

BWC Board of Directors

## **Board Agenda**

**Wednesday, February 23, 2011**

**William Green Building**

Level 2, Room 3

8:30 a.m. - 9:00 a.m.

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### **Call to Order**

Board Chair

### **Roll Call**

Jill Whitworth, Scribe

Board Chair

- Approval of minutes of the December 16, 2010 Board meeting
  - Review meeting agenda
  - Administer Oath of Office to new Directors
- 

### **Committee Reports**

#### **Governance Committee**

Larry Price, Committee Vice-Chair

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#### **Chair Recommendations for Committee Assignments**

Board Chair

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### **Adjourn**

Board Chair

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### **Next Meeting: Thursday, February 24, 2011**

\*Unless previous meeting adjourns earlier

\*\*Not all agenda items have material.

\*\*\* Agenda subject to change

BWC Board of Directors

## **Board Agenda**

**Thursday, February 24, 2011**

**William Green Building**

Level 2, Room 3

8:00 a.m. – 10:00 a.m.

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### **Call to Order**

Board Chair

### **Roll Call**

Larry Rhodebeck, Scribe

Board Chair

- Approval of minutes of the February 23, 2010 Board meeting
  - Review meeting agenda
- 

### **2011 Economic Forecast**

Dr. Mark E. Schweitzer

Senior Vice President and Director of Research

Federal Reserve Bank of Cleveland

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### **Committee Reports**

#### **Actuarial Committee**

James Matesich, Committee Vice-Chair

#### **Audit Committee**

Ken Haffey, Committee Chair

#### **Investment Committee**

Bob Smith, Committee Chair

1. Approve issuance of MWBE Manager of Managers Search Request for Proposal

#### **Medical Services and Safety Committee**

James Hummel, Committee Vice-Chair

1. OSHA/PERRP Crane and Derricks Rule
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### **Quarterly Update on the HB 100 Comprehensive Report Recommendations**

Shadya Yazback, Legal Counsel

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**Monthly Enterprise Report**

Tracy Valentino, Chief, Fiscal & Planning Division

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**Administrator's Report**

Steve Buehrer, Administrator

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**Adjourn**

Board Chair

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**Next Meeting: Wednesday, March 25, 2011**

\*Unless previous meeting adjourns earlier

\*\*Not all agenda items have material.

\*\*\* Agenda subject to change

# Mark E. Schweitzer

Senior Vice President and Director of Research

Federal Reserve Bank of Cleveland  
1455 East Sixth Street  
Cleveland, Ohio 44114

[mark.schweitzer@clev.frb.org](mailto:mark.schweitzer@clev.frb.org)

## **BIOGRAPHICAL INFORMATION**

Mark Schweitzer is a senior vice president and the director of research at the Federal Reserve Bank of Cleveland. He leads the Bank's Research Department, setting the direction for economic research, selecting and developing staff, and briefing the Bank president prior to meetings of the Federal Open Market Committee of the Federal Reserve System. Dr. Schweitzer's own research has focused on the macroeconomic impact of labor market developments and the identification of factors contributing to regional economic growth.

Dr. Schweitzer joined the Bank in 1992 as an economist. From 2000 to 2002, he served as a senior economist at the Bank of England. He returned to the Federal Reserve Bank of Cleveland, and in 2004 was promoted to assistant vice president and director of the Regional Economic Issues Program. In 2007, Dr. Schweitzer was appointed vice president and branch executive of the Federal Reserve Bank of Kansas City's Denver Branch. He was named to his current position in 2008.

An economics graduate of the University of Chicago, Dr. Schweitzer holds both a master's degree and a Ph.D. in economics from the University of California at Los Angeles. A native of Seattle, Washington, Dr. Schweitzer lives in Shaker Heights, Ohio. He is married and has two daughters and a son.



