

BWC Board of Directors

Board Agenda

Friday, August 27, 2010

William Green Building

Level 2, Room 3

8:00 a.m. – 12:00 p.m.

Call to Order

Bill Lhota, Board Chair

Roll Call

Larry Rhodebeck, Scribe

Bill Lhota, Chair

- Approval of minutes of the July 29, 2010 Board meeting
 - Review meeting agenda
-

Ethics Training

David Freel, Executive Director, Ohio Ethics Commission

Fiduciary Responsibility

Ron O'Keefe, Fiduciary Counsel

Committee Reports

Actuarial Committee

Chuck Bryan, Committee Chair

1. PEC Deductible Tables, Rule 4123-17-72
2. Private employer credibility table effective 7-1-2011, Rule 4123-17-05.1
3. Private employer Group Break-even Factor effective 7-1-2011, Rule 4123-17-64.1

Audit Committee

Ken Haffey, Committee Chair

1. FY 2012/2013 Biennial Budget

Investment Committee

Bob Smith, Committee Chair

Medical Services and Safety Committee

James Harris, Committee Chair

1. Transcutaneous electrical nerve stimulators (TENS) and neuromuscular electrical stimulators, Rule 4123-6-43

FY 2011 Agency Goals

Ray Mazzotta, Chief Operating Officer

Monthly Enterprise Report

Tracy Valentino, Chief, Fiscal & Planning Division

Administrator's Report

Marsha P. Ryan, Administrator

Adjourn

Bill Lhota, Board Chair

Next Meeting: Friday, September 24, 2010

*Not all agenda items have material. **Agenda subject to change

Ben Rose, Chair
Merom Brachman
Betty Davis
Diana Swoope



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David E. Freel
Executive Director

www.ethics.ohio.gov

DAVID E. FREEL

David E. Freel has been the Executive Director of the Ohio Ethics Commission since 1994. As Executive Director, Mr. Freel supervises a staff of twenty-three and oversees the state-wide responsibilities of the Commission. These responsibilities include: providing ethics advice to state and local public officials and employees, and private sector individuals doing business with them, before they act; confidentially investigating the alleged unethical actions of state and local public servants; managing financial disclosure made by 11,000 public office holders; conducting public education and providing information; and supervising the administrative functions of the Commission. Mr. Freel represents the Commission before the General Assembly and other governmental bodies.

Mr. Freel has also served as a special assistant prosecutor in ethics-related prosecutions. One example involved the investigation and prosecution of the former Columbiana County Treasurer, and his son, in 1994, for felony ethics violations and related crimes resulting from the son's embezzlement of millions of dollars of public funds controlled by the county.

Mr. Freel has written articles on Ohio's Ethics Law and given ethics presentations at seminars and conferences in the United States and Canada. He is a past President of the Council of Governmental Ethics Laws (COGEL), an international organization composed of federal, state, local, and provincial agencies, and individuals, responsible for the administration and implementation of ethics, financial disclosure, elections, campaign finance, and freedom of information laws and provisions. On September 18, 2007, he was named the recipient of their highest honor, the 2007 COGEL Award, at the Conference in Victoria, British Columbia, having also been recognized in 2002 with the COGEL Service Award. Mr. Freel also serves on the Executive Committee of the Council for Ethical Leadership at the Capital University School of Management.

Before joining the Ethics Commission, Mr. Freel was a faculty member of The Ohio State University College of Law, serving as a Clinical Teaching Fellow and Staff Attorney in the College of Law's Clinical Programs from 1979 to 1983. Prior to that, he was a trial attorney with the Franklin County Public Defender's Office from 1977 to 1979.

Mr. Freel received his Bachelor of Science degree in Social Science from The Ohio State University in 1974, and his Juris Doctor degree from Capital University School of Law in 1977. In 2008, Mr. Freel was recognized as Capital University's Law School Distinguished Alumnus of the Year

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THE OHIO ETHICS LAW OUTLINE

I. INTRODUCTION TO OHIO'S ETHICS LAW

A. **Purposes of the Ethics Law:**

- Protect the public from the financial, family, or business conflicts of its public servants
- Encourage impartiality in governmental decisions by restricting public actions on matters in which public officials and employees have direct and definite conflicts of interest
- Promote citizen confidence in the actions of public agencies

B. **Ethics Law History:**

- Created by the General Assembly in 1973
- Found in Ohio Revised Code Chapter 102 and R.C. 2921.42, 2921.421, and 2921.43
- Established the Ohio Ethics Commission, and two similar state ethics agencies in the Legislature and Judiciary, to oversee all within the three branches of government
- Ethics Commission is one of nearly 40 similar state ethics boards and commissions

C. **The Ethics Commission Oversees:**

- All state and local public officials and employees (except legislative and judicial members)
- Private parties and corporations who do business with public offices

D. **The Ethics Law:**

- Requires personal financial disclosure to identify and protect against conflicts;
- Restricts unethical conduct through laws that have criminal sanctions; and
- Allows uniform review and guidance regarding ethics issues.

II. THE OHIO ETHICS LAW – A WORKING UNDERSTANDING

General Rule: Whenever the interests of the public official or the public official's family or business associates are present in an issue before the public official, there is an ethics question.

A. **General Public Protections** – The Ethics Law contains *criminal* restrictions to:

- Restrict participation in public matters involving direct and definite personal, family and business interests of a public official or employee;
- Limit compensation for public duties to their public employer;
- Restrict personal, family, and business interests in public contracts;
- Prohibit nepotism in public hires and services;
- Condition former officials and employees' post-employment activity;
- Control the disclosure of confidential information, and;
- Provide protections against influence peddling in public agencies for personal benefit.

B. **Conflict of Interest and Supplemental Compensation** – R.C. 102.03(D), (E), (F), 2921.43

- **Core of Ethics Law restrictions that often appear together in analysis and violations. Ethics Law does not replace, but supplements, bribery and theft prohibitions. No quid pro quo required.**

1. **R.C. 102.03(D):**
 - a. Prohibits a public official's *active use of authority to secure* anything of value that could have a substantial and improper influence on the official. Includes voting, discussing, deliberating, or formally or informally lobbying on matters of conflict [OEC 2007-01].
 - b. Not necessary that thing of value is received by the official—could be received by family member or business associate.

2. **R.C. 102.03(E):**
 - a. Prohibits a public official's *acceptance or solicitation* of anything of value that could have a substantial and improper influence on the official [OEC 2001-03]. A thing of substantial value from an improper source would have a substantial and improper influence.
 - b. Anything of value includes money, goods, *future employment*, interest in realty, and every other thing of value [R.C. 1.03].
 - c. Improper sources include parties doing or seeking to do business with, regulated by, or interested in matters before a public agency [OEC 2003-03].
 - d. Receipt or acceptance alone creates potential violation [OEC 2001-03].

3. **R.C. 102.03(F):**
 - a. Prohibits a private party from *giving or promising* anything of value. [OEC 2008-01]
 - b. Prohibited regardless of whether official solicits the item.

4. **Application to issues of:**
 - a. Employment: A public official is prohibited from soliciting, accepting, or using his position to seek employment from “improper” sources unless the official can withdraw from participating in any actions that affect the prospective employer and his abstention is approved by supervisors, where required. Official must withdraw from participation in official matters if attempting to secure, or approached about, employment [OEC 2008-02]
 - b. Travel, meals, and lodging: A public official cannot accept anything of value, including travel, meals, and lodging, from an improper source. [OEC 2001-03]
 - c. Gifts: Cannot accept gifts from any party that is doing or seeking to do business with, regulated by, or interested in matters before the public agency [OEC 2001-04].

5. **Other Governance:**
 - a. Executive Order 2007-01S – State officials and employees under Governor
 - b. Other Agency Specific Restrictions – i.e. PUCO, public investment systems

6. **R.C. 102.03(G):** Campaign Contributions not ordinarily governed under Ethics Law, unless another violation of law. [OEC 2002-03; see also R.C. 2921.43 below].

7. **R.C. 102.01 (H)(1) – Honoraria:** Most public officials and employees who file financial disclosure are prohibited from receiving honoraria [OEC 99-003].

8. **R.C. 2921.43 - Supplemental Compensation:**
 - a. Prohibits the acceptance or giving of any compensation, other than allowed by law, for the performance of any public duty or responsibility. Separate notion of conflict; attempt to prohibit the conflict inherent in being compensated by dual employers. Public and private sectors *both* subject to supplemental compensation prohibitions [OEC 2008-01]
 - b. Prohibits the coercion of a campaign contribution [State v. Conese (2004), 102 Ohio State 3d 435]

9. **R.C. 102.03(C) - Licensing Conflicts:** Bars participation in license or rate-making where public official or immediate family members (spouse residing with official and any dependent children) own more than 5 percent.

C. Public Contract Restraints - R.C. 2921.42 and R.C. 102.04(B)

1. R.C. 2921.42: Five restrictions; The three most common are:

- a. Public officials cannot secure public contracts for himself, family member, or a business associate (includes hiring a family member into public employment) [OEC79-005; 98-004].
- b. Public officials cannot have an interest in profits or benefits of a public contract entered into by a public agency with which he is “connected” [OEC 2008-04].
- c. Public official cannot profit from a public contract he approved or that was authorized by a body of which he was a member unless the contract was competitively bid and awarded to the lowest and best bidder [OEC 88-008].

