

Enterprise Report

March 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.*

February Financial Analysis

BWC's net assets increased by \$105 million in February resulting in net assets of \$4.0 billion at February 28, 2010 compared to \$3.9 billion at January 31, 2010.

<i>(\$ in millions)</i>	Month Ended Feb. 28, 2010	Month Ended Jan. 31, 2010	Month Ended Feb. 28, 2009
Operating Revenues	\$171	\$138	\$186
Operating Expenses	(185)	(179)	(177)
Operating Transfers	–	(1)	–
Net Operating Gain (Loss)	(14)	(42)	9
Net Investment Income (Loss)	119	(3)	(515)
Increase (Decrease) in Net Assets	105	(45)	(506)
Net Assets End of Period	\$4,010	\$3,905	\$940

- o Premium and assessment income of \$175 million net of a \$4 million provision for uncollectible accounts receivable resulted in operating revenues of \$171 million in February.
- o Decreases in premium rates for private employers of 12%, public employer taxing districts of 17% and state agencies of 3.75% have resulted in decreased operating revenues in February 2010 compared to February 2009.
- o Benefits and compensation adjustment expenses of \$177 million along with other expenses of \$8 million resulted in operating expenses of \$185 million. February expenses include \$6 million in quarterly performance payments made to managed care organizations.
- o A \$74 million increase in portfolio market value in February along with interest and dividend income of \$46 million for the month, resulted in net investment income of \$119 million for the month after investment expenses of \$0.7 million. The increase in portfolio market value is comprised of \$44 million in net unrealized gains and \$30 million in net realized gains.
- o Cash and cash equivalents include \$763 million in money market holdings in the outside investment manager accounts. These funds are committed to covering a \$688 million net investment trade payable for transactions that will settle in March.
- o Premium and assessment receipts of \$460 million were collected in February. Receipts in February 2010 are \$174 million lower than collections during this same period last year reflecting reduced premium rates, reduced employer payroll, and timing differences in the payment of premiums.

Fiscal Year-to-Year Comparisons

BWC's total net assets have increased by \$1.5 billion for fiscal year-to-date 2010 resulting in net assets of \$4.0 billion at February 28, 2010 compared to \$940 million at February 28, 2009.

<i>(\$ in millions)</i>	Fiscal YTD Feb. 28, 2010	Projected FYTD Feb. 28, 2010	Fiscal YTD Feb. 28, 2009
Operating Revenues	\$1,380	\$1,462	\$1,474
Operating Expenses	(1,549)	(1,596)	(1,502)
Operating Transfers	(3)	(4)	(3)
Net Operating Gain (Loss)	(172)	(138)	(31)
Net Investment Income (Loss)	1,667	559	(1,532)
Increase (Decrease) in Net Assets	1,495	421	(1,563)
Net Assets End of Period	\$4,010	\$2,936	\$940

- o BWC's premium and assessment income for fiscal year-to-date 2010 is \$1.4 billion compared to \$1.5 billion for the same period last year. Decreases in premium rates for private and state agency employers effective July 1, 2009 and January 1, 2010 for public employer taxing districts are off-set by increased unbilled receivables for DWRF and SIEGF. Actual income is 8.2% less than projected primarily due to the adjustment recorded in December to

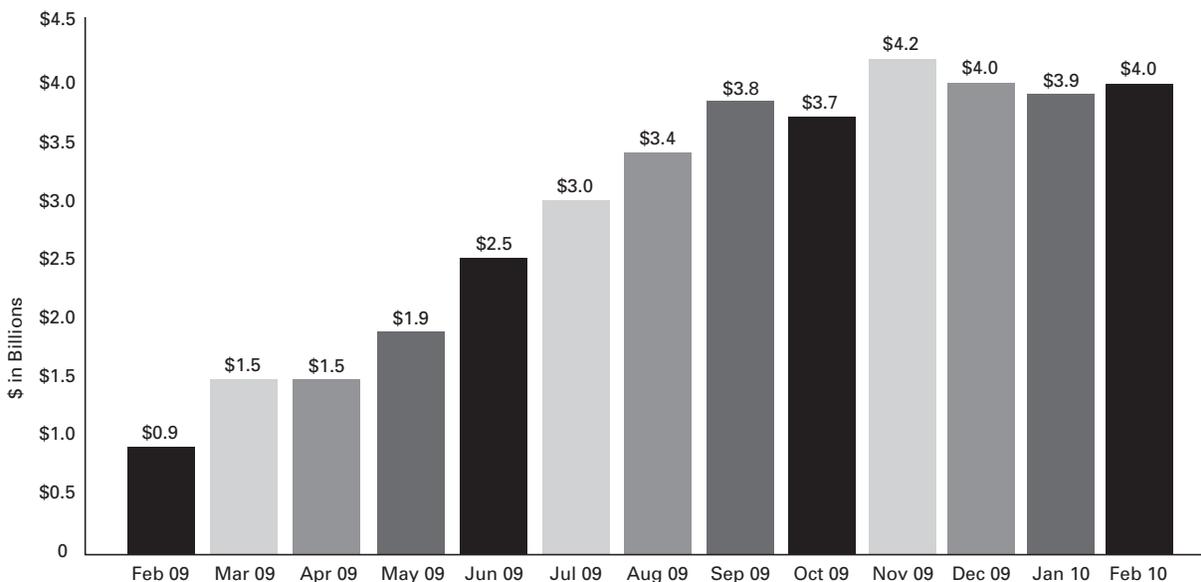
reflect the anticipated impact that unemployment will have on private employer payroll for the July through December policy period and considering this same impact in premium accruals for the January through June policy period.

- o Benefit and compensation adjustment expenses increased by \$51 million for fiscal year-to-date 2010. Reserves for compensation and compensation adjustment expenses for DWRP and SIEGF have increased by \$47 million in 2010. This increase has been partially off-set by lower payments for benefits and compensation adjustment expenses. While settlements and medical payments have decreased by over \$73 million, there have been increases in temporary total and permanent total disability costs of approximately \$10 million.
- o BWC's net investment income for fiscal year-to-date 2010 totaled \$1.7 billion, comprised of \$566 million in net realized losses and \$1,764 million in net unrealized gains, along with \$474 million of interest and dividend income and \$4 million in investment expenses. This compares to last year's net investment loss of \$1.5 billion that primarily resulted from net unrealized losses.
- o Declines in private employer payroll and decreases in premium rates have contributed to premium collections being \$296 million less than prior fiscal year-to-date collections.
- o Approximately 212,000 or 84% of private employers timely filed their payroll report for the July through December 2009 policy period compared to 83% for the same period last year. Premiums paid for this collection period were \$701 million compared to \$798 million last year, a 12% decrease.

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

- o The approximately 20,200 employers participating in the 50/50 payment program will be paying \$146 million in premiums by June 1, 2010 to maintain active coverage. These numbers are down from the almost 20,700 employers that participated last year that owed \$176 million for the second installment.
- o Estimated premiums totaling \$27.4 million were billed on March 13th to 26,100 private employers that failed to report payroll for the July through December 2009 policy period. Last year at this time estimated premiums of \$48 million were billed to 29,400 employers.
- o While new claim filings continue to trend downward, the average cost per claim has increased. BWC is continuing to analyze the factors causing the increases in severity.

Net Assets



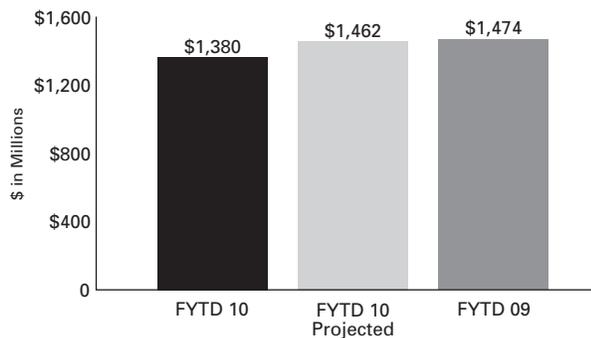
Statement of Operations

Fiscal year to date February 28, 2010

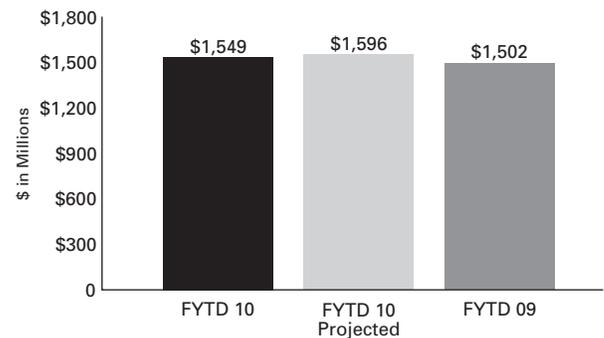
(in millions)

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
Operating Revenues					
Premium & Assessment Income	\$1,378	\$1,501	\$(123)	\$1,514	\$(136)
Provision for Uncollectibles	(4)	(45)	41	(46)	42
Other Income	6	6	–	6	–
Total Operating Revenue	1,380	1,462	(82)	1,474	(94)
Operating Expenses					
Benefits & Compensation Adj. Expense	1,492	1,533	41	1,441	51
Other Expenses	57	63	6	61	(4)
Total Operating Expenses	1,549	1,596	47	1,502	47
Operating Transfers	(3)	(4)	1	(3)	–
Net Operating Gain (Loss)	(172)	(138)	(34)	(31)	(141)
Net Investment Income (Loss)	1,667	559	1,108	(1,532)	3,199
Increase (Decrease) in Net Assets	\$1,495	\$421	\$1,074	\$(1,563)	\$3,058

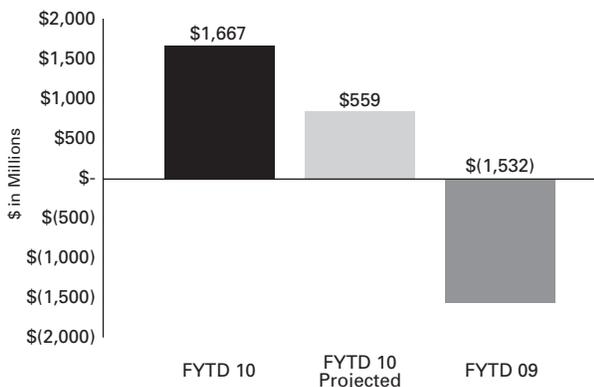
Operating Revenues



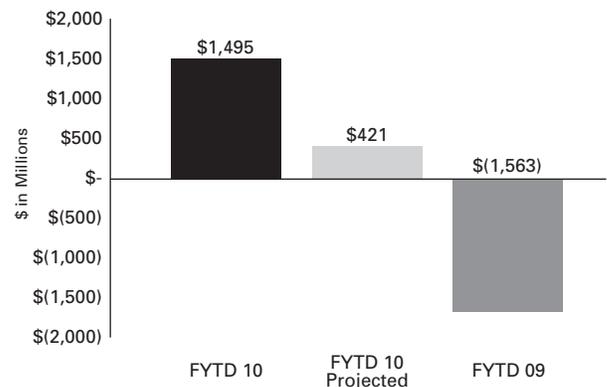
Operating Expenses



Net Investment Income (Loss)



Change in Net Assets



Statement of Operations – Combining Schedule

Fiscal year to date February 28, 2010

(in thousands)

	State Insurance Fund Account	Disabled Workers' Relief Fund Account	Coal-Workers Pneumoconiosis Fund Account	Public Work Relief Employees' Fund Account	Marine Industry Fund Account	Self-Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Totals
Operating Revenues:								
Premium & Assessment Income	\$1,034,510	\$104,647	\$1,210	\$170	\$355	\$31,244	\$205,213	\$1,377,349
Provision for Uncollectibles	(19,828)	14,969	–	–	(3)	442	419	(4,001)
Other Income	4,544	–	–	–	–	–	1,581	6,125
Total Operating Revenues	1,019,226	119,616	1,210	170	352	31,686	207,213	1,379,473
Operating Expenses:								
Benefits & Compensation Adj Expenses	1,184,872	121,681	622	(8)	114	31,073	153,508	1,491,862
Other Expenses	15,784	163	51	1	68	1	41,085	57,153
Total Operating Expenses	1,200,656	121,844	673	(7)	182	31,074	194,593	1,549,015
Net Operating Income (Loss) before Operating Transfers Out	(181,430)	(2,228)	537	177	170	612	12,620	(169,542)
Operating Transfers Out	(150)	–	(1,892)	–	–	–	(600)	(2,642)
Net Operating Income (Loss)	(181,580)	(2,228)	(1,355)	177	170	612	12,020	(172,184)
Investment Income:								
Investment Income	426,014	35,379	7,577	384	287	43	3,969	473,653
Net Realized Gains (Losses)	(570,524)	4,004	528	–	–	–	–	(565,992)
Net Unrealized Gains (Losses)	1,677,197	69,945	15,277	852	636	–	–	1,763,907
Total Realized & Unrealized Capital Gains (Losses)	1,106,673	73,949	15,805	852	636	–	–	1,197,915
Investment Manager & Operational Fees	(4,065)	(189)	(102)	(6)	(5)	(1)	–	(4,368)
Gain (Loss) on Disposal of Fixed Assets	–	–	–	–	–	–	(176)	(176)
Total Non-Operating Revenues, Net	1,528,622	109,139	23,280	1,230	918	42	3,793	1,667,024
Increase (Decrease) in Net Assets (Deficit)	1,347,042	106,911	21,925	1,407	1,088	654	15,813	1,494,840
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	\$3,538,930	\$942,770	\$188,308	\$20,813	\$16,658	\$7,589	\$(704,886)	\$4,010,182

This report shows operating activity for each of the funds administered by BWC.

The deficit in net assets for the Administrative Cost Fund is a result of recognizing the actuarially estimated liabilities for loss adjustment expenses while funding for ACF is on a pay-as-you-go basis.

Statement of Investment Income

Fiscal year to date February 28, 2010

(in thousands)

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
Investment Income					
Bond Interest	\$415,105	\$421,280	\$(6,175)	\$384,841	\$30,264
Dividend Income	55,107	57,920	(2,813)	50,028	5,079
Money Market/Commercial Paper Income	993	3,328	(2,335)	4,571	(3,578)
Misc. Income (Corp Actions, Settlements)	2,448	3,200	(752)	7,155	(4,707)
Total Investment Income	<u>473,653</u>	<u>485,728</u>	<u>(12,075)</u>	<u>446,595</u>	<u>27,058</u>
Realized & Unrealized Capital Gains and (Losses)					
Bonds – Net Realized Gains (Losses)	41,340	–	41,340	(95,701)	137,041
U.S. Equities – Net Realized Gains (Losses)	(585,951)	–	(585,951)	(72,167)	(513,784)
Non-U.S. Equities – Net Realized Gains (Losses)	(21,381)	–	(21,381)	–	(21,381)
Subtotal – Net Realized Gains (Losses)	<u>(565,992)</u>	<u>–</u>	<u>(565,992)</u>	<u>(167,868)</u>	<u>(398,124)</u>
Bonds – Net Unrealized Gains (Losses)	460,611	–	460,611	(400,780)	861,391
U.S. Equities – Net Unrealized Gains (Losses)	1,300,656	76,960	1,223,696	(1,406,339)	2,706,995
Non-U.S. Equities – Net Unrealized Gains (Losses)	2,640	–	2,640	(134)	2,774
Subtotal – Net Unrealized Gains (Losses)	<u>1,763,907</u>	<u>76,960</u>	<u>1,686,947</u>	<u>(1,807,253)</u>	<u>3,571,160</u>
Net Gain (Loss) – PE	–	–	–	134	(134)
Change in Portfolio Value	<u>1,197,915</u>	<u>76,960</u>	<u>1,120,955</u>	<u>(1,974,987)</u>	<u>3,172,902</u>
Investment Manager & Operational Fees	<u>(4,368)</u>	<u>(3,920)</u>	<u>(448)</u>	<u>(3,267)</u>	<u>1,101</u>
Net Investment Income (Loss)	<u>\$1,667,200</u>	<u>\$558,768</u>	<u>\$1,108,432</u>	<u>\$(1,531,659)</u>	<u>\$3,198,859</u>

Administrative Cost Fund Expense Analysis

February 2010

- o BWC Administrative Cost Fund expenses are approximately \$20.6 million (11%) less than budgeted and approximately 7% 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 February journal entries BWC staff have taken over 156,000 (81%) of the available 182,800 hours for a savings of approximately \$4.7 million.
- 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 February. 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. Wrapping up several court cases has resulted in the reduction of fiscal year 2010 Special Counsel costs. Moving BWC printing to DAS State Printing caused an increase in Inter Agency Payments. The increases are partially offset by reductions in postage in the Communications line, lease payments, maintenance costs and equipment. 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 equipment purchases through February. 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 February. Delays in project plans in fiscal year 2009 caused additional delays in equipment purchases resulting in an increase in equipment expenditures in 2010.
- o Identification of additional costs savings, a payroll period not requiring health care premium payments in July, the use of cost savings days and the delay of approved projects until 2011 led to a reduction in the fiscal year 2010 budget as of February.
- o BWC's current fiscal year 2010 budget is approximately \$39.6 million (12%) less than appropriated by the General Assembly.

