

# **Enterprise Report**

May 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.*

## **Operating Transfers**

This statement reports operating transfers that fund programs administered by other governmental entities as permitted or required by the Ohio Revised Code. *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.*

## April Financial Analysis

BWC's net assets increased by \$335 million in April resulting in net assets of \$4.6 billion at April 30, 2010 compared to \$4.3 billion at March 31, 2010.

<i>(\$ in millions)</i>	<b>Month Ended Apr. 30, 2010</b>	<b>Month Ended Mar. 31, 2010</b>	<b>Month Ended Apr. 30, 2009</b>
Operating Revenues	\$158	\$174	\$151
Operating Expenses	(222)	(203)	(214)
Operating Transfers	(1)	–	(1)
Net Operating Gain (Loss)	(65)	(29)	(64)
Net Investment Income (Loss)	400	326	84
Increase (Decrease) in Net Assets	335	297	20
Net Assets End of Period	\$4,642	\$4,307	\$1,543

- o Premium and assessment income of \$162 million net of a \$3 million provision for uncollectible accounts receivable and net of ceded reinsurance premiums of \$0.5 million resulted in operating revenues of \$158 million in April. Coverage under the catastrophic excess of loss reinsurance contract was effective beginning April 1, 2010. The accrual of ceded reinsurance premiums is netted against earned premiums in the Statement of Operations.
- o Premium income in April included reductions of almost \$12 million for discounts earned by employers participating in the premium discount program.
- o Benefits and compensation adjustment expenses of \$214 million along with other expenses of \$8 million resulted in operating expenses of \$222 million. Benefit payments issued in April included three bi-weekly payment cycles increasing April benefit payments by \$23 million. This increase was reduced by a \$2 million decline in settlement payments and a \$3 million decline in medical payments.
- o A \$347 million increase in the fair value of the investment portfolio in April along with interest and dividend income of \$54 million for the month, resulted in net investment income of \$400 million for the month after investment expenses of \$0.7 million. The increase in the fair value of the portfolio is comprised of \$344 million in net unrealized gains and \$3 million in net realized gains.
- o Cash and cash equivalents include \$372 million in money market holdings in the outside investment manager accounts. These funds are committed to covering a \$275 million net investment trade payable for transactions that will settle in April.
- o Premium and assessment receipts of \$87 million were collected in April. Receipts in April 2010 are just \$2 million lower than collections during this same period last year reflecting timing differences in the payment of premiums.
- o BWC has contracted with a pharmacy rebate administrator to pursue rebates available from drug manufacturers based on utilization of and payment for their products. The pharmacy rebate administrator is paid ten percent of rebates collected. In April, before payment of the pharmacy rebate administrator's fee, BWC received \$1.3 million for rebates collected during the first quarter of 2010.

## Fiscal Year-to-Year Comparisons

BWC's total net assets have increased by \$2.1 billion for fiscal year-to-date 2010 resulting in net assets of \$4.6 billion at April 30, 2010 compared to \$1.5 billion at April 30, 2009.

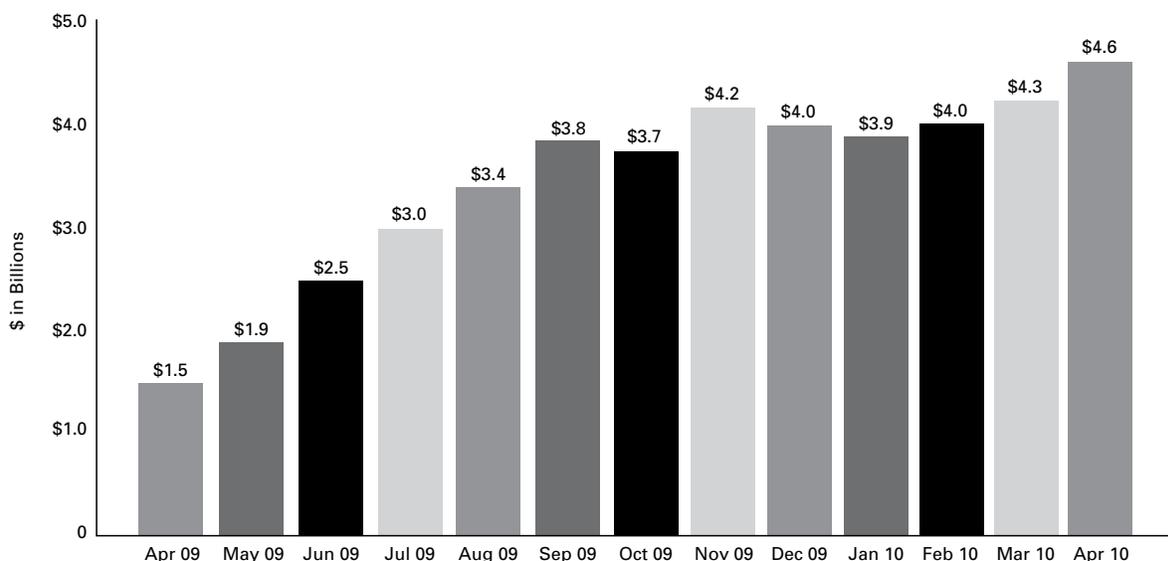
<i>(\$ in millions)</i>	<b>Fiscal YTD Apr. 30, 2010</b>	<b>Projected FYTD Apr. 30, 2010</b>	<b>Fiscal YTD Apr. 30, 2009</b>
Operating Revenues	\$1,712	\$1,798	\$1,804
Operating Expenses	(1,973)	(2,027)	(1,897)
Operating Transfers	(4)	(6)	(5)
Net Operating Gain (Loss)	(265)	(235)	(98)
Net Investment Income (Loss)	2,392	699	(863)
Increase (Decrease) in Net Assets	2,127	464	(961)
Net Assets End of Period	\$4,642	\$2,979	\$1,543

- o BWC's premium and assessment income for fiscal year-to-date 2010 is \$1.7 billion compared to \$1.9 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 DWRP and SIEGF. Actual income is 8% 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 \$80 million for fiscal year-to-date 2010. Reserves for compensation and compensation adjustment expenses for DWRP and SIEGF have increased by \$59 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 \$68 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 \$2.4 billion, comprised of \$529 million in net realized losses and \$2,335 million in net unrealized gains, along with \$589 million of interest and dividend income, \$3 million from corporate actions and settlements, net of \$6 million in investment expenses. This compares to last year's net investment loss of \$862 million that primarily resulted from net unrealized losses.
- o Declines in private employer payroll and decreases in premium rates have contributed to premium collections being \$258 million less than prior fiscal year-to-date collections.

## 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 As of May 7<sup>th</sup>, 12,000 private employer accounts with estimated premiums of \$7.6 million remained in a lapse status for failing to report payroll for the July through December 2009 policy period. This compares to 26,100 accounts that were initially billed estimated premiums of \$27.4 million on March 13, 2010. Accounts that failed to report payroll were certified to the Ohio Attorney General's office for collection on April 19<sup>th</sup>. Last year at this time coverage remained in a lapsed status for 14,000 private employer accounts with estimated premiums of \$12.7 million for failure to report payroll for the July through December 2008 policy period.
- o Public employer taxing districts had until May 15<sup>th</sup> to report payroll and pay at least 45% of the premium due for the 2009 policy year. As of May 7<sup>th</sup>, 74% of public employer taxing districts had filed their report compared to 65% at this same time last year.
- 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



Total undiscounted reserves for compensation and compensation adjustment expense are \$33.8 billion. See breakout by fund on page 13.

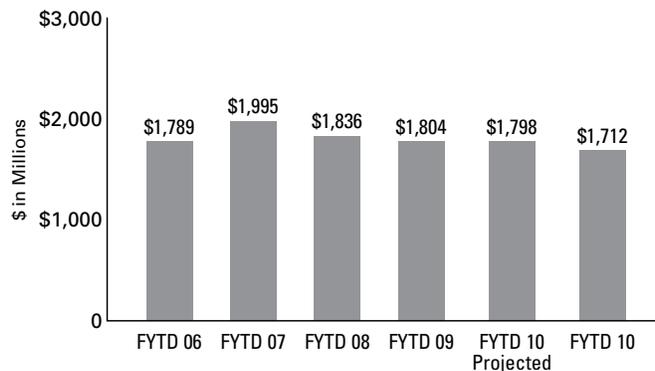
# Statement of Operations

Fiscal year to date April 30, 2010

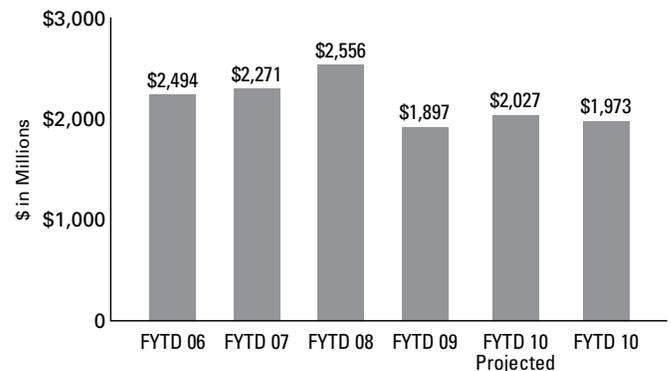
(in millions)

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
<b>Operating Revenues</b>					
Premium & Assessment Income	\$1,713	\$1,868	\$(155)	\$1,873	\$(160)
Ceded Premiums	–	–	–	–	–
Provision for Uncollectibles	(15)	(86)	71	(87)	72
Other Income	14	16	(2)	18	(4)
<b>Total Operating Revenue</b>	<b>1,712</b>	<b>1,798</b>	<b>(86)</b>	<b>1,804</b>	<b>(92)</b>
<b>Operating Expenses</b>					
Benefits & Compensation Adj. Expense	1,900	1,948	48	1,820	80
Other Expenses	73	79	6	77	(4)
<b>Total Operating Expenses</b>	<b>1,973</b>	<b>2,027</b>	<b>54</b>	<b>1,897</b>	<b>76</b>
<b>Operating Transfers</b>	<b>(4)</b>	<b>(6)</b>	<b>2</b>	<b>(5)</b>	<b>1</b>
<b>Net Operating Gain (Loss)</b>	<b>(265)</b>	<b>(235)</b>	<b>(30)</b>	<b>(98)</b>	<b>(167)</b>
<b>Net Investment Income (Loss)</b>	<b>2,392</b>	<b>699</b>	<b>1,693</b>	<b>(863)</b>	<b>3,255</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$2,127</b>	<b>\$464</b>	<b>\$1,663</b>	<b>\$(961)</b>	<b>\$3,088</b>