2. **R.C. 2921.42(A)(2) - Investing Public Funds:** Public officials cannot secure the investment of public funds in any share, bond, mortgage, or other security, if he, a member of his family, or any of his business associates either has an interest, is an underwriter, or receives any brokerage, origination, or servicing fees.

3. Public contract includes public purchases or acquisitions of any property or service, including employment, grants, or improvement or maintenance of public property [OEC 87-002; 89-006].

4. Exceptions:

- Stockholding below 5 percent; with an affidavit.
- Four-part exception—*All four must exist* and the burden is upon official to demonstrate:
 - Necessary supplies or services;
 - Unobtainable elsewhere for the same or lower cost or continuing course of dealing;
 - Equal or preferential treatment given agency; and
 - Arm’s length, full disclosure, no participation [OEC 2000-02].

5. **R.C. 102.04(B):** Restricts state employees from conducting business with any state agencies except through competitive bidding. (See F(5)(b) below for R.C. 102.04(D) exception) [OEC 2004-04].

D. Post-Employment and Representation Restrictions – R.C. 102.03(A), (B), and 102.04

1. **R.C. 102.03(A)(1):** Revolving door prohibitions on a public official, during public service and for one year afterwards, from representing anyone on any matter in which he personally participated while he was a public official [OEC 2004-04].

2. Statutory Definitions:

- a. Matter includes any case, proceeding, application, determination, issue, or question [OEC 99-001].
- b. Personal participation includes decision, approval, disapproval, recommendation, the rendering of advice, investigation, or other substantial exercise of administrative discretion, including supervision [OEC 91-009].
- c. Representation is formal or informal appearance before, or any written or oral communication with, *any* public agency [OEC 86-001].

3. Exceptions:

- Not prohibited from representing public agency the official formerly served.
- New matters and matters in which public official did not participate; prohibition is tied to personal participation.

- Ministerial functions - Not prohibited from performing functions like filing or amending tax returns, incorporation papers, and similar documents.
 - Proposal, consideration, or enactment of statutes, rules [OEC2004-04].
4. **R.C. 102.03(B) – Confidentiality:** Lifetime prohibition on disclosure of confidential information both during and after leaving public position [OEC93-012].
 5. **R.C. 102.04(A) - Representation and Influence Peddling**
 - a. Prohibits state officials from receiving compensation directly or indirectly, other than from own public agency, for any service rendered personally on any case, application, or other matter before any public agency [OEC 93-010].
 - b. **R.C. 102.04(D):** Exemption applies to non-elected employees who render services before, or sell goods and services to, state agencies other than the agency they serve [OEC 93-010].

III. THE OHIO ETHICS COMMISSION AND REMEDIES AVAILABLE

A. Composition:

- The Commission is a bipartisan body comprised of six members who are appointed by the Governor and subject to confirmation by the Senate. The members serve staggered, six-year terms, and are compensated \$75 per meeting, to a maximum of \$1800 per year.
- Current members are:

- <i>Merom Brachman, Bexley</i>	- <i>Shirley Mays, Vice Chair, Delaware</i>
- <i>Vacant</i>	- <i>Ben Rose, Chair, Lima</i>
- <i>Betty Davis, Mason</i>	- <i>Diana Swoope, Akron</i>
- The Ethics Commission employs an Executive Director who supervises a staff of 21 that carries out the duties of administering the Ethics Law on a day-to-day basis.

B. Statutory Responsibilities of the Ohio Ethics Commission:

1. **Advice:** The Commission possesses the unique authority to interpret and provide advice regarding the Ethics Law to public servants before they act. The Commission's written advisory opinions provide immunity to those who follow the advice. In 2009, 182 requests for advice were closed.
2. **Education:** The Commission provides free ethics education and informational materials related to ethics, conflicts of interest, and financial disclosure. In 2009, 195 educational sessions were conducted by the Commission to a total audience of 15,000 people.
3. **Financial Disclosure:** The Commission administers the financial disclosure requirement for most public employees required to file annual disclosure statements. More than 11,000 forms are filed annually with the Commission.
4. **Investigation:** The Commission confidentially investigates alleged violations of the Ethics Law and related statutes for potential referral for criminal charges. In 2009, 168 active investigations were conducted.
5. **Legislation:** The Commission recommends legislation to the General Assembly related to ethics, conflicts of interest, and financial disclosure.

IV. QUESTIONS:

Contact the Ohio Ethics Commission at (614) 466-7090. For more information about the Ethics Commission and its duties, searches of more than 300 formal Advisory Opinions, and common sense guidance regarding Ohio's Ethics Law, please go to www.ethics.ohio.gov, or contact the Commission.

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FINANCIAL DISCLOSURE FACT SHEET

What is a financial disclosure statement?

A financial disclosure statement (FDS) is an annual report filed by many public officials and employees. In a FDS, the filer reports sources of income, investments, real estate holdings, and other financial interests.

Where are financial disclosure statements filed?

- Legislators file with the Joint Legislative Ethics Committee;
- Judges file with the Board of Commissioners on Grievances and Discipline of the Supreme Court; and
- All others file with the Ohio Ethics Commission.

Who is required to file a disclosure statement?

- Elected officials at the state, county, and city levels;
- Candidates for state, county, and city elective offices;
- School board members and candidates for school board in school districts with more than 12,000 students;
- Superintendents, treasurers, and business managers for all school districts;
- Upper-level state employees, including university presidents; and
- Members of sovereign power state boards and commissions.

What is the purpose of a financial disclosure statement?

- This disclosure:
- Reminds public officials of those financial interests that might impair their judgment on behalf of the public;
 - Informs the public of those interests; and
 - Assists in instilling confidence in the actions of public officials.

What must be disclosed on the financial disclosure statement?

- Most filers must disclose:
- All sources of **income** of any amount;
 - **Names of clients as sources of income and individual items of income** if the clients are legislative agents (except where confidentiality is protected by a code of ethics);
 - **Source and amount of income received** from any person if the filer knows or has reason to know the person is doing or seeking to do business with filer's public agency;
 - All sources of **gifts** over \$75 (excluding most family members);
 - All **investments, debtors, and creditors** over \$1000;
 - Most ownership and leasehold interests in **real property**;
 - Source **and** amount of every payment of **travel expenses** for travel inside or outside of the state incurred in connection with filer's official duties;

Disclosure requirements (continued)

- Source of payment of **meals, food, and beverage expenses** paid in connection with filer's official duties that exceed \$100 aggregated per calendar year; and
- Any **nondisputed information** contained in a statement received, by the filer, from a legislative agent.

University trustees, and persons serving with political subdivisions who are paid less than \$16,000 per calendar year for their public service, are required to make a different disclosure. They disclose:

- Sources of **income** of over \$500;
- Sources of **gifts** over \$500 (excluding most family members);
- **Investments, debtors, and creditors** over \$1000; and
- Most ownership and leasehold interests in **real property**.

There are also different filing requirements and disclosure statements for those who file with other ethics agencies.

- Contact the **Joint Legislative Ethics Committee** at (614) 728-5100 for information regarding legislators, their employees, and candidates for member of the General Assembly.
- Contact the **Supreme Court** at (614) 644-5800 for information regarding judges and judicial candidates.

Are statements filed with the Ethics Commission public record?

Most are, and copies are provided free of charge. However, the Ethics Law requires that some forms to be kept confidential. **Confidential** statements are those filed by:

- Uncompensated members of state boards and commissions and
- School district superintendents, treasurers, and business managers.

Each **confidential** form is reviewed by the Commission for possible conflicts of interest. Any portion of the form that shows possible conflicts is public.

What are the financial disclosure filing deadlines?

- April 15 of each year for many statements;
- Appointees to unexpired elective office: 15 days after qualification for office;
- New appointees/employees (appointed or employed between January 1 and February 15): April 15;
- New appointees/employees (appointed or employed after February 15): 90 days after employment or appointment;
- Candidates (including incumbents who are candidates): 30 days prior to first election at which candidacy will be voted upon; and
- Write-in candidates (including incumbents who are candidates): 20 days prior to first election at which candidacy will be voted upon.

What are the penalties for failure to comply?

- **Failure to file:** Fourth-degree misdemeanor; maximum 30-day sentence, \$250 fine.
- **False filing:** First-degree misdemeanor; maximum six-month sentence, \$1000 fine.
- **Late filing:** Fees will be assessed for each day the statement is late, up to a total late fee of \$250.

MEMORANDUM

DATE: August 16, 2010
TO: William J. Lhota, Chairman, Board of Directors, Ohio Bureau of Workers' Compensation
FROM: F. Ronald O'Keefe, Esq., Hahn Loeser & Parks LLP
SUBJECT: Overview - Fiduciary Duties of Members of the Board of Directors

Purpose: The Board of Directors (the "Board") of the Ohio Bureau of Workers' Compensation ("BWC") has retained fiduciary counsel. The Board Chairman has requested that fiduciary counsel make a presentation to the Board regarding the fiduciary responsibilities of the BWC Board members.