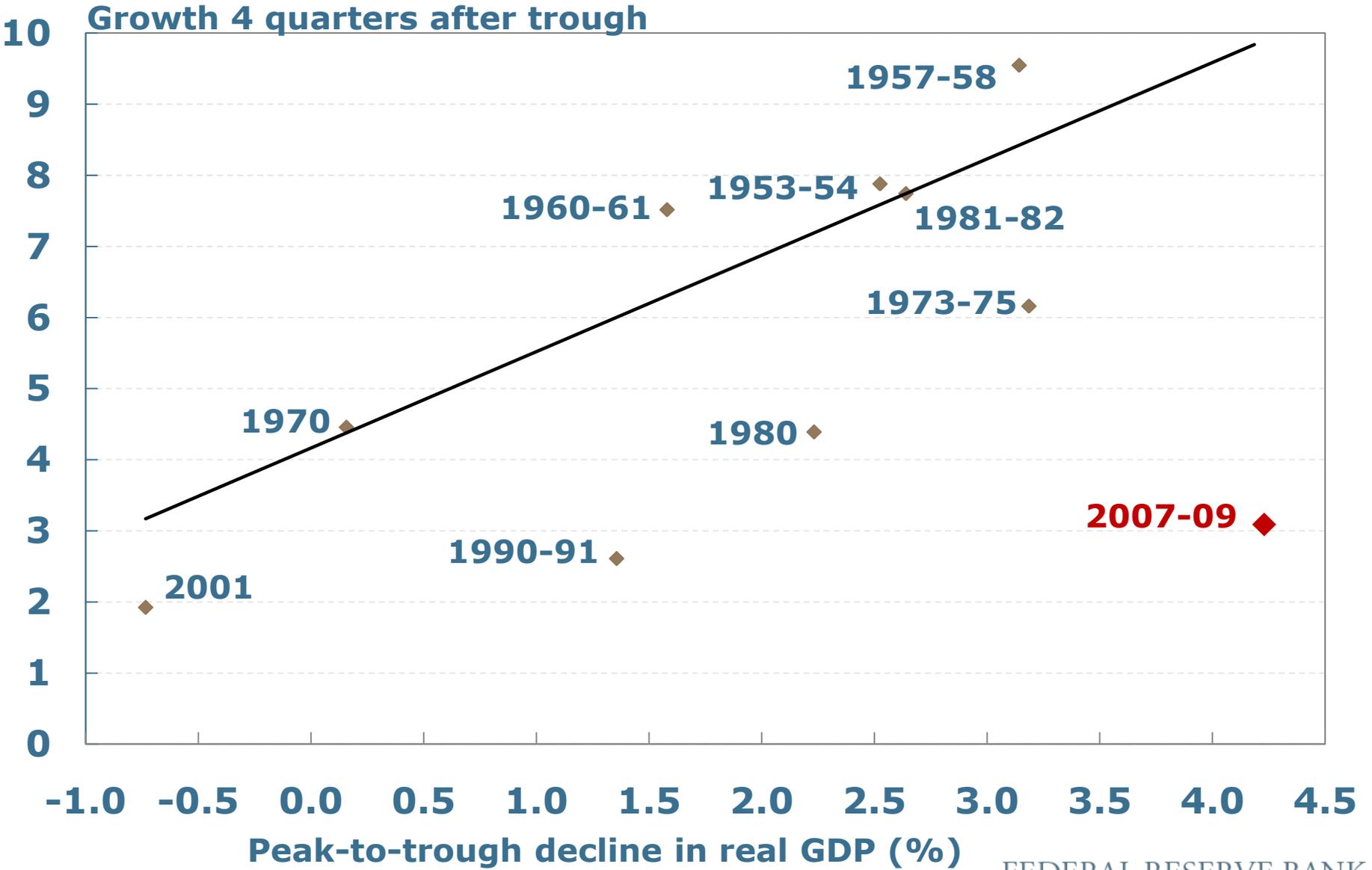
# Economic Outlook

Ohio Bureau of Workers' Compensation

February 24, 2011

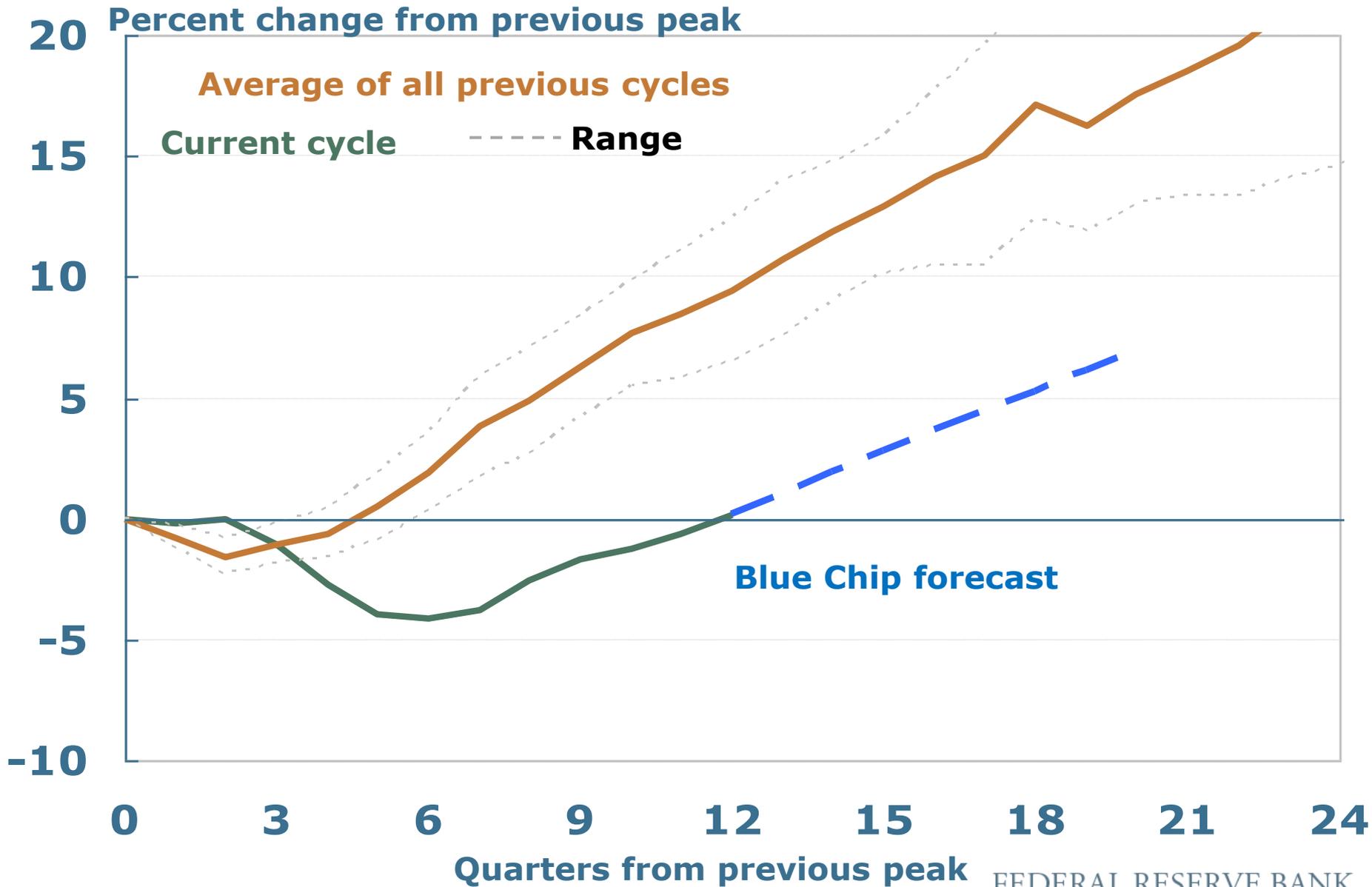
Mark Schweitzer

# Strength of Recovery vs Depth of Recession



Source: <sup>2</sup>Bureau of Economic Analysis, author's calculations

# Real GDP

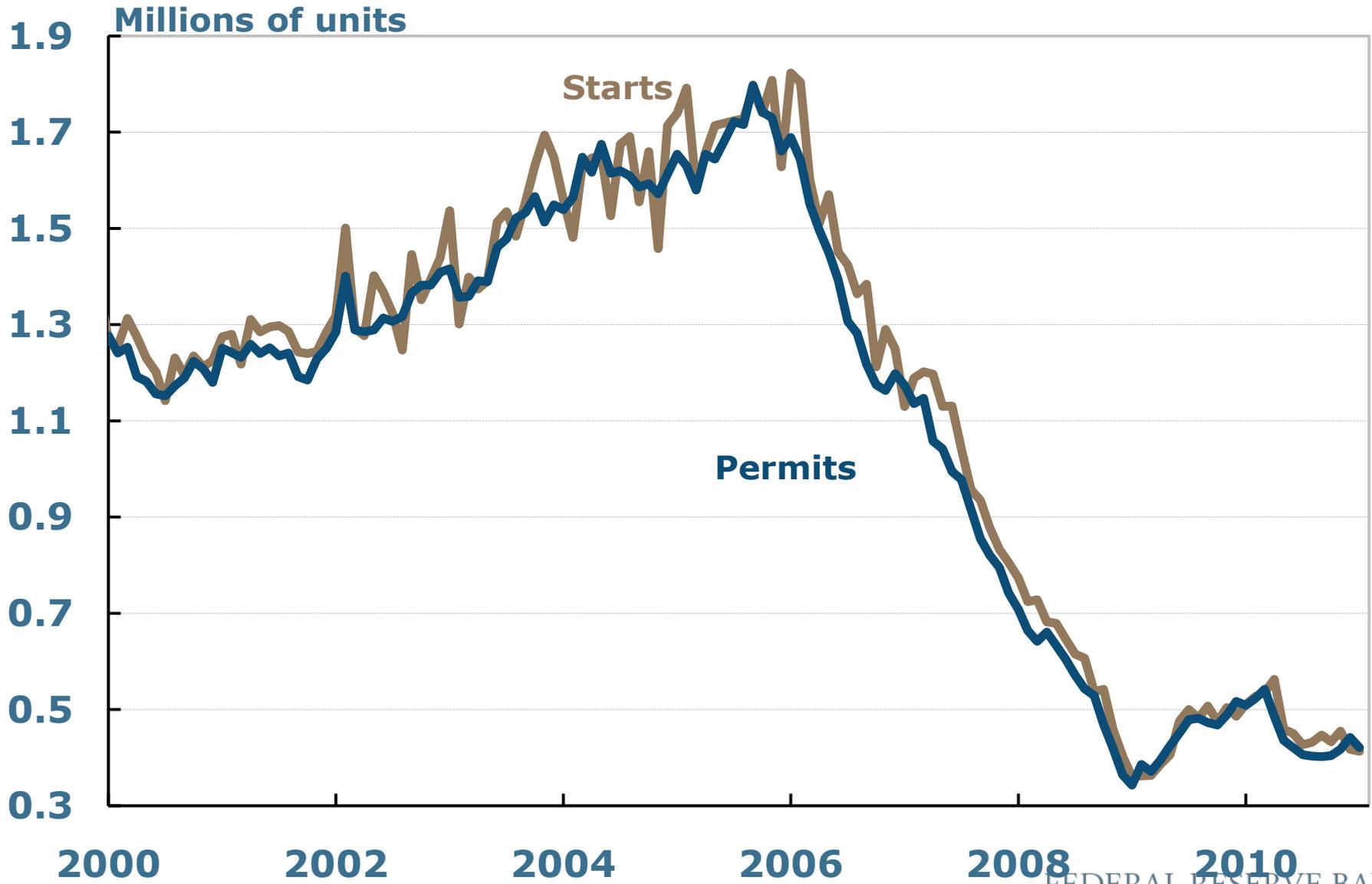