Operating Revenues



Operating Expenses



# Statement of Operations – Combining Schedule

Fiscal year to date April 30, 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
<b>Operating Revenues:</b>								
Premium & Assessment Income	\$1,287,206	\$130,775	\$1,976	\$228	\$437	\$37,181	\$255,689	\$1,713,492
Ceded Premiums	(469)	-	-	-	-	-	-	(469)
Provision for Uncollectibles	(29,947)	14,508	-	-	(3)	(341)	335	(15,448)
Other Income	9,005	-	-	-	-	-	4,980	13,985
<b>Total Operating Revenues</b>	<b>1,265,795</b>	<b>145,283</b>	<b>1,976</b>	<b>228</b>	<b>434</b>	<b>36,840</b>	<b>261,004</b>	<b>1,711,560</b>
<b>Operating Expenses:</b>								
Benefits & Compensation Adj Expenses	1,516,270	152,305	600	102	138	36,976	193,616	1,900,007
Other Expenses	21,133	226	64	1	77	1	51,660	73,162
<b>Total Operating Expenses</b>	<b>1,537,403</b>	<b>152,531</b>	<b>664</b>	<b>103</b>	<b>215</b>	<b>36,977</b>	<b>245,276</b>	<b>1,973,169</b>
Net Operating Income (Loss) before Operating Transfers Out	(271,608)	(7,248)	1,312	125	219	(137)	15,728	(261,609)
Operating Transfers Out	(150)	-	(2,924)	-	-	-	(600)	(3,674)
<b>Net Operating Income (Loss)</b>	<b>(271,758)</b>	<b>(7,248)</b>	<b>(1,612)</b>	<b>125</b>	<b>219</b>	<b>(137)</b>	<b>15,128</b>	<b>(265,283)</b>
<b>Investment Income:</b>								
Investment Income	532,179	44,279	9,494	564	422	49	4,903	591,890
Net Realized Gains (Losses)	(533,885)	4,205	590	-	-	-	-	(529,090)
Net Unrealized Gains (Losses)	2,208,740	103,050	22,211	811	606	-	-	2,335,418
Total Realized & Unrealized Capital Gains (Losses)	1,674,855	107,255	22,801	811	606	-	-	1,806,328
Investment Manager & Operational Fees	(5,561)	(237)	(127)	(8)	(6)	(2)	-	(5,941)
Gain (Loss) on Disposal of Fixed Assets	-	-	-	-	-	-	(184)	(184)
Total Non-Operating Revenues, Net	2,201,473	151,297	32,168	1,367	1,022	47	4,719	2,392,093
<b>Increase (Decrease) in Net Assets (Deficit)</b>	<b>1,929,715</b>	<b>144,049</b>	<b>30,556</b>	<b>1,492</b>	<b>1,241</b>	<b>(90)</b>	<b>19,847</b>	<b>2,126,810</b>
<b>Net Assets (Deficit), Beginning of Period</b>	<b>2,191,888</b>	<b>835,859</b>	<b>166,383</b>	<b>19,406</b>	<b>15,570</b>	<b>6,935</b>	<b>(720,699)</b>	<b>2,515,342</b>
<b>Net Assets (Deficit), End of Period</b>	<b>\$4,121,603</b>	<b>\$979,908</b>	<b>\$196,939</b>	<b>\$20,898</b>	<b>\$16,811</b>	<b>\$6,845</b>	<b>\$(700,852)</b>	<b>\$4,642,152</b>

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

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

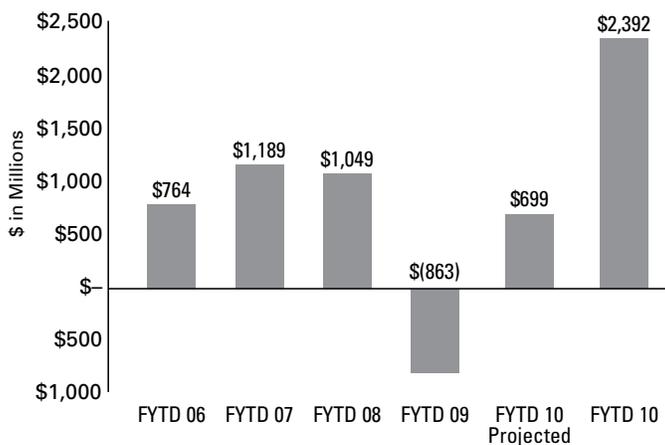
# Statement of Investment Income

Fiscal year to date April 30, 2010

(in thousands)

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
<b>Investment Income</b>					
Bond Interest	\$522,736	\$516,100	\$6,636	\$523,333	\$(597)
Dividend Income	65,440	76,900	(11,460)	59,823	5,617
Money Market/Commercial Paper Income	1,087	4,160	(3,073)	5,083	(3,996)
Misc. Income (Corp Actions, Settlements)	2,627	4,000	(1,373)	8,372	(5,745)
<b>Total Investment Income</b>	<u>591,890</u>	<u>601,160</u>	<u>(9,270)</u>	<u>596,611</u>	<u>(4,721)</u>
<b>Realized &amp; Unrealized Capital Gains and (Losses)</b>					
Bonds – Net Realized Gains (Losses)	76,869	–	76,869	(157,462)	234,331
U.S. Equities – Net Realized Gains (Losses)	(584,591)	–	(584,591)	(84,747)	(499,844)
Non-U.S. Equities – Net Realized Gains (Losses)	(21,368)	–	(21,368)	–	(21,368)
Subtotal – Net Realized Gains (Losses)	<u>(529,090)</u>	<u>–</u>	<u>(529,090)</u>	<u>(242,209)</u>	<u>(286,881)</u>
Bonds – Net Unrealized Gains (Losses)	619,314	–	619,314	(298,536)	917,850
U.S. Equities – Net Unrealized Gains (Losses)	1,619,683	102,200	1,517,483	(914,253)	2,533,936
Non-U.S. Equities – Net Unrealized Gains (Losses)	96,421	–	96,421	(105)	96,526
Subtotal – Net Unrealized Gains (Losses)	<u>2,335,418</u>	<u>102,200</u>	<u>2,233,218</u>	<u>(1,212,894)</u>	<u>3,548,312</u>
Net Gain (Loss) – PE	–	–	–	134	(134)
<b>Change in Portfolio Value</b>	<u>1,806,328</u>	<u>102,200</u>	<u>1,704,128</u>	<u>(1,454,969)</u>	<u>3,261,297</u>
<b>Investment Manager &amp; Operational Fees</b>	<u>(5,941)</u>	<u>(4,826)</u>	<u>(1,115)</u>	<u>(4,075)</u>	<u>1,866</u>
<b>Net Investment Income (Loss)</b>	<u>\$2,392,277</u>	<u>\$698,534</u>	<u>\$1,693,743</u>	<u>\$(862,433)</u>	<u>\$3,254,710</u>

Net Investment Income (Loss)



# Administrative Cost Fund Expense Analysis

April 2010

- o BWC Administrative Cost Fund expenses are approximately \$23.6 million (9%) 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 April journal entries BWC staff have taken over 167,000 (92%) of the available 182,000 hours for a savings of approximately \$5 million.
- o The timing of the receipt of invoices for payment in fiscal year 2010 contributed to actual expenditures being less than the amount budgeted through April. 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 increase is 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 April. 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 April. Delays in project plans in fiscal year 2009 caused additional delays in equipment purchases resulting in an increase in equipment expenditures over fiscal year 2009.
- 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 April.
- o BWC's current fiscal year 2010 budget is approximately \$40.6 million (12%) less than appropriated by the General Assembly.

# Administrative Cost Fund Budget Summary

As of April 30, 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)
<b>Payroll</b>									
BWC Board of Directors	12	712,714	712,714	0	0.00%	838,403	784,282	(71,568)	-9.13%
Workers' Comp Council	0	0	0	0	0.00%	0	72,323	(72,323)	-100.00%
BWC Administration	14	1,159,866	1,159,866	0	0.00%	1,394,980	688,632	471,234	68.43%
Customer Service	1,427	89,685,009	89,714,357	29,348	0.03%	106,460,221	94,192,705	(4,507,696)	-4.79%
Medical	125	9,093,233	9,094,227	994	0.01%	10,751,082	10,004,586	(911,353)	-9.11%
Special Investigations	120	8,703,277	8,702,568	(709)	-0.01%	10,360,808	9,480,387	(777,110)	-8.20%
Fiscal and Planning	64	4,154,909	4,196,106	41,197	0.98%	4,923,217	4,246,678	(91,769)	-2.16%
Actuarial	22	1,726,750	1,728,505	1,755	0.10%	2,071,712	1,434,177	292,573	20.40%
Investments	11	1,052,216	1,053,836	1,620	0.15%	1,265,018	992,761	59,455	5.99%
Infrastructure & Technology	295	23,821,639	23,994,037	172,398	0.72%	28,555,920	25,197,777	(1,376,138)	-5.46%
Legal	79	5,643,159	5,643,160	1	0.00%	6,737,117	5,687,090	(43,931)	-0.77%
Communications	21	1,365,392	1,367,890	2,498	0.18%	1,631,349	2,107,116	(741,724)	-35.20%
Human Resources	64	4,224,366	4,224,579	213	0.01%	5,041,761	4,642,049	(417,683)	-9.00%
Internal Audit	14	1,082,369	1,083,569	1,200	0.11%	1,290,047	1,161,678	(79,309)	-6.83%
Ombuds Office	7	429,805	429,830	25	0.01%	514,189	483,682	(53,877)	-11.14%
<b>Total Payroll</b>	<b>2,275</b>	<b>152,854,704</b>	<b>153,105,244</b>	<b>250,540</b>	<b>0.16%</b>	<b>181,835,824</b>	<b>161,175,923</b>	<b>(8,321,219)</b>	<b>-5.16%</b>
<b>Personal Services</b>									
Information Technology		5,087,402	6,891,366	1,803,964	26.18%	8,305,015	8,647,869	(3,560,467)	-41.17%
Legal - Special Counsel		632,589	1,262,500	629,911	49.89%	1,515,000	1,134,477	(501,888)	-44.24%
Legal - Attorney General		4,201,572	4,621,850	420,278	9.09%	4,621,850	4,224,601	(23,029)	-0.55%
Other Personal Services		4,654,587	6,125,181	1,470,594	24.01%	7,344,796	4,846,570	(191,983)	-3.96%
<b>Total Personal Services</b>		<b>14,576,150</b>	<b>18,900,897</b>	<b>4,324,747</b>	<b>22.88%</b>	<b>21,786,661</b>	<b>18,853,517</b>	<b>(4,277,367)</b>	<b>-22.69%</b>
<b>Maintenance</b>									
William Green Rent		19,809,377	19,871,795	62,418	0.31%	19,871,795	20,578,304	(768,927)	-3.74%
Other Rent and Leases		9,124,170	11,863,906	2,739,736	23.09%	13,769,156	10,269,375	(1,145,205)	-11.15%
Software and Equipment Maintenance and Repairs		11,304,963	15,456,491	4,151,528	26.86%	18,539,264	12,772,928	(1,467,965)	-11.49%
Inter Agency Payments		3,954,335	3,895,570	(58,765)	-1.51%	4,765,402	2,507,508	1,446,827	57.70%
Communications		2,547,443	5,516,780	2,969,337	53.82%	6,808,413	3,101,621	(554,178)	-17.87%
Safety Grants and Long Term Care Loan		1,731,441	4,666,670	2,935,229	62.90%	6,000,000	3,647,403	(1,915,962)	-52.53%
Supplies and Printing		822,808	1,982,760	1,159,952	58.50%	2,356,511	1,212,859	(390,051)	-32.16%
Other Maintenance		2,447,592	3,314,173	866,581	26.15%	3,958,225	2,675,167	(227,575)	-8.51%
<b>Total Maintenance</b>		<b>51,742,129</b>	<b>66,568,145</b>	<b>14,826,016</b>	<b>22.27%</b>	<b>76,068,766</b>	<b>56,765,165</b>	<b>(5,023,036)</b>	<b>-8.85%</b>
<b>Equipment</b>		<b>1,867,436</b>	<b>6,123,595</b>	<b>4,256,159</b>	<b>69.50%</b>	<b>8,479,115</b>	<b>827,653</b>	<b>1,039,783</b>	<b>125.63%</b>
<b>Total Administrative Cost Fund Expenses</b>		<b>221,040,419</b>	<b>244,697,881</b>	<b>23,657,462</b>	<b>9.67%</b>	<b>288,170,366</b>	<b>237,622,258</b>	<b>(16,581,839)</b>	<b>-6.98%</b>