Fiduciary Responsibilities Defined: A fiduciary has been defined as "a person having a duty, created by his undertaking, to act *primarily for the benefit of another* in matters connected with his undertaking."¹ The monies paid into the worker's compensation fund "constitute a trust fund for the benefit of employers and employees."² The members of the BWC Board each have the duties of a trustee with respect to the workers' compensation fund. A trustee must exercise "such care and skill as a man of ordinary prudence would exercise in dealing with his own property" and that, if a "trustee has greater skill than that of a man of ordinary prudence, he is under a duty to exercise such skill."³

- Fiduciary Standards of Conduct: The members of the BWC Board are obligated by law to adhere to the highest standards of judgment and care when making decisions or taking actions that may affect the financial integrity and soundness of the workers' compensation fund.⁴
- Oversight Responsibilities: In addition to observing fiduciary standards of conduct with respect to making decisions and taking actions, the BWC Directors are charged with oversight responsibility of the BWC and its Administrator.

Discussion and Analysis: In order to properly discharge their fiduciary responsibilities, the BWC Directors should be guided by three primary considerations with respect to matters that come before the Board:

- The provisions of Ohio law that directly impact the BWC and the Board’s activities.
- The duty of loyalty to protect the workers’ compensation fund and to act in the interests of all the stakeholders of the BWC, taken as a whole, and.
- The duty of care in ensuring that all Board decisions and actions are the result of an informed deliberative process in which the significant information items relevant to the proposed decision or action are identified and considered by the Board.

Discussion and Analysis:

1. Ohio Law.

- Under Ohio law, the Board is charged with a number of responsibilities.
- The paramount responsibility of the Board is to “safeguard and maintain the solvency” of the workers’ compensation fund. In this connection, Ohio law requires the Administrator to “fix and maintain, with the advice and consent of the Board, for each class of occupation or industry, the lowest possible rates of premium consistent with the maintenance of a solvent state insurance fund and the creation and maintenance of a reasonable surplus.”⁵
- Further, Ohio law requires the Administrator to “adopt rules, with the advice and consent of the Board, governing rate revisions, the object of which shall be to an equitable distribution of losses among the several classes of occupation or industry,” and, in this connection, to develop “fixed and equitable rules controlling the rating system, which rules shall conserve to each risk the basic principles of workers’ compensation insurance.”⁶
- Other significant statutory duties of the Board include establishing the overall administrative policy for the BWC and reviewing the progress of the BWC in meeting its cost and quality objectives.⁷

2. Duty of Loyalty.

- The duty of loyalty is observed by the Directors by keeping in the forefront the Board’s legal duties with respect to the interests of the workers’ compensation fund and all the stakeholders of the BWC, taken as a whole.
- An important element of the duty of loyalty is the requirement that the fiduciary act in “good faith,” which means making an honest effort to put one’s own interests aside with respect to the consideration of, and taking action on, a particular matter.

- The duty of loyalty is of particular importance to members of the BWC Board. In carrying out their responsibilities, Board members must separate themselves from whatever relationships they may have to any constituency that brought that member to the Board, and focus solely on his or her fiduciary responsibilities as a Board member to the BWC and the fund administered by the BWC.
- If a Board member believes that his or her personal interests in a particular matter are so compelling that the Board member cannot, in good conscience, act in “good faith” with respect to that matter, then the Board member should decline to participate in taking action on such matter. By exercising recusal under these circumstances, that Board member is, in fact, carrying out his or her fiduciary responsibilities by not breaching the duty of loyalty.

3. Duty of Care.

- Directors may discharge their duty of care in the context of decisions to be made by the Board by doing whatever is reasonably prudent, under the circumstances, to obtain and review information relevant to the matter at hand and examine in sufficient detail, and with the aid of the appropriate resources, the significant relevant factors with respect to that matter.
- Where the responsibility of the Board involves the actions and proposed actions of the Administrator which are to be undertaken with the Board’s “advice and consent” under the applicable statute, the Board should consider the specific standards imposed by law on the Administrator, and should generally be guided by the preservation of the solvency of the BWC fund, while considering what is fair and equitable to all BWC stakeholders.⁸
- In fulfilling its oversight responsibilities, it is imperative that the Board be reasonably well informed regarding the matters of significance affecting the BWC and the fund.
- In this connection, case law precedent regarding board oversight responsibilities has held that the Board has the responsibility to make certain that internal information and reporting systems are in place within the BWC to provide timely, accurate information sufficient to allow the Board to reach informed judgments concerning the matters before it, including compliance by the BWC with the laws that govern it and evaluating the progress of the BWC in meeting its cost and quality objectives.⁹
- The duty of care requires that the Board devote an appropriate amount of time for assimilation and deliberation among its members regarding the information obtained with respect the matter under consideration. The appropriate amount of time for

deliberation, however, will have to be balanced on a case-by-case basis against the need for prompt action with respect to the matter under consideration.

Please advise if you require any further information or clarification with respect to the items set forth in this memorandum. The advice set forth herein is provided with respect to the specific purpose set forth above, and is intended solely for the use of the Board and its Committees.

¹ Haluka v. Baker, 66 Ohio App. 308, 312 (1941) [Emphasis in original.]

² Ohio Revised Code Section 4123.30.

³ Restatement (Second) of Trusts, Section 174 (1959).

⁴ Ohio Attorney General Opinion No. 89-033 (1989).

⁵ Ohio Revised Code Section 4123.34 [preamble].

⁶ Ohio Revised Code Section 4123.34 (B).

⁷ Ohio Revised Code Section 4121.12 (F) (1, 2).

⁸ Ohio Revised Code Section 4123.29 (A) (2).

⁹ *Stone v. Ritter*, 911 A.2d 362 (Del. 2006), citing *In Re Caremark Int'l Inc. Derivative Litigation.*, 698 A.2d 959, 971 (Del. Ch. 1996)

FY 2011 Agency Objectives

August 27, 2010

Ray Mazzotta, Chief Operating Officer

Major new initiatives	Ideas that are working
<ul style="list-style-type: none">• Develop Group Rating Structure• Implement Split Experience Rating Plan• Implement Measures of Performance for all pricing programs• Utilize claim analytic methodologies to determine drivers of increased medical & claim costs	<ul style="list-style-type: none">• Separating base rates from the impact of group rating• Benchmarking Ohio performance against others states and private carriers• Addressing remaining Deloitte recommendations
<ul style="list-style-type: none">• Execute the current IPS and explore further diversification i.e. active management, MWBE, real estate, cash management, and pursue legislation allowing the combining of funds	<ul style="list-style-type: none">• Successful transition to the new IPS
<ul style="list-style-type: none">• Increase identification and prosecution of fraud through greater outreach and training	<ul style="list-style-type: none">• Focus on employer and provider fraud resulting in increased prosecutions and convictions

Major new initiatives	Ideas that are working
<ul style="list-style-type: none">• Redesign safety intervention grant program and safety service delivery model• Assign claims by complexity categories to ensure effective claim management• Create an effective injury prevention and medical treatment research program• Establish Medical Services Quality Assurance unit• Redesign Voc Rehabilitation Strategy• Enhance MCO Performance Metrics including DoDM	<ul style="list-style-type: none">• Implemented a new drug free safety program• Established Medical Services and Safety Board Committee• The OSU partnership resulted in pharmacy report• Implemented “Blue Ribbon Provider Panel” pilot with state agencies• Established systemic process to update medical fee schedules

Major new initiatives	Ideas that are working
<ul style="list-style-type: none">• Evaluate and remediate system support for core processes such as claims, premiums and medical payments• Establish financial underwriting function for all product lines• Develop broader training offerings to cover major functional and leadership needs• Expand e-business capabilities with customers and stakeholders	<ul style="list-style-type: none">• Retooled customer correspondence• Improved customer service by adding electronic payroll, e-newsletter, and streamlined routing of the contact center• Reduced field office square footage and sublet WGB• Completed 250 BWC process maps

Major new initiatives

- Institute an Enterprise Information Management (EIM) Initiative including financial, actuarial and operational needs
- Implement redesigned Self-Insured underwriting processes
- Explore initiatives to improve cash flow i.e. improve collections, cash management tools
- Refine long term financial and operational performance metrics in collaboration with Deloitte & Mercer
- Develop a framework for Enterprise Risk Management, which includes an enterprise-wide risk assessment related to financial and legal exposure

Ideas that are working

- Continue Project Governance Process to ensure timely completion of agency priorities
- Continued Establishment and execution of appropriate internal investment controls and compliance procedures
- Continue to prioritize Internal Audit resources on critical or high risk operations functions and processes

Enterprise Report

August 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.*

July Financial Analysis

BWC's net assets increased by \$530 million in July resulting in net assets of \$4.3 billion at July 31, 2010 compared to \$3.8 billion at June 30, 2010.