Administrative Cost Fund Budget Summary

As of February 28, 2010

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	573,213	573,213	0	0.00%	824,592	643,057	(69,844)	-10.86%
Workers' Comp Council	0	0	0	0	0.00%	0	72,323	(72,323)	-100.00%
BWC Administration	13	945,929	945,929	0	0.00%	1,438,557	525,164	420,765	80.12%
Customer Service	1,436	73,190,364	73,235,435	45,071	0.06%	107,027,971	76,842,496	(3,652,132)	-4.75%
Medical	128	7,486,814	7,487,561	747	0.01%	10,829,455	8,151,835	(665,021)	-8.16%
Special Investigations	121	7,101,276	7,101,111	(165)	0.00%	10,436,057	7,767,253	(665,977)	-8.57%
Fiscal and Planning	62	3,418,008	3,452,461	34,453	1.00%	5,000,846	3,440,509	(22,501)	-0.65%
Actuarial	22	1,421,317	1,422,406	1,089	0.08%	2,164,484	1,156,727	264,590	22.87%
Investments	11	856,720	858,016	1,296	0.15%	1,280,380	800,923	55,797	6.97%
Infrastructure & Technology	295	19,423,434	19,549,199	125,765	0.64%	28,721,688	20,660,116	(1,236,682)	-5.99%
Legal	79	4,593,016	4,593,016	0	0.00%	6,752,723	4,628,516	(35,500)	-0.77%
Communications	21	1,108,394	1,110,340	1,946	0.18%	1,637,249	1,786,240	(677,846)	-37.95%
Human Resources	65	3,419,105	3,419,275	170	0.00%	5,042,738	3,789,541	(370,436)	-9.78%
Internal Audit	14	882,549	883,749	1,200	0.14%	1,296,445	925,897	(43,348)	-4.68%
Ombuds Office	6	354,646	354,646	0	0.00%	504,308	390,416	(35,770)	-9.16%
Total Payroll	2,285	124,774,785	124,986,357	211,572	0.17%	182,957,493	131,581,013	(6,806,228)	-5.17%
Personal Services									
Information Technology		3,882,486	5,477,710	1,595,224	29.12%	8,305,015	6,419,286	(2,536,800)	-39.52%
Legal - Special Counsel		404,798	1,010,000	605,202	59.92%	1,515,000	660,359	(255,561)	-38.70%
Legal - Attorney General		3,126,992	3,466,387	339,395	9.79%	4,621,850	3,225,701	(98,709)	-3.06%
Other Personal Services		3,804,313	4,917,002	1,112,689	22.63%	7,229,085	3,952,242	(147,929)	-3.74%
Total Personal Services		11,218,589	14,871,099	3,652,510	24.56%	21,670,950	14,257,588	(3,038,999)	-21.31%
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		7,454,541	9,158,939	1,704,398	18.61%	13,769,156	7,865,887	(411,346)	-5.23%
Software and Equipment Maintenance and Repairs		8,921,790	12,372,463	3,450,673	27.89%	18,539,264	10,650,283	(1,728,493)	-16.23%
Inter Agency Payments		3,124,728	2,525,664	(599,064)	-23.72%	3,737,461	1,881,898	1,242,830	66.04%
Communications		1,767,765	4,458,751	2,690,986	60.35%	6,809,713	2,526,741	(758,976)	-30.04%
Safety Grants and Long Term Care Loan		940,751	4,333,336	3,392,585	78.29%	6,000,000	2,710,061	(1,769,310)	-65.29%
Supplies and Printing		627,679	2,282,261	1,654,582	72.50%	3,382,152	968,570	(340,891)	-35.20%
Other Maintenance		2,035,784	2,617,555	581,771	22.23%	3,959,225	2,075,611	(39,827)	-1.92%
Total Maintenance		26,803,400	39,682,367	12,878,967	32.46%	76,068,766	30,965,374	(4,161,974)	-13.44%
Equipment		1,857,426	5,951,149	4,093,723	68.79%	8,479,115	811,809	1,045,617	128.80%
Total Administrative Cost Fund Expenses		164,654,200	185,490,972	20,836,772	11.23%	289,176,324	177,615,784	(12,961,584)	-7.30%

Total Agency Appropriation 328,821,765
 Budget to Appropriation Variance 39,645,441
 Percentage Variance 12.06%

State Insurance Fund

Administrative Expense Summary

As of February 28, 2010

	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	56,167	34,585	90,752	70,249
Mercer Investment Consulting	325,416	211,077	536,493	277,081
Other Investment Expenses	<u>286,461</u>	<u>78,678</u>	<u>365,139</u>	<u>154,550</u>
	668,044	324,340	992,384	777,071
Actuarial Expenses				
Oliver Wyman - Actuarial Services	583,051	500,000	1,083,051	628,446
Deloitte Consulting - Comprehensive Study	0	0	0	1,550,095
Deloitte Consulting - Actuarial Services	<u>670,257</u>	<u>1,054,493</u>	<u>1,724,750</u>	<u>0</u>
	1,253,308	1,554,493	2,807,801	2,178,541
Ohio Rehabilitation Services	<u>605,407</u>	<u>605,407</u>	<u>1,210,814</u>	<u>605,407</u>
TOTAL	<u>\$2,526,759</u>	<u>\$2,484,240</u>	<u>\$5,010,999</u>	<u>\$3,561,019</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.

Operating Transfers

As of February 28, 2010

	FYTD 2010	FYTD 2009	Source
Workers' Compensation Council	\$325,000	\$177,166	Administrative Cost Fund
Ohio Dept. of Natural Resources	1,891,575	3,106,000	Coal Workers' Pneumoconiosis Fund
Ohio Inspector General	<u>425,000</u>	<u>0</u>	Administrative Cost Fund
TOTAL	<u>\$2,641,575</u>	<u>\$3,283,166</u>	

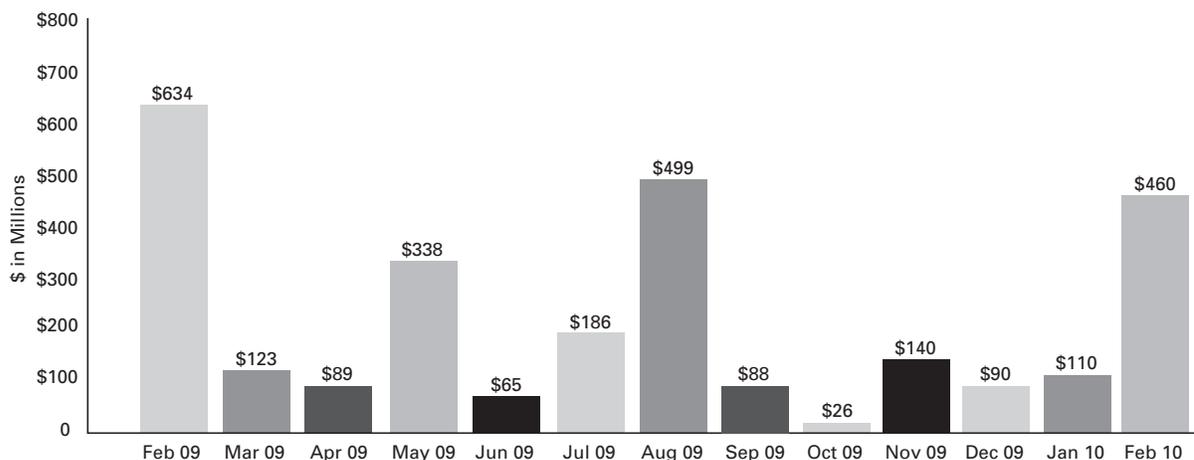
Statement of Cash Flows

Fiscal year to date February 28, 2010

(in millions)

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
Cash Flows from Operating Activities:					
Cash Receipts from Premiums	\$1,599	\$1,655	\$(56)	\$1,895	\$(296)
Cash Receipts – Other	40	24	16	17	23
Cash Disbursements for Claims	(1,351)	(1,371)	20	(1,424)	73
Cash Disbursements for Other	<u>(272)</u>	<u>(320)</u>	<u>48</u>	<u>(309)</u>	<u>37</u>
Net Cash Provided (Used) by Operating Activities	16	(12)	28	179	(163)
Net Cash Flows from Noncapital Financing Activities	(3)	(4)	1	(3)	–
Net Cash Flows from Capital and Related Financing Activities	(4)	(2)	(2)	(4)	–
Net Cash Provided (Used) by Investing Activities	<u>745</u>	<u>163</u>	<u>582</u>	<u>197</u>	<u>548</u>
Net Increase (Decrease) in Cash and Cash Equivalents	754	145	609	369	385
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	\$1,258	\$649	\$609	\$747	\$511

Premium and Assessment Receipts



Statement of Net Assets

As of February 28, 2010

(in millions)

	Actual	Prior Yr. Actual	Year to Year Increase (Decrease)
Assets			
Bonds	\$12,687	\$12,716	\$(29)
U.S. Equities	3,867	2,471	1,396
Non-U.S. Equities	1,615	–	1,615
Private Equities	–	–	–
Cash & Cash Equivalents	<u>1,258</u>	<u>747</u>	<u>511</u>
Total Cash and Investments	19,427	15,934	3,493
Accrued Premiums	4,396	4,318	78
Other Accounts Receivable	193	131	62
Investment Receivables	3,457	360	3,097
Other Assets	<u>102</u>	<u>112</u>	<u>(10)</u>
Total Assets	<u>27,575</u>	<u>20,855</u>	<u>6,720</u>
Liabilities			
Reserve for Compensation and Compensation Adj. Expense	\$19,294	\$19,376	\$(82)
Accounts Payable	79	94	(15)
Investment Payable	4,004	221	3,783
Other Liabilities	<u>188</u>	<u>224</u>	<u>(36)</u>
Total Liabilities	<u>23,565</u>	<u>19,915</u>	<u>3,650</u>
Net Assets	\$4,010	\$940	\$3,070

Statement of Net Assets – Combining Schedule

As of February 28, 2010

(in thousands)

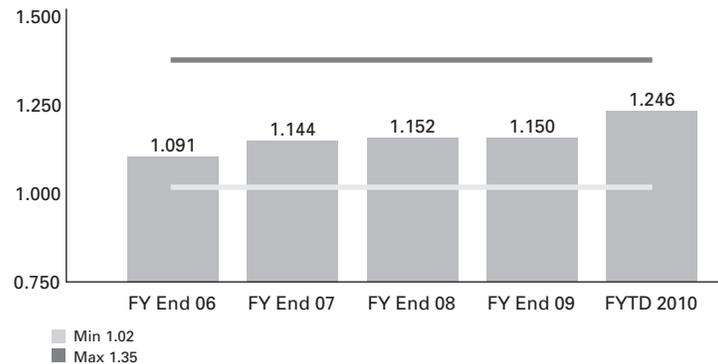
	State Insurance Fund Account	Disabled Workers' Relief Fund Account	Coal-Workers Pneumoconiosis Fund Account	Public Work Relief Employees' Fund Account	Marine Industry Fund Account	Self-Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Eliminations	Totals
Assets									
Bonds	\$11,516,557	\$ 928,191	\$ 200,033	\$ 24,236	\$ 18,108	\$ -	\$ -	\$ -	\$12,687,125
U.S. Equities	3,552,019	259,670	55,106	-	-	-	-	-	3,866,795
Non-U.S. Equities	1,614,689	-	-	-	-	-	-	-	1,614,689
Private Equities	35	-	-	-	-	-	-	-	35
Cash & Cash Equivalents	<u>1,193,575</u>	<u>12,493</u>	<u>2,228</u>	<u>194</u>	<u>481</u>	<u>45,915</u>	<u>2,760</u>	<u>-</u>	<u>1,257,646</u>
Total Cash & Investments	\$17,876,875	\$ 1,200,354	\$ 257,367	\$ 24,430	\$ 18,589	\$ 45,915	\$ 2,760	\$ -	\$19,426,290
Accrued Premiums	1,813,986	1,628,677	-	283	-	736,482	217,057	-	4,396,485
Other Accounts Receivable	125,156	22,794	1	-	2	2,272	43,081	-	193,306
Interfund Receivables	12,179	56,596	246	-	16	4,193	136,710	(209,940)	-
Investment Receivables	3,423,456	28,062	5,087	-	-	1	-	-	3,456,606
Other Assets	<u>25,468</u>	<u>22</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>76,690</u>	<u>-</u>	<u>102,180</u>
Total Assets	<u>\$23,277,120</u>	<u>\$ 2,936,505</u>	<u>\$ 262,701</u>	<u>\$ 24,713</u>	<u>\$ 18,607</u>	<u>\$ 788,863</u>	<u>\$ 476,298</u>	<u>\$ (209,940)</u>	<u>\$27,574,867</u>
Liabilities									
Reserve for Compensation & Compensation Adj. Expense	\$15,397,000	\$ 1,962,092	\$ 68,592	\$ 3,880	\$ 1,724	\$ 779,196	\$ 1,081,000	\$ -	\$19,293,484
Accounts Payable	77,604	-	-	-	-	-	1,648	-	79,252
Investment Payable	3,978,253	20,946	4,938	-	-	-	-	-	4,004,137
Interfund Payables	197,131	10,582	83	17	49	2,078	-	(209,940)	-
Other Liabilities	<u>88,202</u>	<u>115</u>	<u>780</u>	<u>3</u>	<u>176</u>	<u>-</u>	<u>98,536</u>	<u>-</u>	<u>187,812</u>
Total Liabilities	<u>19,738,190</u>	<u>1,993,735</u>	<u>74,393</u>	<u>3,900</u>	<u>1,949</u>	<u>781,274</u>	<u>1,181,184</u>	<u>(209,940)</u>	<u>23,564,685</u>
Net Assets	\$ 3,538,930	\$ 942,770	\$ 188,308	\$ 20,813	\$ 16,658	\$ 7,589	\$ (704,886)	\$ -	\$ 4,010,182

Financial Performance Metrics

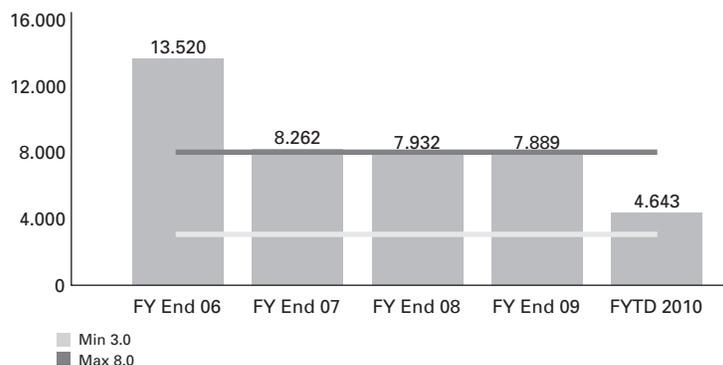
	Actual FY10 As of 2/28/10	Projected FY10 As of 2/28/10	Actual FY09 As of 2/28/09	Guidelines
Funding Ratio (State Insurance Fund)	1.25	1.19	1.05	1.02 to 1.35
Net Leverage Ratio (SIF)	4.64	6.44	22.95	3.0 to 8.0
Loss Ratio	88.9%	82.5%	76.8%	
LAE Ratio - MCO	8.1%	7.3%	7.2%	
LAE Ratio - BWC	11.3%	12.3%	11.2%	
Net Loss Ratio	108.3%	102.1%	95.2%	120.0%
Expense Ratio	4.2%	4.2%	4.0%	5.0%
Combined Ratio	112.5%	106.3%	99.2%	125.0%
Net Investment Income Ratio	34.1%	32.1%	29.3%	
Operating Ratio (Trade Ratio)	78.4%	74.2%	69.9%	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.

