer. Most proponent testimony was anecdotal on individual employer rate increases. This merely shows that BWC must work harder to publicize rate reform. This week's committee meeting was cancelled. BWC is preparing letters to senators with examples of businesses in their district who experience premium reductions due to rate reform. Identification is by geographic area, not employer name. Ms. Valentino, Mr. Mazzotta, and Tom Prunte, Director, Employer Management Services, are in the lead on this.

Mr. Smith thanked Mr. Pedrick for his testimony. It was thorough and concise. Ms. Ryan reported that responding to the questioning was a very difficult task.

Ms. Ryan further reported that HB216 concerns reform of Professional Employer Organizations (PEOs) to update and modernize the statutes, bring them into line with other states, and strengthen financial requirements. BWC has an interest in assessing the right premium. The Ohio Departments of Taxation and Jobs and Family Services are also interested. The bill is moving in January.

HB259 would restrict BWC to specific classes of investment and strike the prudent person rule. Scheduled testimony by proponent Representative William Bachelder and by BWC was cancelled. There was no action on Senate Resolution 118.

The Workers' Compensation Council met on December 8. The discussion was on the pace of workers' compensation legislation in passing through the General Assembly. The difference of opinion breaks down along party lines. The next meeting is January 27. BWC is looking at the model proposed by Virginia McInerney, Director of Workers' Compensation Council, for evaluating legislation. Ms. Ryan stated she was not sure whether SB213 will move before the Workers' Compensation Council has evaluated the legislation.

Mr. Smith stated he had examined the Workers' Compensation Council evaluation memorandum on legislation and is pleased on the thoroughness with which it is approached.

Ms. Ryan reported that the Ohio Senate will meet this afternoon on the budget and is expected to recess after addressing it.

Mr. Price also thanked Mr. Pedrick for his testimony. He was especially pleased because it reflected the position of the Workers' Compensation Board.

Mr. Bryan asked does BWC have anything in place to respond to health care reform when it is passed. Ms. Ryan replied that she and MaryJo Hudson of the Department of Insurance are monitoring the legislation. Most recent forms of the competing bills avoid addressing workers' compensation. Ohio belongs to the Association of State Compensation Insurance Funds and is receiving lobbying assistance and comprehensive analysis from the Washington D.C. law firm of Patten Boggs. It is not known what the final product will be, so BWC cannot predict its response.

Concerning rate reform, Ms. Ryan reported that this is the season for sponsors to market for groups. Marketing materials are being made available to BWC by the competitors of sponsors and third-party administrators (TPAs). BWC may suggest to the sponsors and TPAs what is appropriate. By February, BWC will be informed of group formations and know whether or not to change the break-even factors.

Ms. Ryan reports she continues to travel the state to speak with businesses and local officials. She thanked BWC communications for preparing materials to use on both premium reductions and increases. At a meeting of the chambers of commerce for Highland, Clinton, and Fayette counties, an employer told her that his TPA had predicted a 100% increase in premiums, whereas the actual amount was only a small percentage.

The Ohio Manufacturers Association (OMA) has issued a bulletin on rate reform and Ms. Ryan stated she was gratified on how balanced it was. Also, the Council for Small Enterprise (COSE) of Cleveland has issued a straight-forward and cogent report on rate reform.

Mr. Harris asked what is the consequence of a TPA giving misinformation on rate reform. Ryan replied that the TPA industry is a robust one and a competitor is likely to be able to provide corrective information.

Ms. Falls asked how the testimony of the OMA in favor of rate reform is received by the legislature. Ms. Ryan replied that OMA is stating it is supporting rate reform in support of all of its members, not just those in group ratings.

Ms. Ryan reported that the Special Investigations Division had just completed a case against Eric Zimmer for workers' compensation fraud. He was gathering medical documents and altering them. Mr. Hummel asked how the offender was caught. Ms. Ryan replied a customer service auditor noticed similarities in several reports.

In the *San Allen* case, the matter is before the judge on the motion to certify the class. Liz Bravender, Actuarial Director, has spent much time in Cleveland working with outside counsel. The next steps are post-hearing briefs, with the judge's ruling expected in thirty to sixty days. A competing case had been dismissed and is now on appeal.

BWC is working hard to welcome Deloitte Consulting as the new actuarial consultant. There is also a new pharmacy benefits consultant.

BWC met with JPMorgan Chase officials from New York to discuss the custodial arrangement. Chase officials commented that BWC is the "most focused on achieving perfection" of all their clients. The transition to passive managers is going smoothly.

Ms. Ryan thanked the Workers' Compensation Board for its support to BWC and staff for work done this year.

RECESS

Mr. Lhota recessed the meeting at 9:17 a.m.

ACTION ITEMS

Mr. Lhota called the meeting to order from recess.

Mr. Lhota noted that the Workers' Compensation Board would hold the record open on each motion to reflect the vote of Mr. Matesich. Mr. Matesich had attended all meetings on December 16.

Upon the recommendation of the Medical Services and Safety Committee, Mr. Harris moved that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendation to amend Rule 4123-6-37.3 of the Administrative Code, "Payment of Ambulatory Surgical Center Services." The motion consents to the Administrator amending Rule 4123-6-37.3 as presented at the Medical Services and Safety Committee. Mr. Bryan seconded and the motion received ten yes votes.

Mr. Price moved to keep the roll call vote open until the adjournment of the board meeting. Mr. Pitts seconded and the motion was approved by a vote of ten ayes and no nays.

Upon the recommendation of the Medical Services and Safety Committee, Mr. Harris moved that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendation to revise and refile Rule 4123-18-09 of the Administrative Code, the "Vocational Rehabilitation Provider Fee Schedule" rule. The Administrator revised paragraph (B) of the Rule as originally presented to and approved by the Board at a prior meeting. The motion consents to the Administrator revising and refiling Rule 4123-18-09 as presented at the Medical Services and Safety Committee. Mr. Pitts seconded and the motion received ten yes votes.

Mr. Price moved to keep the roll call vote open until the adjournment of the board meeting. Mr. Hummel seconded and the motion was approved by a vote of ten ayes and no nays.

Mr. Harris moved that the Workers' Compensation Board of Directors approve the Administrator's recommendation to approve the BWC Division of Safety and Hygiene Annual Report for publication and release, as recommended by the Medical Services and Safety Committee. Mr. Hummel seconded and the motion received ten yes votes.

Mr. Price moved to keep the roll call vote open until the adjournment of the board meeting. Mr. Pitts seconded and the motion was approved by a vote of ten ayes and no nays.

Mr. Smith moved that the Workers' Compensation Board of Directors adopt the recommendation of the Investment Committee to approve Northern Trust Global Investments as a U. S. Equities Passive Index manager for the State Insurance Fund, representing a targeted fourteen percent (14%) of the total State Insurance

Fund invested assets, for the reasons set forth in the presentation of the Passive Index Manager RFP Evaluation Committee dated December 16, 2009, and the memorandum prepared by the Mercer Investment Consultants dated December 14, 2009, and upon such terms as are outlined in Northern Trust's Response to the Request for Proposals issued July 2, 2009, and such other terms as are favorable to the Bureau. Ms. Falls seconded and the motion received ten yes votes.

Mr. Price moved to keep the roll call vote open until the adjournment of the board meeting. Ms. Falls seconded and the motion was approved by a vote of ten ayes and no nays.

Mr. Smith moved that the Workers' Compensation Board of Directors adopt the recommendation of the Investment Committee to approve revision of the asset allocation mix for the Coal Workers Pneumoconiosis Fund to conform with "Mix G" as discussed in the Mercer Strategic Asset Allocation Analysis Report dated December 16, 2009, and the memorandum of the Chief Investment Officer dated December 10, 2009, and also that the Investment Committee recommend to the Board that it adopt relevant revisions to BWC's *Statement of Investment Policy and Guidelines* as they are set forth in the attachments to the Chief Investment Officer's memorandum of December 10, 2009. Ms. Falls seconded. Mr. Smith noted this asset allocation change would reduce duration and volatility while keeping the return at a comparable level. The motion received ten yes votes.