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*of* CLEVELAND

## What's going to hold back US growth

- Our outlook is also for moderate growth rates
- Housing markets are still continuing to struggle
- Labor markets are only slowly recovering

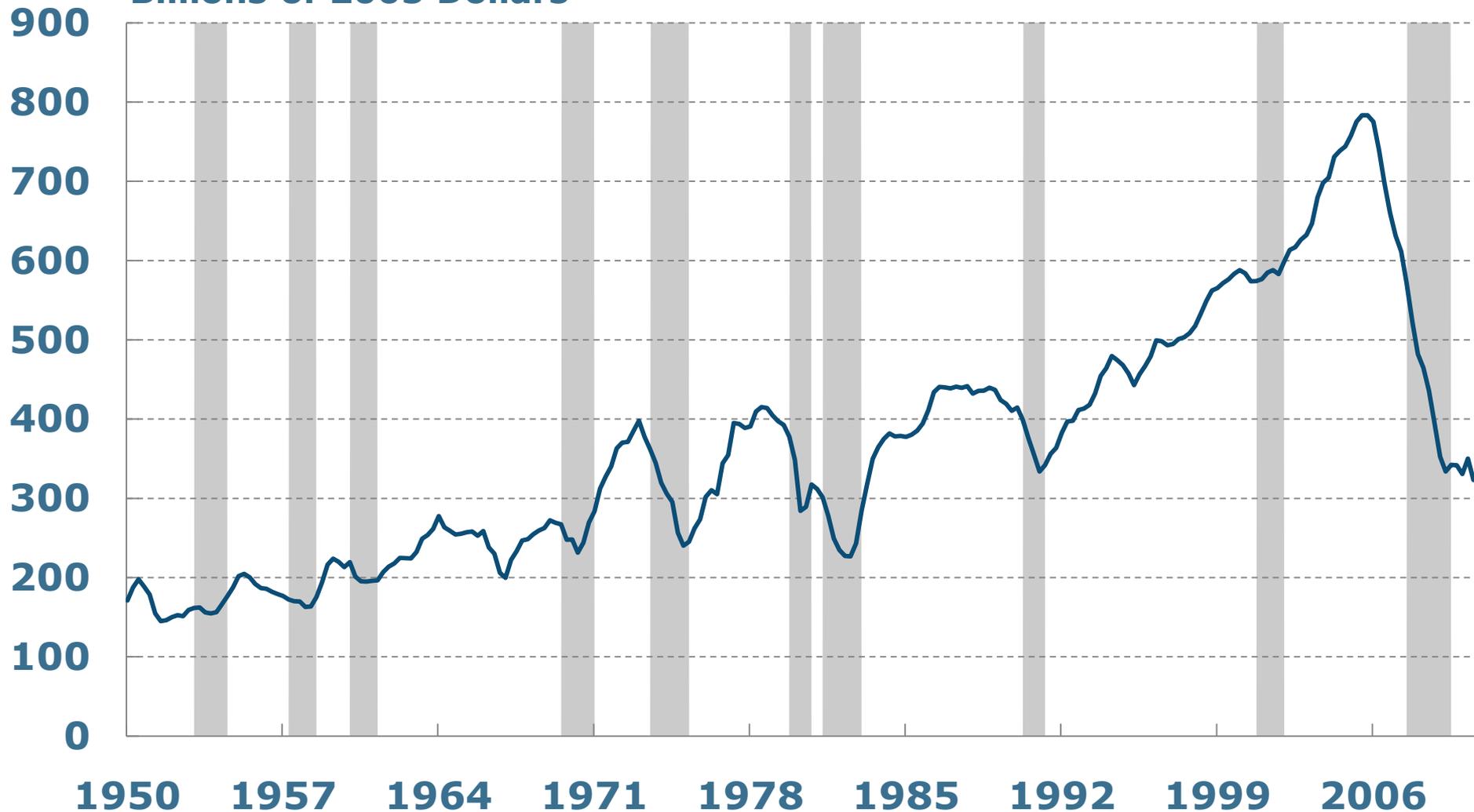
# Single-Family Housing Starts & Permits