<i>(\$ in millions)</i>	Month Ended July 31, 2010	Month Ended June 30, 2010	Month Ended July 31, 2009
Operating Revenues	\$159	\$159	\$168
Operating Expenses	(186)	(247)	(205)
Operating Transfers	–	(1)	–
Net Operating Gain (Loss)	(27)	(89)	(37)
Net Investment Income (Loss)	557	125	532
Increase (Decrease) in Net Assets	530	36	495
Net Assets End of Period	\$4,326	\$3,796	\$3,010

- o Premium and assessment income of \$168 million net of a \$9 million provision for uncollectible accounts receivable and net of \$0.4 million in ceded reinsurance premiums resulted in operating revenues of \$159 million in July. The accrual of ceded reinsurance premiums is netted against earned premiums in the Statement of Operations.
- o Benefits and compensation adjustment expenses of \$179 million along with other expenses of \$7 million resulted in operating expenses of \$186 million. July expenses include an \$18 million increase in reserves for compensation and compensation adjustment expenses and \$161 million in net payments for benefits and compensation adjustment expenses. Benefit payments issued in July decreased by \$13 million compared to June payments primarily as a result of an \$8 million decrease in medical payments, a \$2 million decrease in settlements and decreases in temporary total, permanent total, and percent permanent partial benefits totaling \$3 million. These benefit payments are within expected ranges based on payment history from the past two years.
- o A \$499 million increase in the fair value of the investment portfolio in July along with interest and dividend income of \$58 million for the month, resulted in net investment income of \$557 million for the month after investment expenses of \$0.5 million. The increase in the fair value of the portfolio is comprised of \$492 million in net unrealized gains and \$7 million in net realized gains.
- o Cash and cash equivalents include \$184 million in money market holdings in the outside investment manager accounts. These funds are committed to covering a \$114 million net investment trade payable for transactions that will settle in August.
- o Premium and assessment receipts of \$158 million were collected in July. Receipts in July 2010 are \$29 million lower than collections during this same period last year reflecting decreases in premium rates and timing differences in the payment of premiums.

Fiscal Year-to-Year Comparisons

BWC's total net assets have increased by \$530 million for fiscal year-to-date 2011 resulting in net assets of \$4.3 billion at July 31, 2010 compared to \$3.0 billion at July 31, 2009.

<i>(\$ in millions)</i>	Fiscal YTD July 31, 2010	Projected FYTD July 31, 2010	Fiscal YTD July 31, 2009
Operating Revenues	\$159	\$164	\$168
Operating Expenses	(186)	(208)	(205)
Operating Transfers	–	(1)	–
Net Operating Gain (Loss)	(27)	(45)	(37)
Net Investment Income (Loss)	557	79	532
Increase (Decrease) in Net Assets	530	34	495
Net Assets End of Period	\$4,326	\$3,830	\$3,010

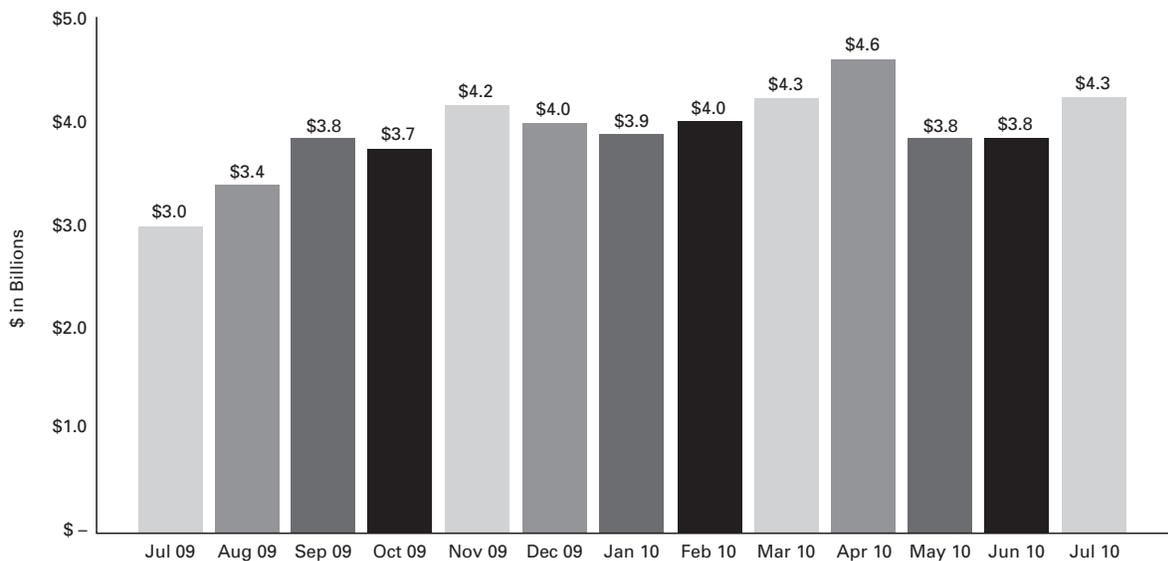
- o Benefit and compensation adjustment expenses decreased by \$20 million for fiscal year-to-date 2011 compared to prior fiscal year-to-date expenses.

<i>(\$ in millions)</i>	Fiscal YTD July 31, 2010	Fiscal YTD July 31, 2009	Increase (Decrease)
Change in Reserves	\$18	\$27	\$(9)
Net Benefit Payments	138	145	(7)
Payments for Comp Adjust Expenses	11	15	(4)
MCO Admin Payments	12	12	-
	\$179	\$199	\$(20)

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

- o Private employer reported payroll and premiums for the January 1, 2010 through the June 30, 2010 are due by August 31st. Through August 12, 2010, approximately 54% of the employers have filed their reports compared to approximately 52% during this same time frame for the January/February reporting period. Premium receipts are approximately \$5 million higher than during this same time frame.

Net Assets



Total undiscounted reserves for compensation and compensation adjustment expense are \$32.3 billion. See breakout by fund on page 13.

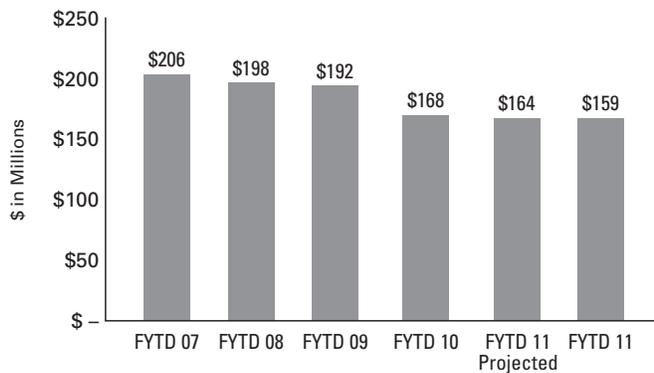
Statement of Operations

Fiscal year to date July 31, 2010

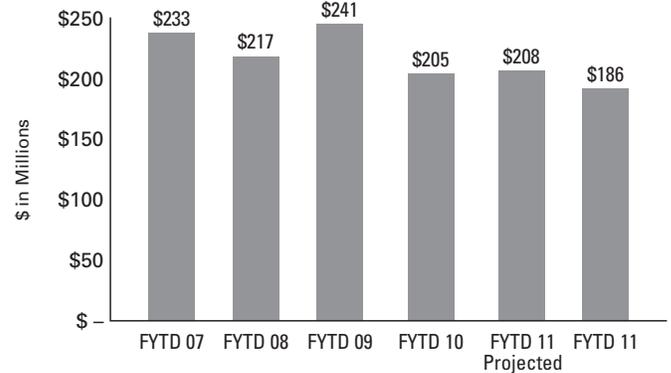
(in millions)

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
Operating Revenues					
Premium & Assessment Income	\$168	\$168	\$ –	\$183	\$(15)
Ceded Premiums	–	(1)	1	–	–
Provision for Uncollectibles	(9)	(3)	(6)	(15)	6
Other Income	–	–	–	–	–
Total Operating Revenue	159	164	(5)	168	(9)
Operating Expenses					
Benefits & Compensation Adj. Expense	179	198	19	199	(20)
Other Expenses	7	10	3	6	1
Total Operating Expenses	186	208	22	205	(19)
Operating Transfers	–	(1)	1	–	–
Net Operating Gain (Loss)	(27)	(45)	18	(37)	10
Net Investment Income (Loss)	557	79	478	532	25
Increase (Decrease) in Net Assets	\$530	\$34	\$496	\$495	\$35