Mr. Price moved to keep the roll call vote open until the adjournment of the board meeting. Mr. Caldwell seconded and the motion was approved by a vote of ten ayes and no nays.

Mr. Smith reported that in January, the Investment Committee would be making recommendations to the Workers' Compensation Board concerning investment of the Disabled Workers' Relief Fund.

Mr. Haffey moved that the Workers' Compensation Board of Directors approve the Administrator's recommendation to approve the *BWC Annual Report* for publication and release as recommended by the Audit Committee. Mr. Harris seconded and the motion received ten yes votes.

Mr. Price moved to keep the roll call vote open until the adjournment of the board meeting. Mr. Pitts seconded and the motion was approved by a vote of ten ayes and no nays.

RECESS

Mr. Lhota recessed the meeting at 9:45 a.m. Leaving the meeting were Mr. Haffey, Mr. Harris, and Mr. Pitts.

APPROVAL OF MOTIONS

Mr. Lhota adjourned from the recess at 9:52 a.m. Directors present and constituting a quorum included Mr. Lhota, Mr. Bryan, Mr. Caldwell, Ms. Falls, Mr. Hummel, Mr. Matesich (reporting), Mr. Price, and Mr. Smith. Mr. Lhota noted he believed it was important to have all Directors vote on action items. He appreciated the cooperation of the Directors as they accommodated each other's schedules.

Mr. Lhota reported that the following six motions had been voted on by the Workers' Compensation Board of Directors:

Upon the recommendation of the Medical Services and Safety Committee, that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendation to amend Rule 4123-6-37.3 of the Administrative Code, "Payment of Ambulatory Surgical Center Services." The motion consents to the Administrator amending Rule 4123-6-37.3 as presented at the Medical Services and Safety Committee.

Mr. Lhota asked Mr. Matesich to enter his vote on the record. Mr. Matesich voted yes to the motion and Mr. Lhota ruled that the motion had been approved by a vote of eleven ayes and no nays.

Upon the recommendation of the Medical Services and Safety Committee, that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendation to revise and refile Rule 4123-18-09 of the Administrative Code, the "Vocational Rehabilitation Provider Fee Schedule" rule. The Administrator revised paragraph (B) of the Rule as originally presented to and approved by the Board at a prior meeting. The motion consents to the Administrator revising and refiling Rule 4123-18-09 as presented at the Medical Services and Safety Committee.

Mr. Lhota asked Mr. Matesich to enter his vote on the record. Mr. Matesich voted yes to the motion and Mr. Lhota ruled that the motion had been approved by a vote of eleven ayes and no nays.

That the Workers' Compensation Board of Directors approve the Administrator's recommendation to approve the BWC Division of Safety and Hygiene Annual Report for publication and release, as recommended by the Medical Services and Safety Committee.

Mr. Lhota asked Mr. Matesich to enter his vote on the record. Mr. Matesich voted yes to the motion and Mr. Lhota ruled that the motion had been approved by a vote of eleven ayes and no nays.

That the Workers' Compensation Board of Directors adopt the recommendation of the Investment Committee to approve Northern Trust Global Investments as a U. S. Equities Passive Index manager for the State Insurance Fund, representing a targeted fourteen percent (14%) of the total State Insurance Fund invested assets, for the reasons set forth in the presentation of the Passive Index Manager RFP Evaluation Committee dated December 16, 2009, and the memorandum prepared by the Mercer Investment Consultants dated December 14, 2009, and upon such terms as are outlined in Northern Trust's Response to the Request for Proposals issued July 2, 2009, and such other terms as are favorable to the Bureau.

Mr. Lhota asked Mr. Matesich to enter his vote on the record. Mr. Matesich voted yes to the motion and Mr. Lhota ruled that the motion had been approved by a vote of eleven ayes and no nays.

That the Workers' Compensation Board of Directors adopt the recommendation of the Investment Committee to approve revision of the asset allocation mix for the Coal Workers Pneumoconiosis Fund to conform with "Mix G" as discussed in the Mercer Strategic Asset Allocation Analysis Report dated December 16, 2009, and the memorandum of the Chief Investment Officer dated December 10, 2009, and also that the Investment Committee recommend to the Board that it adopt relevant revisions to BWC's *Statement of Investment Policy and Guidelines* as they are set forth in the attachments to the Chief Investment Officer's memorandum of December 10, 2009.

Mr. Lhota asked Mr. Matesich to enter his vote on the record. Mr. Matesich voted yes to the motion and Mr. Lhota ruled that the motion had been approved by a vote of eleven ayes and no nays.

That the Workers' Compensation Board of Directors approve the Administrator's recommendation to approve the *BWC Annual Report* for publication and release as recommended by the Audit Committee.

Mr. Lhota asked Mr. Matesich to enter his vote on the record. Mr. Matesich voted yes to the motion and Mr. Lhota ruled that the motion had been approved by a vote of eleven ayes and no nays.

EXECUTIVE SESSION

There was no executive session.

CHAIRMAN'S COMMENTS

Mr. Lhota reported that Don Berno, Board Liaison, had prepared a memorandum compiling achievements of the Workers' Compensation Board for 2009: The monthly *Enterprise Reports* showed continued improvement. The Workers'

Compensation Board adopted a net asset policy with ranges for a funding ratio and net asset ratio. There are new investment policy guidelines. The Workers' Compensation Board reviewed and modified the corporate governance guidelines. The Workers' Compensation Board established the Medical Services and Safety Committee. Under the five-year rule review mandate, the Workers' Compensation Board revised more than 250 rules and rescinded 82 of them. The Workers' Compensation Board continued rate reform. The base rates for both private employers and public employers were both lowered. Mr. Lhota thanked Administrator Ryan, the management team, and the hundreds of staff members for their work.

Ms. Falls added that the achievements should include adherence to the rebalancing policy for Bureau investments, which showed discipline and fortitude in the face of financial market turmoil.

ADJOURNMENT

Mr. Smith moved to adjourn the meeting. Mr. Matesich seconded and Mr. Lhota adjourned the meeting at 10:05 am after the motion was approved by a roll call vote of eight ayes and no nays.

Prepared by: Larry Rhodebeck, Staff Counsel
H:\Word\ldr\WCB 1109.doc
December 28, 2009

Enterprise Report

January 2010

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.*

December Financial Analysis

BWC's net assets decreased by \$202 million in December resulting in net assets of \$3.95 billion at December 31, 2009 compared to \$4.2 billion at November 30, 2009.

<i>(\$ in millions)</i>	Month Ended Dec. 31, 2009	Month Ended Nov. 30, 2009	Month Ended Dec. 31, 2008
Operating Revenues	\$159	\$206	\$225
Operating Expenses	(195)	(202)	(193)
Operating Transfers	-	-	-
Net Operating Gain (Loss)	(36)	4	32
Net Investment Income (Loss)	(166)	472	1,335
Increase (Decrease) in Net Assets	(202)	476	1,367
Net Assets End of Period	\$3,950	\$4,152	\$2,312

- o Premium and assessment income of \$144 million and a \$15 million reduction in the provision for uncollectible accounts receivable resulted in operating revenues of \$159 million. The reduction in the provision for uncollectible receivables is based on a review of the aged trial balance and is being impacted by adjustments to outstanding receivables. In December, private employer premium accruals were adjusted to reflect the impact of reduced employer payroll noted during the most recent collection period.
- o Premium and assessment income in December was reduced by premium rebates of \$10.5 million resulting from safety council performance bonuses. Employers participating in BWC's Safety Council Program were eligible for a 2% performance bonus for reducing either frequency or severity of claims by 10% or more below the previous year, or maintaining both frequency and severity at the previous year's level.
- o Benefits and compensation adjustment expenses of \$188 million along with other expenses of \$7 million resulted in operating expenses of \$195 million. December expenses are lower than November expenses due in part to November payments including \$6 million in quarterly performance payments made to managed care organizations and an additional \$7 million in costs allocated to compensation adjustment expenses due to three payrolls being processed in November.
- o A \$222 million decrease in portfolio market value in December 2009 along with interest and dividend income of \$56 million for the month, resulted in net investment losses of \$166 million for the month after investment expenses. The decrease in portfolio market value is comprised of \$272 million in net unrealized losses and \$50 million in net realized gains.
- o Cash and cash equivalents include \$995 million in money market holdings in the outside investment manager accounts. These funds are committed to covering a \$928 million net investment trade payable for transactions that will settle in January. A total of \$58 million was redeemed from investment managers to support operations until there are sufficient cash flows from employer premium payments. Significant premium collections are not made until the last week of January.
- o Premium and assessment receipts of \$90 million were collected in December. Receipts in December 2009 are significantly higher than collections during this same period last year as the second 50/50 payment plan installment was due December 1, 2009 compared to November 1st last year.