Funding Ratio

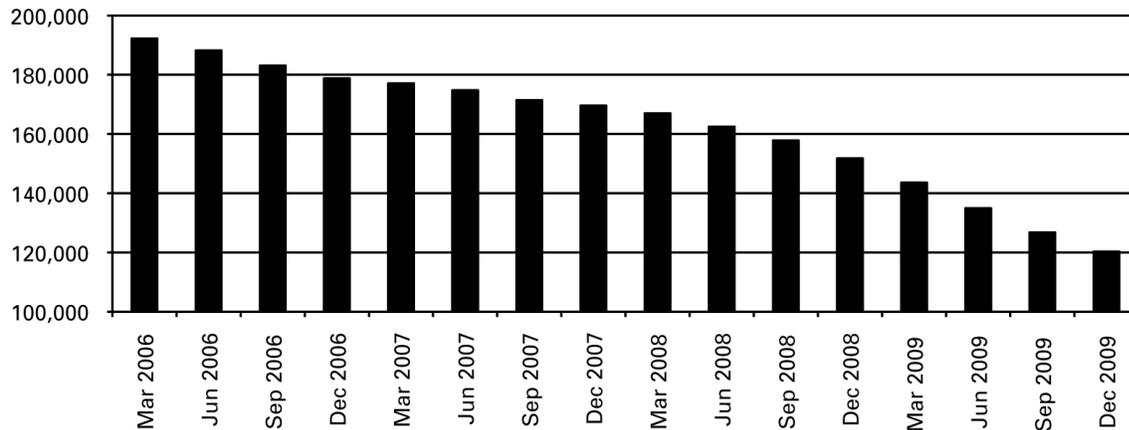


Net Leverage Ratio

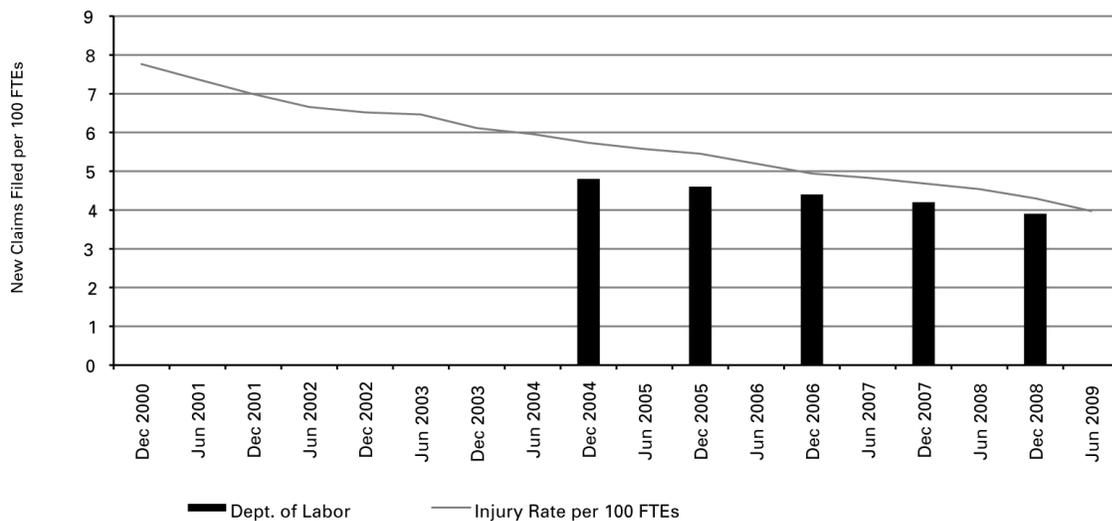


Operational Performance Metrics

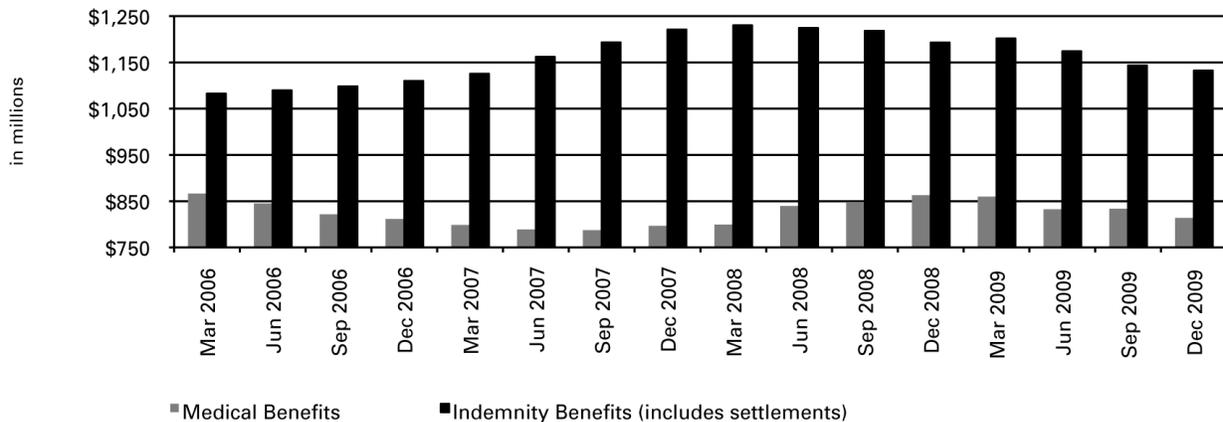
New Claims Filed - Twelve months ended



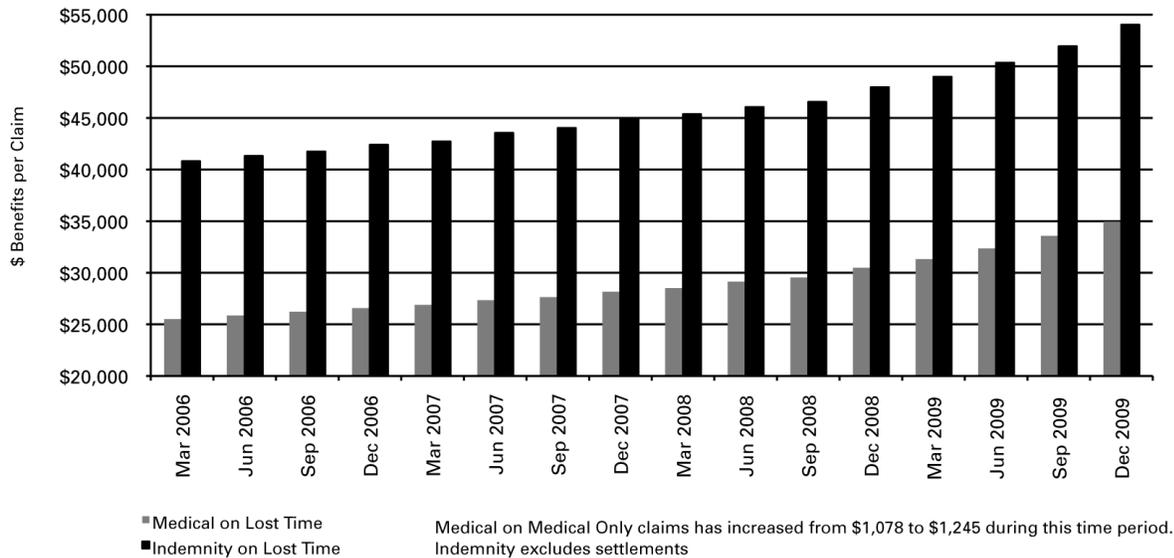
Frequency - Reported semi-annually



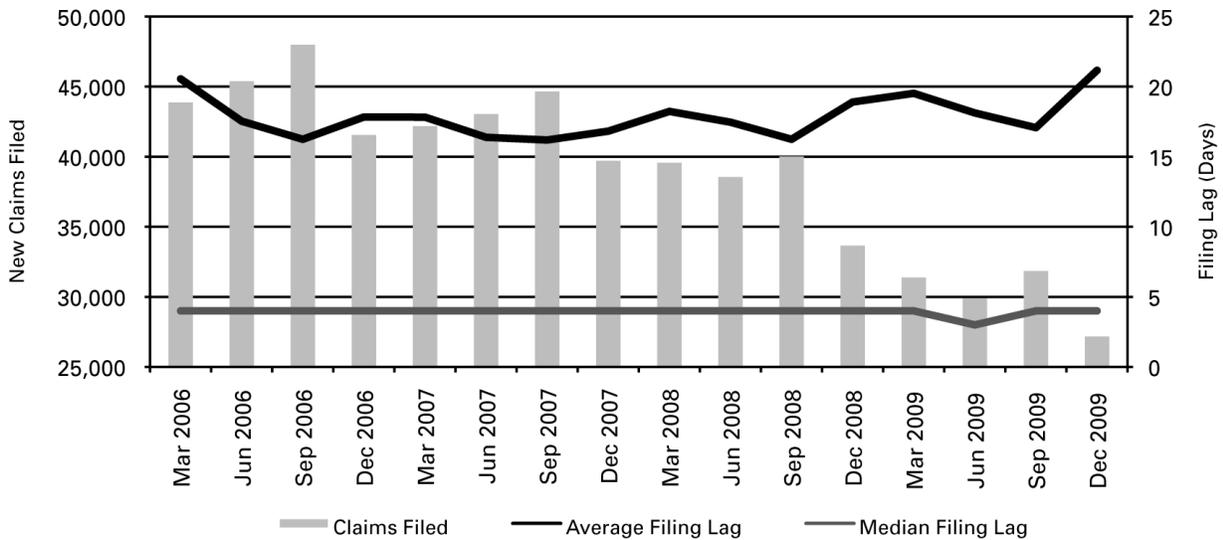
Benefit Payments - Twelve months ended



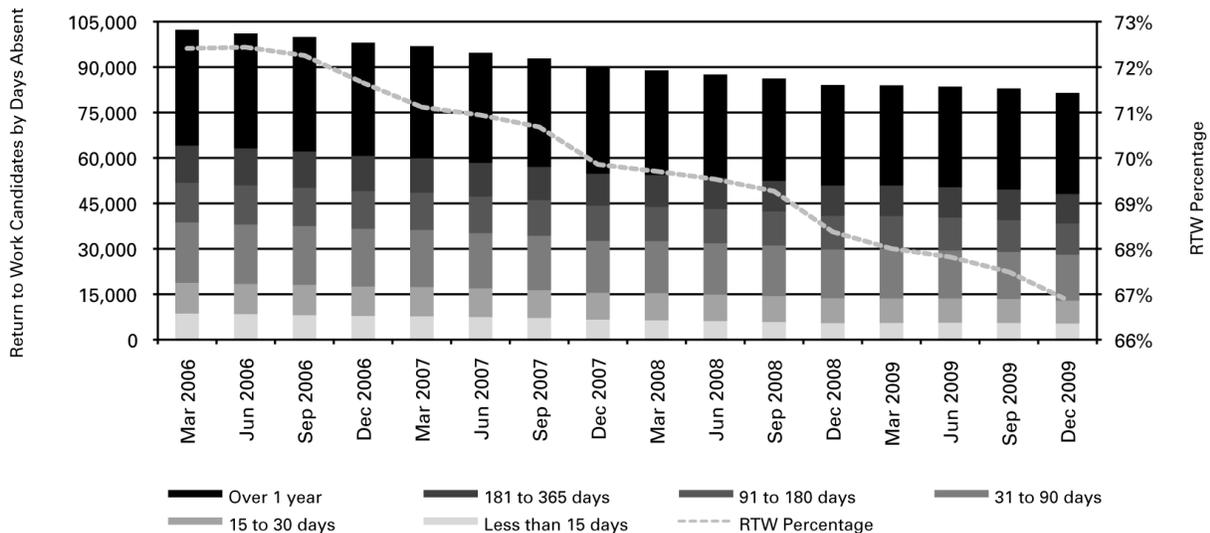
Severity



Claim Filing Lag



Return to work

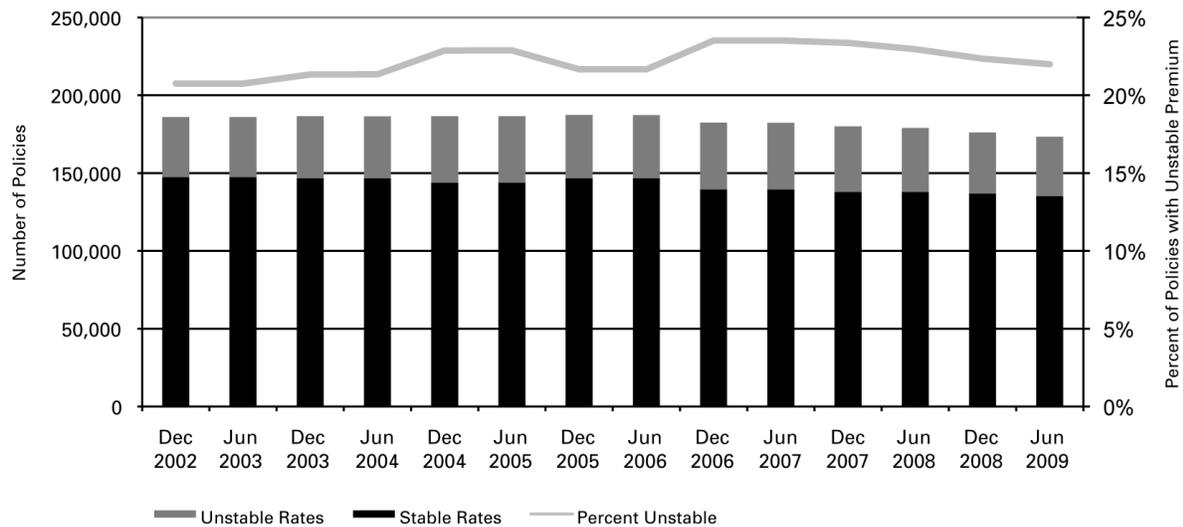


Aggregate Reported Payroll- Twelve months ended

(\$ 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	\$19,778	\$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.

Enterprise Report

February 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.*

January Financial Analysis

BWC's net assets decreased by \$45 million in January resulting in net assets of \$3.9 billion at January 31, 2010 compared to \$3.95 billion at December 31, 2009.

<i>(\$ in millions)</i>	Month Ended Jan. 31, 2010	Month Ended Dec. 31, 2009	Month Ended Jan. 31, 2009
Operating Revenues	\$138	\$159	\$164
Operating Expenses	(179)	(195)	(160)
Operating Transfers	(1)	-	(1)
Net Operating Gain (Loss)	(42)	(36)	3
Net Investment Income (Loss)	(3)	(166)	(868)
Increase (Decrease) in Net Assets	(45)	(202)	(865)
Net Assets End of Period	\$3,905	\$3,950	\$1,447

- o Premium and assessment income net of the provision for uncollectible accounts receivable resulted in operating revenues of \$138 million in January. The \$15 million reduction in the provision for uncollectible receivables recorded in December increased revenues for that month.
- o Decreases in premium rates of 12% for private employers, 17% for public employer taxing districts and 3.75% for state agencies have resulted in decreased operating revenues in January 2010 compared to January 2009.
- o Benefit and compensation adjustment expenses of \$173 million along with other expenses of \$6 million resulted in operating expenses of \$179 million. January expenses are lower than December expenses due in part to a \$13 million decrease in claim payments. Payments were lower for all benefit types led by a \$5 million decline in medical payments, a \$3 million decline in settlements, and a \$2 million decline in payments for percent permanent partial awards.
- o Operating transfers made in January included \$213,000 in funding for the Deputy Inspector General and \$926,000 to the Ohio Department of Natural Resources for the mine safety program.
- o A \$54 million decrease in portfolio market value in January along with interest and dividend income of \$52 million for the month, resulted in net investment losses of \$3 million for the month after investment expenses of \$0.7 million. The decrease in portfolio market value is comprised of \$53.7 million in net unrealized losses and \$0.3 million in net realized losses.
- o Cash and cash equivalents include \$839 million in money market holdings in the outside investment manager accounts. These funds are committed to covering a \$736 million net investment trade payable for transactions that will settle in February.
- o Premium and assessment receipts of \$110 million were collected in January. Receipts in January 2010 are \$24 million lower than collections during this same period last year reflecting reduced premium rates and employer payroll.

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 \$3.9 billion at January 31, 2010 compared to \$1.4 billion at January 31, 2009.