Operating Revenues



Operating Expenses



Statement of Operations – Combining Schedule

Fiscal year to date July 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	\$137,265	\$5,859	\$ –	\$29	\$45	\$(781)	\$25,547	\$167,964
Ceded Premiums	(493)	–	–	–	–	–	–	(493)
Provision for Uncollectibles	(8,541)	1,053	(57)	–	(1)	345	(2,048)	(9,249)
Other Income	139	–	–	–	–	–	139	278
Total Operating Revenues	128,370	6,912	(57)	29	44	(436)	23,638	158,500
Operating Expenses:								
Benefits & Compensation Adj Expenses	162,112	5,156	66	16	18	(788)	11,930	178,510
Other Expenses	1,222	11	4	–	2	–	5,736	6,975
Total Operating Expenses	163,334	5,167	70	16	20	(788)	17,666	185,485
Net Operating Income (Loss) before Operating Transfers Out	(34,964)	1,745	(127)	13	24	352	5,972	(26,985)
Operating Transfers Out	–	–	–	–	–	–	–	–
Net Operating Income (Loss)	(34,964)	1,745	(127)	13	24	352	5,972	(26,985)
Investment Income:								
Investment Income	52,207	4,342	928	–	–	4	517	57,998
Net Realized Gains (Losses)	6,017	1,300	111	–	–	–	–	7,428
Net Unrealized Gains (Losses)	464,924	21,677	4,739	272	203	–	–	491,815
Total Realized & Unrealized Capital Gains (Losses)	470,941	22,977	4,850	272	203	–	–	499,243
Investment Manager & Operational Fees	(472)	(25)	(13)	(1)	–	–	–	(511)
Gain (Loss) on Disposal of Fixed Assets	–	–	–	–	–	–	(15)	(15)
Total Non-Operating Revenues, Net	522,676	27,294	5,765	271	203	4	502	556,715
Increase (Decrease) in Net Assets (Deficit)	487,712	29,039	5,638	284	227	356	6,474	529,730
Net Assets (Deficit), Beginning of Period	3,270,373	1,044,897	191,297	22,668	16,600	6,808	(756,475)	3,796,168
Net Assets (Deficit), End of Period	\$3,758,085	\$1,073,936	\$196,935	\$22,952	\$16,827	\$7,164	\$(750,001)	\$4,325,898

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.

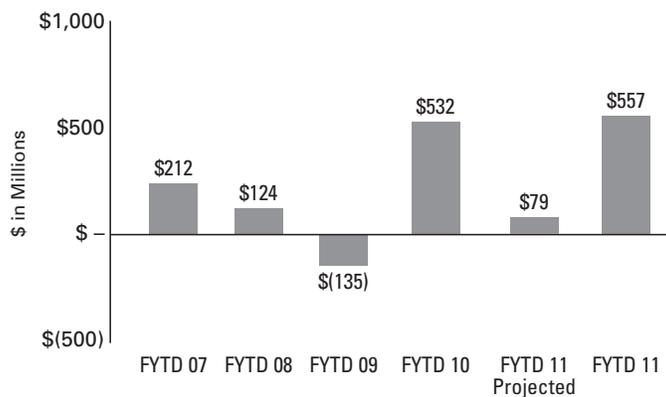
Statement of Investment Income

Fiscal year to date July 31, 2010

(in thousands)

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
Investment Income					
Bond Interest	\$51,832	\$55,990	\$(4,158)	\$64,018	\$(12,186)
Dividend Income—Domestic & International	6,090	7,570	(1,480)	5,230	860
Money Market/Commercial Paper Income	31	131	(100)	116	(85)
Misc. Income (Corp Actions, Settlements)	45	400	(355)	418	(373)
Total Investment Income	<u>57,998</u>	<u>64,091</u>	<u>(6,093)</u>	<u>69,782</u>	<u>(11,784)</u>
Realized & Unrealized Capital Gains and (Losses)					
Bonds – Net Realized Gains (Losses)	11,866	–	11,866	(120,424)	132,290
Stocks – Net Realized Gains (Losses)	(4,424)	–	(4,424)	(9,900)	5,476
Non –U.S. Equities – Net Realized Gains (Losses)	(14)	–	(14)	–	(14)
Subtotal – Net Realized Gains (Losses)	<u>7,428</u>	<u>–</u>	<u>7,428</u>	<u>(130,324)</u>	<u>137,752</u>
Bonds – Net Unrealized Gains (Losses)	102,006	–	102,006	327,417	(225,411)
Stocks – Net Unrealized Gains (Losses)	253,780	15,140	238,640	265,992	(12,212)
Non –U.S. Equities – Net Unrealized Gains (Losses)	136,029	–	136,029	10	136,019
Subtotal – Net Unrealized Gains (Losses)	<u>491,815</u>	<u>15,140</u>	<u>476,675</u>	<u>593,419</u>	<u>(101,604)</u>
Change in Portfolio Value	<u>499,243</u>	<u>15,140</u>	<u>484,103</u>	<u>463,095</u>	<u>36,148</u>
Investment Manager & Operational Fees	<u>(511)</u>	<u>(697)</u>	<u>186</u>	<u>(410)</u>	<u>101</u>
Net Investment Income (Loss)	<u>\$556,730</u>	<u>\$78,534</u>	<u>\$478,196</u>	<u>\$532,467</u>	<u>\$24,263</u>

Net Investment Income (Loss)



Administrative Cost Fund Expense Analysis

July 2010

- o BWC Administrative Cost Fund expenses for July 2010 are approximately \$9.2 million (28.5%) less than budgeted and approximately 3.5% less than July 2009.
- o Decreases in payroll from July 2009 to July 2010 are due to a decrease in staff as a result of hiring controls. The decrease was partially offset by the use of fewer cost savings days in July 2010 than in July 2009. Through July journal entries BWC staff have taken almost 13,000 (7%) of the available 179,300 hours for a savings of approximately \$350,000.
- o The timing of the receipt of invoices for payment in fiscal year 2011 contributed to actual expenditures being less than the amount budgeted in July. Purchase orders have been completed in all Personal Services, Maintenance and Equipment categories to encumber the budgeted July amounts. A delay in receipt of the invoice for July 2010 Attorney General fees resulted in fiscal year 2011 payments being less than budgeted and less than fiscal year 2010 payments.
- o Identification of additional costs savings and evaluation of approved projects led to a reduction in the fiscal year 2011 budget.
- o BWC's current fiscal year 2011 budget is approximately \$51.9 million (15.8%) less than appropriated by the General Assembly.

Administrative Cost Fund Budget Summary

As of July 31, 2010

Expense Description	FTE's	Actual FY11	Budgeted FYTD11	FYTD11 Variance	FYTD11 Percentage Variance	FY11 Budget	FYTD10 Expenses	Increase (Decrease) in FY11	FYTD11 Percentage Increase (Decrease)
Payroll									
BWC Board of Directors	12	75,624	75,624	0	0.00%	912,468	70,880	4,744	6.69%
BWC Administration	16	159,419	159,419	0	0.00%	1,588,753	150,911	8,508	5.64%
Customer Service	1,408	11,903,297	11,903,147	(150)	0.00%	107,551,328	11,974,007	(70,710)	-0.59%
Medical	119	1,139,222	1,139,221	(1)	0.00%	10,357,741	1,258,193	(118,971)	-9.46%
Special Investigations	122	1,167,010	1,164,716	(2,294)	-0.20%	10,661,380	1,164,330	2,680	0.23%
Fiscal and Planning	60	545,347	544,149	(1,198)	-0.22%	4,900,540	577,786	(32,439)	-5.61%
Actuarial	22	216,131	216,131	0	0.00%	2,039,488	221,985	(5,854)	-2.64%
Investments	10	141,008	141,008	0	0.00%	1,353,443	139,894	1,114	0.80%
Infrastructure & Technology	289	3,217,758	3,217,394	(364)	-0.01%	29,184,089	3,169,962	47,796	1.51%
Legal	79	788,137	788,136	(1)	0.00%	7,234,612	754,397	33,740	4.47%
Communications	20	182,573	182,722	149	0.08%	1,620,723	183,292	(719)	-0.39%
Human Resources	64	581,969	581,970	1	0.00%	5,325,737	576,334	5,635	0.98%
Internal Audit	13	143,734	143,734	0	0.00%	1,264,500	152,921	(9,187)	-6.01%
Ombuds Office	7	57,293	57,293	0	0.00%	522,948	65,840	(8,547)	-12.98%
Total Payroll	2,241	20,318,522	20,314,664	(3,858)	-0.02%	184,517,750	20,460,732	(142,210)	-0.70%
Personal Services									
Information Technology		8,493	605,718	597,225	98.60%	8,022,453	26,466	(17,973)	-67.91%
Legal - Special Counsel		286	88,085	87,799	99.68%	1,057,000	1,764	(1,478)	-83.79%
Legal - Attorney General		0	1,155,462	1,155,462	100.00%	4,621,850	1,007,745	(1,007,745)	-100.00%
Other Personal Services		49,940	587,711	537,771	91.50%	8,540,494	64,778	(14,838)	-22.91%
Total Personal Services		58,719	2,436,976	2,378,257	97.59%	22,241,797	1,100,753	(1,042,034)	-94.67%
Maintenance									
William Green Rent		0	0	0	0.00%	19,049,395	0	0	0.00%
Other Rent and Leases		1,700,330	2,517,780	817,450	32.47%	10,225,071	1,501,605	198,725	13.23%
Software and Equipment Maintenance and Repairs		48,053	5,505,796	5,457,743	99.13%	15,055,125	126,772	(78,719)	-62.09%
Inter Agency Payments		186,652	307,481	120,829	39.30%	4,730,616	130,567	56,085	42.95%
Communications		222,857	388,868	166,011	42.69%	4,127,924	265,072	(42,215)	-15.93%
Safety Grants and Long Term Care Loan		229,244	0	(229,244)	0.00%	4,000,000	42,839	186,405	435.13%
Supplies and Printing		50,108	96,110	46,002	47.86%	1,402,934	34,538	15,570	45.08%
Other Maintenance		259,632	276,795	17,163	6.20%	3,407,235	254,923	4,709	1.85%
Total Maintenance		2,696,876	9,092,830	6,395,954	70.34%	61,998,300	2,356,316	340,560	14.45%
Equipment		1,141	439,381	438,240	99.74%	7,933,920	4,599	(3,458)	-75.19%
Total Administrative Cost Fund Expenses		23,075,258	32,283,851	9,208,593	28.52%	276,691,767	23,922,400	(847,142)	-3.54