Total Agency Appropriation 328,821,765  
 Budget to Appropriation Variance 40,651,399  
 Percentage Variance 12.36%

# State Insurance Fund

## Administrative Expense Summary

As of April 30, 2010

	Actual FYTD 2010	Encumbrance Balance	FYTD Actual & Encumbrance	Actual FYTD 2009
<b>Investment Administrative Expenses</b>				
UBS Securities LLC	\$0	\$0	\$0	\$275,191
JP Morgan Chase - Performance Reporting	70,083	20,669	90,752	81,333
Mercer Investment Consulting	407,083	129,410	536,493	395,830
Other Investment Expenses	<u>360,495</u>	<u>18,172</u>	<u>378,667</u>	<u>218,498</u>
	837,661	168,251	1,005,912	970,852
<b>Actuarial Expenses</b>				
Oliver Wyman - Actuarial Services	744,628	0	744,628	837,666
Shoenfelt Consulting Inc	0	0	0	6,369
Deloitte Consulting - Comprehensive Study	0	0	0	1,550,095
Deloitte Consulting - Actuarial Services	<u>1,082,363</u>	<u>642,387</u>	<u>1,724,750</u>	<u>0</u>
	1,826,991	642,387	2,469,378	2,394,130
<b>Ohio Rehabilitation Services</b>	<u>605,407</u>	<u>605,407</u>	<u>1,210,814</u>	<u>605,407</u>
<b>TOTAL</b>	<u>\$3,270,059</u>	<u>\$1,416,045</u>	<u>\$4,686,104</u>	<u>\$3,970,389</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 April 30, 2010

	FYTD 2010	FYTD 2009	Source
Workers' Compensation Council	\$325,000	\$343,166	Administrative Cost Fund
Ohio Dept. of Natural Resources	2,923,427	4,539,970	Coal Workers' Pneumoconiosis Fund
Ohio Inspector General	<u>425,000</u>	<u>0</u>	Administrative Cost Fund
<b>TOTAL</b>	<u>\$3,673,427</u>	<u>\$4,883,136</u>	

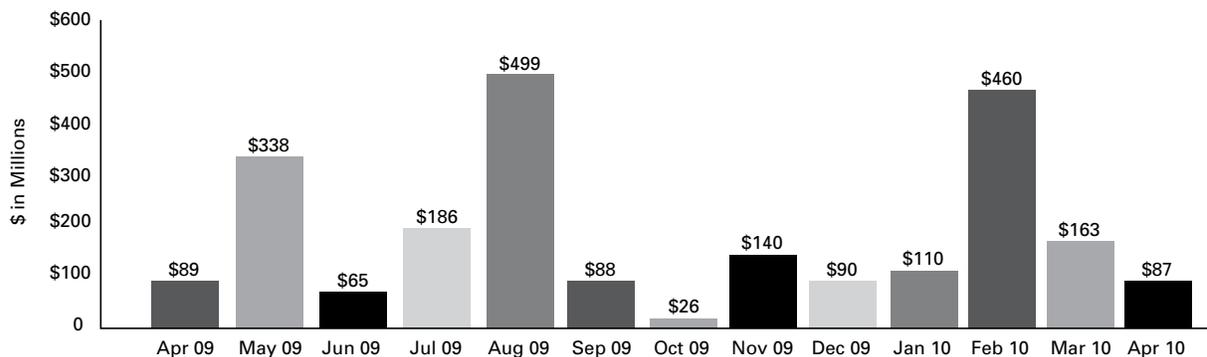
# Statement of Cash Flows

Fiscal year to date April 30, 2010

(in millions)

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
<b>Cash Flows from Operating Activities:</b>					
Cash Receipts from Premiums	\$1,849	\$1,896	\$(47)	\$2,107	\$(258)
Cash Receipts – Other	50	28	22	27	23
Cash Disbursements for Claims	(1,724)	(1,746)	22	(1,792)	68
Cash Disbursements for Other	<u>(335)</u>	<u>(388)</u>	<u>53</u>	<u>(373)</u>	<u>38</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	(160)	(210)	50	(31)	(129)
<b>Net Cash Flows from Noncapital Financing Activities</b>	(4)	(6)	2	(5)	1
<b>Net Cash Flows from Capital and Related Financing Activities</b>	(22)	(20)	(2)	(22)	–
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>354</u>	<u>163</u>	<u>191</u>	<u>155</u>	<u>199</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	168	(73)	241	97	71
<b>Cash and Cash Equivalents, Beginning of Period</b>	<u>504</u>	<u>504</u>	<u>–</u>	<u>378</u>	<u>126</u>
<b>Cash and Cash Equivalents, End of Period</b>	\$672	\$431	\$241	\$475	\$197

## Premium and Assessment Receipts



# Statement of Net Assets

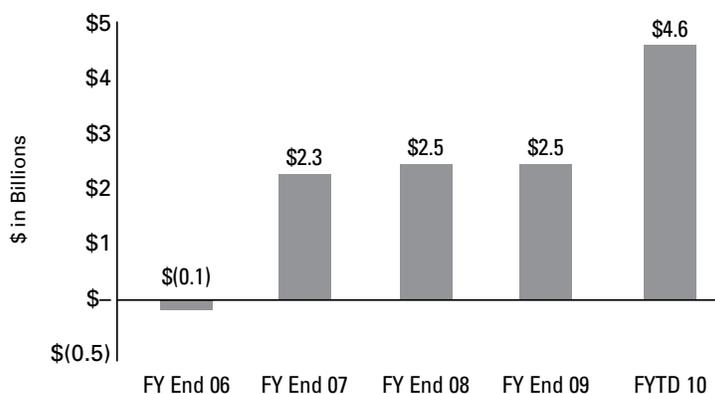
As of April 30, 2010

(in millions)

	Actual	Prior Yr. Actual	Year to Year Increase (Decrease)
<b>Assets</b>			
Bonds	\$12,952	\$12,683	\$269
U.S. Equities	4,199	3,214	985
Non-U.S. Equities	1,708	-	1,708
Private Equities	-	-	-
Cash & Cash Equivalents	672	475	197
Total Cash and Investments	19,531	16,372	3,159
Accrued Premiums	4,325	4,151	174
Other Accounts Receivable	316	368	(52)
Investment Receivables	481	459	22
Other Assets	100	110	(10)
<b>Total Assets</b>	<b>24,753</b>	<b>21,460</b>	<b>3,293</b>
<b>Liabilities</b>			
Reserve for Compensation and Compensation Adj. Expense	\$19,305	\$19,361	\$(56)
Accounts Payable	33	31	2
Investment Payable	603	319	284
Other Liabilities	170	206	(36)
<b>Total Liabilities</b>	<b>20,111</b>	<b>19,917</b>	<b>194</b>
<b>Net Assets</b>	<b>\$4,642</b>	<b>\$1,543</b>	<b>\$3,099</b>

Total undiscounted reserves for compensation and compensation adjustment expense are \$33.8 billion. See breakout by fund on page 13.

## Net Assets (Deficit)



# Statement of Net Assets – Combining Schedule

As of April 30, 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
<b>Assets</b>									
Bonds	\$11,756,454	\$ 949,810	\$ 203,506	\$ 24,374	\$ 18,210	\$ -	\$ -	\$ -	\$12,952,354
U.S. Equities	3,859,783	279,733	59,363	-	-	-	-	-	4,198,879
Non-U.S. Equities	1,708,222	-	-	-	-	-	-	-	1,708,222
Private Equities	35	-	-	-	-	-	-	-	35
Cash & Cash Equivalents	609,594	6,134	1,439	124	512	50,467	4,123	-	672,393
Total Cash & Investments	\$17,934,088	\$ 1,235,677	\$ 264,308	\$ 24,498	\$ 18,722	\$ 50,467	\$ 4,123	\$ -	\$19,531,883
Accrued Premiums	1,725,815	1,639,995	-	265	-	740,661	217,769	-	4,324,505
Other Accounts Receivable	242,200	23,116	229	3	2	144	50,189	-	315,883
Interfund Receivables	20,102	56,660	-	-	31	717	114,950	(192,460)	-
Investment Receivables	442,637	33,002	5,241	-	-	3	-	-	480,883
Other Assets	25,312	22	-	-	-	-	74,596	-	99,930
<b>Total Assets</b>	<b>\$20,390,154</b>	<b>\$ 2,988,472</b>	<b>\$ 269,778</b>	<b>\$ 24,766</b>	<b>\$ 18,755</b>	<b>\$ 791,992</b>	<b>\$ 461,627</b>	<b>\$ (192,460)</b>	<b>\$24,753,084</b>
<b>Liabilities</b>									
Reserve for Compensation & Compensation Adj. Expense	\$15,397,000	\$ 1,970,540	\$ 68,590	\$ 3,850	\$ 1,730	\$ 782,552	\$1,081,000	\$ -	\$19,305,262
Accounts Payable	32,163	-	-	-	-	-	476	-	32,639
Investment Payable	580,220	19,357	3,324	-	-	-	-	-	602,901
Interfund Payables	171,098	18,571	156	15	25	2,595	-	(192,460)	-
Other Liabilities	88,070	96	769	3	189	-	81,003	-	170,130
<b>Total Liabilities</b>	<b>16,268,551</b>	<b>2,008,564</b>	<b>72,839</b>	<b>3,868</b>	<b>1,944</b>	<b>785,147</b>	<b>1,162,479</b>	<b>(192,460)</b>	<b>20,110,932</b>
<b>Net Assets</b>	<b>\$ 4,121,603</b>	<b>\$ 979,908</b>	<b>\$ 196,939</b>	<b>\$ 20,898</b>	<b>\$ 16,811</b>	<b>\$ 6,845</b>	<b>\$ (700,852)</b>	<b>\$ -</b>	<b>\$ 4,642,152</b>