Fiscal Year-to-Year Comparisons

BWC's total net assets have increased by \$1.4 billion for fiscal year-to-date 2010 resulting in net assets of almost \$4 billion at December 31, 2009 compared to \$2.3 billion at December 31, 2008.

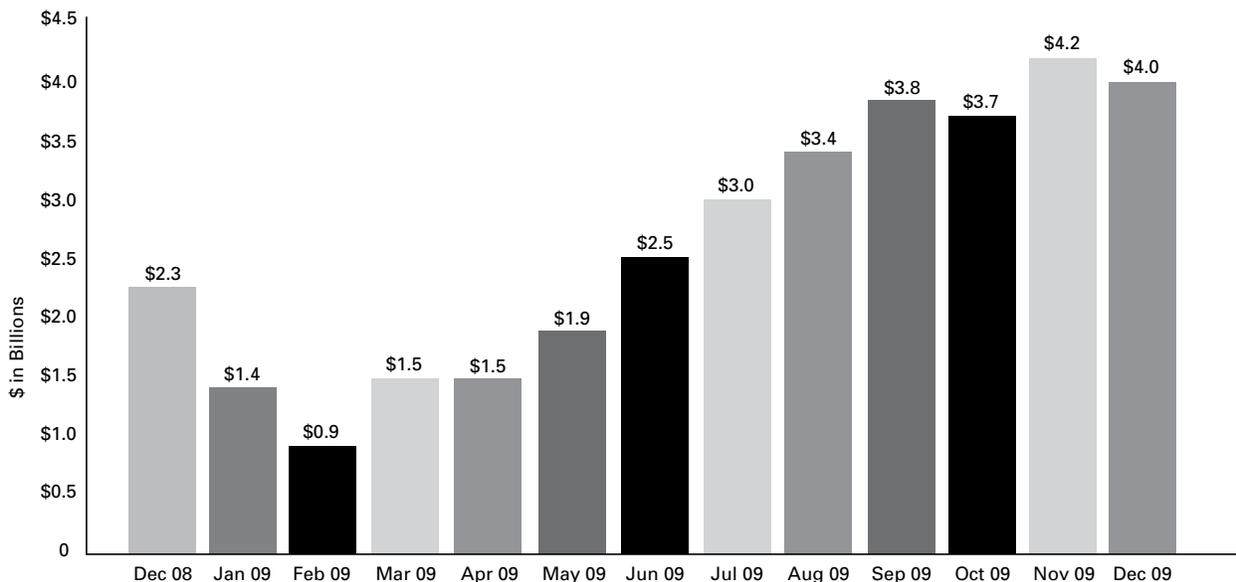
<i>(\$ in millions)</i>	Fiscal YTD Dec. 31, 2009	Projected FYTD Dec. 31, 2009	Fiscal YTD Dec. 31, 2008
Operating Revenues	\$1,071	\$1,110	\$1,124
Operating Expenses	(1,185)	(1,217)	(1,165)
Operating Transfers	(2)	(3)	(2)
Net Operating Gain (Loss)	(116)	(110)	(43)
Net Investment Income (Loss)	1,551	419	(149)
Increase (Decrease) in Net Assets	1,435	309	(192)
Net Assets End of Period	\$3,950	\$2,824	\$2,312

- o BWC's premium and assessment income for fiscal year-to-date 2010 is \$1.1 billion compared to \$1.2 billion 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 DWRP and SIEFG. Actual income is 7% less than projected due to the adjustment recorded in December to reflect the anticipated impact that unemployment will have on private employer payroll for the July through December policy period.
- o Benefit and compensation adjustment expenses increased by \$26 million for fiscal year-to-date 2010. Reserves for compensation and compensation adjustment expenses for DWRP and SIEFG have increased by \$35 million in 2010. This increase has been partially off-set by lower payments for benefits and compensation adjustment expenses. Most notably, lump sum settlements are \$53 million less for fiscal year-to-date 2010 compared to the same period last year.
- o BWC's net investment income for fiscal year-to-date 2010 totaled \$1.6 billion, comprised of \$596 million in net realized losses and \$1,773 million in net unrealized gains, along with \$376 million of interest and dividend income net of \$3 million in investment expenses. This compares to last year's net investment loss of \$149 million that primarily resulted from net unrealized losses.
- o Fiscal year-to-date 2010 premium collections are \$77 million less than projected as a result of an 8% decline in private employer premium payments. Declines in private employer payroll and last year's 5% decrease in private employer premium rates have contributed to premium collections being \$97 million less than prior fiscal year-to-date collections.

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

- o Payroll reporting forms have been mailed to private employers for reporting payroll and paying premiums for the July through December 2009 policy period. The number of employers receiving forms is down slightly compared to last summer. We are closely monitoring collection trends for negative impacts related to continuing high unemployment rates.

Net Assets



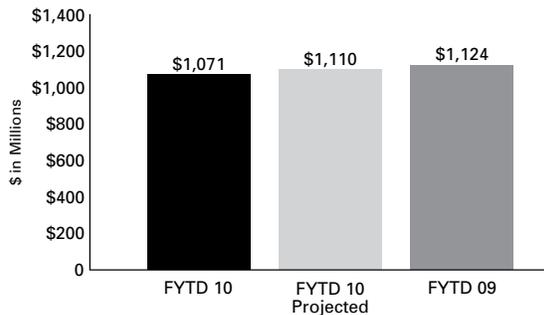
Statement of Operations

Fiscal year to date December 31, 2009

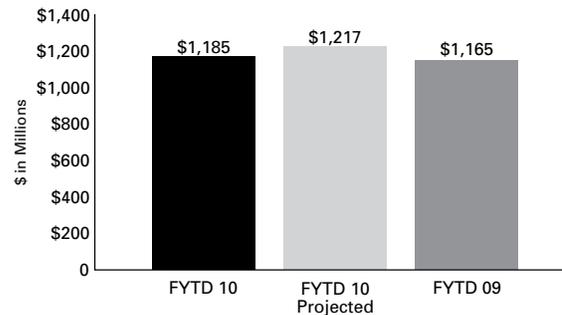
(in millions)

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
Operating Revenues					
Premium & Assessment Income	\$1,064	\$1,145	\$(81)	\$1,158	\$(94)
Provision for Uncollectibles	1	(41)	42	(40)	41
Other Income	6	6	-	6	-
Total Operating Revenue	1,071	1,110	(39)	1,124	(53)
Operating Expenses					
Benefits & Compensation Adj. Expense	1,142	1,169	27	1,116	26
Other Expenses	43	48	5	49	(6)
Total Operating Expenses	1,185	1,217	32	1,165	20
Operating Transfers	(2)	(3)	1	(2)	-
Net Operating Gain (Loss)	(116)	(110)	(6)	(43)	(73)
Net Investment Income (Loss)	1,551	419	1,132	(149)	1,700
Increase (Decrease) in Net Assets	\$1,435	\$309	\$1,126	\$(192)	\$1,627