Total Agency Appropriation 328,602,765
Budget to Appropriation Variance 51,910,998
Percentage Variance 15.80%

State Insurance Fund

Administrative Expense Summary

As of July 31, 2010

	Actual FYTD 2011	Encumbrance Balance	FYTD Actual & Encumbrance	Actual FYTD 2010
Investment Administrative Expenses				
JP Morgan Chase - Performance Reporting	\$21,500	\$81,168	\$102,668	\$5,792
Mercer Investment Consulting	81,667	496,914	578,581	39,583
Other Investment Expenses	<u>52,995</u>	<u>318,054</u>	<u>371,049</u>	<u>53,312</u>
	156,162	896,136	1,052,298	98,687
Actuarial Expenses				
Oliver Wyman - Actuarial Services	0	0	0	104,960
Deloitte Consulting - Actuarial Services	<u>187,288</u>	<u>2,167,564</u>	<u>2,354,852</u>	<u>0</u>
	187,288	2,167,564	2,354,852	104,960
Reinsurance Expenses				
Towers Watson	1,526,119	3,052,238	4,578,357	0
Ohio Rehabilitation Services	<u>605,407</u>	<u>0</u>	<u>605,407</u>	<u>0</u>
TOTAL	<u>\$2,474,976</u>	<u>\$6,115,938</u>	<u>\$8,590,914</u>	<u>\$203,647</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 July 31, 2010

	FYTD 2011	FYTD 2010	Source
Workers' Compensation Council	\$ -	\$ -	Administrative Cost Fund
Ohio Dept. of Natural Resources	-	-	Coal Workers' Pneumoconiosis Fund
Ohio Inspector General	<u>-</u>	<u>212,500</u>	Administrative Cost Fund
TOTAL	<u>\$ -</u>	<u>\$212,500</u>	

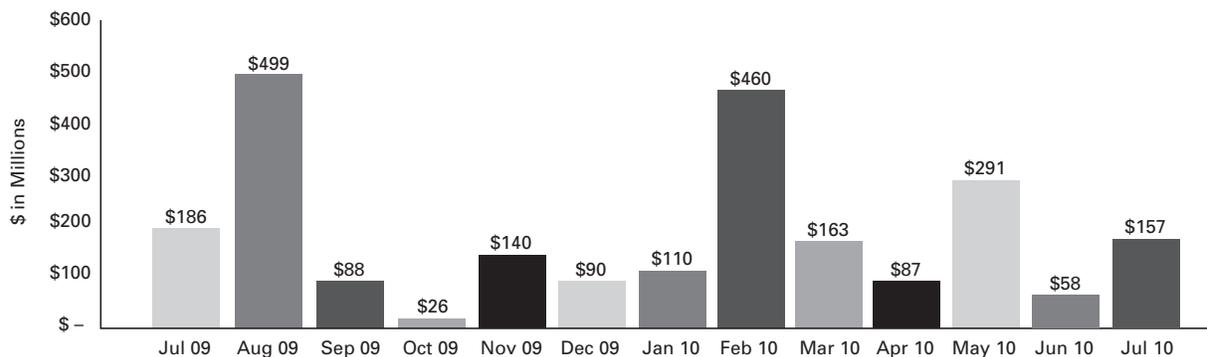
Statement of Cash Flows

Fiscal year to date July 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, Net of Reinsurance	\$157	\$170	\$(13)	\$186	\$(29)
Cash Receipts – Other	1	3	(2)	5	(4)
Cash Disbursements for Claims	(161)	(179)	18	(175)	14
Cash Disbursements for Other	(35)	(44)	9	(39)	4
Net Cash Provided (Used) by Operating Activities	(38)	(50)	12	(23)	(15)
Net Cash Flows from Noncapital Financing Activities	–	–	–	–	–
Net Cash Flows from Capital and Related Financing Activities	–	–	–	–	–
Net Cash Provided (Used) by Investing Activities	21	–	21	1,102	(1,081)
Net Increase (Decrease) in Cash and Cash Equivalents	(17)	(50)	33	1,079	(1,096)
Cash and Cash Equivalents, Beginning of Period	434	434	–	504	(70)
Cash and Cash Equivalents, End of Period	\$417	\$384	\$33	\$1,583	\$(1,166)

Premium and Assessment Receipts



Statement of Net Assets

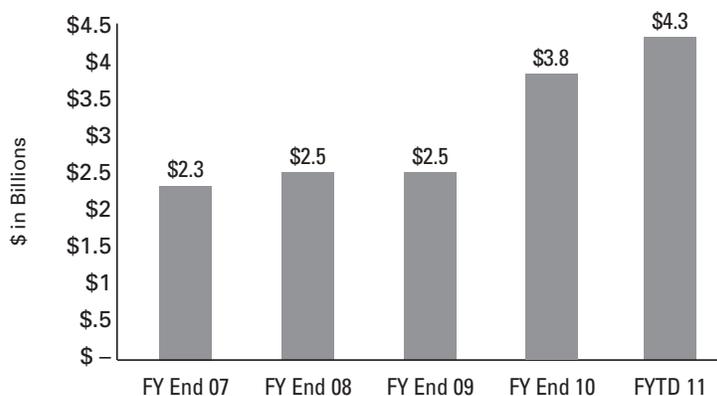
As of July 31, 2010

(in millions)

	Actual	Prior Yr. Actual	Year to Year Increase (Decrease)
Assets			
Bonds	\$13,553	\$13,108	\$445
U.S. Equities	3,888	3,831	57
Non-U.S. Equities	1,645	–	1,645
Cash & Cash Equivalents	<u>417</u>	<u>1,583</u>	<u>(1,166)</u>
Total Cash and Investments	19,503	18,522	981
Accrued Premiums	4,571	4,498	73
Other Accounts Receivable	184	206	(22)
Investment Receivables	275	399	(124)
Other Assets	<u>103</u>	<u>111</u>	<u>(8)</u>
Total Assets	<u>24,636</u>	<u>23,736</u>	<u>900</u>
Liabilities			
Reserve for Compensation and Compensation Adj. Expense	\$19,865	\$19,274	\$591
Accounts Payable	36	46	(10)
Investment Payable	237	1,208	(971)
Other Liabilities	<u>172</u>	<u>198</u>	<u>(26)</u>
Total Liabilities	<u>20,310</u>	<u>20,726</u>	<u>(416)</u>
Net Assets	<u>\$4,326</u>	<u>\$3,010</u>	<u>\$1,316</u>

Total undiscounted reserves for compensation and compensation adjustment expense are \$32.3 billion. See breakout by fund on page 13.

Net Assets



Statement of Net Assets – Combining Schedule

As of July 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	\$ 12,308,609	\$ 988,494	\$ 211,630	\$ 25,146	\$ 18,788	\$ -	\$ -	\$ -	\$13,552,667
U.S. Equities	3,571,462	261,022	55,392	-	-	-	-	-	3,887,876
Non-U.S. Equities	1,644,992	-	-	-	-	-	-	-	1,644,992
Private Equities	35	-	-	-	-	-	-	-	35
Cash & Cash Equivalents	351,919	13,515	2,484	354	337	44,737	3,927	-	417,273
Total Cash & Investments	\$ 17,877,017	\$ 1,263,031	\$ 269,506	\$ 25,500	\$ 19,125	\$ 44,737	\$ 3,927	\$ -	\$19,502,843
Accrued Premiums	1,730,021	1,780,613	-	202	-	845,709	214,254	-	4,570,799
Other Accounts Receivable	130,944	21,334	114	69	1	6,362	25,558	-	184,382
Interfund Receivables	10,948	50,295	1	-	90	862	128,764	(190,960)	-
Investment Receivables	253,088	18,338	3,979	-	-	4	-	-	275,409
Other Assets	25,772	22	-	-	-	-	76,646	-	102,440
Total Assets	\$ 20,027,790	\$ 3,133,633	\$ 273,600	\$ 25,771	\$ 19,216	\$ 897,674	\$ 449,149	\$ (190,960)	\$24,635,873
Liabilities									
*Reserve for Compensation & Compensation Adj. Expense	\$ 15,738,116	\$ 2,041,502	\$ 74,399	\$ 2,808	\$ 2,199	\$ 889,400	\$1,116,858	\$ -	\$19,865,282
Accounts Payable	35,215	-	-	-	-	-	782	-	35,997
Investment Payable	228,753	6,335	1,328	-	-	-	-	-	236,416
Interfund Payables	177,873	11,761	191	8	17	1,110	-	(190,960)	-
Other Liabilities	89,748	99	747	3	173	-	81,510	-	172,280
Total Liabilities	16,269,705	2,059,697	76,665	2,819	2,389	890,510	1,199,150	(190,960)	20,309,975
Net Assets	\$ 3,758,085	\$ 1,073,936	\$ 196,935	\$ 22,952	\$ 16,827	\$ 7,164	\$(750,001)	\$ -	\$ 4,325,898