The undiscounted reserves for compensation and compensation adjustment expenses are as follows:

(in thousands)

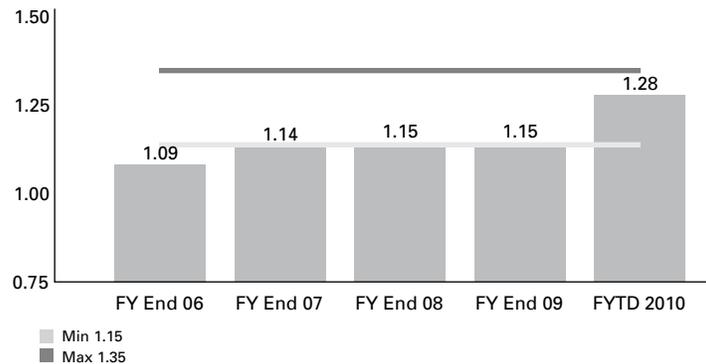
SIF	\$26,501,000
DWRF	3,714,000
CWPF	99,000
PWRE	6,000
MIF	3,000
SIEGF	1,613,000
ACF	1,861,000
<b>Total</b>	<b>\$33,797,000</b>

# Financial Performance Metrics

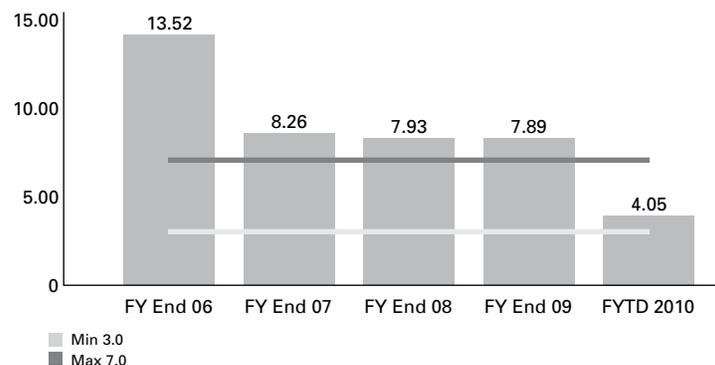
	Actual FY10 As of 4/30/10	Projected FY10 As of 4/30/10	Actual FY09 As of 4/30/09	Guidelines
<b>Funding Ratio (State Insurance Fund)</b>	<b>1.28</b>	<b>1.19</b>	<b>1.09</b>	<b>1.15 to 1.35</b>
<b>Net Leverage Ratio (SIF)</b>	<b>4.05</b>	<b>6.47</b>	<b>13.42</b>	<b>3.0 to 7.0</b>
Loss Ratio	91.5%	85.0%	78.8%	
LAE Ratio - MCO	7.9%	7.1%	7.0%	
LAE Ratio - BWC	11.5%	12.2%	11.4%	
<b>Net Loss Ratio</b>	<b>110.9%</b>	<b>104.3%</b>	<b>97.2%</b>	<b>102.5%</b>
Expense Ratio	4.3%	4.2%	4.1%	7.5%
<b>Combined Ratio</b>	<b>115.2%</b>	<b>108.5%</b>	<b>101.3%</b>	<b>110.0%</b>
Net Investment Income Ratio	34.2%	31.9%	31.7%	
<b>Operating Ratio (Trade Ratio)</b>	<b>81.0%</b>	<b>76.6%</b>	<b>69.6%</b>	<b>90.0%</b>

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**

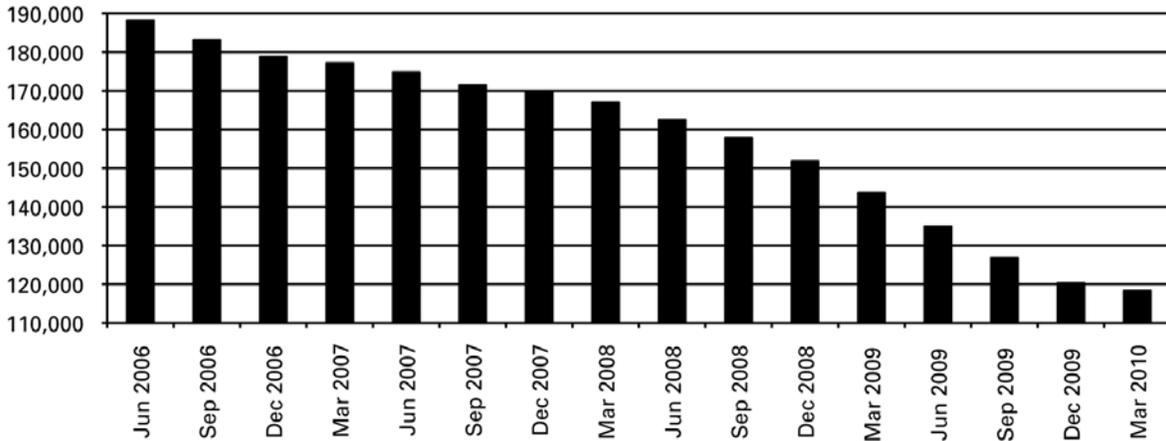


**Net Leverage Ratio**

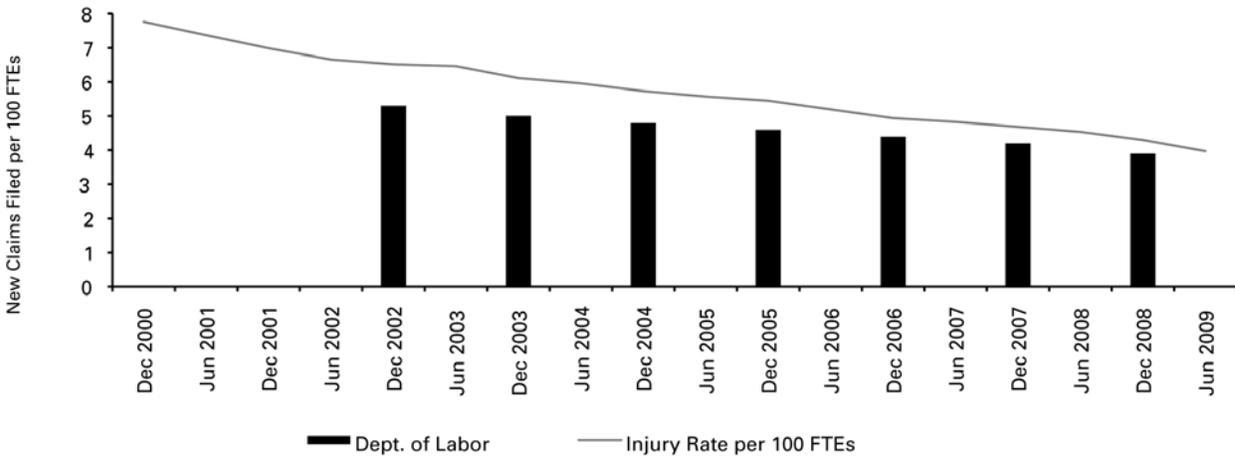


# Operational Performance Metrics

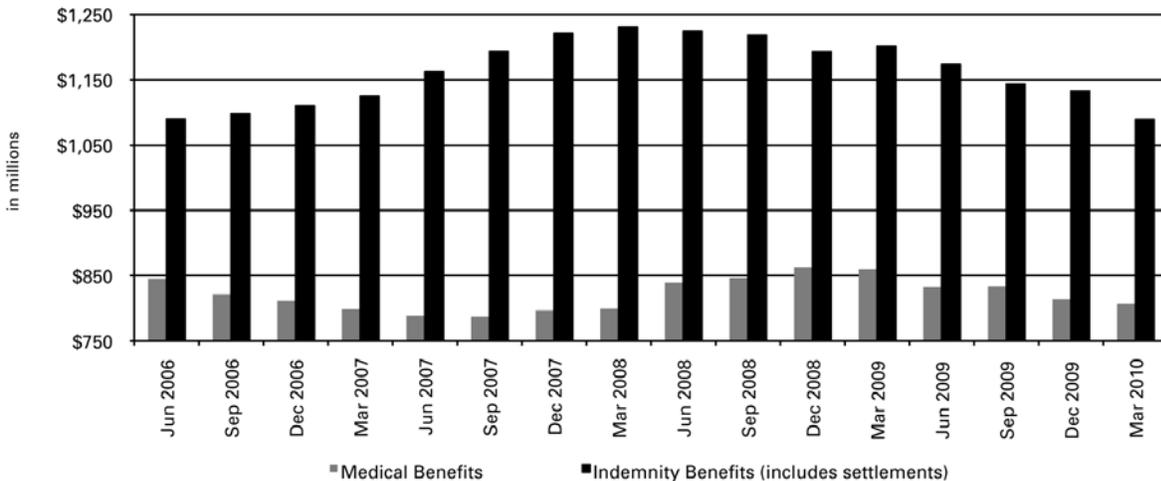
**New Claims Filed - Twelve months ended**