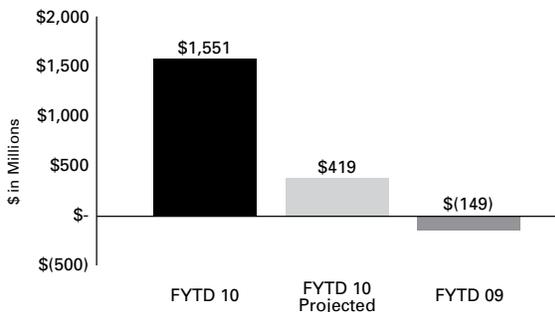
Operating Revenues



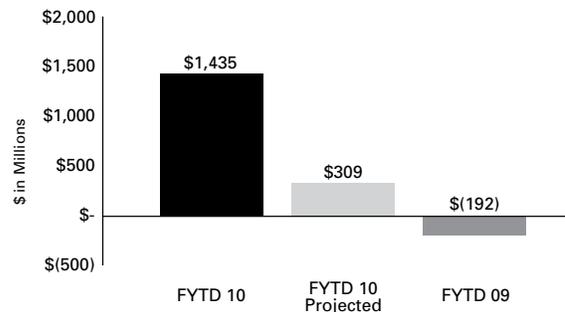
Operating Expenses



Net Investment Income (Loss)



Change in Net Assets



Statement of Operations – Combining Schedule

Fiscal year to date December 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	\$807,344	\$78,934	\$964	\$113	\$246	\$23,386	\$153,104	\$1,064,091
Provision for Uncollectibles	(15,482)	14,241	–	–	(2)	92	2,199	1,048
Other Income	4,561	–	–	–	–	–	1,327	5,888
Total Operating Revenues	796,423	93,175	964	113	244	23,478	156,630	1,071,027
Operating Expenses:								
Benefits & Compensation Adj Expenses	904,018	97,341	494	(5)	88	23,246	116,456	1,141,638
Other Expenses	12,203	104	39	1	38	1	31,179	43,565
Total Operating Expenses	916,221	97,445	533	(4)	126	23,247	147,635	1,185,203
Net Operating Income (Loss) before Operating Transfers Out	(119,798)	(4,270)	431	117	118	231	8,995	(114,176)
Operating Transfers Out	(150)	–	(965)	–	–	–	(388)	(1,503)
Net Operating Income (Loss)	(119,948)	(4,270)	(534)	117	118	231	8,607	(115,679)
Investment Income:								
Investment Income	338,933	27,495	5,885	384	286	40	3,087	376,110
Net Realized Gains (Losses)	(600,783)	4,394	616	–	–	–	–	(595,773)
Net Unrealized Gains (Losses)	1,697,397	61,812	13,378	418	313	–	–	1,773,318
Total Realized & Unrealized Capital Gains (Losses)	1,096,614	66,206	13,994	418	313	–	–	1,177,545
Investment Manager & Operational Fees	(2,747)	(142)	(76)	(5)	(3)	(1)	–	(2,974)
Gain (Loss) on Disposal of Fixed Assets	–	–	–	–	–	–	(210)	(210)
Total Non-Operating Revenues, Net	1,432,800	93,559	19,803	797	596	39	2,877	1,550,471
Increase (Decrease) in Net Assets (Deficit)	1,312,852	89,289	19,269	914	714	270	11,484	1,434,792
Net Assets (Deficit), Beginning of Period	2,191,888	835,859	166,383	19,406	15,570	6,935	(720,699)	2,515,342
Net Assets (Deficit), End of Period	\$3,504,740	\$925,148	\$185,652	\$20,320	\$16,284	\$7,205	\$(709,215)	\$3,950,134

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 December 31, 2009

(in thousands)

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
Investment Income					
Bond Interest	\$330,017	\$326,460	\$3,557	\$378,203	\$(48,186)
Dividend Income	42,990	38,940	4,050	35,655	7,335
Money Market/Commercial Paper Income	921	2,496	(1,575)	4,174	(3,253)
Misc. Income (Corp Actions, Settlements)	2,182	2,400	(218)	3,144	(962)
Total Investment Income	<u>376,110</u>	<u>370,296</u>	<u>5,814</u>	<u>421,176</u>	<u>(45,066)</u>
Realized & Unrealized Capital Gains and (Losses)					
Bonds – Net Realized Gains (Losses)	91	–	91	(77,713)	77,804
U.S. Equities – Net Realized Gains (Losses)	(589,577)	–	(589,577)	(67,032)	(522,545)
Non-U.S. Equities – Net Realized Gains (Losses)	(6,287)	–	(6,287)	–	(6,287)
Subtotal – Net Realized Gains (Losses)	<u>(595,773)</u>	<u>–</u>	<u>(595,773)</u>	<u>(144,745)</u>	<u>(451,028)</u>
Bonds – Net Unrealized Gains (Losses)	370,698	–	370,698	448,064	(77,366)
U.S. Equities – Net Unrealized Gains (Losses)	1,329,456	51,720	1,277,736	(870,383)	2,199,839
Non-U.S. Equities – Net Unrealized Gains (Losses)	73,164	–	73,164	–	73,164
Subtotal – Net Unrealized Gains (Losses)	<u>1,773,318</u>	<u>51,720</u>	<u>1,721,598</u>	<u>(422,319)</u>	<u>2,195,637</u>
Net Gain (Loss) – PE	–	–	–	(752)	752
Change in Portfolio Value	<u>1,177,545</u>	<u>51,720</u>	<u>1,125,825</u>	<u>(567,816)</u>	<u>1,745,361</u>
Investment Manager & Operational Fees	<u>(2,974)</u>	<u>(2,816)</u>	<u>(158)</u>	<u>(2,187)</u>	<u>787</u>
Net Investment Income (Loss)	<u>\$1,550,681</u>	<u>\$419,200</u>	<u>\$1,131,481</u>	<u>\$(148,827)</u>	<u>\$1,699,508</u>

Administrative Cost Fund Expense Analysis

December 2009

- o BWC Administrative Cost Fund expenses are approximately \$18 million (12.5%) less than budgeted and approximately 9% less than last fiscal year.
- o Decreases in payroll, including Customer Service, Infrastructure and Technology, Special Investigations, Medical and Communications are due to a decrease in staff as a result of hiring controls implemented by OBM, a July payroll period not requiring health care premium payments and employees use of cost savings days. Through December journal entries BWC staff have taken over 123,000 (66%) of the available 184,000 hours for a savings of approximately \$3.6 million. Usage continued to increase through the December holidays increasing the hours taken to 147,000 (80%) for a savings of approximately \$4.4 million. These savings will be recorded in January.
- o The timing of the receipt of invoices for payment in fiscal year 2010 caused actual expenditures to be less than the amount budgeted through December. An evaluation of consultant resources in Infrastructure and Technology resulted in a reduction in the number of consultants and Personal Service costs. Consultant rates were also renegotiated, which contributed to the decrease in fiscal year 2010 from 2009. A reduced number of safety grant applications resulted in lower expenditures in fiscal year 2010.
- o Various delays in project plans caused a delay in the completion of the equipment purchases through December. Some purchase orders have been completed and payments will be made in future months. This is causing actual expenditures to be less than the budgeted year to date amount through December.
- o Identification of additional costs savings, a payroll period not requiring health care premium payments in July, the use of cost savings days and approved projects awaiting final cost estimates led to a reduction in the fiscal year 2010 budget as of December.
- o BWC's current fiscal year 2010 budget is approximately \$36.6 million (11%) less than appropriated by the General Assembly.