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# Residential Investment

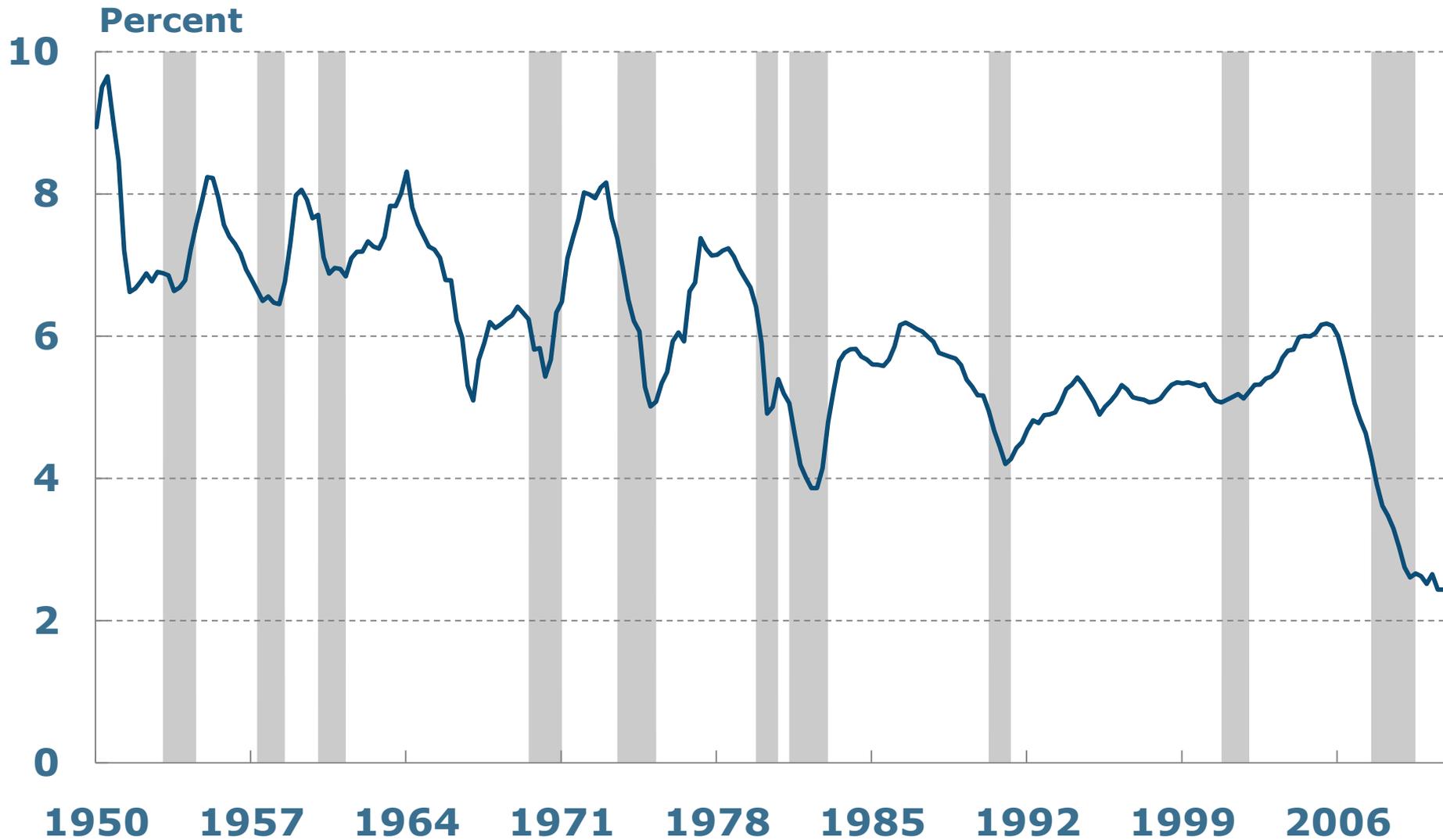
Billions of 2005 Dollars



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Source: Bureau of Economic Analysis.

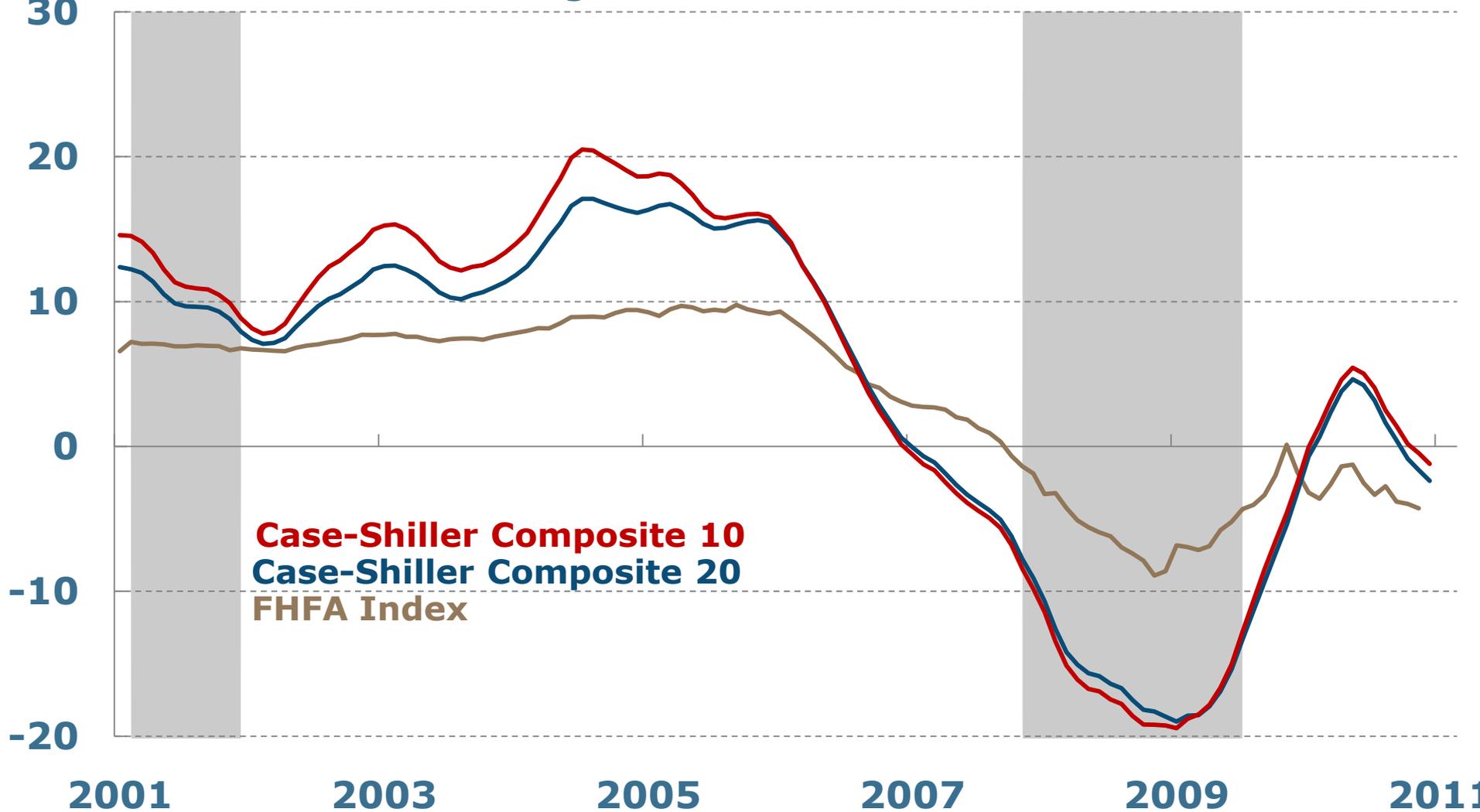
# Residential Investment as a % of GDP



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# Home Price Indexes

12-Month Percent Change



**Case-Shiller Composite 10**  
**Case-Shiller Composite 20**  
FHFA Index

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Source: Federal Housing Finance Administration; S&P.