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

(in thousands)

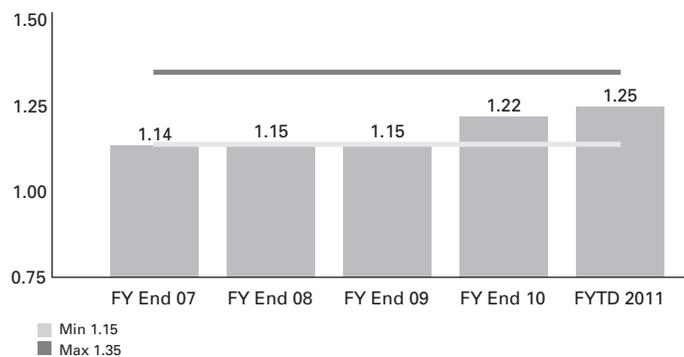
SIF	\$24,842,000
DWRF	3,511,000
CWPF	182,000
PWRE	5,000
MIF	4,000
SIEGF	1,932,000
ACF	1,796,000
Total	\$32,272,000

Financial Performance Metrics

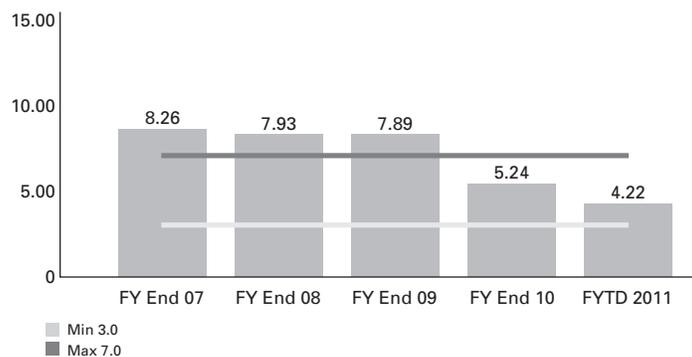
	Actual FY11 As of 7/31/10	Projected FY11 As of 7/31/10	Actual FY10 As of 7/31/09	Guidelines
Funding Ratio (State Insurance Fund)	1.25	1.22	1.18	1.15 to 1.35
Net Leverage Ratio (SIF)	4.22	4.81	5.91	3.0 to 7.0
Loss Ratio	91.3%	99.5%	91.3%	
LAE Ratio - MCO	7.9%	7.7%	7.5%	
LAE Ratio - BWC	<u>7.1%</u>	<u>10.3%</u>	<u>10.0%</u>	
Net Loss Ratio	106.3%	117.5%	108.8%	102.5%
Expense Ratio	<u>4.1%</u>	<u>6.1%</u>	<u>3.6%</u>	7.5%
Combined Ratio	110.4%	123.6%	112.4%	110.0%
Net Investment Income Ratio	<u>34.2%</u>	<u>37.6%</u>	<u>37.9%</u>	
Operating Ratio (Trade Ratio)	<u><u>76.2%</u></u>	<u><u>86.0%</u></u>	<u><u>74.5%</u></u>	90.0%