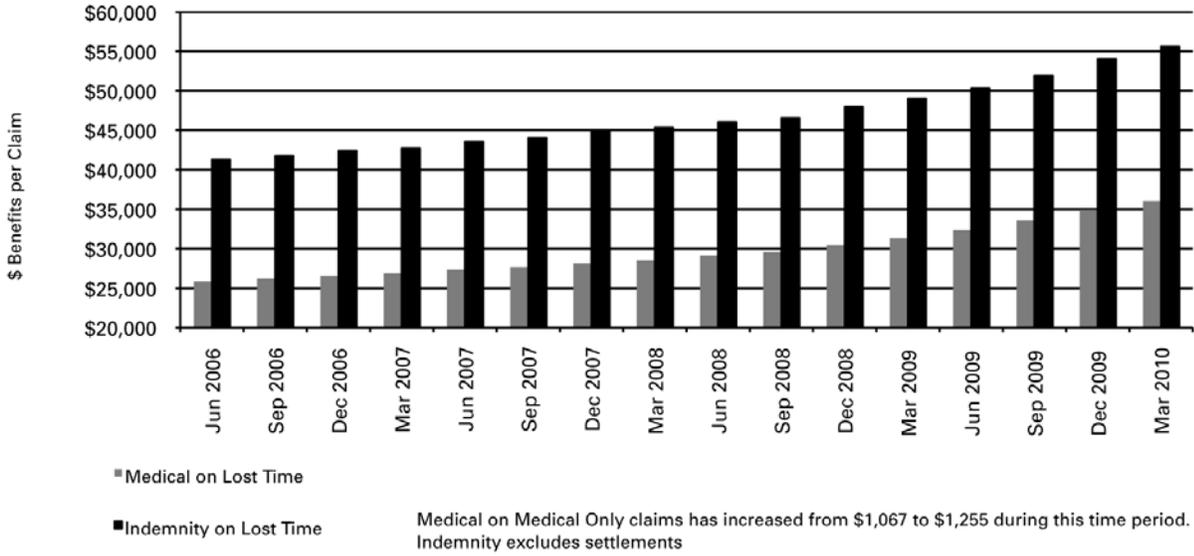
**Frequency - Reported semi-annually**



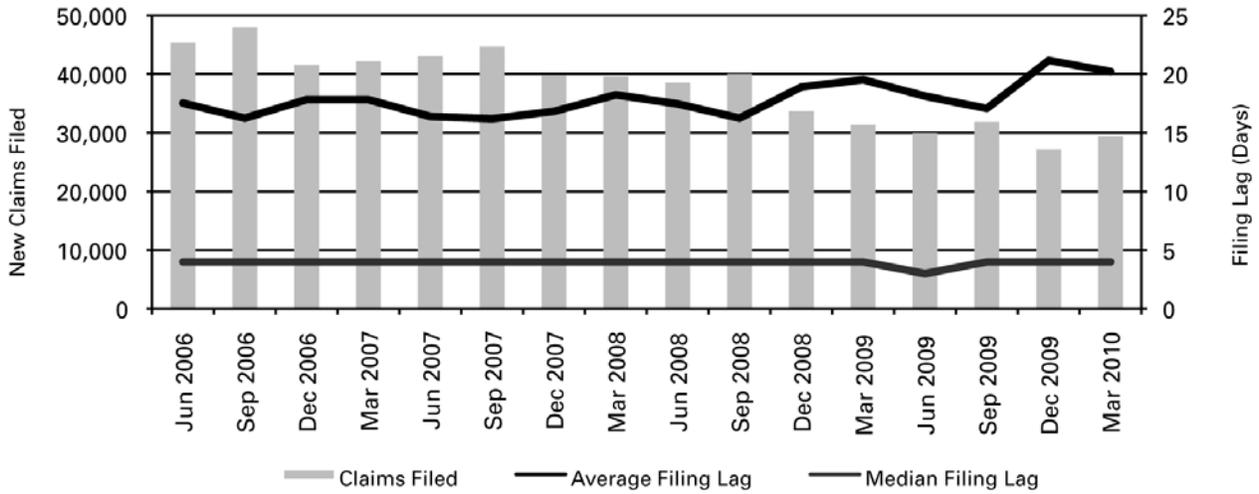
**Benefit Payments - Twelve months ended**



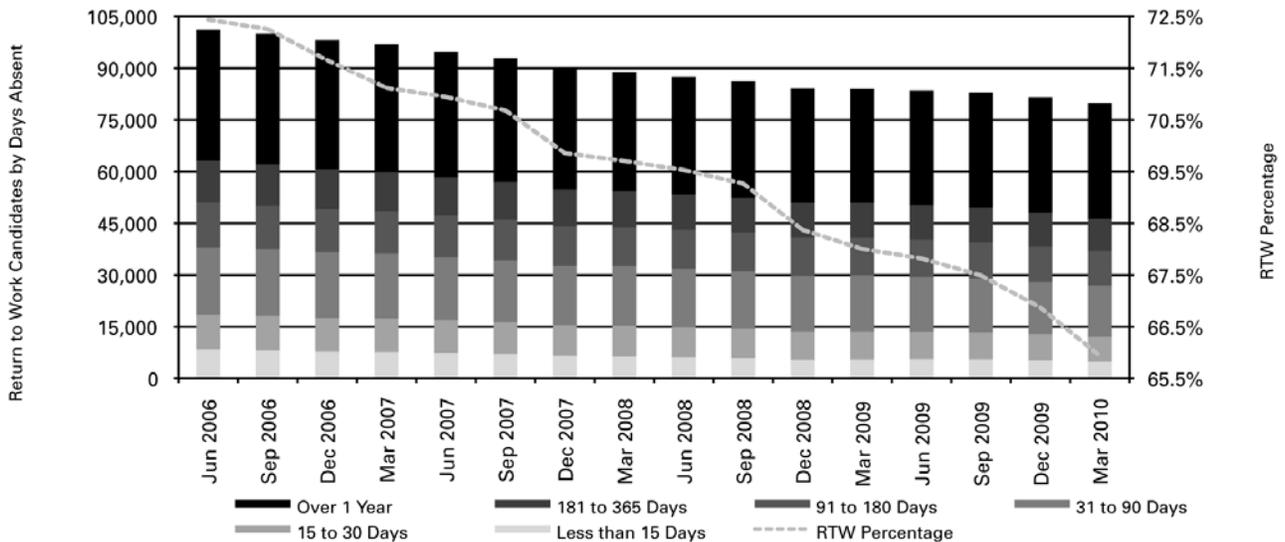
### Severity



### Claim Filing Lag



### Return to work

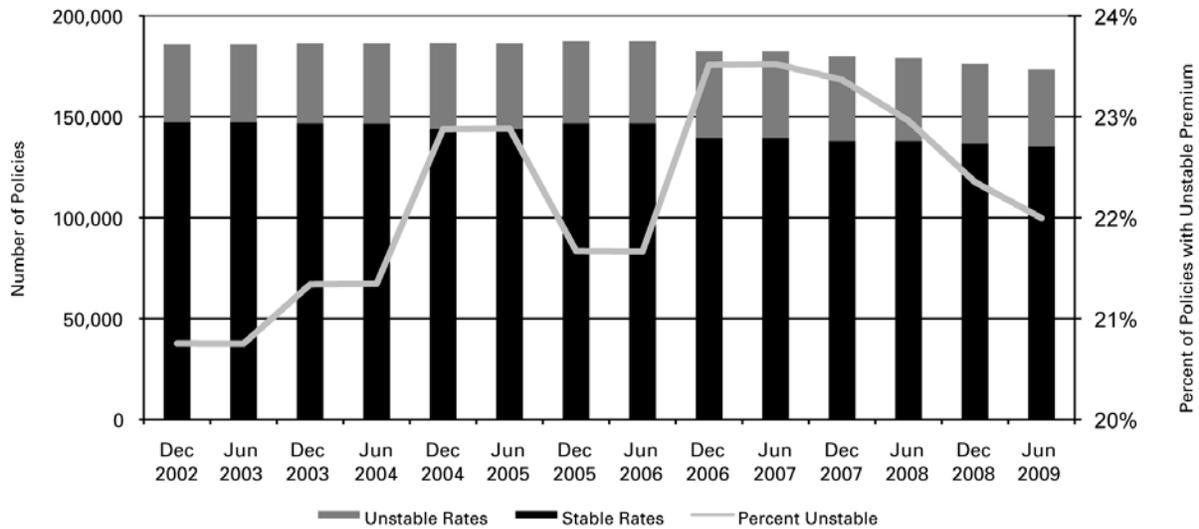


**Aggregate Reported Payroll- Twelve months ended**

(\$ 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.

BWC Board of Directors

**BOARD MEETING**

**Friday, April 30, 2010, 8:00 A.M.**

**William Green Building**

30 West Spring St. 2<sup>nd</sup> 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

Member Absent: None

Counsel Present: John Williams, Assistant Attorney General

**CALL TO ORDER**

Mr. Lhota called the meeting to order at 8:00 a.m. and the roll call was taken. Mr. Lhota reported that all eleven members were present and constituted a quorum.

**MINUTES OF MARCH 26, 2010**

Mr. Smith requested that his comments on page 3, paragraph 3, include: "Mr. Smith also expressed concerns on alternative recommendations, when the role of the Workers' Compensation Board is to provide advice and consent." Ms. Falls requested that a portion of her report on the Governance Committee on page 7 be corrected to read: "The meeting is now scheduled for April 24, but Ms. Falls requested that Mr. Berno schedule another date for the Workers' Compensation Board." Also, on page 3, paragraph 3, she requested her opening remark be corrected to read: "Ms. Falls requested that BWC staff provide the Workers' Compensation Board with options, for example, 'what-if' scenarios which show rates if group rates held flat . . . ."

Mr. Lhota requested that the "Agenda" section correct "Auditing" to "Audit." Also, his statement in "Chairman's Comments" on page 2 should include ". . . that he had recently testified in House of Representatives Insurance committee *indicating* the philosophical diversity of the Workers' Compensation Board is one of its strengths." Finally, on page 8, paragraph 2, the opening sentence should be corrected to read, "During February, the

market value of the portfolio increased by \$74 million and that along with interest and dividend income . . .”

Mr. Smith moved to approve the March 26, 2010, minutes as amended. Mr. Caldwell seconded and the amended minutes were approved by a roll call vote of eleven ayes and no nays.

### **AGENDA**

Mr. Lhota announced that a public forum on Managed Care Organizations (MCOs) would follow the regular meeting, beginning at 10:00 a.m.

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

### **CHAIRMAN’S COMMENTS**

Mr. Lhota commended the directors for their discussions at the committee meetings held on April 29. He reported that there was excellent attendance by directors at the five committee meetings. Of fifty-five opportunities for participation, there were forty-nine in attendance, a participation rate of 89%. For the first quarter, there were 132 opportunities and 131 in attendance, a rate of 99.2%.