## What's going to hold back growth

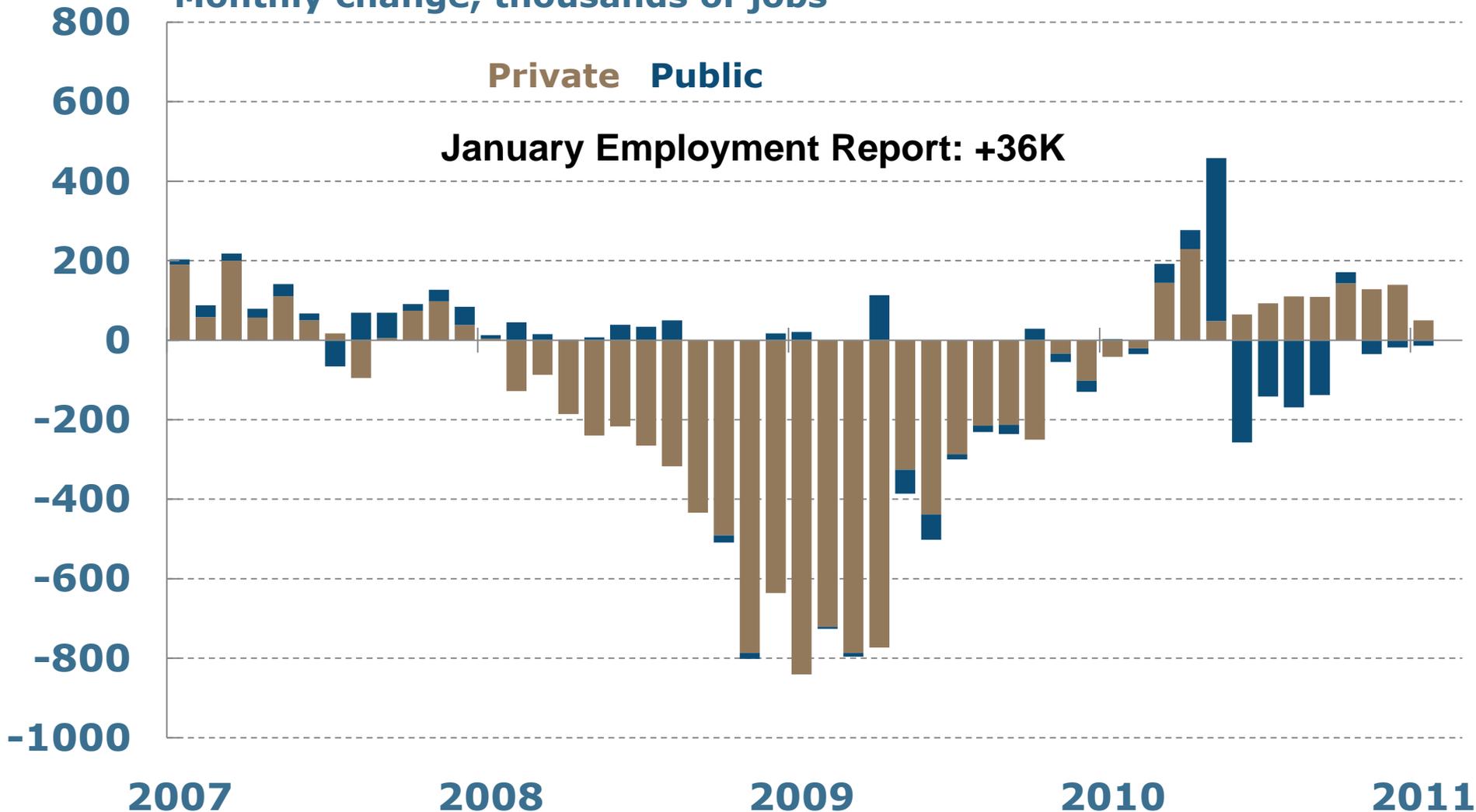
- Our outlook is also for moderate growth rates
- Housing markets are still continuing to struggle
  - Construction numbers are likely to remain weak
  - Household wealth is impacted
- Labor markets are only slowly recovering