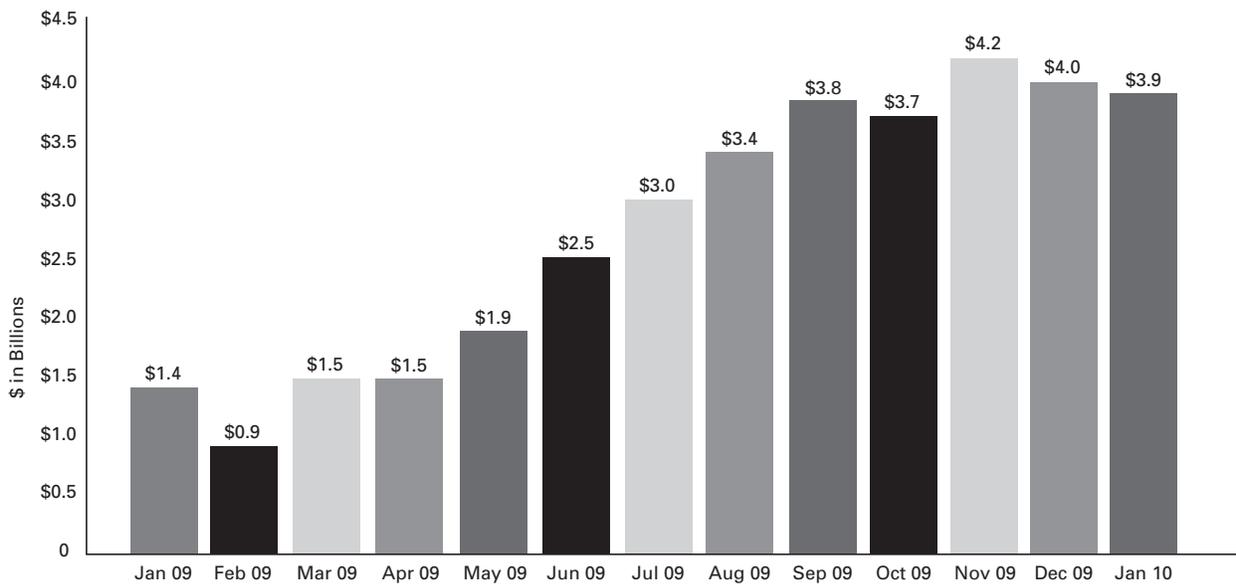
<i>(\$ in millions)</i>	Fiscal YTD Jan. 31, 2010	Projected FYTD Jan. 31, 2010	Fiscal YTD Jan. 31, 2009
Operating Revenues	\$1,209	\$1,276	\$1,288
Operating Expenses	(1,364)	(1,408)	(1,325)
Operating Transfers	(3)	(4)	(3)
Net Operating Gain (Loss)	(158)	(136)	(40)
Net Investment Income (Loss)	1,548	489	(1,017)
Increase (Decrease) in Net Assets	1,390	353	(1,057)
Net Assets End of Period	\$3,905	\$2,868	\$1,447

- o BWC's premium and assessment income for fiscal year-to-date 2010 is \$1.2 billion compared to \$1.3 billion for the same period last year. Decreases in premium rates for private and state agency employers effective July 1, 2009 and January 1, 2010 for public employer taxing districts are off-set by increased unbilled receivables for DWRF and SIEGF. Actual income is less than projected primarily 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 and considering this same impact in premium accruals for the January through June policy period.
- o Benefit and compensation adjustment expenses increased by \$44 million for fiscal year-to-date 2010. Reserves for compensation and compensation adjustment expenses for DWRF and SIEGF have increased by \$41 million in 2010. This increase has been partially off-set by lower payments for benefits and compensation adjustment expenses. While settlements and medical payments have decreased by over \$63 million, there have been increases in temporary total and permanent total disability costs of approximately \$9 million.
- o BWC's net investment income for fiscal year-to-date 2010 totaled \$1.5 billion, comprised of \$596 million in net realized losses and \$1,720 million in net unrealized gains, along with \$428 million of interest and dividend income net of \$4 million in investment expenses. This compares to last year's net investment loss of just over \$1 billion that primarily resulted from net unrealized losses.
- o Fiscal year-to-date 2010 premium collections are \$127 million less than projected as a result of an 8% decline in private employer premium payments. Declines in private employer payroll and decreases in premium rates have contributed to premium collections being \$121 million less than prior fiscal year-to-date collections.

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

- o Through February 11th approximately 128,000 or 51% of the private employers have filed their payroll report for the July through December 2009 policy period compared to 45% for the same period last year. Management is monitoring the status of collections on a daily basis.
- o While new claim filings continue to trend downward, the average cost per claim has increased. BWC is continuing to analyze the factors causing the increases in severity.

Net Assets



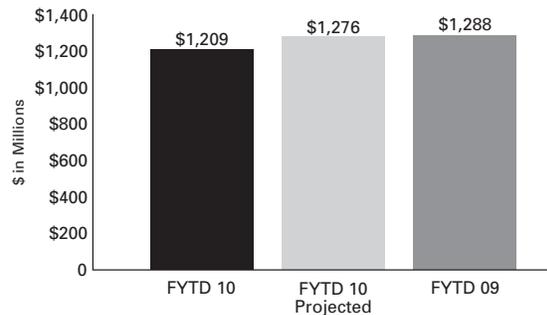
Statement of Operations

Fiscal year to date January 31, 2010

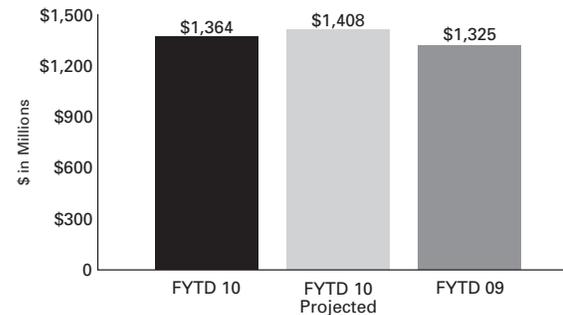
(in millions)

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
Operating Revenues					
Premium & Assessment Income	\$1,202	\$1,314	\$(112)	\$1,327	\$(125)
Provision for Uncollectibles	1	(44)	45	(45)	46
Other Income	6	6	-	6	-
Total Operating Revenue	1,209	1,276	(67)	1,288	(79)
Operating Expenses					
Benefits & Compensation Adj. Expense	1,314	1,352	38	1,270	44
Other Expenses	50	56	6	55	(5)
Total Operating Expenses	1,364	1,408	44	1,325	39
Operating Transfers	(3)	(4)	1	(3)	-
Net Operating Gain (Loss)	(158)	(136)	(22)	(40)	(118)
Net Investment Income (Loss)	1,548	489	1,059	(1,017)	2,565
Increase (Decrease) in Net Assets	\$1,390	\$353	\$1,037	\$(1,057)	\$2,447

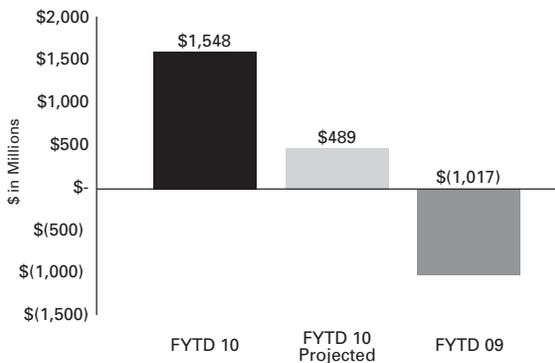
Operating Revenues



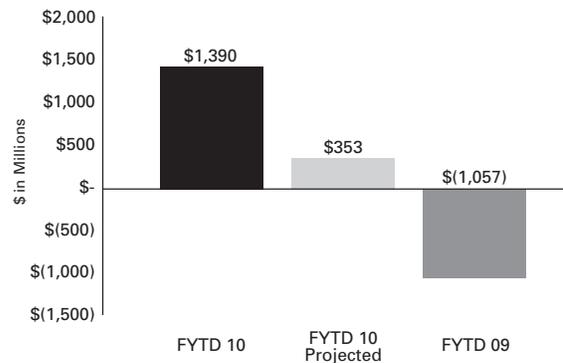
Operating Expenses



Net Investment Income (Loss)



Change in Net Assets



Statement of Operations – Combining Schedule

Fiscal year to date January 31, 2010

(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	\$902,601	\$92,231	\$964	\$142	\$290	\$27,803	\$178,106	\$1,202,137
Provision for Uncollectibles	(15,304)	15,194	–	–	(3)	521	413	821
Other Income	4,523	–	–	–	–	–	1,471	5,994
Total Operating Revenues	891,820	107,425	964	142	287	28,324	179,990	1,208,952
Operating Expenses:								
Benefits & Compensation Adj Expenses	1,042,933	109,720	561	(10)	100	27,645	133,657	1,314,606
Other Expenses	13,564	146	44	1	42	–	35,835	49,632
Total Operating Expenses	1,056,497	109,866	605	(9)	142	27,645	169,492	1,364,238
Net Operating Income (Loss) before Operating Transfers Out	(164,677)	(2,441)	359	151	145	679	10,498	(155,286)
Operating Transfers Out	(150)	–	(1,892)	–	–	–	(600)	(2,642)
Net Operating Income (Loss)	(164,827)	(2,441)	(1,533)	151	145	679	9,898	(157,928)
Investment Income:								
Investment Income	385,257	31,625	6,767	384	287	42	3,530	427,892
Net Realized Gains (Losses)	(600,144)	3,648	467	–	–	–	–	(596,029)
Net Unrealized Gains (Losses)	1,636,772	66,977	14,568	750	561	–	–	1,719,628
Total Realized & Unrealized Capital Gains (Losses)	1,036,628	70,625	15,035	750	561	–	–	1,123,599
Investment Manager & Operational Fees	(3,413)	(166)	(89)	(5)	(4)	(1)	–	(3,678)
Gain (Loss) on Disposal of Fixed Assets	–	–	–	–	–	–	(182)	(182)
Total Non-Operating Revenues, Net	1,418,472	102,084	21,713	1,129	844	41	3,348	1,547,631
Increase (Decrease) in Net Assets (Deficit)	1,253,645	99,643	20,180	1,280	989	720	13,246	1,389,703
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	\$3,445,533	\$935,502	\$186,563	\$20,686	\$16,559	\$7,655	\$(707,453)	\$3,905,045

This report shows operating activity for each of the funds administered by BWC.

The deficit in net assets for the Administrative Cost Fund is a result of recognizing the actuarially estimated liabilities for loss adjustment expenses while funding for ACF is on a pay-as-you-go basis.

Statement of Investment Income

Fiscal year to date January 31, 2010

(in thousands)

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
Investment Income					
Bond Interest	\$377,841	\$373,870	\$3,971	\$368,474	\$9,367
Dividend Income	46,733	48,430	(1,697)	39,301	7,432
Money Market/Commercial Paper Income	967	2,912	(1,945)	4,406	(3,439)
Misc. Income (Corp Actions, Settlements)	2,351	2,800	(449)	6,963	(4,612)
Total Investment Income	<u>427,892</u>	<u>428,012</u>	<u>(120)</u>	<u>419,144</u>	<u>8,748</u>
Realized & Unrealized Capital Gains and (Losses)					
Bonds – Net Realized Gains (Losses)	(809)	–	(809)	(77,660)	76,851
U.S. Equities – Net Realized Gains (Losses)	(588,933)	–	(588,933)	(68,219)	(520,714)
Non-U.S. Equities – Net Realized Gains (Losses)	(6,287)	–	(6,287)	–	(6,287)
Subtotal – Net Realized Gains (Losses)	<u>(596,029)</u>	<u>–</u>	<u>(596,029)</u>	<u>(145,879)</u>	<u>(450,150)</u>
Bonds – Net Unrealized Gains (Losses)	545,137	–	545,137	(180,721)	725,858
U.S. Equities – Net Unrealized Gains (Losses)	1,185,768	64,340	1,121,428	(1,105,282)	2,291,050
Non-U.S. Equities – Net Unrealized Gains (Losses)	(11,277)	–	(11,277)	(4)	(11,273)
Subtotal – Net Unrealized Gains (Losses)	<u>1,719,628</u>	<u>64,340</u>	<u>1,655,288</u>	<u>(1,286,007)</u>	<u>3,005,635</u>
Net Gain (Loss) – PE	–	–	–	(752)	752
Change in Portfolio Value	<u>1,123,599</u>	<u>64,340</u>	<u>1,059,259</u>	<u>(1,432,638)</u>	<u>2,556,237</u>
Investment Manager & Operational Fees	<u>(3,678)</u>	<u>(3,468)</u>	<u>(210)</u>	<u>(2,914)</u>	<u>764</u>
Net Investment Income (Loss)	<u>\$1,547,813</u>	<u>\$488,884</u>	<u>\$1,058,929</u>	<u>\$(1,016,408)</u>	<u>\$2,564,221</u>

Administrative Cost Fund Expense Analysis

January 2010

- o BWC Administrative Cost Fund expenses are approximately \$18.6 million (11.5%) 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 January journal entries BWC staff have taken over 150,000 (81%) of the available 184,800 hours for a savings of approximately \$4.5 million.
- 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 January. 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. Wrapping up of several court cases has resulted in the reduction of fiscal year 2010 Special Counsel costs. 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 January. 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 January.
- 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 January.
- o BWC's current fiscal year 2010 budget is approximately \$39 million (11.8%) less than appropriated by the General Assembly.

Administrative Cost Fund Budget Summary

As of January 31, 2010

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	501,400	501,400	0	0.00%	815,624	567,086	(65,686)	-11.58%
Workers' Comp Council	0	0	0	0	0.00%	0	64,603	(64,603)	-100.00%
BWC Administration	14	834,182	834,182	0	0.00%	1,449,967	457,945	376,237	82.16%
Customer Service	1,447	64,820,416	64,873,526	53,110	0.08%	107,186,632	68,766,499	(3,946,083)	-5.74%
Medical	130	6,642,234	6,642,981	747	0.01%	11,041,602	7,282,618	(640,384)	-8.79%
Special Investigations	121	6,277,773	6,277,545	(228)	0.00%	10,426,549	6,946,216	(668,443)	-9.62%
Fiscal and Planning	65	3,032,315	3,063,481	31,166	1.02%	5,069,718	3,065,129	(32,814)	-1.07%
Actuarial	23	1,258,924	1,259,680	756	0.06%	2,217,583	1,026,684	232,240	22.62%
Investments	11	757,019	758,153	1,134	0.15%	1,286,108	710,300	46,719	6.58%
Infrastructure & Technology	297	17,188,127	17,304,132	116,005	0.67%	28,798,855	18,497,374	(1,309,247)	-7.08%
Legal	78	4,064,695	4,064,693	(2)	0.00%	6,725,543	4,128,492	(63,797)	-1.55%
Communications	21	979,384	981,054	1,670	0.17%	1,639,688	1,630,715	(651,331)	-39.94%
Human Resources	65	3,019,726	3,019,875	149	0.00%	5,049,199	3,391,526	(371,800)	-10.96%
Internal Audit	14	781,355	782,155	800	0.10%	1,298,360	812,922	(31,567)	-3.88%
Ombuds Office	6	319,466	319,467	1	0.00%	527,979	347,396	(27,930)	-8.04%
Total Payroll	2,304	110,477,016	110,682,324	205,308	0.19%	183,533,407	117,695,505	(7,218,489)	-6.13%
Personal Services									
Information Technology		3,327,032	4,770,882	1,443,850	30.26%	8,305,015	5,412,886	(2,085,854)	-38.53%
Legal - Special Counsel		380,903	883,750	502,847	56.90%	1,515,000	588,914	(208,011)	-35.32%
Legal - Attorney General		3,126,992	3,466,387	339,395	9.79%	4,621,850	3,225,701	(98,709)	-3.06%
Other Personal Services		<u>2,548,723</u>	<u>4,437,802</u>	<u>1,889,079</u>	<u>42.57%</u>	<u>7,229,085</u>	<u>3,367,362</u>	<u>(818,639)</u>	<u>-24.31%</u>
Total Personal Services		9,383,650	13,558,821	4,175,171	30.79%	21,670,950	12,594,863	(3,211,213)	-25.50%
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		7,188,834	8,543,419	1,354,585	15.86%	13,769,156	7,450,097	(261,263)	-3.51%
Software and Equipment Maintenance and Repairs		8,268,330	10,815,383	2,547,053	23.55%	18,539,264	9,715,088	(1,446,758)	-14.89%
Inter Agency Payments		2,328,348	2,033,644	(294,704)	-14.49%	3,711,503	1,492,700	835,648	55.98%
Communications		1,584,089	3,941,929	2,357,840	59.81%	6,835,671	2,178,309	(594,220)	-27.28%
Safety Grants and Long Term Care Loan		710,112	3,166,669	2,456,557	77.58%	6,000,000	2,385,865	(1,675,753)	-70.24%
Supplies and Printing		526,696	2,019,443	1,492,747	73.92%	3,381,432	754,488	(227,792)	-30.19%
Other Maintenance		<u>1,568,642</u>	<u>2,301,643</u>	<u>733,001</u>	<u>31.85%</u>	<u>3,959,945</u>	<u>1,837,285</u>	<u>(268,643)</u>	<u>-14.62%</u>
Total Maintenance		24,105,413	34,755,528	10,650,115	30.64%	76,068,766	28,100,155	(3,994,742)	-14.22%
Equipment		770,675	4,604,143	3,833,468	83.26%	8,479,115	783,260	(12,585)	-1.61%
Total Administrative Cost Fund Expenses		144,736,754	163,600,816	18,864,062	11.53%	289,752,238	159,173,783	(14,437,029)	-9.07%

Total Agency Appropriation 328,821,765
 Budget to Appropriation Variance 39,069,527
 Percentage Variance 11.88%

State Insurance Fund

Administrative Expense Summary

As of January 31, 2010

	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	65,041
Mercer Investment Consulting	243,749	292,744	536,493	237,498
Other Investment Expenses	<u>233,902</u>	<u>131,237</u>	<u>365,139</u>	<u>147,994</u>
	519,109	473,275	992,384	725,724
Actuarial Expenses				
Oliver Wyman – Actuarial Services	583,051	500,000	1,083,051	607,657
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>
	818,016	1,989,785	2,807,801	2,152,826
Ohio Rehabilitation Services	<u>605,407</u>	<u>605,407</u>	<u>1,210,814</u>	<u>605,407</u>
TOTAL	<u>\$1,942,532</u>	<u>\$3,068,467</u>	<u>\$5,010,999</u>	<u>\$3,483,957</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.