### **COMMITTEE REPORTS OF APRIL 25**

#### **ACTUARIAL COMMITTEE**

Mr. Bryan reported that there were five action items, of which four were approved by the Actuarial Committee. Preceding the approval of Administrator’s proposal to reduce overall rates for private employers was a discussion of the rationale of the recommendation. The employers not in group rating will receive an overall reduction of 8.4%; employers in group will receive an increase of 5.5%. BWC is continuing the work begun in 2009 in raising the discount under the credibility table. For the 2010 policy year, the average break even factor will be 1.275. BWC also presented individual manual classification rates.

Upon recommendation of the Actuarial Committee, Mr. Bryan moved that the Bureau of Workers' Compensation Board of Directors approve the Administrator’s recommendation to fix private employer rates beginning July 1, 2010, to achieve an overall Three Point Nine percent (3.9%) decrease in the total collectible premium rate from the previous year. This motion also consents to the Administrator preparing private employer rate rules to present to the Board consistent with this overall rate recommendation 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 also reported that the Actuarial Committee recommended approval of new rates for public employer state agencies. These rates differ from those of private employers they are calculated in a pay-as-you go system. 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 fix State Agency Rates beginning July 1, 2010, to achieve an overall Four Point Three Three percent

(4.33%) decrease in the total collectible premium rate from the previous year. This motion also consents to the Administrator amending Rule 4123-17-35, "Public Employer State Agency Contribution to the State Insurance Fund," consistent with this overall rate recommendation 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 also reported that there was another rule amendment to prohibit employers under the large deductible program from receiving an additional discount under the Drug-Free Safety Program. 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 the Administrative Code, "Deductible Rule." 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.

The fourth action item was in approving new classifications prescribed by the National Council on Compensation Insurance (NCCI), which BWC is obligated to implement under statute and by tradition. 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 4123-17-04 of the Administrative Code, "Classification of Occupations or Industries," to adopt new NCCI classifications. The motion consents to the Administrator amending Rule 4123-17-04 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 reported the final action matter was a proposal from the Service Association of Ohio to delay a deadline in an Administrative Code rule on group retrospective rating. The proposal failed for want of a motion.

Mr. Bryan further reported that there were first readings on private employer base rates, which include a 30% cap on rate increases. The rates continue the practice from 2009 of not capping the amount of a decrease. The Actuarial Committee received a presentation by Deloitte Consulting LLP on the Marine Industry Fund and the Disabled Workers' Relief Funds, and a BWC report on sponsor certification rules.

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

### **AUDIT COMMITTEE**

Tracy Valentino, Chief, Fiscal & Planning, presented a second reading on the proposal to lower the discount rate from 4.5% to 4.0%. At the meeting, Director Matesich asked about the need for stability in the discount rate. Mr. Haffey reported that in 1996, the discount rate was 7% and BWC undertook gradual reduction to the current recommendation. This gradual change minimized the impact on employers. Going forward, BWC predicts little change.

Mr. Haffey moved that the Bureau of Workers' Compensation Board of Directors approve the recommendation of the Audit Committee to concur with the Administrator's

recommendation to adopt a 4.0% reserve discount rate and modify the discount rate policy accordingly. This rate will be utilized by BWC's external actuarial consultant, Deloitte Consulting LLP, and BWC's external audit firm, Schneider Downs & Co., Inc., for purposes of the reserve for compensation and compensation adjustment expenses as of June 30, 2010. Mr. Smith seconded and the motion was approved by a roll call vote of eleven ayes and no nays.

Mr. Haffey stated that Mercer Investment Consulting, Inc., and Bruce Dunn, Chief Investment Officer, support the Administrator's recommendation to adopt the 4% reserve discount rate.

Mr. Haffey moved that the Bureau of Workers' Compensation Board of Directors approve the recommendation of the Audit Committee to revise the net asset policy to reflect the recommendations of a funding ratio range of 1.15 to 1.35 and a net leverage ratio range of 3.0 to 7.0. Mr. Matesich seconded and the motion was approved by a roll call vote of eleven ayes and no nays.

Mr. Haffey next reported that Ms. Valentino conducted a first reading of the FY 2011 budget. BWC proposes a budget of \$284.7 million, which is less than the amount appropriated by the General Assembly. The proposed payroll does not reflect the cost savings days which will be taken in fiscal year 2011. There is a \$5 million item to fund replacement of the medical bill payment system. The budget proposal is \$35 million less than the fiscal year 2010 budget.

Caren Murdock, Chief of Internal Audit, provided an executive report on the Internal Audit risk assessment project. With respect to current projects and timeliness, BWC is on schedule.

Mr. Haffey reported that the Audit Committee heard a presentation from Mike Carey, President, Ohio Coal Association; Sean Logan, Director, Ohio Department of Natural Resources (ODNR); and Babe Erdos, United Mine Workers requesting a transfer of funds from the Coal Workers' Pneumoconiosis Fund to ODNR for mine safety. Mr. Logan reported that because of reduction in the General Revenue Fund, the mine inspection fund will not function after September 2010. Mr. Haffey provided a summary of comments from the Audit Committee's forty-five minute discussion concerning this request. The Workers' Compensation Board has a fiduciary responsibility to protect the Coal Workers' Fund. The funds are for injured miners, widows, and orphans. The transfer could set a precedent for other one-time requests for transfer. The transfer requires use of funds set aside for future benefit expense. The transfer shifts costs from businesses to injured workers. This is the second request of ODNR for a one-time transfer. The Directors expressed reluctance to support the request until an actuarial analysis of the fund is completed in May or June.

Mr. Bryan commented that when BWC needs to transfer, then BWC should build the amount into the rates. The requested action implies these transfers need to be built into future rates.

Ms. Ryan reported that she anticipates language authorizing the transfer will be placed in some other bill. She will testify if she is asked. She also anticipated we would need a rule to implement the transfer.

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

## **GOVERNANCE**

Ms. Falls reported that the early part of the meeting was held in executive session. After adjourning from executive session, the Governance Committee reviewed a process memorandum concerning the Administrator's annual evaluation in public session.

Ms. Falls moved that the Bureau of Workers' Compensation Board of Directors approve the recommendation of the Governance Committee of the evaluation form dated April 13, 2010, and the process as outlined in the memorandum dated April 15, 2010 from Fiduciary Counsel to complete the Administrator's Annual Review. Mr. Price seconded the motion.

Ms. Falls stated for the record that in the vote, only qualified directors will be able to vote on a matter on evaluation of the Administrator.

The motion was approved by a roll call vote of ten ayes and no nays. Mr. Pitts abstained from voting.

Ms. Falls reported that the remainder of the Governance Committee meeting was devoted to a report on the competitiveness task force. Administrator Ryan and Chairman Lhota have appointed Mr. Mazzotta and Mr. Pitts, respectively, as their designees to the task force. The Governance Committee discussed the testimony of Ms. Ryan and Mr. Lhota and Mr. Smith before the April meeting of the task force. The Governance Committee discussed the role of Workers' Compensation Board in BWC risk management process. This included a discussion on a new rule of the Securities and Exchange Commission on proxy statements. The rule is for public traded companies, and is not required for BWC, but reflects industry best practices.

Ms. Falls indicated the report of the Governance Committee was concluded.

## **INVESTMENT COMMITTEE**

Mr. Smith reported that the estimated and unaudited portfolio value is \$19.3 billion as of April 28, 2010 and allocated at 67.6% to bonds, 30.8% to stocks, and 1.6% to cash. In the fiscal year-to-date, through March, the portfolio had a total return of 11.6%, which represents investment income of about \$2 billion. The portfolio in April through April 28 had a positive return of 1.5%, with the market value of bonds and stocks increasing by \$281 million from March 31. There is a new Investment Division report on asset allocation variance to target asset allocation for each fund by asset class. The Investment Committee held another educational session on the differences between active and passive management and how to evaluate active manager performance. In May, Bruce Dunn, Chief Investment Officer, will recommend which existing investment classes are best suited to active management for the State Insurance Fund.

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

#### **MEDICAL SERVICES & SAFETY COMMITTEE**

Mr. Harris reported that the Medical Services & Safety Committee approved the hospital out-patient fee schedule. The only change is in the effective date. The reported was delivered by Freddie Johnson, Director of Managed Care Services, and Anne Casto, Consultant, Medical Services.

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 also reported that the Medical Services & Safety Committee voted on a change to the scheduled loss payment rules. These followed reports from Tina Kielmeyer, Chief, Customer Service, and Kim Robinson, Director of Policy.

Upon the recommendation of the Medical Services and Safety Committee, Mr. Harris moved that the Bureau of Workers' Compensation Board of Directors approve the Administrator's recommendation to amend Rule 4123-3-15 of the Administrative Code, "Claim Procedures Subsequent to Allowance," and Rule 4123-3-37, "Lump Sum Advancements," to establish scheduled loss payment rules. The motion consents to the Administrator amending Rules 4123-3-15 and 4123-3-37 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 also reported that Abe Al-Tarawneh, Superintendent of Safety & Hygiene; Michelle Francisco, Safety Council Program Manager; and Robin Watson, Industrial Safety Consultant Specialist, reported on group experience and group retrospective rating safety program requirements. There was a report on the \$15,000 medical-only program by Tom Prunte, Director of Employer Management Services, and Kathy Arnett, Management Analyst Supervisor. Among discussion items was a report on the MCO vocational rehabilitation referral program by Bob Coury, Chief, Medical Services and Compliance, and Mr. Johnson. The final discussion item was a pharmacy program overview by Dr. Robert Balchick, Medical Director; Johnnie Hanna, Pharmacy Program Director; and Christine Sampson, Pharmacy Program Operations Manager.

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

#### **QUARTERLY REPORT ON HB100 COMPREHENSIVE REPORT RECOMMENDATIONS**

Jim Fograscher, Project Manager and Interim Director, Self-Insured Department, delivered the quarterly report on the HB100 Comprehensive Review Study. It has been

one year since BWC received the report from Deloitte Consulting. This report to the Workers' Compensation Board covers all 146 recommendations from Deloitte. Highlights since the January report: New data has been received from self-insuring employers on case reserves. The core statewide rate level recommendation was implemented. One hundred recommendations were addressed during the quarter. In the second quarter, BWC will take up MCO recommendations. The chart on page 2 shows the stages of implementation of the recommended changes. Page 3 begins a review of each of the 146 recommendations. The handicap reimbursement program is not terminated; however, other recommendations regarding the handicap program will require legislation. Another highlight with respect to the self-insured recommendations is that there is a workgroup preparing proposals on securitization which will be done by autumn. With respect to the state-wide rate level, all six recommendations have been put into place. A new feature is a chart at end of the report showing progress of implementation.