Administrative Cost Fund Budget Summary

As of December 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	494,491	494,491	0	0.00%	871,560	555,015	(60,524)	-10.90%
Workers' Comp Council	0	0	0	0	0.00%	0	57,800	(57,800)	-100.00%
BWC Administration	13	725,624	725,624	0	0.00%	1,464,566	399,081	326,543	81.82%
Customer Service	1,451	56,808,978	56,857,896	48,918	0.09%	107,725,920	60,089,234	(3,280,256)	-5.46%
Medical	134	5,826,812	5,827,559	747	0.01%	11,066,070	6,355,026	(528,214)	-8.31%
Special Investigations	120	5,509,839	5,509,509	(330)	-0.01%	10,526,601	6,064,876	(555,037)	-9.15%
Fiscal and Planning	66	2,658,924	2,689,908	30,984	1.15%	5,090,912	2,666,989	(8,065)	-0.30%
Actuarial	24	1,106,981	1,107,404	423	0.04%	2,256,887	891,940	215,041	24.11%
Investments	11	661,445	662,417	972	0.15%	1,295,963	620,867	40,578	6.54%
Infrastructure & Technology	298	15,077,870	15,168,766	90,896	0.60%	29,065,998	16,189,141	(1,111,271)	-6.86%
Legal	77	3,567,861	3,567,861	0	0.00%	6,795,652	3,592,683	(24,822)	-0.69%
Communications	21	856,183	857,576	1,393	0.16%	1,647,936	1,447,836	(591,653)	-40.86%
Human Resources	65	2,643,626	2,643,752	126	0.00%	5,078,937	2,966,771	(323,145)	-10.89%
Internal Audit	14	685,149	685,949	800	0.12%	1,305,263	702,945	(17,796)	-2.53%
Ombuds Office	6	284,730	284,730	0	0.00%	534,940	300,428	(15,698)	-5.23%
Total Payroll	2,312	96,908,513	97,083,442	174,929	0.18%	184,727,205	102,900,632	(5,992,119)	-5.82%
Personal Services									
Information Technology		2,864,362	3,498,474	634,112	18.13%	7,739,435	4,821,903	(1,957,541)	-40.60%
Legal - Special Counsel		365,371	757,500	392,129	51.77%	1,515,000	538,712	(173,341)	-32.18%
Legal - Attorney General		2,156,499	2,310,925	154,426	6.68%	4,621,850	2,114,679	41,820	1.98%
Other Personal Services		2,260,060	3,910,302	1,650,242	42.20%	7,206,905	2,754,938	(494,878)	-17.96%
Total Personal Services		7,646,292	10,477,201	2,830,909	27.02%	21,083,190	10,230,232	(2,583,940)	-25.26%
Maintenance									
William Green Rent		1,930,362	1,933,398	3,036	0.16%	19,871,795	2,286,323	(355,961)	-15.57%
Other Rent and Leases		5,424,521	6,598,802	1,174,281	17.80%	13,769,156	5,823,851	(399,330)	-6.86%
Software and Equipment Maintenance and Repairs		7,543,086	9,273,516	1,730,430	18.66%	18,539,264	8,985,128	(1,442,042)	-16.05%
Inter Agency Payments		1,974,686	1,814,531	(160,155)	-8.83%	3,710,734	1,334,421	640,265	47.98%
Communications		1,406,644	3,396,219	1,989,575	58.58%	6,836,940	1,894,342	(487,698)	-25.74%
Safety Grants and Long Term Care Loan		432,678	3,000,002	2,567,324	85.58%	6,000,000	1,666,145	(1,233,467)	-74.03%
Supplies and Printing		429,883	1,701,738	1,271,855	74.74%	3,381,432	663,180	(233,297)	-35.18%
Other Maintenance		1,477,874	1,979,659	501,785	25.35%	3,959,945	1,611,233	(133,359)	-8.28%
Total Maintenance		20,619,734	29,697,865	9,078,131	30.57%	76,069,266	24,264,623	(3,644,889)	-15.02%
Equipment		250,087	6,130,640	5,880,553	95.92%	10,316,835	736,694	(486,607)	-66.05%
Total Administrative Cost Fund Expenses		125,424,626	143,389,148	17,964,522	12.53%	292,196,496	138,132,181	(12,707,555)	-9.20%

Total Agency Appropriation 328,821,765
 Budget to Appropriation Variance 36,625,269
 Percentage Variance 11.14%

State Insurance Fund

Administrative Expense Summary

As of December 31, 2009

	Actual FYTD 2010	Encumbrance Balance	FYTD Actual & Encumbrance	Actual FYTD 2009
Investment Administrative Expenses				
UBS Securities LLC	\$0	\$0	\$0	\$275,191
JP Morgan Chase - Performance Reporting	41,458	49,294	90,752	59,833
Mercer Investment Consulting	202,916	333,577	536,493	197,915
Other Investment Expenses	<u>198,902</u>	<u>131,237</u>	<u>330,139</u>	<u>101,509</u>
	443,276	514,108	957,384	634,448
Actuarial Expenses				
Oliver Wyman - Actuarial Services	496,743	1,803,565	2,300,308	549,938
Deloitte Consulting - Comprehensive Study	0	0	0	1,545,169
Deloitte Consulting - Actuarial Services	<u>234,965</u>	<u>1,489,785</u>	<u>1,724,750</u>	<u>0</u>
	731,708	3,293,350	4,025,058	2,095,107
Ohio Rehabilitation Services	<u>605,407</u>	<u>605,407</u>	<u>1,210,814</u>	<u>605,407</u>
TOTAL	<u>\$1,780,391</u>	<u>\$4,412,865</u>	<u>\$6,193,256</u>	<u>\$3,334,962</u>

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.

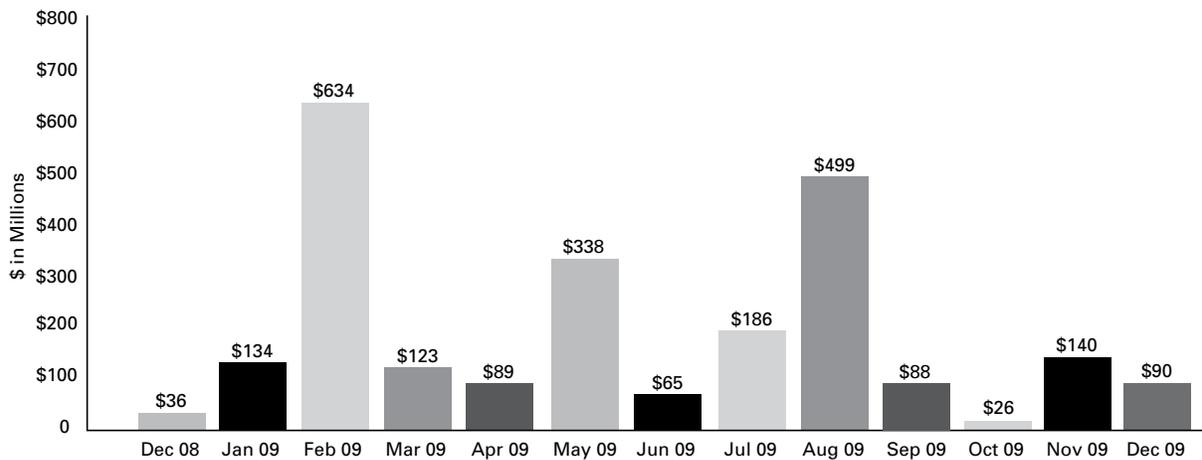
Statement of Cash Flows

Fiscal year to date December 31, 2009

(in millions)

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
Cash Flows from Operating Activities:					
Cash Receipts from Premiums	\$1,029	\$1,106	\$(77)	\$1,126	\$(97)
Cash Receipts – Other	34	17	17	12	22
Cash Disbursements for Claims	(1,040)	(1,042)	2	(1,095)	55
Cash Disbursements for Other	<u>(215)</u>	<u>(253)</u>	<u>38</u>	<u>(246)</u>	<u>31</u>
Net Cash Provided (Used) by Operating Activities	(192)	(172)	(20)	(203)	11
Net Cash Flows from Noncapital Financing Activities	(1)	(3)	2	(2)	1
Net Cash Flows from Capital and Related Financing Activities	(3)	(2)	(1)	(4)	1
Net Cash Provided (Used) by Investing Activities	<u>977</u>	<u>163</u>	<u>814</u>	<u>99</u>	<u>878</u>
Net Increase (Decrease) in Cash and Cash Equivalents	781	(14)	795	(110)	891
Cash and Cash Equivalents, Beginning of Period	<u>504</u>	<u>504</u>	<u>–</u>	<u>378</u>	<u>126</u>
Cash and Cash Equivalents, End of Period	\$1,285	\$490	\$795	\$268	\$1,017