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

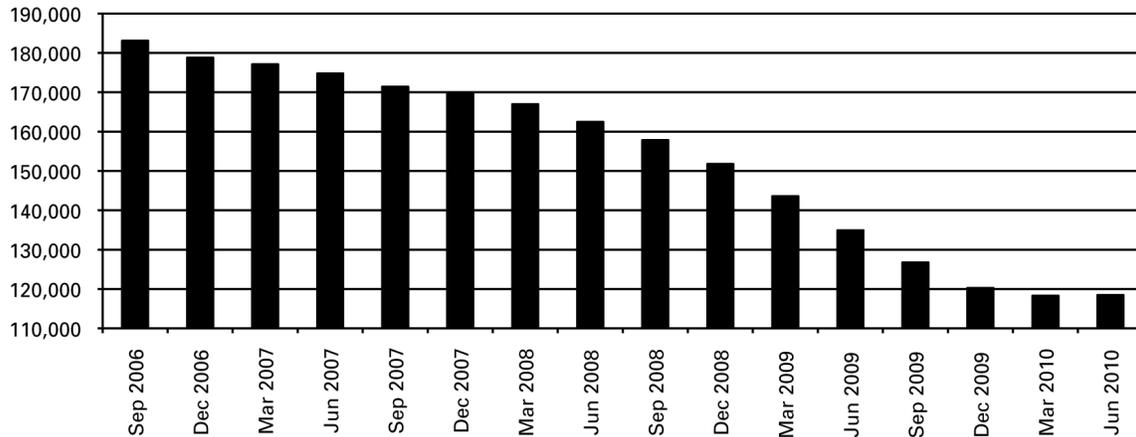


Net Leverage Ratio

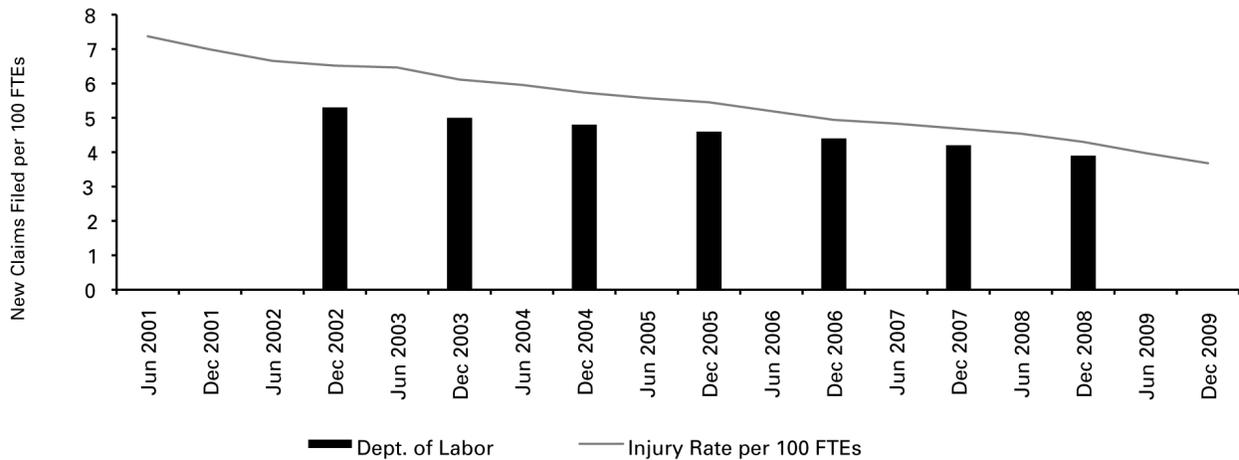


Operational Performance Metrics

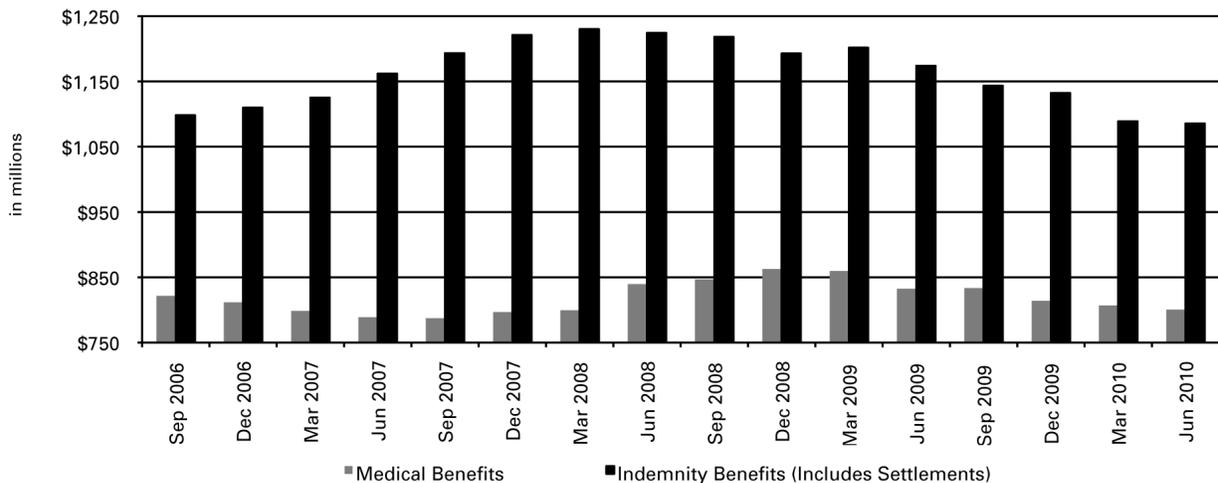
New Claims Filed - Twelve months ended



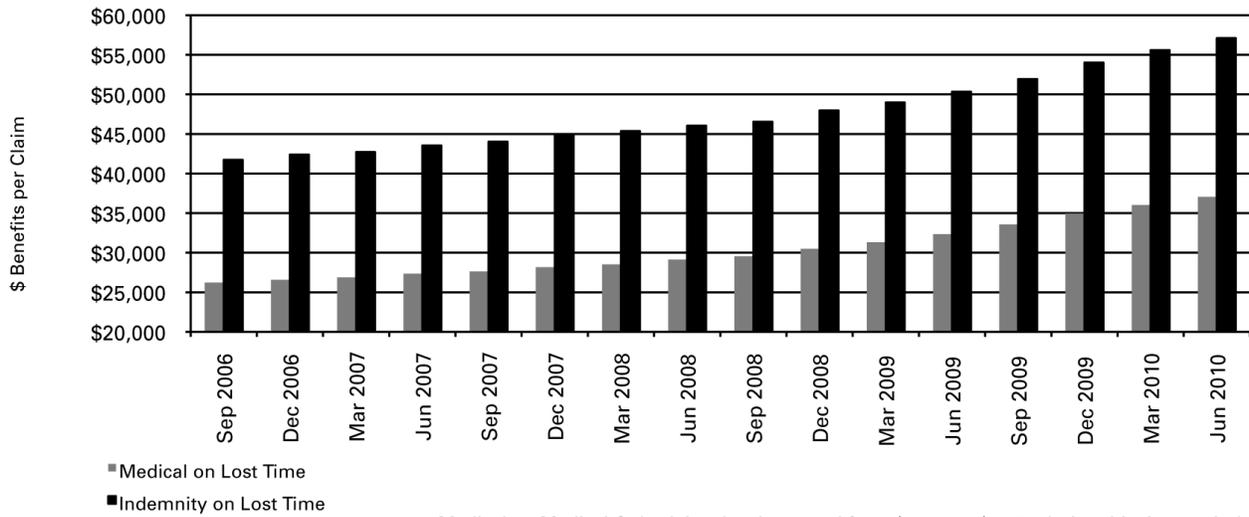
Frequency - Reported semi-annually



Benefit Payments - Twelve months ended

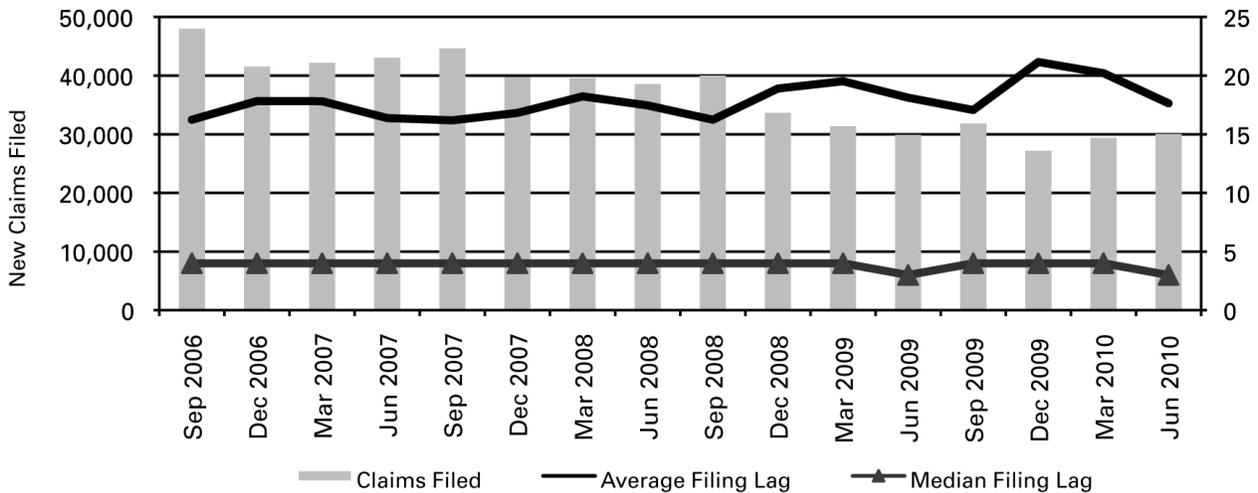


Severity

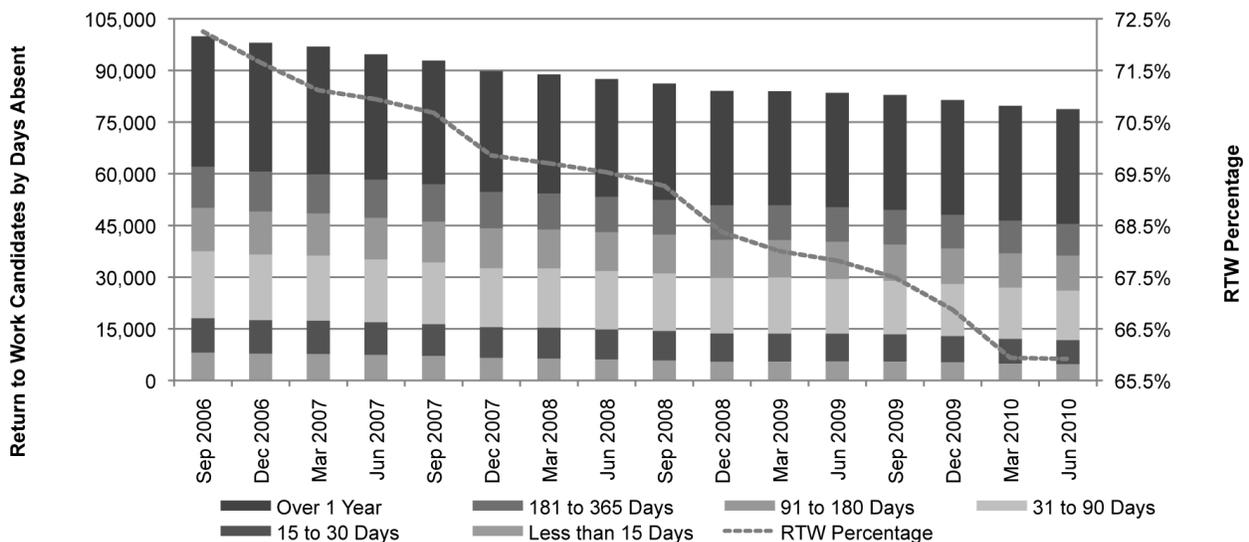


Medical on Medical Only claims has increased from \$1,049 to \$1,253 during this time period. Indemnity excludes settlements

Claim Filing Lag



Return to work

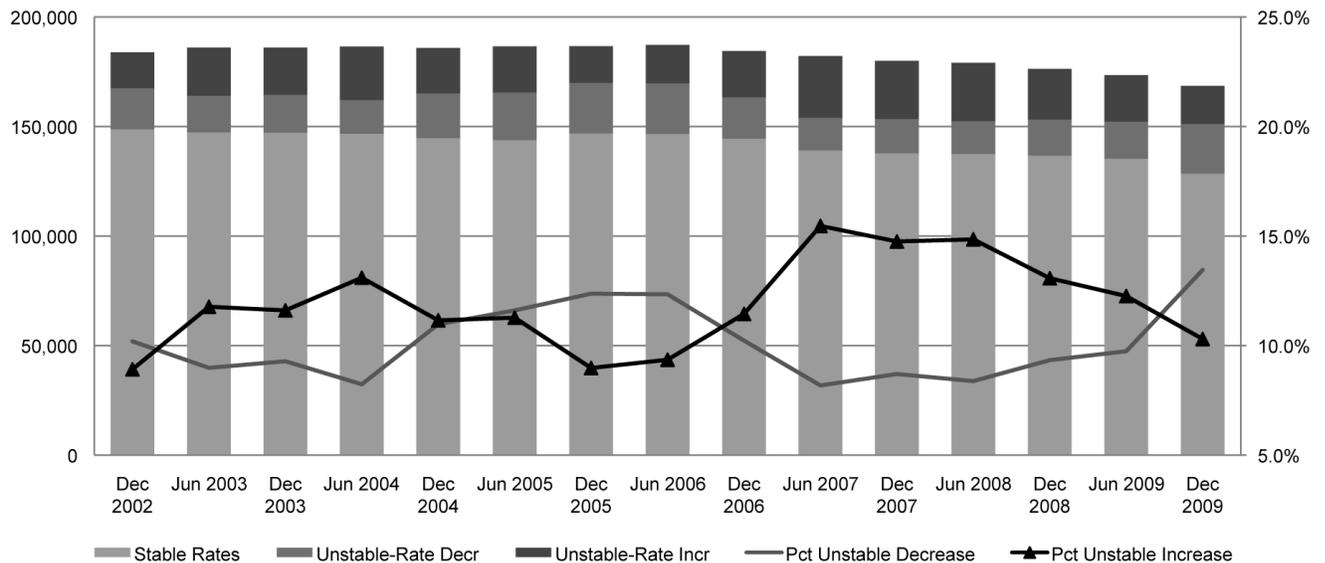


Aggregate Reported Payroll- Twelve months ended

(\$ 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
Dec 2009	\$87,696	\$19,759	\$7,384	\$139	\$4

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.