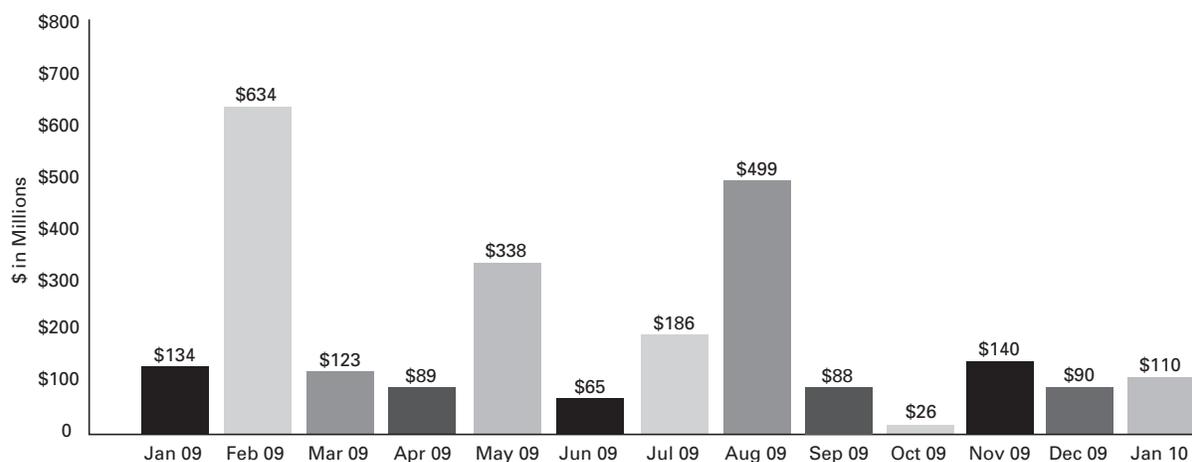
Statement of Cash Flows

Fiscal year to date January 31, 2010

(in millions)

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
Cash Flows from Operating Activities:					
Cash Receipts from Premiums	\$1,139	\$1,266	\$(127)	\$1,260	\$(121)
Cash Receipts – Other	37	19	18	14	23
Cash Disbursements for Claims	(1,195)	(1,206)	11	(1,258)	63
Cash Disbursements for Other	(243)	(290)	47	(279)	36
Net Cash Provided (Used) by Operating Activities	(262)	(211)	(51)	(263)	1
Net Cash Flows from Noncapital Financing Activities	(3)	(4)	1	(3)	–
Net Cash Flows from Capital and Related Financing Activities	(3)	(2)	(1)	(4)	1
Net Cash Provided (Used) by Investing Activities	820	163	657	194	626
Net Increase (Decrease) in Cash and Cash Equivalents	552	(54)	606	(76)	628
Cash and Cash Equivalents, Beginning of Period	504	504	–	378	126
Cash and Cash Equivalents, End of Period	\$1,056	\$450	\$606	\$302	\$754

Premium and Assessment Receipts



Statement of Net Assets

As of January 31, 2010

(in millions)

	Actual	Prior Yr. Actual	Year to Year Increase (Decrease)
Assets			
Bonds	\$12,653	\$12,905	\$(252)
U.S. Equities	3,745	2,773	972
Non-U.S. Equities	1,616	–	1,616
Private Equities	–	–	–
Cash & Cash Equivalents	<u>1,056</u>	<u>302</u>	<u>754</u>
Total Cash and Investments	19,070	15,980	3,090
Accrued Premiums	4,693	4,680	13
Other Accounts Receivable	146	155	(9)
Investment Receivables	522	404	118
Other Assets	<u>103</u>	<u>113</u>	<u>(10)</u>
Total Assets	<u>24,534</u>	<u>21,332</u>	<u>3,202</u>
Liabilities			
Reserve for Compensation and Compensation Adj. Expense	\$19,288	\$19,383	\$(95)
Accounts Payable	44	40	4
Investment Payable	1,110	238	872
Other Liabilities	<u>187</u>	<u>224</u>	<u>(37)</u>
Total Liabilities	<u>20,629</u>	<u>19,885</u>	<u>744</u>
Net Assets	\$3,905	\$1,447	\$2,458

Statement of Net Assets – Combining Schedule

As of January 31, 2010

(in thousands)

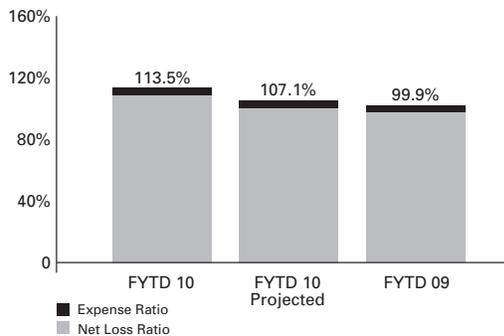
	State Insurance Fund Account	Disabled Workers' Relief Fund Account	Coal-Workers Pneumoconiosis Fund Account	Public Work Relief Employees' Fund Account	Marine Industry Fund Account	Self-Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Eliminations	Totals
Assets									
Bonds	\$ 11,482,989	\$ 929,606	\$ 198,565	\$ 24,135	\$ 18,032	\$ -	\$ -	\$ -	\$ 12,653,327
U.S. Equities	3,439,549	251,823	53,440	-	-	-	-	-	3,744,812
Non-U.S. Equities	1,615,526	-	-	-	-	-	-	-	1,615,526
Private Equities	35	-	-	-	-	-	-	-	35
Cash & Cash Equivalents	995,047	6,223	1,468	204	350	49,863	2,942	-	1,056,097
Total Cash & Investments	\$ 17,533,146	\$ 1,187,652	\$ 253,473	\$ 24,339	\$ 18,382	\$ 49,863	\$ 2,942	\$ -	\$ 19,069,797
Accrued Premiums	2,065,745	1,637,390	-	255	-	733,318	256,439	-	4,693,147
Other Accounts Receivable	90,325	23,119	-	-	2	6,255	26,389	-	146,090
Interfund Receivables	13,041	43,425	-	-	128	281	109,459	(166,334)	-
Investment Receivables	490,989	26,237	5,198	-	-	2	-	-	522,426
Other Assets	25,526	22	-	-	-	-	76,891	-	102,439
Total Assets	\$ 20,218,772	\$ 2,917,845	\$ 258,671	\$ 24,594	\$ 18,512	\$ 789,719	\$ 472,120	\$ (166,334)	\$ 24,533,899
Liabilities									
Reserve for Compensation & Compensation Adj. Expense	\$ 15,397,000	\$ 1,957,868	\$ 68,593	\$ 3,895	\$ 1,721	\$ 777,518	\$ 1,081,000	\$ -	\$ 19,287,595
Accounts Payable	43,637	-	-	-	-	-	712	-	44,349
Investment Payable	1,093,694	13,722	2,676	-	-	-	-	-	1,110,092
Interfund Payables	151,043	10,658	69	10	8	4,546	-	(166,334)	-
Other Liabilities	87,865	95	770	3	224	-	97,861	-	186,818
Total Liabilities	16,773,239	1,982,343	72,108	3,908	1,953	782,064	1,179,573	(166,334)	20,628,854
Net Assets	\$ 3,445,533	\$ 935,502	\$ 186,563	\$ 20,686	\$ 16,559	\$ 7,655	\$ (707,453)	\$ -	\$ 3,905,045

Financial Performance Metrics

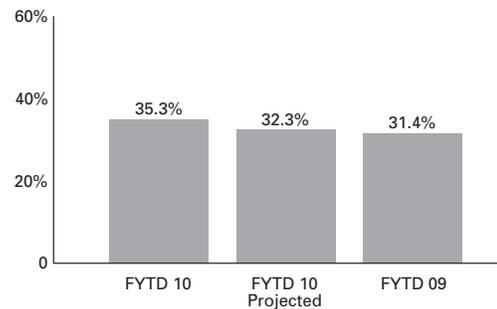
	Actual FY10 As of 1/31/10	Projected FY10 As of 1/31/10	Actual FY09 As of 1/31/09	Guidelines
Funding Ratio (State Insurance Fund)	1.24	1.18	1.08	1.02 to 1.35
Net Leverage Ratio (SIF)	4.73	6.54	13.84	3.0 to 8.0
Loss Ratio	90.3%	83.4%	77.4%	
LAE Ratio - MCO	7.8%	7.1%	6.9%	
LAE Ratio - BWC	11.3%	12.4%	11.4%	
Net Loss Ratio	109.4%	102.9%	95.7%	120.0%
Expense Ratio	4.1%	4.2%	4.2%	5.0%
Combined Ratio	113.5%	107.1%	99.9%	125.0%
Net Investment Income Ratio	35.3%	32.3%	31.4%	
Operating Ratio (Trade Ratio)	78.2%	74.8%	68.5%	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.