Premium and Assessment Receipts



Statement of Net Assets

As of December 31, 2009

(in millions)

	Actual	Prior Yr. Actual	Year to Year Increase (Decrease)
Assets			
Bonds	\$12,462	\$14,320	\$(1,858)
U.S. Equities	3,882	2,266	1,616
Non-U.S. Equities	1,700	–	1,700
Private Equities	–	–	–
Cash & Cash Equivalents	<u>1,285</u>	<u>268</u>	<u>1,017</u>
Total Cash and Investments	19,329	16,854	2,475
Accrued Premiums	4,675	4,641	34
Other Accounts Receivable	110	141	(31)
Investment Receivables	1,061	229	832
Other Assets	<u>103</u>	<u>114</u>	<u>(11)</u>
Total Assets	<u>25,278</u>	<u>21,979</u>	<u>3,299</u>
Liabilities			
Reserve for Compensation and Compensation Adj. Expense	\$19,282	\$19,398	\$(116)
Accounts Payable	26	34	(8)
Investment Payable	1,833	8	1,825
Other Liabilities	<u>187</u>	<u>227</u>	<u>(40)</u>
Total Liabilities	<u>21,328</u>	<u>19,667</u>	<u>1,661</u>
Net Assets	<u>\$3,950</u>	<u>\$2,312</u>	<u>\$1,638</u>

Statement of Net Assets – Combining Schedule

As of December 31, 2009

(in thousands)

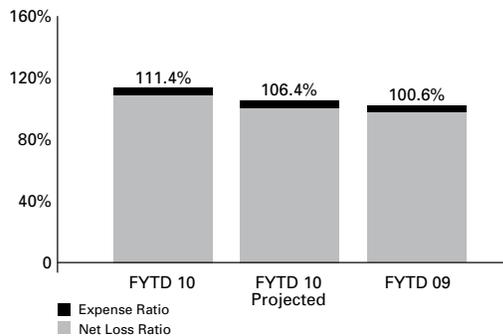
	State Insurance Fund Account	Disabled Workers' Relief Fund Account	Coal-Workers Pneumoconiosis Fund Account	Public Work Relief Employees' Fund Account	Marine Industry Fund Account	Self-Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Eliminations	Totals
Assets									
Bonds	\$11,310,475	\$ 915,003	\$ 194,820	\$ 23,803	\$ 17,784	\$ -	\$ -	\$ -	\$12,461,885
U.S. Equities	3,565,912	261,142	55,418	-	-	-	-	-	3,882,472
Non-U.S. Equities	1,699,972	-	-	-	-	-	-	-	1,699,972
Private Equities	35	-	-	-	-	-	-	-	35
Cash & Cash Equivalents	<u>1,219,538</u>	<u>7,884</u>	<u>3,010</u>	<u>216</u>	<u>318</u>	<u>51,687</u>	<u>2,135</u>	<u>-</u>	<u>1,284,788</u>
Total Cash & Investments	\$17,795,932	\$ 1,184,029	\$ 253,248	\$ 24,019	\$ 18,102	\$ 51,687	\$ 2,135	\$ -	\$19,329,152
Accrued Premiums	2,041,414	1,631,693	-	225	-	735,100	266,603	-	4,675,035
Other Accounts Receivable	84,317	18,269	-	-	3	(112)	7,096	-	109,573
Interfund Receivables	13,043	46,198	-	-	45	252	117,307	(176,845)	-
Investment Receivables	1,044,119	13,141	3,481	-	-	4	-	-	1,060,745
Other Assets	<u>25,590</u>	<u>22</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>77,483</u>	<u>-</u>	<u>103,095</u>
Total Assets	\$21,004,415	\$ 2,893,352	\$ 256,729	\$ 24,244	\$ 18,150	\$ 786,931	\$ 470,624	\$ (176,845)	\$25,277,600
Liabilities									
Reserve for Compensation & Compensation Adj. Expense	\$15,397,000	\$ 1,953,644	\$ 68,594	\$ 3,910	\$ 1,718	\$ 775,840	\$1,081,000	\$ -	\$19,281,706
Accounts Payable	25,721	-	-	-	-	-	157	-	25,878
Investment Payable	1,827,749	3,632	1,641	-	-	-	-	-	1,833,022
Interfund Payables	161,996	10,857	85	12	9	3,886	-	(176,845)	-
Other Liabilities	<u>87,209</u>	<u>71</u>	<u>757</u>	<u>2</u>	<u>139</u>	<u>-</u>	<u>98,682</u>	<u>-</u>	<u>186,860</u>
Total Liabilities	17,499,675	1,968,204	71,077	3,924	1,866	779,726	1,179,839	(176,845)	21,327,466
Net Assets	\$ 3,504,740	\$ 925,148	\$ 185,652	\$ 20,320	\$ 16,284	\$ 7,205	\$ (709,215)	\$ -	\$ 3,950,134

Financial Performance Metrics

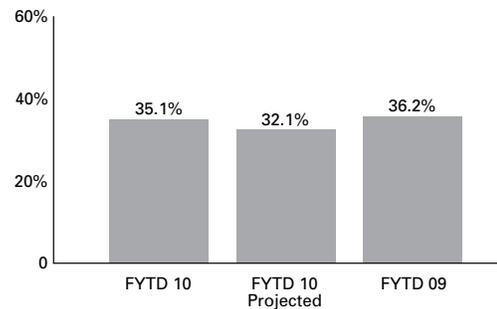
	Actual FY10 As of 12/31/09	Projected FY10 As of 12/31/09	Actual FY09 As of 12/31/08	Guidelines
Funding Ratio (State Insurance Fund)	1.24	1.17	1.14	1.02 to 1.35
Net Leverage Ratio (SIF)	4.62	6.59	8.26	3.0 to 8.0
Loss Ratio	88.5%	82.7%	78.1%	
LAE Ratio - MCO	7.7%	7.1%	6.9%	
LAE Ratio - BWC	11.1%	12.4%	11.4%	
Net Loss Ratio	107.3%	102.2%	96.4%	120.0%
Expense Ratio	4.1%	4.2%	4.2%	5.0%
Combined Ratio	111.4%	106.4%	100.6%	125.0%
Net Investment Income Ratio	35.1%	32.1%	36.2%	
Operating Ratio (Trade Ratio)	76.3%	74.3%	64.4%	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.