Concerning page 6, Mr. Harris asked why BWC did not address twelve of the items. Mr. Fograscher replied that other items had been given higher priority.

Mr. Smith asked when BWC delivered information on the report to the General Assembly. Ms. Ryan replied that she gave status reports to both house insurance committees. The preference of the House of Representative Insurance Committee would be to include changes in omnibus legislation but there has been no action to date. Also, a report was requested by the Workers' Compensation Council. That report is pending the Council resolving other issues.

### **MONTHLY ENTERPRISE REPORT**

Ms. Valentino provided the Enterprise Report for April. BWC net assets increased by \$297 million in March resulting in net assets of \$4.3 billion as of March 31, 2010, compared to \$4.0 billion as of February 28, 2010. Premium and assessment income was \$174 million. Net of \$8 million for uncollectible account receivable and \$8 million in penalty and interest income, operating revenues were \$174 million in March. Benefits and compensation adjustment expense of \$195 million, along with other expenses of \$8 million, resulted in operating expenses of \$203 million. Benefit payments issued in March increased by almost \$25 million. Settlement payments increased by \$8 million as field offices worked to address backlogs. Medical payments increased by \$12 million.

The investment portfolio increased by \$262 million in fair value during March, along with interest and dividend income of \$65 million for the month, resulted in net investment income of \$326 million for the month after investment expenses. Premium and assessment receipts of \$163 million were collected in March, \$40 million higher than collections for the same period last year due to timing differences in the payment of premiums. Cash and cash equivalents include \$475 million money market holdings in outside investment manager accounts committed to covering a \$432 million net investment trade payable for settlement in April. Principal and interest payments of \$17.9 million were made on the William Green Building bonds. The bonds mature in 2014 and have a remaining principal balance of \$62.9 million.

Ms. Falls asked if BWC was close to eliminating the settlement backlog. Ms. Kielmeyer replied that there was significant progress in the backlog. The new process required training. There has been a major push since January and BWC should be current in one month. BWC is within 93% of that goal.

Ms. Valentino further reported BWC net assets increased \$1.8 billion for fiscal year-to-date 2010 resulting in net assets of \$4.3 billion at March 31, 2010, compared to \$1.5 billion for March 31, 2009. The projected net asset total had been \$3 billion. BWC premium and assessment income for fiscal year-to-date 2010 is \$1.6 billion compared to \$1.7 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 DWRP and the Self-Insuring Employers Guaranty Fund. Benefit and compensation adjustment expenses increased by \$72 million for fiscal year-to-date 2010. Reserves for compensation and compensation adjustments for DWRP and SIEGF have increased by \$53 million in 2010. While settlements and medical payments have decreased by over \$67 million, there have been increases in temporary total and PTD costs of approximately \$10 million.

Net investment income for fiscal year-to-date 2010 totaled almost \$2 billion, comprised of \$532 million in net realized losses and \$1.992 billion in net unrealized gains, along with \$538 million of interest and dividend income and \$5 million in investment expenses. This included \$2 billion in completed corporate actions and settlements. Private employer payroll and premium rate decreases have contributed to premium collections being \$256 million less than prior fiscal year-to-date collections.

Approximately 20,200 employers participated in the 50/50 payment program, and will be paying \$146 million in premiums by June 1, 2010 to maintain active coverage. Last year, almost 20,700 employers participated with \$176 million owed for the second installment. As of April 9, 17,300 private employer accounts with estimated premiums of \$13.5 million remained in a lapse status for failing to report payroll for the period July to December 2009 policy period. This compares to 26,100 accounts initially billed for estimated premiums on March 13, 2010. Accounts that have failed to report payroll were certified to the Ohio Attorney General on April 19. Mr. Matesich commented that these reductions should be out-of-business or cancelled accounts.

Mr. Hummel asked how much of the decrease in premium collections is due to reduced payroll, and how much is a decrease in the number of employers. Ms. Valentino stated she did not have that information now, but would research it.

Mr. Bryan asked if BWC pays fees to the Attorney General for collection. Ms. Valentino replied there were fees. Some fees are passed on to the employers, others are charged to the amount collected.

Ms. Valentino reported that charts on page 5 were revised to include fiscal year 2006 and fiscal year 2010 operating revenues and expenses. New charts on page 7 show actual net investment income for FYTD 2006 through FYTD 2009 and also projected net investment income for fiscal year 2010. BWC Administrative Cost Fund expenses are approximately \$20.8 million (9%) less than the budget and approximately 6% less than last fiscal year.

Mr. Price asked about the operating transfers to other agencies. Ms. Valentino replied the transfers to ODNR, Workers' Compensation Council, and Ohio Inspector General are not in the budget, but the transfers pay for services to BWC. All are statutorily mandated. If BWC collects more ACF assessments from employers than are needed, the budget process constructs a credit in the next year's budget.

Ms. Valentino reported that BWC has a memorandum of understanding with ODNR, whereby BWC receives a quarterly report on expenses and transfers funds as needed. Limits on the transfers require that the assets in the Coals Workers' Fund exceed liabilities by two times. If the ratio falls below two, there is a requirement for an actuarial study of claims. If the ratio falls below 1.5, transfers are suspended. Transfers are also to not exceed 70% of interest and dividend collections for the year. ODNR has been directed to investigate other sources of revenue by FY 2013. There is a new note on page 13 to reflect undiscounted reserves. Ratios are within the policy guidelines, 1.26 for the funding ratio and 4.34 for the net leverage ratio. The chart in May will reflect the voted changes to the policy by the Workers' Compensation Board.

### **ADMINISTRATOR BRIEFING**

Ms. Ryan delivered her monthly report.

The Competitiveness Task Force will next meet on May 27. Mr. Pitts will represent Chairman Lhota and Mr. Mazzotta will serve as her representative. The discussion will be on constitutional changes that may be needed. Materials from testimony of the last meeting have been distributed to the Workers' Compensation Board.

There is no schedule of future meetings for the Workers' Compensation Council. There has also been no news on settlement with the three terminated workers. BWC obtained budget information for FY 2011 for the Workers' Compensation Council. Ms. Valentino stated that it was a flat request. The Council subcommittee on operations has not met.

Mr. Hummel asked if the Workers' Compensation Council staff has been replaced. Ms. Ryan reported that she was not aware of any replacement. A retired staff member of the Legislative Service Commission has been working part-time.

Mr. Haffey asked if BWC is the only funding source for the Workers' Compensation Council and Ms. Ryan replied that it was.

On April 19, the Workers' Compensation Board of Directors Nominating Committee met and Ms. Ryan reported that the incumbent directors were re-nominated with other candidates added to the recommended list. Candace Jones, attorney of the Department of Development, reported that the council had trouble finding three other candidates for the actuary seat because of the respect within the profession for Mr. Bryan. There were many positive comments on the other three directors. Andy Doehrl of Ohio Chamber/ OMA asked for information on expenses, and the report included the director attendance record and collegiality.

The General Assembly is in recess until May. Ms. Ryan predicted it will only be in session four or five days before the summer recess. The General Assembly will reconvene in autumn and pick-up business.

The Safety and Hygiene Division entered into an agreement, by Mr. Al-Tarawneh, with the National Institute of Occupational Safety and Health for exchange of data. Dr. Balchick is on the Ohio Prescription Drug Abuse Task Force. BWC has much data on pharmaceutical usage and an interest in the issue.

JPMorgan Chase has been reappointed as custodian of BWC funds by the Treasurer of State. Ms. Ryan stated she was pleased because of the strong relationship between BWC and Chase and the continuity provided by the contract.

The NCCI produced an article on the application of national health care law to workers' compensation, which has been distributed to the directors. Ms. Ryan stated she will speak at the May 11 meeting of the Ohio Chamber of Commerce.

#### **EXECUTIVE SESSION**

There was no executive session.

#### **CHAIRMAN'S COMMENTS**

Mr. Lhota requested that members of the MCO League assemble for the public forum at 10 a.m.

#### **ADJOURNMENT**

Mr. Smith moved to adjourn the meeting. Mr. Haffey seconded and Mr. Lhota adjourned the meeting at 9:29 a.m. after the motion was approved by a roll call vote of ten ayes and no nays.

Prepared by: Larry Rhodebeck, Staff Counsel  
H:\Word\ldr\WCB 0410.doc  
May 5, 2010

A check mark indicates recent activity.

**SB 181—(Stewart)** Provide certain immunities to land owners who provide access to abandoned mine land for purposes of reclamation or acid mine drainage abatement. Provide immunity to non-profit organizations that provide funding or services for reclamation purposes. Designate that methane gas emitted from an abandoned mine constitutes a renewable energy resource for the purposes of the law governing the promotion of renewable energy usage.

- ✓ Passed unanimously by House Agriculture and Natural Resources Committee on 5/12
- ✓ Included un-codified provision to require the transfer of \$2.28 million from Black Lung Fund to ODNR's Coal Regulatory Program
- ✓ Passed House Finance and Appropriations Committee May 25.
- ✓ Expected to be voted on by full House on May 27. Possible full Senate vote to concur on May 27 as well.

**House Bill 495—(Book, Dodd)**—In addition to agency, commission, and board consolidation, the bill retains the Workers' Compensation Council but eliminates its funding and requires the General Assembly to review the Council and its funding.

- ✓ "Renews" BWC Board of Directors, BWC Board Nominating Committee, Labor-Management Government Advisory Council, and Industrial Commission Nominating Council
- ✓ 4<sup>th</sup> Hearing scheduled on May 26, 5<sup>th</sup> Hearing and possible vote scheduled for May 27.

**SB 268 – (Gilmore)—Introduced May 25.**

- ✓ Legislation would adopt recommendations from the bipartisan Sunset Review Committee to abolish or consolidate dozens of state boards and commissions in an effort to reduce the size of state government and save Ohio taxpayer dollars.

**HB 523—(Reps. Phillips, D-Athens, Driehaus, D-Cincinnati)—Introduced May 24.** To create a generally uniform definition of employee for specified labor laws and to create a uniform standard to determine whether an individual performing services for an employer is an employee of that employer.

- ✓ Sponsor testimony provided on May 25

**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. Created a taskforce of 23 including the Administrator and Board of Director Chair or their designee and the Director of the Department of Insurance.

- Task force convened February 17.
- 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.
- Task Force met on April 15. Presentations provided by Chairman Lhota, Director Smith and Administrator Ryan.
- ✓ Meeting May 27<sup>th</sup>. Agenda item, the Nevada System, provided by Ann Nelson, VP Corporate and Public Affairs, Employer's Insurance Company.