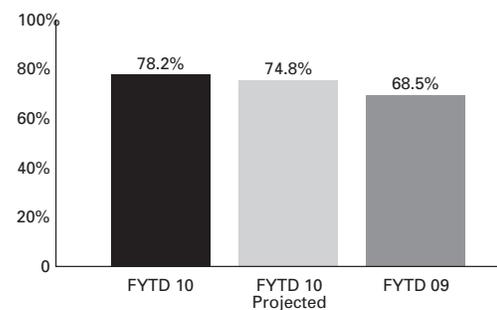
Combined Ratio



Investment Income Ratio

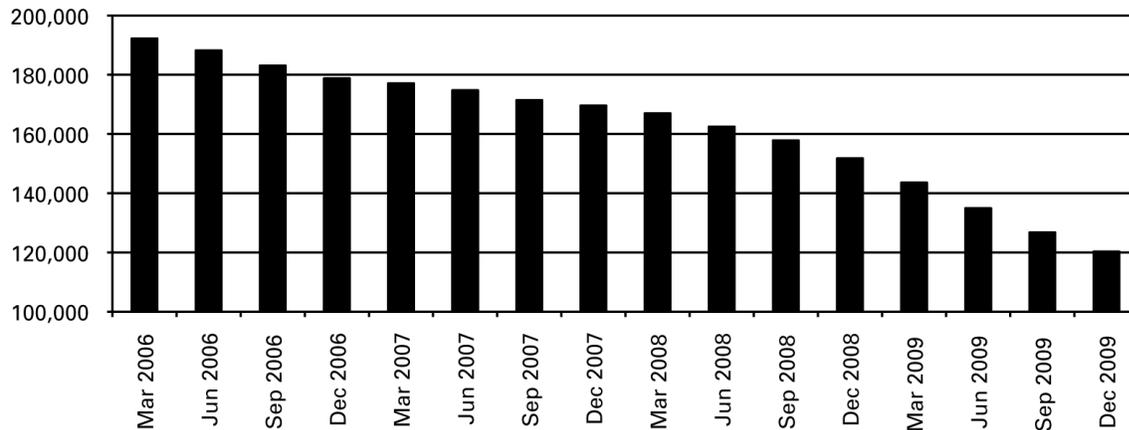


Operating Ratio

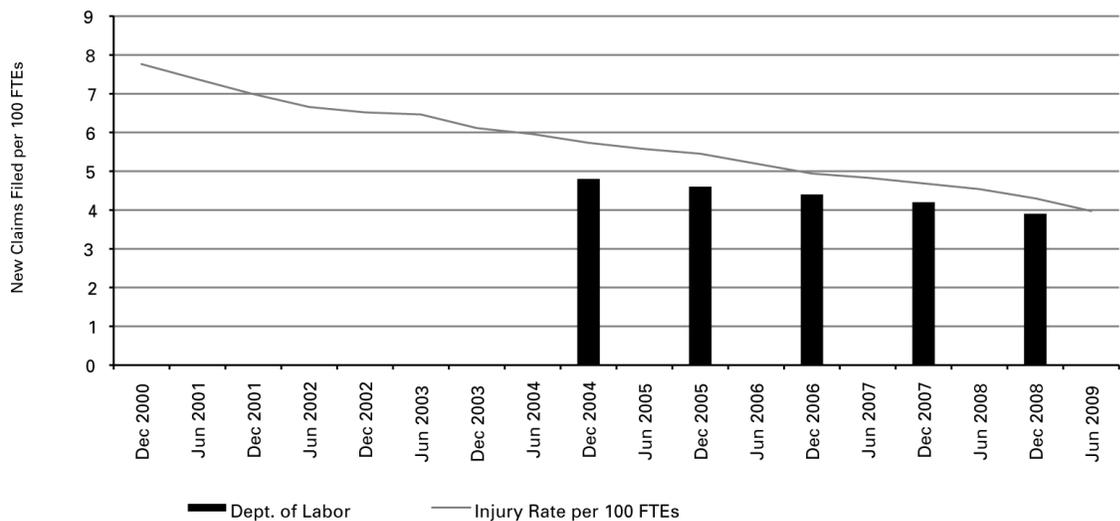


Operational Performance Metrics

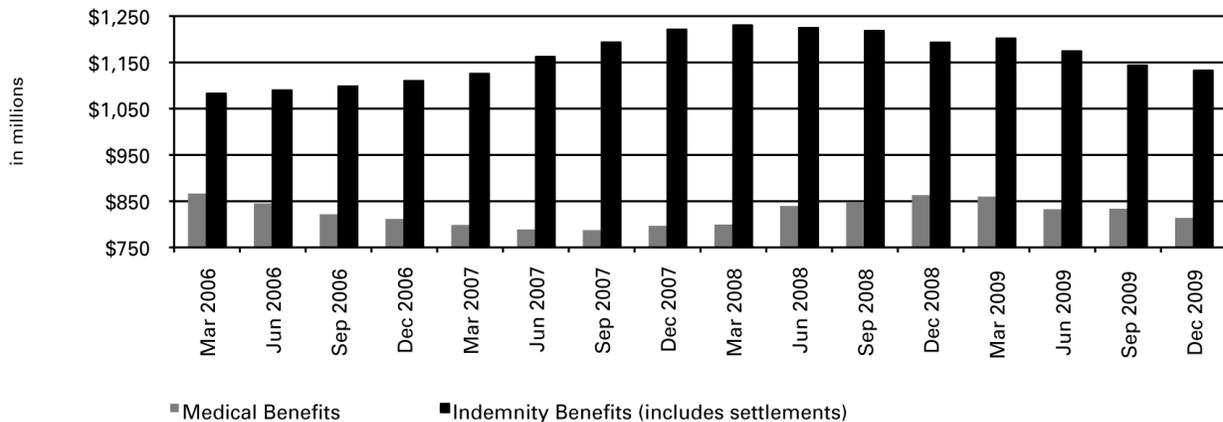
New Claims Filed - Twelve months ended



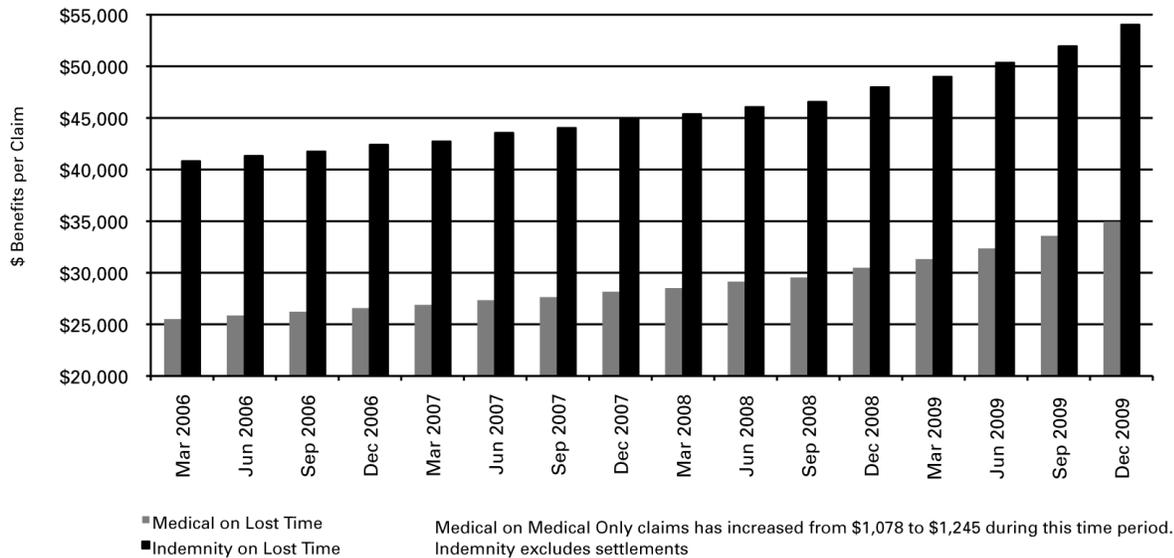
Frequency - Reported semi-annually



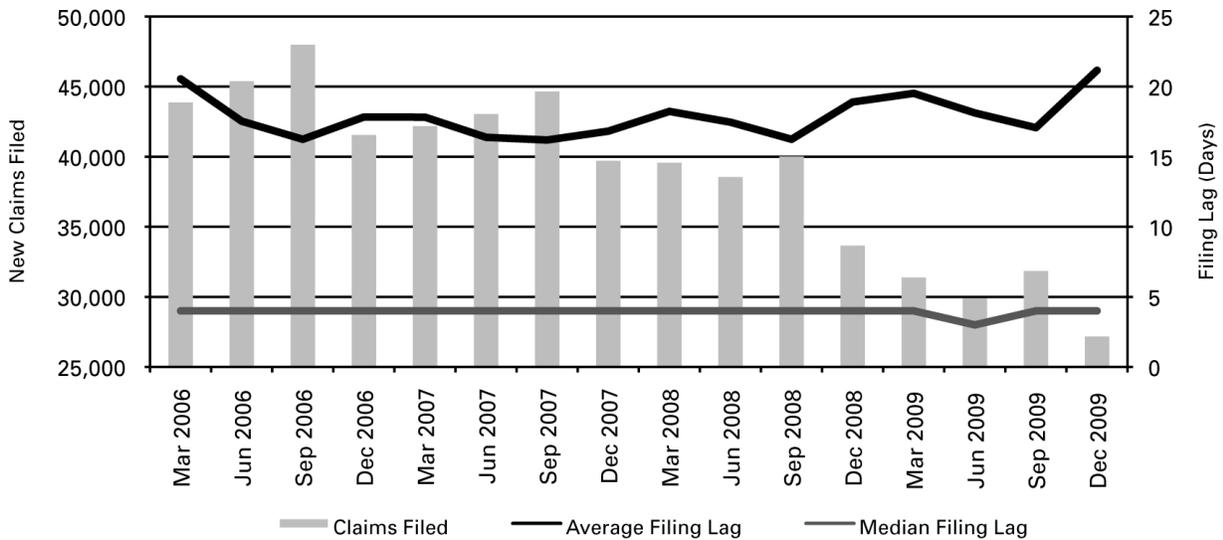
Benefit Payments - Twelve months ended



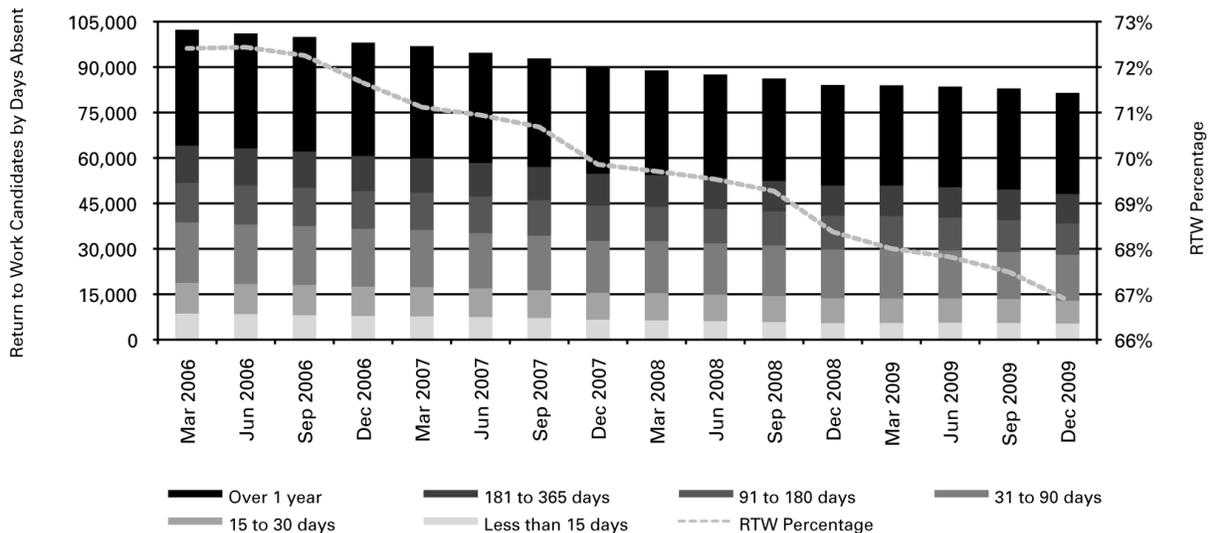
Severity



Claim Filing Lag



Return to work

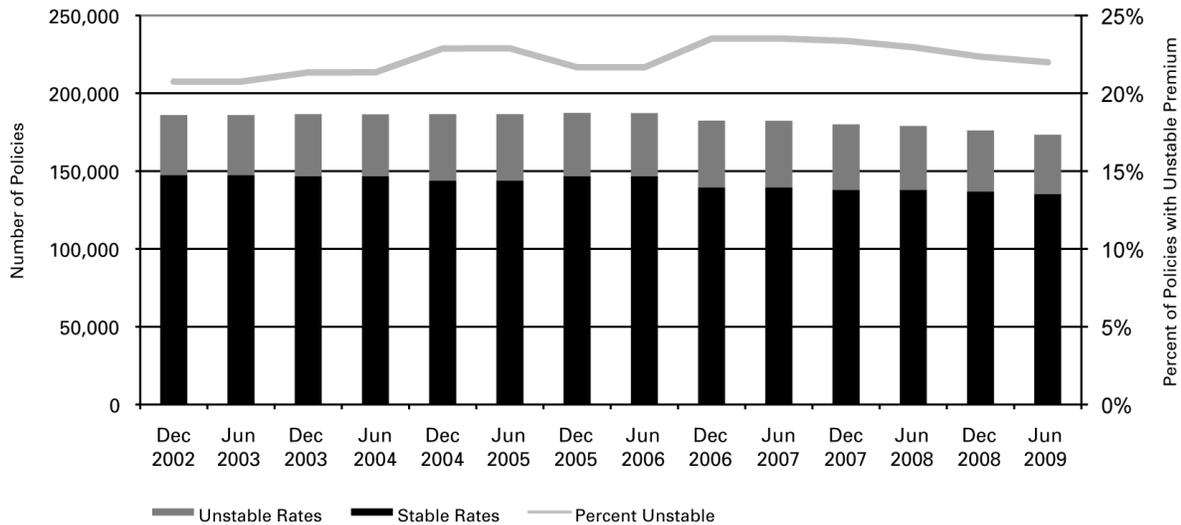


Aggregate Reported Payroll- Twelve months ended

(\$ 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	\$19,778	\$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.

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.
- ✓ Insurance Commerce and Labor Committee amended provision on January 26 along party line vote to prohibit the BWC Board from issuing dividends or refunds to State Fund employers in any gubernatorial election occurs without approval of the General Assembly through legislative enactment.
- ✓ Passed out of Insurance Commerce and Labor Committee on January 26, (7-4 vote, Senator Kearney voting in favor, Senator Seitz voting against.)
- ✓ The Workers' Compensation Council staff provided a detailed analysis of SB 213 on January 27. The Council Chair elected not to take a vote on the acceptance of the actuarial analysis.
- ✓ Full Senate voted January 27 in favor of the bill by 20-11 vote with Senator Kearney voting with the majority.
- ✓ House Insurance Committee took sponsor testimony on February 17.

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.

- ✓ Senate appointments announced January 22.
- ✓ Task force convened February 17, 2010.
- ✓ Next meeting March 18.

Senate Bill 4—(Schaffer)— Requires the Auditor of State to conduct performance audits of the Bureau of Workers' Compensation, the Environmental Protection Agency, the Department of Natural Resources, the Department of Agriculture, and the Department of Health.

- ✓ Passed by unanimous vote in Senate on 1/27

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 and prepared suggested revisions to the bill that were 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.
- Sponsor Testimony provided 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

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.

- ✓ Deloitte reviewed for financial impacts to the State Insurance Fund.
- ✓ Proponent Testimony provided to the Senate ICL committee on 2/9 by Mark Drum, Fraternal Order of Police, Lawrence Petrick, Ohio Association of Professional Fire Fighters. Written testimony provided by William Estabrook, Exec. Dir., Ohio Police and Fire Pension Fund.
- ✓ Impact statement provided to Workers' Compensation Council February 17, 2010.

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". Permits 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:

- ✓ Full council met on January 27. Actuarial impact of SB 213 (Faber) discussed.
- ✓ Next meeting scheduled February 24.

BWC Board of Directors

BOARD MEETING

Friday, January 22, 2010, 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
Thomas Pitts
Larry Price
Robert Smith

Members Absent: None

Counsel Present: John Williams, Assistant Attorney General
Fiduciary Counsel Present: Ronald O'Keefe, Hahn, Loeser, & Parks, LLP

CALL TO ORDER

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

MINUTES OF DECEMBER 17, 2009 MEETING

Mr. Bryan moved to approve the December 17, 2009, minutes. Mr. Haffey seconded and the motion was approved by a roll call vote of eleven ayes and no nays.

AGENDA

Mr. Lhota added an action item to the Investment Committee report on the allocation of Disabled Workers Relief Fund (DWRP). He reserved the right to recess the meeting at an appropriate time, if needed.

Mr. Bryan moved to adopt the agenda as amended. Mr. Matesich seconded and the amended agenda was adopted by a roll call vote of eleven ayes and no nays.

CHAIRMAN'S COMMENTS

Mr. Lhota announced that the financial disclosure forms from the Ohio Ethics Commission have been mailed to all directors and must be filed on April 15. Anyone needing assistance should contact Don Berno, Board Liaison.

Mr. Lhota reported that there was excellent attendance by directors at the four committee meetings of January 21. Of forty-four opportunities for participation, there were forty-three directors in full or partial attendance, a participation rate of 98%. Mr. Lhota also reported that this is the thirtieth meeting of the Workers' Compensation Board. All 11 Directors have been present for 20 of those meetings; at just one Board meeting were ten directors were present and voting.

COMMITTEE REPORTS OF JANUARY 21

ACTUARIAL COMMITTEE

Mr. Bryan reported that there was one action item, the approval of the Large Deductible Program for deductibles of \$25,000 and higher. Employers will have more flexibility to structure their workers' compensation programs to assume more risk if they desire. BWC will handle all claims and the employer pays up to the deductible amount. Adoption of the large deductible program could affect BWC reserve levels. A change from the proposal as made in December is the addition of a stop-loss option so an employer will not be paying more than three times the chosen deductible level.

Upon the recommendation of the Actuarial Committee, Mr. Bryan moved that the Bureau of Workers' Compensation Board of Directors approve the Administrator's Recommendation to amend Rule 4123-17-72 of Administrative Code, "Deductible Rule," to create a Large Deductible Program. The motion consents to the Administrator amending Rule 4123-17-72 as presented at the Actuarial Committee. Mr. Caldwell seconded and the motion was approved by a roll call vote of eleven ayes and no nays.

Mr. Bryan further reported there was a first reading on an amendment to the experience modifier cap rule. The presentation was from Terry Potts, Rates Supervisor, Actuarial Division. The proposal will have a second reading and possible vote at the February meeting. The amendment deletes reference to specific years for application of the cap and allows application in future years.

Among the discussion items was an education session on reserves by John Turnes, Actuarial Analysis Reserving Manager. The Committee now has completed a thorough review of the different methods and judgments involved in the development of reserves. There is a high interest in reserves because of the change of the BWC actuarial consultant from Oliver Wyman Consulting to Deloitte Consulting.

The Actuarial Committee also received a quarterly update from BWC staff on implementation of the HB100 Study. The Committee is monitoring the progress of implementing the recommendations, and believes we are moving at an acceptable pace.

Also, HB100 requires actuarial studies by the Actuarial Committee for proposed legislation, which raises several questions such as: What is “legislation proposing change”? “Will the legislation have a material impact?” “How much work is needed to prepare a study?” The CAO report noted a higher level of functioning for the Actuarial Division now that we have three credentialed actuaries on staff. Before HB100 there were no credentialed actuaries on staff.

Mr. Bryan indicated the report of the Actuarial Committee was concluded.

AUDIT COMMITTEE

Mr. Haffey reported that there were three presentations and one action item and at the Audit Committee meeting. Tom Croyle, Chief Information Officer, provided the annual report on the disaster recovery plan. In the event of disaster, BWC will move its command center to Plain City and back-up operations center to New York. Tracy Valentino, Chief, Fiscal & Planning, reviewed comments by the external auditor in its management letter. The letter made nine comments, eight of which are minor deficiencies and of which all but one or two are currently resolved. There was also a discussion on audits of Managed Care Organizations (MCOs). Finally, Ms. Valentino reported on what the Fiscal and Planning Division does to address these comments until the external auditors return in June for the next audit.

Ray Mazzotta, Chief Operating Officer, and Ms. Valentino led a discussion on reinsurance. This included a report on the use of reinsurance by other states and a Deloitte evaluation of the proposal. The next step is to obtain terms and prices.

Mr. Haffey moved that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendation per the Memorandum dated December 21, 2009, from the Chief Operating Officer and the Chief Financial Officer to obtain reinsurance coverage for the State Insurance Fund at terms favorable to the Bureau, as recommended by the Audit Committee and with the approval of the Board Chair and Chair of the Audit Committee.

Mr. Haffey further reported that Caren Murdock, Chief of Internal Audit, provided the monthly update on current internal audit projects. There was also a discussion on the requirement for performance audits required by SB4 and conducted by the Auditor of State or external auditors. The February meeting will include updates and a report from Joe Bell, Office of Budget and Management, on the IT audit.

Mr. Haffey indicated the report of the Audit Committee was concluded.

INVESTMENT COMMITTEE

Mr. Smith reported that the investments of the Bureau State Insurance Fund stood at \$18.8 billion in market value as of January 20 and consisted of 68.6% in fixed income investments, 30.4% in equities, and 1% in cash. The portfolio's bonds and stocks increased in market value by 1.9% or \$353 million during January as of January 20. For the calendar year 2009, the total portfolio return was 8.6%, and constituted very strong returns; for the fiscal year-to-date ended December 31, 2009, the total portfolio return was 9.1%.

Mr. Smith reported that the Investment Committee had received a presentation from Mellon Capital Management as a new manager of the Russell 3000 index investments. Mellon is head-quartered in San Francisco and its representatives offered insights on their passive equity strategy in managing funds to the Russell 3000 index.

Mr. Smith moved that the Workers' Compensation Board of Directors adopt the recommendation of the Investment Committee to approve Mellon Capital Management as a U.S. Equities Passive Index manager for the State Insurance Fund, representing a targeted six percent (6%) 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 January 21, 2010, and the Memorandum prepared by Mercer Investment Consultants dated January 6, 2010, and upon such terms as are outlined in Mellon Capital Management'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 was approved by a vote of eleven ayes and no nays.

Mr. Smith remarked that this is the fifth consecutive month in which there has been a presentation and recommendation of passive investment managers for in the State Insurance Fund. Each time, there has been an excellent presentation by Bruce Dunn, Chief Investment Officer, on behalf of the RFP Evaluation Committee. Mr. Smith also commented that the asset class transitions have been planned and executed with effectiveness and efficiency.

Mr. Smith continued by summarizing the report on the asset allocation for the Disabled Workers' Relief Fund (DWRF) by Mercer Investment Consulting, Inc.. DWRF constitutes \$1.25 billion of the portfolio and has only \$200 million in liabilities. The Investment Committee discussed if DWRF should be merged into the State Insurance Fund (SIF) and the statutory changes that would be required to combine it. In the end, the Investment Committee recommended an asset allocation strategy similar to the SIF (70/30 fixed income/equity) for the DWRF portfolio. The recommended DWRF allocation would have a lower standard

deviation of return risk because of the much shorter average duration of the fixed income allocation.

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 Disabled Workers' Relief Fund to conform with "Mix D" as discussed in the Mercer Strategic Asset Allocation Analysis Report dated January 21, 2010, and the Memorandum of the Chief Investment Officer dated January 13, 2010, and also to 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 January 13, 2010. Mr. Haffey seconded and the motion was approved by a vote of eleven ayes and no nays.