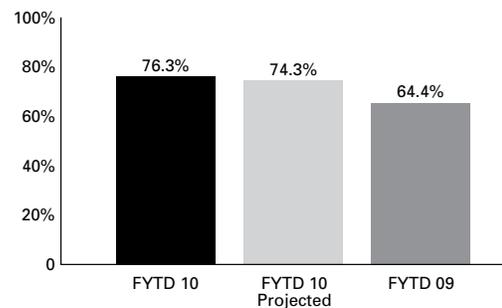
Combined Ratio



Investment Income Ratio

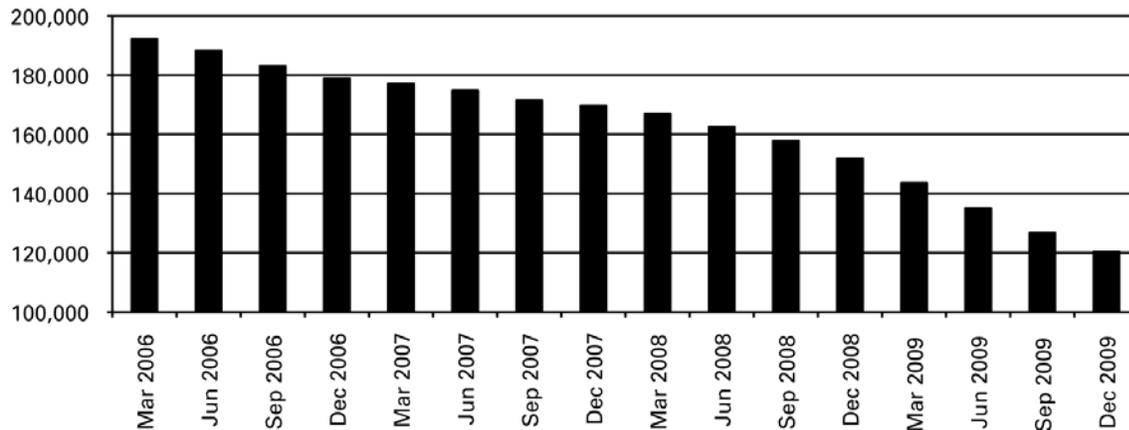


Operating Ratio



Operational Performance Metrics

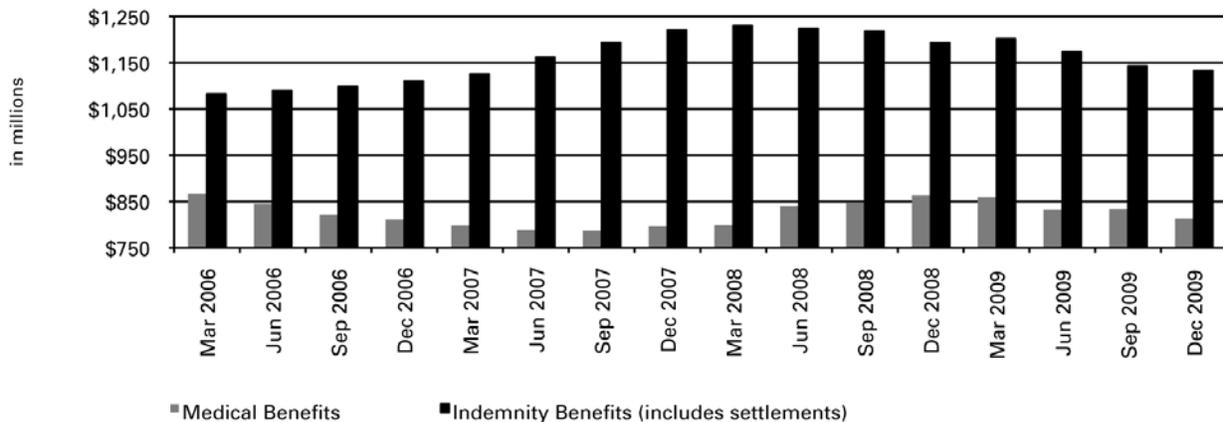
New Claims Filed - Twelve months ended



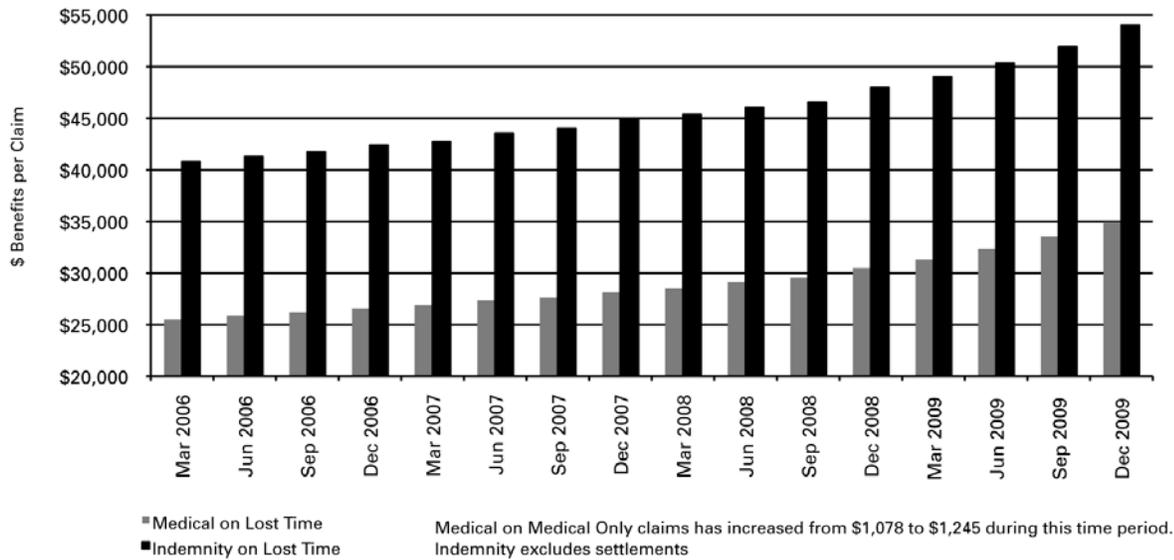
Frequency - Reported semi-annually



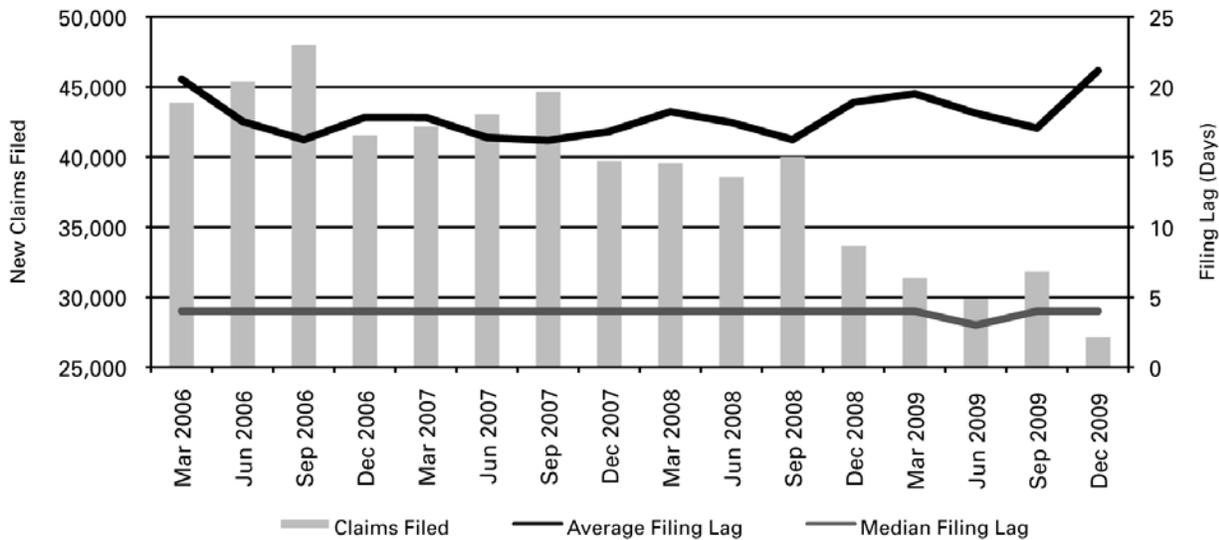
Benefit Payments - Twelve months ended



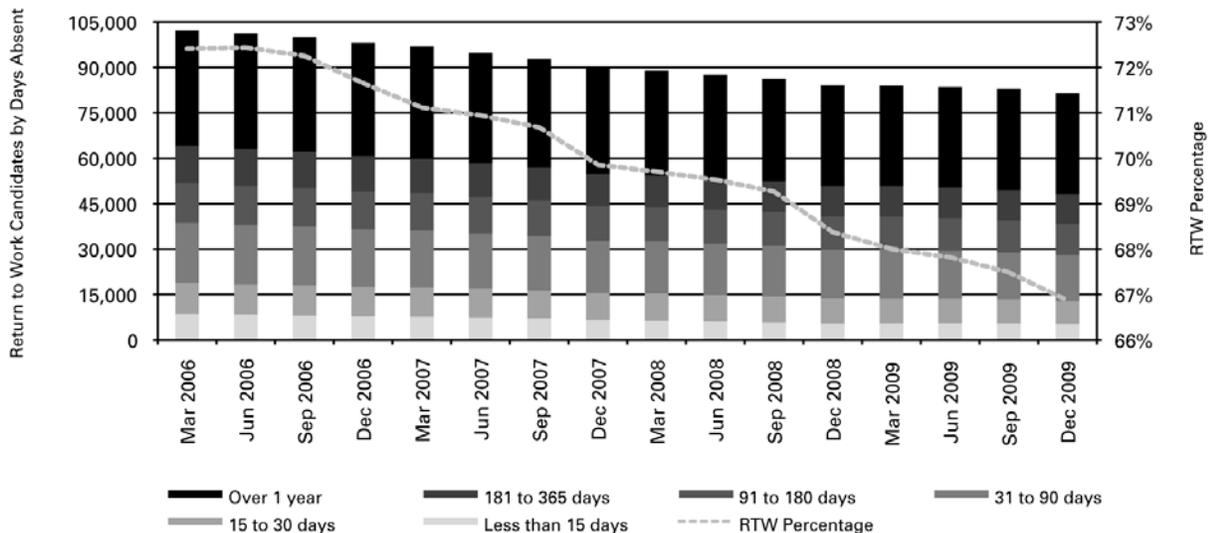
Severity



Claim Filing Lag



Return to work

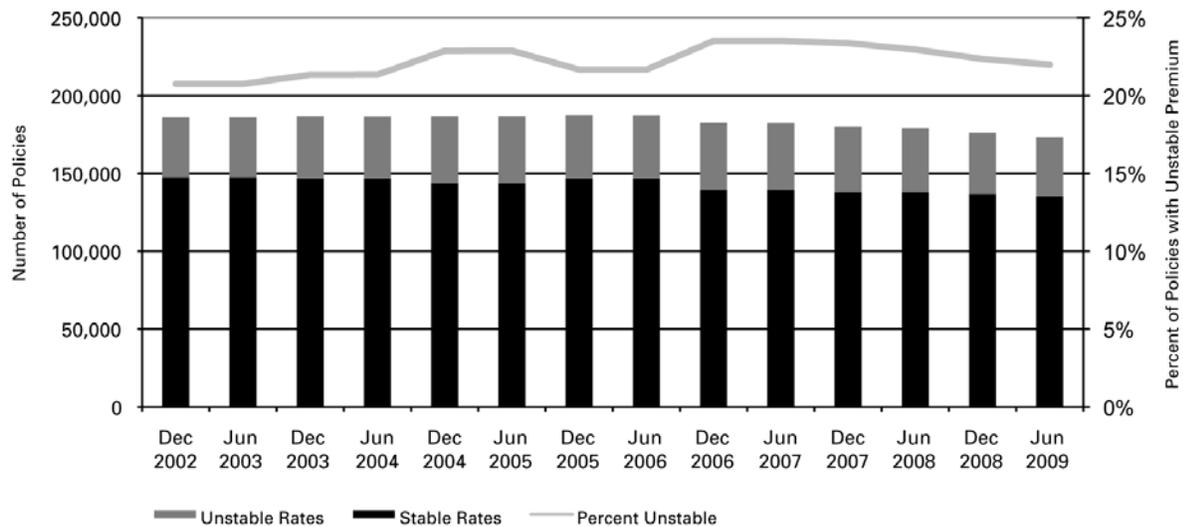


Aggregate Reported Payroll- Twelve months ended

(\$ 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
Jun 2009	\$91,066	\$19,827	\$7,194	\$150	\$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.

The Legislature went into recess immediately following the passage of the state budget bill in late December. Committee hearings resumed the week of January 11, 2010.

A check mark indicates recent activity.

SB 213—(Sen. Faber, R-Celina)—Creates a two-year moratorium on rate changes and makes other changes to BWC's rate structure for PY 2010 and beyond.

- Creates a two-year moratorium on application of the Break-even Factor and requires the maximum group discount to remain at 65% during that time. (uncodified law)
- Requires BWC to study premium rates during the first year (collaboratively with stakeholders) of the moratorium. Then make a report to legislative leaders that includes a determination the direction of future rates. And then to make recommendations based on that determination. And then, subject to BWC Board approval, adopt rules in accordance with the study and recommendations. (uncodified law)
- Requires all discounts to be set annually not later than September 1st for the upcoming policy year. Similar provision was discussed during deliberations on HB 15 (BWC budget). This provision was ultimately vetoed by the Governor.
- ✓ Not scheduled for hearing in the Senate Insurance, Commerce and Labor Committee the week of January 11th.
- ✓ The Workers' Compensation Council is working on a thorough analysis of this bill and expects to have it completed by January 20. The findings will be presented to the Council at their next meeting on January 27.

SR 118—(Sen. Grendell, R-Chesterland)--To review the feasibility of allowing employers the option to obtain private insurance to insure their obligations under the workers' compensation system of Ohio

- Creates a taskforce of 23 including the Administrator and Board of Director Chair or their designee and the Director of the Department of Insurance.
- Awaiting Senate appointments of the remaining 20 members

HB 216—(Rep. Carney, D-Columbus)--To establish certain financial capacity requirements for professional employer organizations (PEOs), 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 ORC with laws in neighboring states.

- ✓ Legislative Affairs met in December with House policy staff, Rep. Carney, and Chairman Kenny Yuko (D-Elyria) to discuss BWC's various concerns with the bill.