**SB 238—(Sen. Seitz, R-Cincinnati)--**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.
- ✓ Reported out of Senate Insurance, Commerce, and Labor Committee May 25, 8 – 4 party line vote.
- ✓ Opposing testimony was provided by a number of groups and individuals. BWC submitted interested party testimony which outlined our concerns with the legislation as introduced.
- ✓ Expected to reach the Senate for a full vote the first week of June.

**SB 3—(Sen. Faber, R-Celina)**--Requires a rule-making agency to prepare a cost-benefit report for, and regulatory flexibility analysis of, rules that may have any adverse impact on small businesses and submit them to the new Ohio Small Business Ombudsperson in the Office of Small Business, to create the Small Business Regulatory Review Board to review objections to those rules and make recommendations to the Joint Committee on Agency Rule Review regarding the rules.

- Passed full Senate on March 11, 2009. Pending in House State Government Committee since that time.
- On April 20, 2010, House State Government Committee voted unanimously to amend out all existing sections of SB 3 and replace those sections with HB 230 (Rep. Moran, D-Hudson) in its entirety.
- HB 230 enacts the Common Sense Regulation Act to improve state agency regulatory processes, especially as they relate to small businesses and to require state departments to develop customer service training programs
- ✓ Referred to Conference Committee May 19. Senate conferees appointed May 25: Senator Hughes (R-Columbus), Faber (R-Celina), and Kearney (D-Cincinnati). House conferees have not yet been named.

**HB 246—(Reps. Yuko, D-Elyria and Stewart, D-Columbus)**— 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.

- 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
- 3<sup>rd</sup> 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
- ✓ 4<sup>th</sup> Hearing Proponent Testimony on May 18. John Pedrick, BWC Chief Actuary, provided testimony at the request of Chairwoman Newcomb regarding the cost to the system and public employers if the bill, as introduced, were to become law.

**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, and 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.

**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.
- ✓ Sponsor testimony in Senate Insurance, Commerce, and Labor committee May 18. Not currently scheduled for further consideration.

**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 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.
- No recent activity

**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

**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.
- Met on March 15 to discuss "personnel issues". Full Council convened an executive session for the duration of the meeting.
- ✓ No meetings on the calendar at this time.

**BUREAU OF WORKERS' COMPENSATION  
BOARD SELF-ASSESSMENT**

June 2010

1 = Unacceptable  
2 = Needs Improvement  
3 = Acceptable  
4 = Excellent  
5 = Superior

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

- Mission and strategic plans 1 2 3 4 5
- Insurance business 1 2 3 4 5
- Actuarial soundness 1 2 3 4 5
- Investment policy 1 2 3 4 5
- Financial performance 1 2 3 4 5
- Litigation status 1 2 3 4 5
- Risk management 1 2 3 4 5

Comments:

DRAFT

2. I believe pre-meeting reading materials I am sent for Board and Committee meetings are:

- Timely 1 2 3 4 5
- Complete 1 2 3 4 5
- Understandable 1 2 3 4 5

Comments:

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

- Clear and understandable 1 2 3 4 5
- Helpful in providing an accurate picture of the BWC's performance 1 2 3 4 5

Comments:

4. I believe I receive information of sufficient clarity and quality to enable me to understand BWC's business and financial risks. 1 2 3 4 5

Comments:

5. I believe the Board's Committees are meeting the objectives as described in their respective charters. (See attached **Addendum** for a statement of the purposes of each Committee.)
- |                             |   |   |   |   |   |
|-----------------------------|---|---|---|---|---|
| Actuarial                   | 1 | 2 | 3 | 4 | 5 |
| Audit                       | 1 | 2 | 3 | 4 | 5 |
| Governance                  | 1 | 2 | 3 | 4 | 5 |
| Investment                  | 1 | 2 | 3 | 4 | 5 |
| Medical Services and Safety | 1 | 2 | 3 | 4 | 5 |

Comments:

6. I believe the rationale for proposed Board and Committee actions is adequately explained prior to action being taken. 1 2 3 4 5

Comments:

7. Overall, I believe I am provided the resources and tools I need to effectively exercise my fiduciary and oversight responsibilities. 1 2 3 4 5

Comments:

8. Overall, I believe the Board makes the appropriate use of the skills and experience of its members. 1 2 3 4 5

Comments:

9. Overall, I believe the Directors engage in full and candid discussions of the issues before the Board and personally feel comfortable expressing my views at Committee and Board meetings. 1 2 3 4 5

Comments:

10. The process by which the Board evaluates the Administrator's performance works well. 1 2 3 4 5

Comments:

11. I would rate the overall performance of the Board as follows: 1 2 3 4 5

Comments:

12. If there is one change I would make it is.....

Comments:

DRAFT

---

Signature

## Addendum – “Purpose” Paragraphs from the Committee Charters<sup>1</sup>

### Actuarial:

The Actuarial Committee has been established to assist the Ohio Bureau of Workers’ Compensation (“BWC”) Board of Directors in fulfilling its responsibilities through:

- monitoring the actuarial soundness and financial condition of the funds and reviewing rates, reserves and the level of net assets
- monitoring the integrity of the actuarial audit process
- monitoring compliance with legal and regulatory requirements
- monitoring the design and effectiveness of the actuarial studies
- confirming external actuarial consultants’ qualifications and independence
- reviewing any independent external actuarial work product

### Audit:

The Audit Committee has been established to assist the BWC Board of Directors in fulfilling its fiduciary oversight responsibilities through:

- providing oversight of the integrity of financial reporting process;
- ensuring compliance with legal and regulatory requirements;
- monitoring the design and effectiveness of the system of internal control;
- confirming external auditor’s qualifications and independence
- reviewing performance of the internal audit function and independent auditors.

### Governance:

The BWC Board of Directors has created the Governance Committee under authority granted by Ohio Revised Code Section 4121.12(G)(2). The Governance Committee is a standing committee of the Board of Directors. The Committee shall assist the Board of Directors in fulfilling its oversight responsibilities relating to developing and implementing sound governance policies and practices. The Committee is responsible for:

- reviewing and recommending to the Board the adoption of governance guidelines and committee charters;
- overseeing compliance with federal and state laws, regulations, policies and ethical requirements;
- developing a process for the Board’s assessment of its performance and the performance of Board committees;
- overseeing the process for orientation of new Board members and the continuing education program for all Board members;

---

<sup>1</sup> Note: All Committee actions must be ratified or adopted by the Board of Directors to become effective.

- making recommendations for Board Vice-Chair, Committee Chairs and Vice-Chairs and Director assignments to Board committees for the Chair's consideration; and
- coordinating processes and procedures for the Administrator's annual performance review.

#### Investment:

The purpose of the Investment Committee is to ensure that the assets of the BWC are effectively managed in accordance with the laws of the State of Ohio, and the BWC Statement of Investment Policy and Guidelines. The Investment Committee:

- assists the Board of Directors in the review and oversight of the State Insurance Fund and each Specialty Fund (collectively the Funds) assets;
- develops and monitors the implementation of the BWC's investment policy

#### Medical Services and Safety:

The BWC Board of Directors has created the Medical Services and Safety Committee under authority granted by Ohio Revised Code Section 4121.12(G)(2). The Medical Services and Safety Committee is a standing committee of the Board of Directors. The Committee shall assist the Board of Directors in the development of strategic policy for the provision of quality, cost-effective prevention, treatment, and rehabilitation services necessitated as the result of workplace injuries for the mutual benefit of injured workers and employers.

Date: May \_\_, 2010

From: The BWC Governance Committee

To: The BWC Board of Directors

cc. Marsha Ryan, Don Berno, James Barnes, Ann Shannon, John Williams, Ron O'Keefe

Re: Annual Board Self-Assessment Process – FY 2010

In accordance with its Governance Guidelines, the Board is proceeding with the self-assessment process for FY 2010. The purpose of this memorandum is to review the background and rationale for the process, to provide a draft of the proposed 2010 form – as revised from last year's form – for any suggested modifications and to propose a timeline for the 2010 Board Self-Assessment process. The "Summary of Director Responses" from the results of the 2009 Board Self-Assessment process has been provided in the Board Books, previously distributed. One measure of the effectiveness of last year's self-assessment process is the substance of the follow-up action steps set forth at the end of the Summary of Director Responses.

### **Background**

The BWC Board of Directors is not required by law to conduct an annual self-assessment of the effectiveness of the Board. However, a Board self-assessment process is a logical corollary to the evaluation of the Administrator (required by law), a governance process that is considered to be a "best practice," and a requirement for all publicly traded companies on the NYSE.

The role of the Governance Committee is to design a process that provides for input from all Board members regarding their opinion on a range of Board matters, including information, discussion and decision-making. The objective is for the Directors to take time to be introspective and for the Board to use the self-assessment process to be proactive in recommending action steps to continuously improve its processes and effectiveness.

### **Discussion of the 2010 Board Self Assessment Form**

Several changes have been proposed to the form previously used for the 2008 and 2009 self assessment. Clean and marked copies of the proposed 2010 form are provided. In addition, it is proposed that the Board once again utilize the services of Fiduciary Counsel, Ron O'Keefe, to compile and summarize the Directors' responses.

### **Proposed Timeline for the 2010 Board Self-Assessment Process**

- May 27, 2010: The Governance Committee reviews the self-assessment form and timeline and makes a recommendation, with changes as appropriate, to the Board.
- May 28, 2010, the Board considers the Governance Committee recommendation and votes to approve or modify the form and timeline for the FY 2010 self-assessment process.

- As approved, the form and process memorandum will be delivered via email to each Board member at or shortly following the meeting.
- June 7, 2010: Board members should return their completed forms to Fiduciary Counsel by close of business on **Monday, June 7, 2010**. Individual Board members should contact Fiduciary Counsel with respect to questions they may have regarding their completion of the form. Forms may be returned either by word processing and e-mail, fax or hard copy.
- June 8 through 10, 2010: Once the completed forms have been received, Fiduciary Counsel will create a compilation report including the input of each Board member, will generate a first draft of an overall summary report and will discuss the compilation and draft summary report, and the suggested follow-up action steps to be included in the draft summary report, with the Board Chair, the Governance Committee Chair and the Administrator.
- June 11, 2010: At the direction of the Board and Governance Committee Chairs, Fiduciary Counsel will distribute to each Director the compilation and the draft summary report.
- June 18, 2010: In executive session, the Board will review and discuss the various perspectives reflected in the compilation report with a view towards resolving apparent differences and/or moving toward a consensus view for the summary report. The Board will also discuss and move toward a consensus view regarding recommended follow-up action steps.
  - The Board will reconvene in an open meeting for any vote on the Board's self-assessment and/or action plan, as may be appropriate or required.