# Payroll Employment

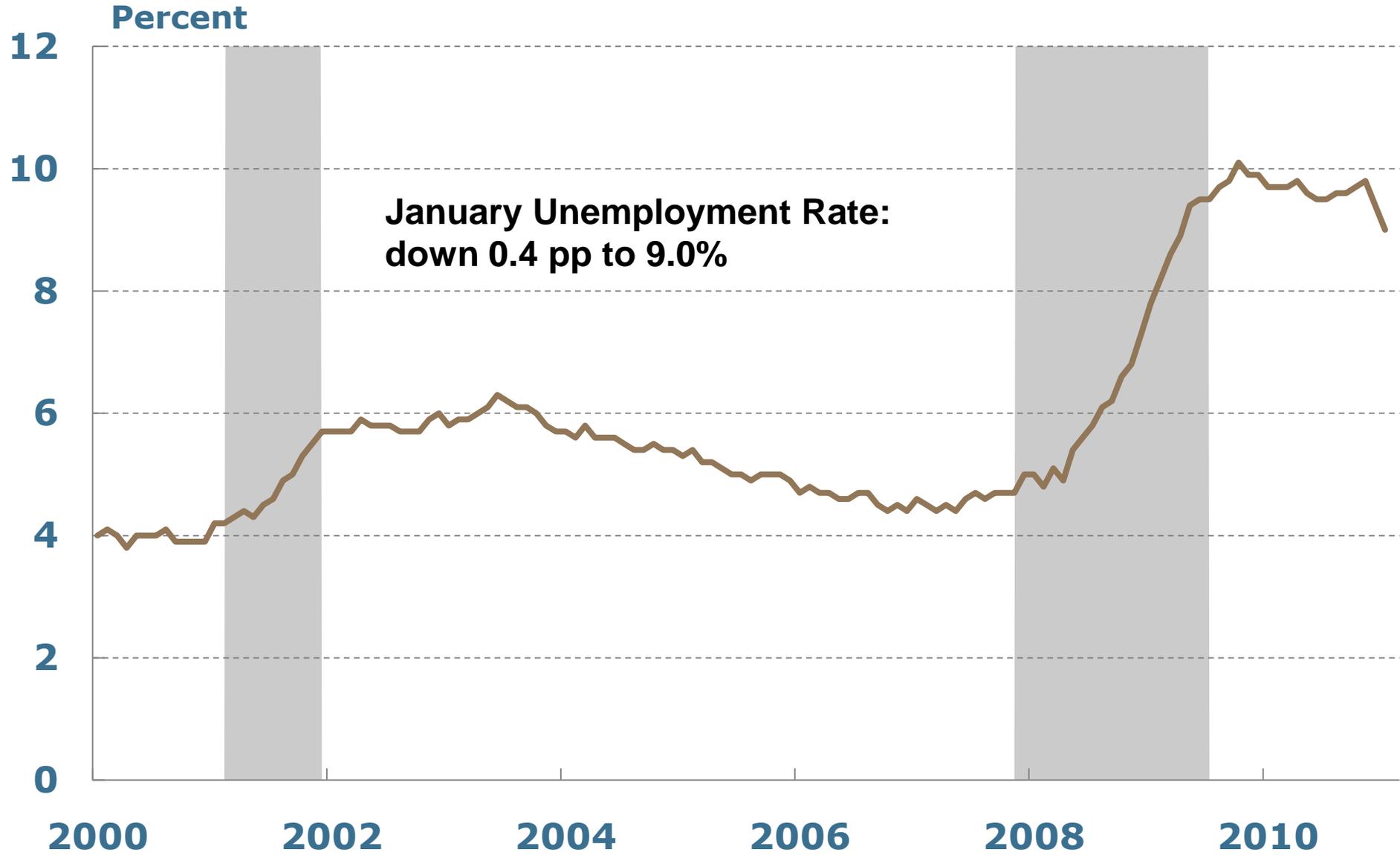
Monthly change, thousands of jobs

Private Public

January Employment Report: +36K

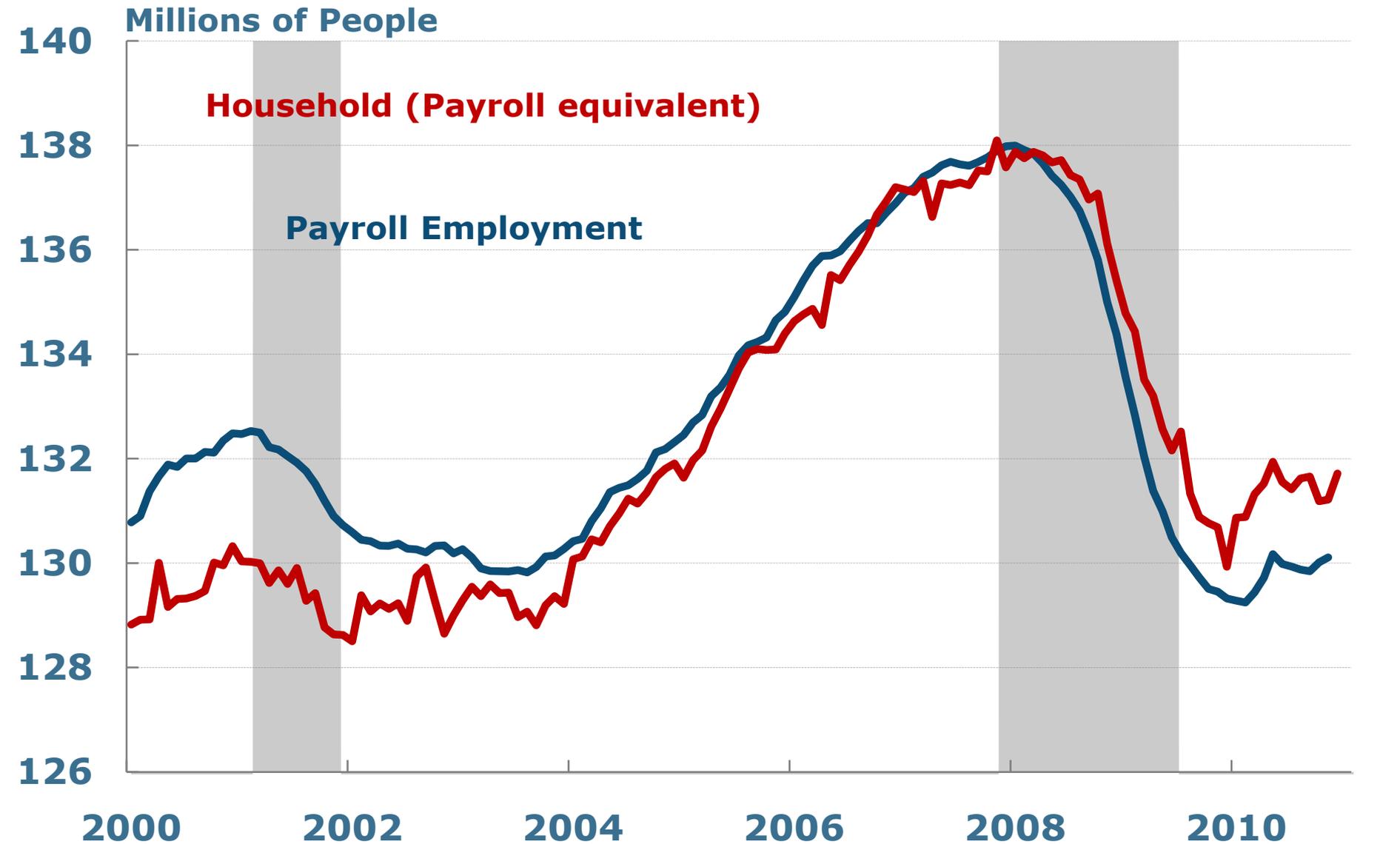


# Unemployment Rate



Source: Bureau of Labor Statistics.