- ✓ This bill is expected to see movement in the House in January.
- ✓ BWC is preparing suggested revisions to the bill that have been agreed upon by all interested parties.

HB 259--(Rep. Batchelder, R-Medina)—To specify the classes of investments in which BWC may invest the assets of the State Insurance Fund and other funds (Pneumoconiosis Fund, Marine Industry Fund, etc.). Require criminal background checks for contracted for investment consultants

- If enacted, this legislation would significantly reduce the influence of the Investment Committee and Board in formulating and adjusting BWC investment policy as appropriate. And, significantly limit BWC's ability to maximize the full potential of investment portfolio.

- The legislation is nearly identical to HB 79 (Rep. Batchelder) from the 127th GA. That legislation passed the House by party line vote, then stalled in the Senate, was later stripped of its investment provisions and used as a vehicle to pass the “group-rating fix” in December 2008.
- ✓ Scheduled for Sponsor Testimony on 1/13 in House Insurance Committee.

SB 195--(Sen. Patton, R-Strongsville)--To create a uniform standard to determine whether an individual performing services for an employer is an employee of that employer. The legislation is intended to address the independent contractor misclassification issue.

- The Attorney General’s office is continuing agency discussion on this issue through its coordinated Worker Misclassification Work Group
- ✓ The work group continued soliciting input on a common statutory definition of “employee”.
- ✓ Next work group meeting is scheduled for 1/12/10
- ✓ BWC is drafting written remarks and suggestions regarding the bill

SB 94—(Sen. Patton, R-Strongsville)--To provide that a firefighter, police officer, or public emergency medical services worker who is disabled as a result of specified types of cancer or certain contagious or infectious diseases is presumed for purposes of the laws governing workers’ compensation and the Ohio Police and Fire Pension Fund to have incurred the disease while performing official duties as a firefighter, police officer, or public emergency medical services worker.

- No recent activity.
- ✓ Deloitte is reviewing for financial impacts to the State Insurance Fund

HB 249—(Rep. Heard, D-Columbus)--To redefine the definition of “journalist” (R.C. 149.43(B)(9) to include “trade and business association newsletter”. To permit access to bulk lists of claimant contact information under R.C. 4123.88.

- No recent activity.
- The Ohio Association for Justice, NFIB, and the OMA are opposed to the bill.

WORKERS’ COMPENSATION COUNCIL:

- The full WCC met on December 8 expecting to move forward on SB213. The staff indicated there hadn’t been sufficient time to adequately study the ramifications. The report was delayed until January.
- ✓ The next Council meeting is scheduled for January 27.