Mr. Smith reported that the Investment Committee is required to review the custodial relationship with JPMorgan Chase. There was report from Lee Damsel, Director of Investments, and Doug Walouke and Dan Blevins, Senior Investment Managers, on the activities of the custodian over the past year. The sub-custodian is selected by the Treasurer of State. The current contract will expire in June, 2010, and the Treasurer has issued an RFP. The Investment Division staff is satisfied with the performance of the current sub-custodian.

Mr. Smith indicated the report of the Investment Committee was concluded.

MEDICAL SERVICES AND SAFETY COMMITTEE

Mr. Harris reported that the Medical Services and Safety Committee had three presentations and two action items.

The committee had a second reading from Freddie Johnson, Director of Managed Care Services, and Anne Casto, Consultant, Medical Services, on the out-patient hospital fee. During the December meeting, the Committee raised several questions for staff to answer. Also, the Committee had received a letter of comment from the Ohio Hospital Association. The result is a recommendation to implement the fee schedule over three years rather than two.

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 rescind current Rule 4123-6-37.2 and adopt new Rule 4123-6-37.2 of the Administrative Code, "Payment of Hospital Outpatient Services." The motion consents to the Administrator rescinding and adopting new Rule 4123-6-37.2 as presented at the Medical Services and Safety Committee. Mr. Hummel seconded and the motion was approved by a roll call vote of eleven ayes and no nays.

Mr. Harris reported Michael Rea, Public Employment Risk Reduction Program, gave a presentation on the new acetylene standards of OSHA. These standards will be embodied in a rule amendment.

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 Public Employment Risk Reduction Program Rule 4167-3-04.2 of the Administrative Code, "Amending of Standards." The motion consents to the Administrator amending Rule 4167-3-04.2 as presented at the Medical Services and Safety Committee. Mr. Pitts seconded and the motion was approved by a roll call vote of eleven ayes and no nays.

Mr. Harris reported that Abe Al-Tarawneh, Superintendent of Safety and Hygiene, gave a presentation on new standards for the Drug Free Safety Program. The pricing of this program will be discussed with the Actuarial Committee. There will be a first reading of the rules for this new program in February.

Mr. Price commented that BWC staff is doing an outstanding job of outreach to stakeholders. Nevertheless, in light of a comment on the out-patient fee rules received on January 22, he emphasized that BWC needs to give the stakeholders enough time to respond to its proposals.

Mr. Harris indicated the report of the Medical Services and Safety Committee was concluded.

GOVERNANCE COMMITTEE

Mr. Lhota announced that there is no Governance Committee report this month because the Committee meeting is scheduled immediately after the Workers' Compensation Board meeting.

MONTHLY ENTERPRISE REPORT

Ms. Valentino provided the enterprise report. Net assets declined by \$202 million, from \$4.2 billion in November 2009 to \$3.95 billion as of December 31. The first reason for the decrease was an adjustment in premium and assessment income. In December, private employer premium accruals were adjusted to reflect the impact of reduced employer payroll noted in the most recent collection period. Premium payments in July and August were lower than expected, leading to a decision to reduce the recognition of premium income. The adjustment was made in December and led to a \$60 million (8%) reduction. The second reason was the provision for uncollectible receivables was being impacted by adjustments to outstanding receivables. The two factors led to recognition of \$159 million in operating revenue. Also, premium and assessment income was reduced in December because of \$10.5 million in rebates for employers participating in safety

councils. The benefits and compensation adjustment expense of \$188 million and other expense of \$7 million resulted in \$195 million in operating expense. December expenses were less than November because of the quarterly MCO performance payments of \$6 million and one less payroll in December. There was a \$222 million decrease in the market value of the portfolio.

December premium and assessment income was \$90 million because the second 50/50 payment was due December 1. BWC redeemed \$58 million from investment managers to support operations, an amount significantly lower than past years. In the fiscal year-to-date, net assets increased by \$1.4 billion. Premium and assessment income for fiscal year to date 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 the Self-Insuring Employers' Guaranty Fund (SIEGF). Reserves for compensation and compensation adjustment expenses for DWRP and SIEGF have increased by \$35 million. Lump sum settlements are \$53 million less for fiscal year to date compared to the same period last year.

The investment income for fiscal year-to-date 2010 totaled \$1.6 billion, consisting of \$596 million in net realized losses and \$1.777 billion in net unrealized gains and \$376 million of interest and dividend income, net of \$3 million in investment expenses. Fiscal year-to-date premium collections are \$77 million less because of an 8% decrease 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 the prior fiscal year-to-date collections.

Mr. Bryan asked, in light of payment in arrears, does BWC offer discounts for prepayment of premiums. Ms. Valentino replied that employers may make flex pay payment on a monthly basis. Also, Public Employer Taxing Districts pay twelve months in arrears. Barb Ingram, Director of accounting, reported that the discount offered in the flex pay program is tied to a U.S. Treasury interest rate. Ms. Valentino reported that BWC will provide the Workers' Compensation Board more information on rates and explanations of discounts.

Mr. Harris asked if the December adjustments occur each year. Ms. Valentino replied that BWC makes this adjustment in each year, usually in the third and first quarter. The adjustment was in the second quarter this year because of greater unemployment in Ohio and BWC had the data and decided to apply it.

Marsha Ryan, BWC Administrator, stated that the decline in payroll is shown on page 17 of the Enterprise Report. The Department of Taxation saw the decline earlier, and is now seen in payments to BWC. Payrolls are similar to those reported in 2006.

Mr. Smith remarked that when the Ohio Senate undertakes a study of private insurance, it should be impressed that Ohio employers have the benefit of BWC premium payments in arrears.

Mr. Haffey stated that as an accountant he appreciates the booking of the reduction of income at the earliest time. This reflects sound fiscal practice.

Mr. Price requested a report on the impact of those who participate in pre-payment programs on total collections.

Ms. Valentino further reported that, in looking forward, the payroll reports were mailed in January and have a February 28, 2010 due date. Those electing the 50/50 option have a second payment due on June 1, 2010. Employers now have the option of paying online or by mail. We will monitor trends. The bulk of the payments occur during the last two weeks of February.

The combined financial statements show \$3.9 billion in net assets, of which \$3.5 billion is in the State Insurance Fund.

Concerning the Administrative Cost Fund (ACF) budget, BWC has begun the process for the FY 2011 ACF budget, which will be the basis of the ACF assessment. The Audit Committee will review the ACF budget at the April and May meetings. After completion, BWC will begin the 2012—2013 biennial budget, which is usually due to OBM in September.

Year-to-date, operating expense is 12% less than the budget. There was a decrease in payroll because of hiring freeze and one less health insurance payment in July. BWC personnel are taking cost savings days (CSDs). Through December, they took 123,000 hours, which is 66% of the available CSDs of 189,000, for \$3.6 million in savings. Usage continued to increase through the December holidays, increasing the hours taken to 147,000 (80%), for a savings of \$4.4 million. BWC conducts continuous evaluation of personnel service contracts, licenses, and equipment. Some projects for 2010 will be delayed. Further, the budget is 11% than the legislative appropriation.

Ms. Valentino reported that the funding ratio and net leverage ratio of 1.24 and 4.62, respectively, are both within the policy range. Performance measures show that new claims filed continues to decrease. Ms. Valentino asked the Directors for suggestions additions or refinements to the metrics contained in the Enterprise Report.

Mr. Haffey asked about the cost to the employer for using the 50/50 program. Ms. Valentino replied there was no cost. Mr. Haffey observed that if compared to commercial insurance, not only do employers pay in arrears, but the employer can delay payment.

Mr. Harris noted that the Department of Administrative Services had sent a notice on a missed health insurance payment and asked about the effect. Ms. Valentino replied that recovery of the payment will be pro-rated over future payrolls.

Ms. Falls noted that maintaining premium stability is one of the duties of the Workers' Compensation Board. She requested the Administrator provide a review of this topic to the Board during the year.

Ms. Ryan replied that this discussion is best presented as an effect of rate reform in premiums.

ADMINISTRATOR BRIEFING

Ms. Ryan first provided an update on legislative affairs. SB249 concerns redefinition of "journalist" to permit access to bulk lists of claimant contact information. The Senate Committee on Insurance, Commerce, and Labor recently held a hearing with proponent testimony. BWC has no information on future hearings or the opportunity to present opponent testimony. The staff of the Workers' Compensation Council issued its report on HB213 on January 20. This bill would create a two-year moratorium on rate reform. BWC will evaluate it after today's meeting. At first glance, the report is thorough and comprehensive. The bill on PEOs, HB216, is subject to ongoing discussion. Mr. Mazzotta and the Legal Division are providing input to strengthen the ability of BWC to assess accurate premiums. SR118 concerns study of the feasibility of privatization of workers' compensation. The Senate has now made appointments of taskforce members and a list is available. By the express terms of the resolution, members include Mary Jo Hudson, Director, Ohio Department of Insurance, Mr. Lhota, and Administrator Ryan. Now that the appointments are finished, meetings can be scheduled. Governor Strickland's State of the State address will be given on January 26.

Ms. Ryan reported that she continues to attend local round-tables as an opportunity to meet with chambers of commerce and local businesses. She recently attended a session in Cincinnati with twenty local participants. BWC was able to report \$18 million in premium reductions locally. The next roundtable is on January 29 in Marietta.

Human Resources Chief Tony Brokaw is returning to BWC after being loaned to the Department of Administrative Services HR. Ms. Ryan thanked Brian Walton, Director of Labor Relations for heading human resources in her absence. Peggy Concilla will now serve as Director of Communication and Legislation. Christine Madriguera will return to the Office of the Governor. Mr. Mazzotta and Tom Prunte, Director of Employer Management Services, are making changes in that division. Mr. Prunte has reorganized the Self-Insured Department, with the input

of the self-insured community. The Self-Insured Bankruptcy Claims Unit will be merged with Claims Management. The split-plan will be discussed at a February 10, 2010 meeting and BWC will take comments from stakeholders.

Ms. Falls asked if the Workers' Compensation Council analysis of SB213 was factual, or did it include recommendations. She also asked for an executive summary of the report. Ms. Ryan further stated she would be sharing the Workers' Compensation Council analysis and BWC comments with the Workers' Compensation Board. The SB213 report is very analytical and sets forth consequences without advocacy.

Mr. Smith added he thought it would be a two-step process: The Workers' Compensation Council staff would do an analysis. Then the Workers' Compensation Council would make a recommendation on the bill. Mr. Smith asked if the chair of the Workers' Compensation Council would recuse himself as the sponsor of the bill.

Mr. Bryan stated that one goal of the Workers' Compensation Board was in preparing an index of rates to compare Ohio with other states. This is needed before comparison with private insurers can be made. He asked how that index is progressing. Ms. Ryan replied that this is difficult study, especially in obtaining information from Michigan. BWC has discussed this with the National Council on Compensation Insurance, but this was not a fertile field of information. BWC does have some data for a basis of comparison, but it is usually several years old. "Real time" or current rate comparisons are expensive to develop.

Mr. Pitts commented that BWC needs to make an effort to compare systems. There are constitutional barriers to privatization; however, Senator Grendell is reported to believe there are ways around the constitution. The committee appointed under SR118 is expected to explore these issues.

EXECUTIVE SESSION

There was no executive session.

CHAIRMAN'S COMMENTS

Mr. Lhota suggested that the Governance Committee be convened immediately after the adjournment of the Workers' Compensation Board meeting. Further, he suggested that the Governance Committee recess during its executive session to excuse Mr. Pitts, who is appointed to the Board as a representative of injured workers, from the meeting. Pursuant to an opinion of the Ohio Ethics Commission, a Director who is an attorney representing clients before the BWC may not participate in an Administrator's evaluation.

ADJOURNMENT

Mr. Smith moved to adjourn the meeting. Mr. Caldwell seconded and Mr. Lhota adjourned the meeting at 9:15 a.m. after the motion was approved by a roll call vote of eleven ayes and no nays.

Prepared by: Larry Rhodebeck, Staff Counsel
H:\Word\ldr\WCB 0110.doc
January 28, 2010

A check mark indicates recent activity.

- ✓ **SB 238—(Sen. Seitz, R-Cincinnati)—Introduced March 16** - Prohibits illegal and unauthorized aliens from receiving compensation and benefits under Ohio's Workers' Compensation Law.
- Provides that within 28 days after an employee or claimant receives notification of a claim from BWC, the claimant shall submit a copy of documentation that demonstrates the claimant's identity and authority to work in accordance with the Immigration Reform and Control Act.
- Provides that an illegal or unauthorized alien is barred from bringing suit in civil court for personal injury sustained or occupational disease contracted in the course of employment caused by the wrongful act or omission or neglect of the employer **except** if the employer employed the illegal or unauthorized alien knowing that the person was not authorized to work under the Immigration Reform and Control Act.
- Permits, in all instances, an illegal or unauthorized alien to bring a claim against an employer for intentional tort.
- ✓ Sponsor Testimony provided by Senator Seitz on March 23 in Senate Insurance, Commerce and Labor Committee.

HB 246—(Reps. Yuko, D-Elyria and Stewart, D-Columbus)—Companion legislation to SB 94

- ✓ Proponent testimony provided in House Aging and Disability Services Committee on March 2. Testifying in support were John Piskura a firefighter, Mark Drum from the FOP, Lawrence Petrick and Jim Carney from the Association of Professional Firefighters,
- ✓ Written Opponent testimony provided jointly by the Ohio Municipal League and Township Association
- ✓ 3rd Hearing testimony in House Aging and Disability Services Committee on March 3. Proponent testimony provided by Gaylynn Jordan, vice president of the Dayton Firefighters IAFF Local #136

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.

- Deloitte reviewed for financial impacts to the State Insurance Fund.
- Proponent Testimony provided to the Senate Insurance, Commerce, and Labor committee on February 9 by Mark Drum, Fraternal Order of Police, Lawrence Petrick, Ohio Association of Professional Fire Fighters. Written testimony provided by William Estabrook, Exec. Dir., Ohio Police and Fire Pension Fund.
- BWC Impact statement provided to Workers' Compensation Council February 17.

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.

- ✓ Passed in House on March 3 by 96 – 0 vote.
- ✓ Assigned to Senate Insurance, Commerce and Labor committee on March 4. Not on committee agenda the week of March 22

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.

- Senate appointments announced January 22.
- Task force convened February 17.
- ✓ Next meeting April 15. Chairman Lhota and Administrator Ryan are scheduled to present on governance and operations at BWC.
- ✓ SR 168 passed in Senate on February 25 along party lines (21-12). Extends deadline for Task Force to submit its report to the GA and Governor from June 30, 2010 to December 15, 2010. And provides discretionary authority to Senate President to appoint additional members to the Task Force as needed.

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
- ✓ Expect introduction of similar legislation in the House by Reps. Phillips (D-Athens), and Driehaus (D-Cincinnati) in April.

Senate Bill 4—(Schaffer)— Requires the Auditor of State to conduct performance audits of the Bureau of Workers' Compensation, the Environmental Protection Agency, the Department of Natural Resources, the Department of Agriculture, and the Department of Health.

- Passed by unanimous vote in Senate on January 27
- Assigned to House Finance and Appropriations Committee on January 28

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". Permits 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.

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.
- Sponsor Testimony provided on January 13 in House Insurance Committee.

WORKERS' COMPENSATION COUNCIL:

- Full council met on January 27. Actuarial impact of SB 213 (Faber) discussed.
- February 24 meeting cancelled
- ✓ Met on March 15 to discuss “personnel issues”. Full Council convened an executive session for the duration of the meeting. Council approved the formation of a 5 member committee to review the personnel issues.
- ✓ March 24, House Insurance Committee received testimony from Chairman Lhota, who spoke to the governance at BWC, Rep. Batchelder, on the formation of the Workers’ Compensation Council, and Aristotle Hutras who explained how the Ohio Retirement Study Council operates.

Summary of Substitute H.B. 216

The House of Representatives passed Substitute HB 216 on 3/3/10 by a unanimous vote of 96-0. The bill was referred to the Senate Insurance, Commerce, and Labor Committee on 3/4/10 and is pending further action.

The main purpose of the bill is to establish certain financial capacity requirements for professional employer organizations (PEOs) and to clarify rights and liabilities of PEOs and client employers.