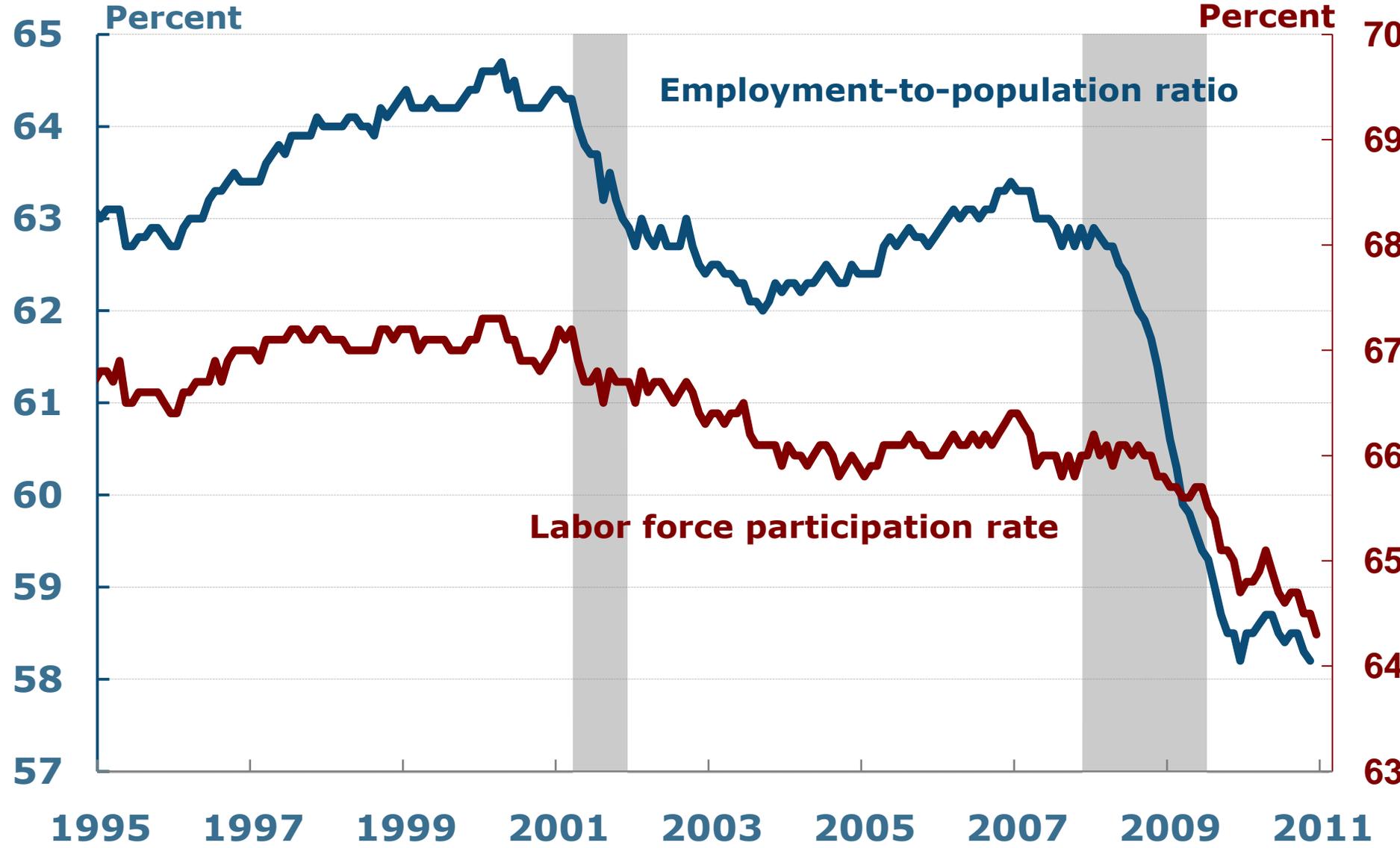
# Payroll vs Household Employment



Source: Bureau of Labor Statistics, Haver.

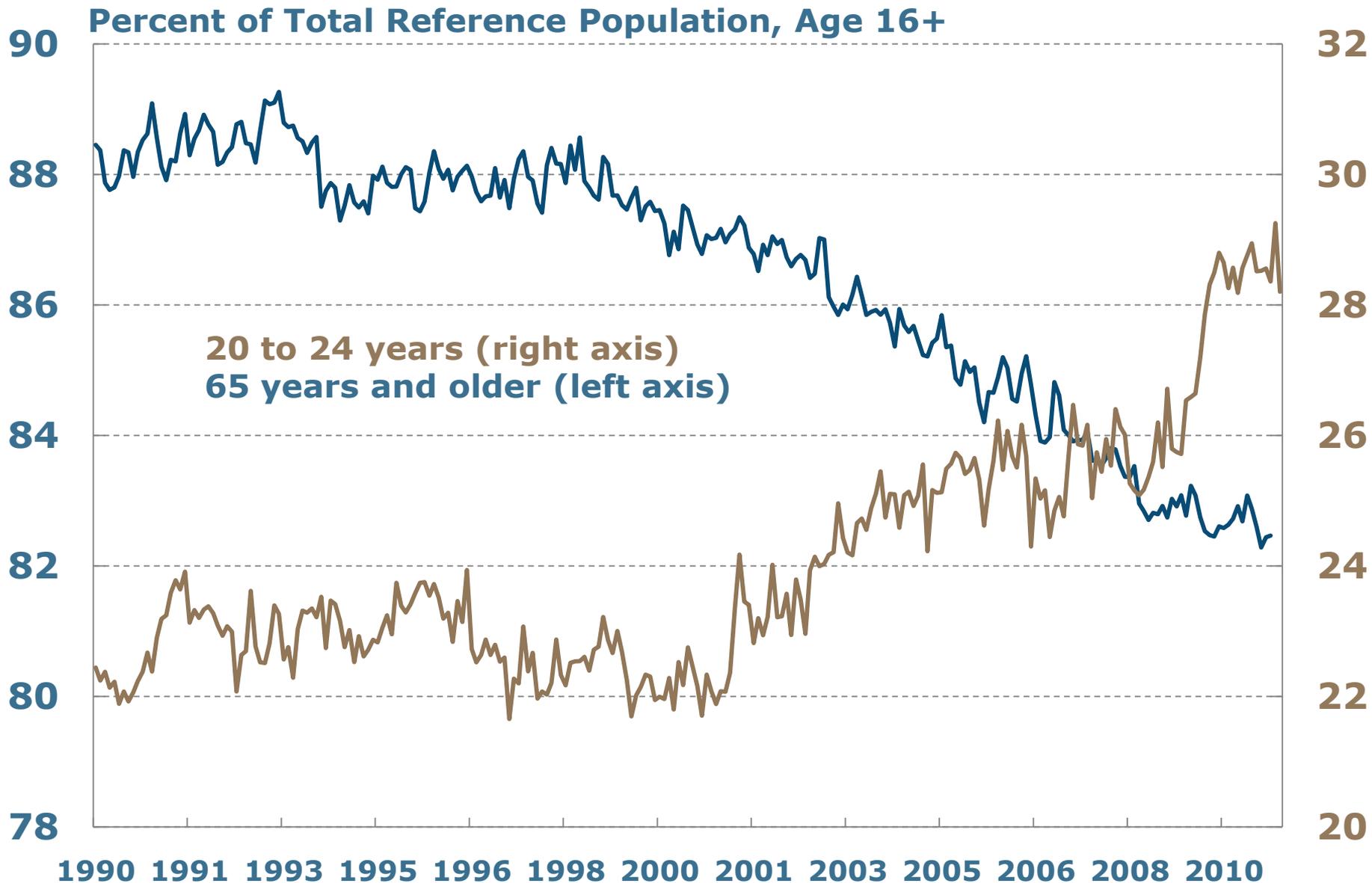
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# Unemployment Measures



Source: Bureau of Labor Statistics.