The following are provisions of Sub. H.B. 216 as passed by the House:

1. R.C. 4125.01(E): Defines PEO Reporting Entity as two or more PEOs that are majority owned or commonly controlled by the same entity, parent or controlling person and that satisfy reporting entity control rules as defined by the financial accounting standards board and GAAP.
2. R.C. 4125.02: Permits the BWC to adopt rules for the acceptance of electronic filings for applications, documents, reports, and other filings required under Chapter 4125. Permits BWC to adopt rules allowing an independent assurance organization to act on behalf of a PEO in complying with Chapter 4125 and rules adopted under it. Specifies that those rules shall require the assurance organization be approved by BWC and shall include standards and procedures for approval.
3. R.C. 4125.03(B): Subject to R.C. 4125.08 and unless otherwise agreed to, a client employer shall retain a right of sufficient direction and control over a shared employee as necessary to:
 - a. Conduct the client employer's business
 - b. Ensure quality, adequacy, and safety of goods or services produced or sold
 - c. Discharge any fiduciary responsibility
 - d. Comply with any applicable licensure, regulatory, or statutory requirement
4. R.C. 4125.03(C): Establishes that unless otherwise agreed to in the PEO agreement, liability for acts, errors, and omissions shall be determined as follows: A PEO is not liable for acts, errors, and omissions of a client employer or a shared employer when occurring under the direction and control of the client employer. A client employer is not liable for the acts, errors, and omissions of a PEO or shared employee when occurring under the direction and control of the PEO.
5. R.C. 4125.03(E): Prohibits a PEO from co-employing an individual who is an independent contractor of the client employer or knowingly misclassifying a shared employee as an independent contractor. Establishes that the client employer is solely responsible for proper classification and compliance with laws regulating independent contractors. "Independent Contractor" is defined as using existing multi-factor definition.
6. R.C. 4125.041: Establishes that a shared employee under a PEO agreement is not an employee of the PEO for the purposes of general liability insurance, fidelity bonds, surety bonds, employer liability not covered under Chapters 4121 and 4123, liquor liability insurance carried by the PEO, unless the agreement states otherwise.
7. R.C. 4125.042(A): For the purposes of determining employment based tax credits and other economic incentives that are provided by the state or political subdivision shared employees shall be considered employees solely of the client employer.
8. R.C. 4125.042(A)(1)(2): Establishes that a client employer shall be entitled to the benefit of any tax credit, economic incentive, or similar benefit arising as a result of the client employer's employment of shared employees. Requires a PEO to furnish employment information reasonably required by a state

Summary of Substitute H.B. 216

agency or client employer to establish and support a request or application for a tax credit or economic incentive.

9. R.C. 4125.042(B): Shared employees subject to sales tax shall be considered employees of the client employer for the purposes of collecting and levying sales tax on services performed by shared employees.
10. R.C. 4125.042(C): Establishes that any tax assessed on a per capita or per employee basis shall be assessed against the client employer for shared employees.
11. R.C. 4125(D): Permits a PEO to be eligible to use any small business allowance or exemption that is available to the client employer for the shared employees.
12. R.C. 4125.05(B)(7)(8): Adds to the initial PEO registration and annual PEO registration renewal process by requiring all PEOs provide a financial statement prepared and audited in accordance with Generally Accepted Accounting Principles ("GAAP"). The financial statement shall clearly demonstrate the PEO or PEO Reporting Entity's compliance with the positive working capital requirements of R.C. 4125.051(A) and shall be unqualified as to the going concern status of the PEO or PEO Reporting Entity. Requires that if there exists any deficit in working capital required under R.C. 4125.051(A), a PEO must obtain a bond, irrevocable LOC, or securities with a minimum market value in an amount sufficient to cover the deficit.
13. R.C. 4125.05(C): Permits BWC to issue a limited registration to a PEO or PEO Reporting Entity so long as it is domiciled outside of Ohio, licensed or registered as a PEO in another state, does not maintain an office in Ohio, does not participate in direct solicitation for client employers in Ohio, and has 50 or fewer shared employees employed or domiciled in Ohio.
14. R.C. 4125.05(D): Eliminates the ability of a PEO to submit proof of certification by either a nationally recognized organization that certifies PEOs as an alternative form of securitization in lieu a bond, LOC, securities or periodic payments of prospective premiums.
15. R.C. 4125.05(I): Requires that the financial statement required under R.C. 4125.05(B)(7) for initial registration be the most recent financial statement of the PEO or PEO Reporting Entity of which the PEO is a member and shall not be older than thirteen months. For each annual renewal period the PEO shall file the financial statement within 180 days after the end of the PEO's fiscal year. Permits BWC to extend time periods.
16. R.C. 4125.05(J): Prohibits multiple, unrelated PEOs from combining together for the purposes of obtaining workers' compensation coverage or for forming any type of self-insurance arrangement.
17. R.C. 4125.05(K): Requires BWC to maintain a list of PEOs and PEO Reporting Entities registered under Chapter 4125 that is readily available to the public by electronic or other means.
18. R.C. 4125.051(A): Requires a PEO or PEO Reporting Entity of which the PEO is a member to maintain positive working capital as defined by generally accepted accounting principles. If a deficit in working capital exists at any time, the PEO or PEO Reporting Entity shall, for the purposes of securing payment of obligations, obtain a bond, irrevocable LOC, or minimum market value security in an amount sufficient to cover the deficit and submit to BWC a quarterly financial statement for each calendar quarter during which there is a deficit, accompanied by a an attestation of the CEO of the PEO that all wages, taxes, and workers' compensation premiums, and employee benefits have been paid by the PEO or members of the PEO Reporting Entity.

Summary of Substitute H.B. 216

19. R.C. 4125.051(B): Requires a PEO or PEO Reporting Entity prepare a registration and renewal registration financial statements in accordance with GAAP and clearly demonstrate the PEO or PEO Reporting Entity's compliance with the positive working capital requirements of R.C. 4125.051(A) and unqualified as to the going concern status of the PEO or PEO Reporting Entity. The financial statement shall be audited by an independent CPA. If the PEO does not have twelve months of operating history on which to base an audit, the financial statement shall be reviewed by a CPA.
20. R.C. 4125.051(C): Permits a PEO or PEO Reporting Entity to satisfy the financial reporting requirements under the bill on a combined or consolidated basis provided that each member of the PEO Reporting Entity guarantees each other members' satisfaction with the requirements in R.C. 4125.051(A). If a combined or consolidated financial statement includes entities that are not PEOs or that are not in the PEO Reporting Entity, the controlling entity of the PEO Reporting Entity that is submitting the financial statement shall guarantee compliance with the positive working capital requirements in R.C. 4125.051(A) and shall include supplemental combining schedules to demonstrate such guarantee.
21. R.C. 4125.07: Requires a PEO to report any transfer of employees between related PEOs to BWC within 14 days after the date of transfer; including all client payroll and claim information regarding the transferred employees.
22. R.C. 4125.08: Provides the client employer the sole right of direction and control over the professional or licensed activities of shared employees and of the client employer's business.
23. R.C. 4125.10: Provides that nothing in the bill or R.C 4125 or the PEO agreement shall:
 - a. Diminish, abolish or remove the rights and obligations of client employers and shared employees that existed prior to the effective date of the PEO agreement
 - b. Affect, modify, or amend an contractual relationship or restrictive covenant between a shared employee and any client employer in effect at the time a PEO agreement becomes effective or prohibit or amend any contract or restrictive covenant that is entered into after the PEO agreement becomes effective
 - c. Creates any new or additional enforcement right of a shared employee against a PEO that is not specifically provided by the PEO agreement or Chapter 4125
 - d. A PEO shall have no responsibility or liability in connection with, or arising out of, any contractual relationship or restrictive covenant between a client employer and a shared employee unless the PEO has specifically agreed otherwise in writing
24. R.C. 4125.11: Provides that a client employer's status or certification as a small business, MBE, disadvantaged, woman-owned business, or historically underutilized business shall not be affected as a result of a PEO relationship.
25. R.C. 4141.24(K): Requires ODJFS to adopt rules that recognize the PEO or PEO Reporting Entity as the employer of record of the shared employees of the PEO or PEO Reporting Entity, but that the rules may require that each shared employee of a single client employer be reported under a separate unique subaccount of the PEO or PEO Reporting Entity to reflect the experience of the shared employees of that client employer. This subaccount shall be used solely to determine experience rates for the individual subaccount and shall combine the rate experience that existed on a client employer's subaccount prior to entering into a PEO agreement with the experience accumulated as a subaccount of the PEO. Permits the electronic submission of any reporting and payment data collectively as a single filing.

Summary of Substitute H.B. 216

26. R.C. 5747.07(J)(1): Requires all PEOs and PEO Reporting Entities to file a report with the tax commissioner within 30 days after commencing business in this state. The report shall include client employer identifying information, the date each client employer entered into the PEO agreement, the names and mailing addresses of the CEOs and CFOs of each client employer. Such reports must be submitted annually and include the same information on new client employer, termination of existing agreements during the calendar year, and changes in any identifying information described in the initial report.

Summary of SB 238 “As Introduced”

Senator Seitz introduced SB 238 on March 16th. The bill denies the receipt of workers' compensation benefits by illegal or unauthorized immigrants and requires BWC to verify citizenship and the right to work.

Sponsor Testimony was provided by Senator Seitz to the Senate Insurance, Commerce, and Labor Committee on March 23rd.

The bill is co-sponsored by Senators Grendell (R-Chesterland), Cates (R-West Chester), Stewart (R-Albany), Jones (R-Springboro), Niehaus (R-New Richmond), Schaffer (R-Lancaster), Gibbs (R-Lakeville), Schuring (R-Canton), Buehrer (R-Delta), Hughes (R-Columbus).

The following are provisions of SB 238 “As Introduced”:

1. Creates R.C. 2307.82—**Assumption of the risk**--Provides that no court in this state has jurisdiction over a claim for damages suffered by an illegal or unauthorized alien by reason of personal injury sustained or occupational disease contracted in the course of employment caused by the wrongful act or omission or neglect of the employer. The illegal or unauthorized alien assumes the risk of incurring such injury or contracting such occupational disease. This assumption of the risk is a complete bar to recovery. *Except* if the employer employed the illegal or unauthorized alien knowing that the person was not authorized to work under the Immigration Reform and Control Act then a person may bring an action in civil court for injury or disease contracted in the course of employment caused by the wrongful act or omission or neglect of the employer. Permits, in all instances, an illegal or unauthorized alien to bring a claim against an employer for *intentional tort*.
2. Creates R.C 2743.02(I)—**State civil liability immunity**—Provides that the state is not liable in any civil action brought by or on behalf of an illegal or unauthorized alien for damages suffered by reason of personal injury sustained or occupational disease contracted in the course of employment caused by the wrongful act or omission or neglect of the state acting an employer unless the state employed the person knowing of their unauthorized work status.
3. Amends R.C. 2744.02(A)(1)—**Political subdivision immunity**—Provides the same immunity to political subdivisions as above.
4. Amends R.C. 4123.01(A)(1)(b)—**Definition of employee**—Revises the current definition of “employee”, which includes “alien” to mean only aliens authorized to work by the United States department of homeland security or its successor.
5. Amends R.C. 4123.01(A)(2)—**Illegal or unauthorized alien—Not an employee**—Creates R.C. 4123(A)(2)(e) to provide that an “employee” does not mean an illegal or unauthorized alien. Current statute provides that the following are not employees: duly ordained minister, officer of a family farm corporation, an individual incorporated as a corporation, an employee granted a waiver by the administrator pursuant to R.C. 4123.15
6. Creates R.C 4123.01(L)—**Illegal alien—definition**—Defines illegal alien as someone who is deportable if apprehended because of one of the following:
 - o The alien entered the U.S. illegal without the proper authorization and documents.
 - o The alien once entered the U.S. legally and has since violated the terms of the status under which the alien entered the U.S., making the alien an “out of status” alien.
 - o The alien once entered the U.S. legally but has overstayed the time limits of the original legal status

Summary of SB 238 “As Introduced”

7. Creates R.C. 4123.01(M)—**Unauthorized alien—definition**—Defines unauthorized alien as one who is not authorized to be employed as determined in accordance with the Immigration Reform and Control Act
8. Creates R.C. 4123.01(N)—**Immigration Reform and Control Act—definition**—Means section 101(a) of the “Immigration Reform and Control Act of 1986”
9. Amends R.C. 4123.511(A)—**Claimant submission of documentation**—Provides that within 28 days after an employee or claimant receives notification of a claim from BWC, the claimant shall submit a copy of documentation that demonstrates the claimant’s identity and authority to work in accordance with the Immigration Reform and Control Act.
10. Creates R.C. 4123.513(A)(2)—**Status verification system—definition**—Means any electronic system the federal government operates to enable a person to verify or ascertain the citizenship or immigration status of any individual and includes; the “e-verify program” and equivalent programs operated by the Department of Homeland Security, any independent third-party system with an equal or higher degree of reliability, the social security number verification service or any similar online verification process the U.S. Social Security Administration operates.
11. Creates R.C. 4123.513(B)—**Claimant submission of documentation**—Provides that within 28 days after a claimant receives notification from BWC or its self-insured employer of receipt of a claim for compensation or benefits, the claimant shall submit to BWC or the self-insured employer documentation demonstrating claimant or their dependent was authorized to work in accordance with the Immigration Reform and Control Act on the date the injury was suffered or occupational disease was contracted.
12. Creates R.C. 4123.513(C)—**BWC or self-insured employer determination of compensability**— Provides that BWC or a self-insured employer may determine, in accordance with R.C. 4123.511, whether the claim is compensable during the 28 day period. Requires BWC or self-insured employer to use a status verification system to conduct a preliminary verification of work authorization status prior to awarding the claimant benefits. If BWC or the self-insured employer determines the claimant was authorized to work either may award benefits. This award does not relieve the claimant of the duty to submit work authorization documentation. If BWC or the self-insured employer determines the claimant was not authorized to work the awarding of benefits shall be stayed under after electronic verification of status is conducted. If BWC or the self-insured employer determines the claim to not be compensable, the claimant may appeal but must submit the required work authorization documentation.
13. Creates R.C. 4123.513(D)—**Denial of claim after 28 days**—Requires BWC or the self-insured employer to deny a claim if after 28 days work authorization documentation is not received, regardless of whether the claim is compensable. Permits BWC or the self-insured employer to recoup benefits paid out within the 28 day period. Permits claimants to resubmit a claim denied under this division if the time period specific in existing R.C. 4123.84 or 4123.85 has not lapsed (2 years).
14. Creates R.C. 4123.513(E)—**Receipt of documentation**—If the required work authorization documentation is received within 28 days, BWC or the self-insured employer may use a status verification system to verify the claimant’s authorization to work. If BWC or the self-insured employer determine the claimant was not authorized to work the claim shall be denied. A self-insured employer that denies a claim under this division shall send written notice to BWC. Permits BWC and the self-insured employer to recoup any benefits paid out.

Summary of SB 238 “As Introduced”

15. Creates R.C. 4123.513(F)—**Right to appeal**—Permits a claimant to appeal denial under divisions (D) and (E) under existing R.C. 4123.511 and 4123.512.
16. Creates R.C. 4123.514(A)—**Subsequent policy year premium reduction**—Provides that if a claim is denied under division (E) above and the employer submits proof of using a status verification system to determine an employee’s work authorization status, BWC shall reduce the next premium due to be paid by the employer by the amount equal to the increase in premium resulting from payments made to the claimant on or after the end of the 28 day period. If BWC awarded compensation and benefits but subsequently denied the claim and such compensation and benefits was recouped, BWC shall still credit the employer’s premium with those payments.
17. Creates R.C. 4123.514(B)—**Self-insuring employer assessment credit**—Requires BWC to reduce a self-insured employer’s next assessment due, for the same reasons above, by the amount of assessments paid by the self-insured employer that reflects the paid compensation on account of the claimant paid on or after the end of the 28 day period. If the self-insured employer awarded compensation and benefits but subsequently denied the claim and recouped those amounts paid, BWC shall still reduce the assessment owed by the amount reflected in the assessment for that paid compensation.
18. Creates R.C. 4123.514(C)—**Subsequent payroll reports**—Provides that an employer shall not include a claimant whose claim is denied under division (E) in any subsequent payroll reports.
19. Creates R.C. 4123.515(A)—**Claimant’s exclusive remedy**—Provides that an employer is not liable to a claimant for damages suffered by reason of personal injury sustained or occupational disease contracted in the course of employment caused by the wrongful act or omission or neglect of the employer. For such a claimant, filing a claim under Chapter 4121, 4123, 4127, or 4131 of the R.C. is the exclusive remedy against the employer except as provided below and in existing R.C. 4123.77(non-compliant employer). An irrebuttable presumption exists that the claimant assumed the risk of incurring an injury or contracting an occupational disease.
20. Creates R.C. 4123.515(B)—**Employer’s knowledge**—Provides that an employer is liable to a claimant whose claim is denied under division (D) and (E) of R.C. 4123.513 if the employer knew the claimant was not authorized to work.
21. Creates R.C. 4123.515(C)—**Intentional Tort**—Provides that nothing in section 4123.513 shall be construed to prevent a claimant whose claim is denied under division (D) or (E) of R.C. 4123.513 from bringing a civil claim against an employer for intentional tort.