# Not in Labor Force



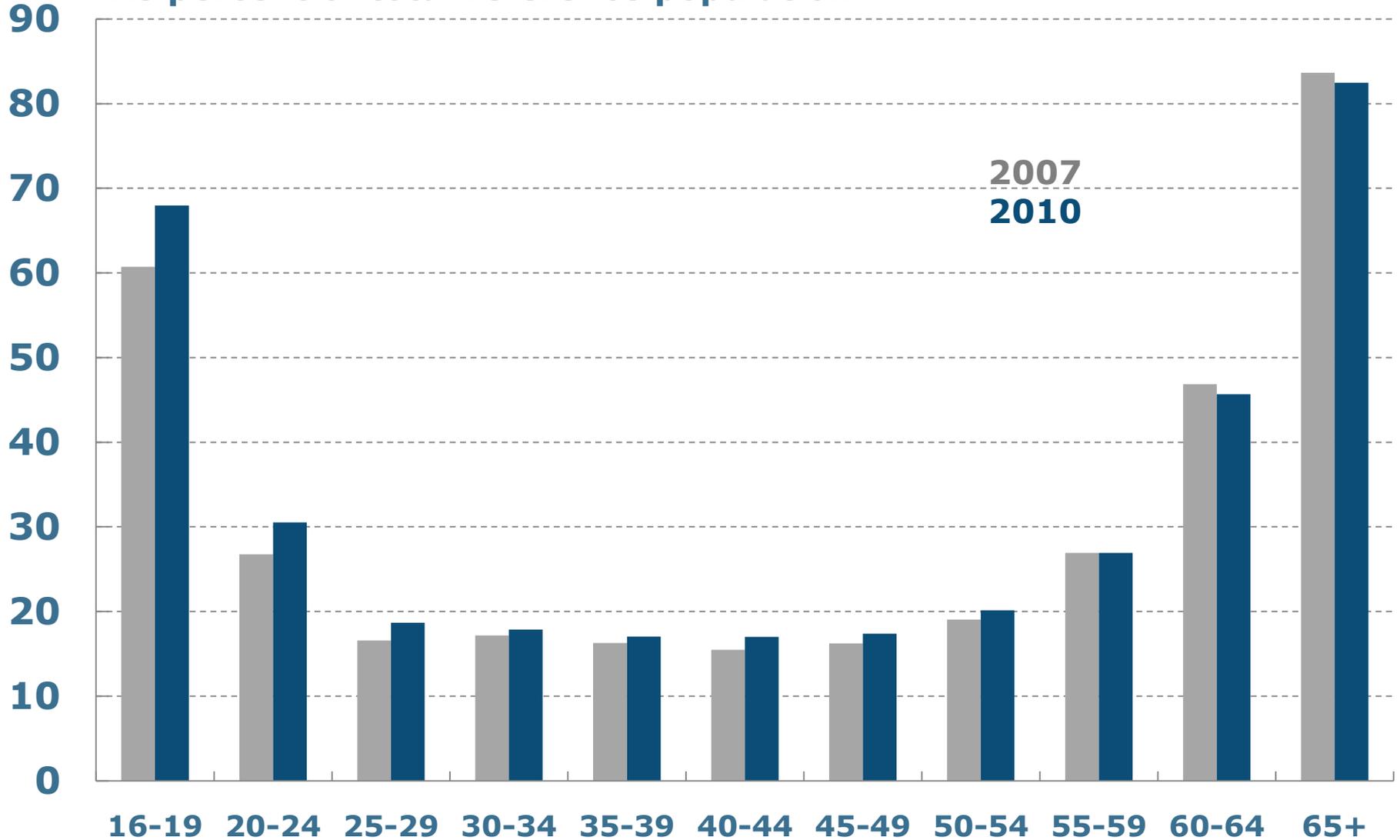
Note: Data for 20 to 24 year olds has been seasonally adjusted due to strong seasonal movements in summer months.

Source: Bureau of Labor Statistics.

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# Not in Labor Force by Age

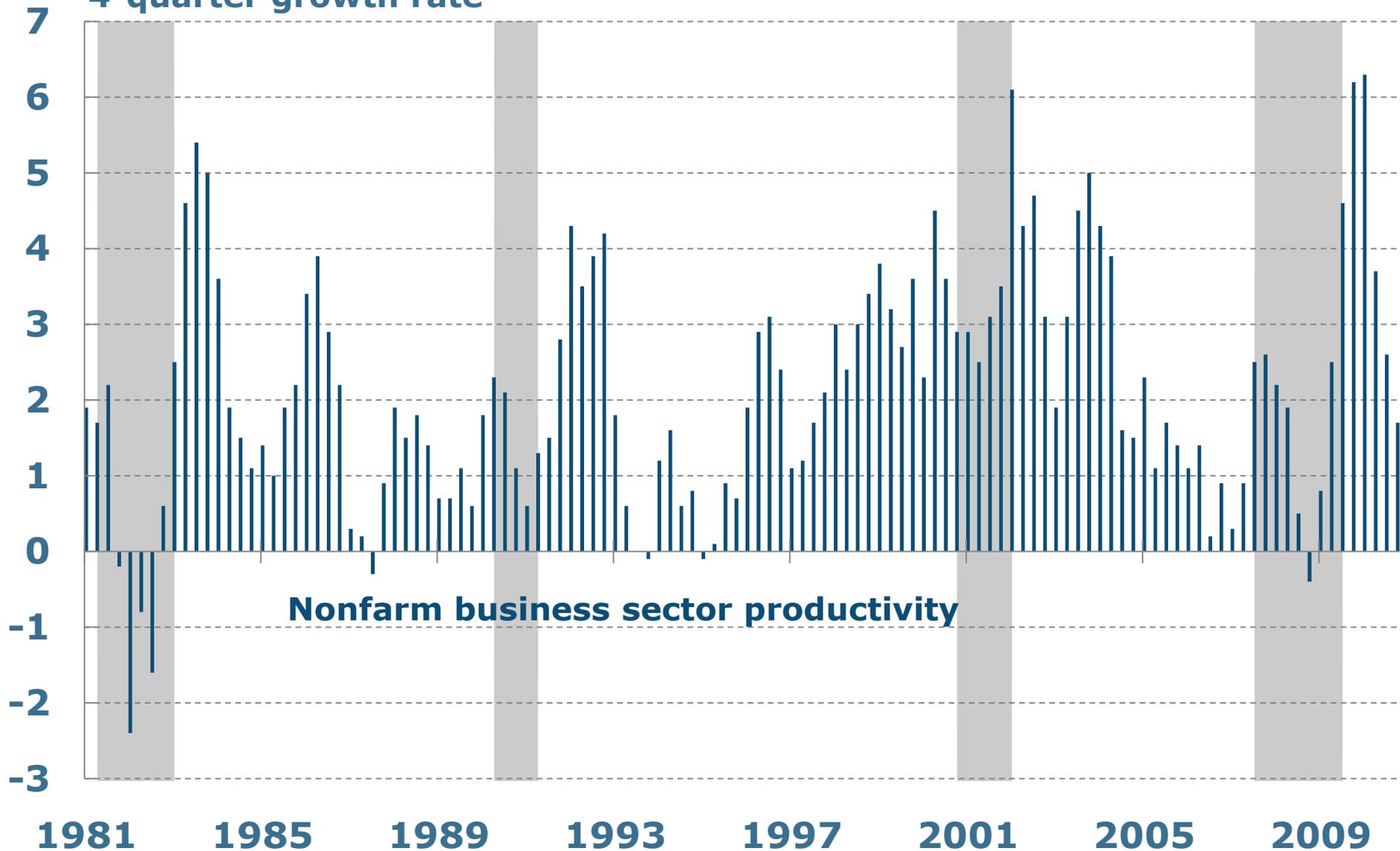
As percent of total reference population



2007  
2010

# Productivity

4-quarter growth rate



Nonfarm business sector productivity

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# What's going to hold back US growth

- Our outlook is also for moderate growth rates
- Housing markets are still continuing to struggle
  - Construction numbers are likely to remain weak
  - Household wealth is impacted
- Labor markets are only slowly recovering
  - Recovery path uncertain
  - No strong impulse to hire yet
  - Lost human capital and opportunities for many

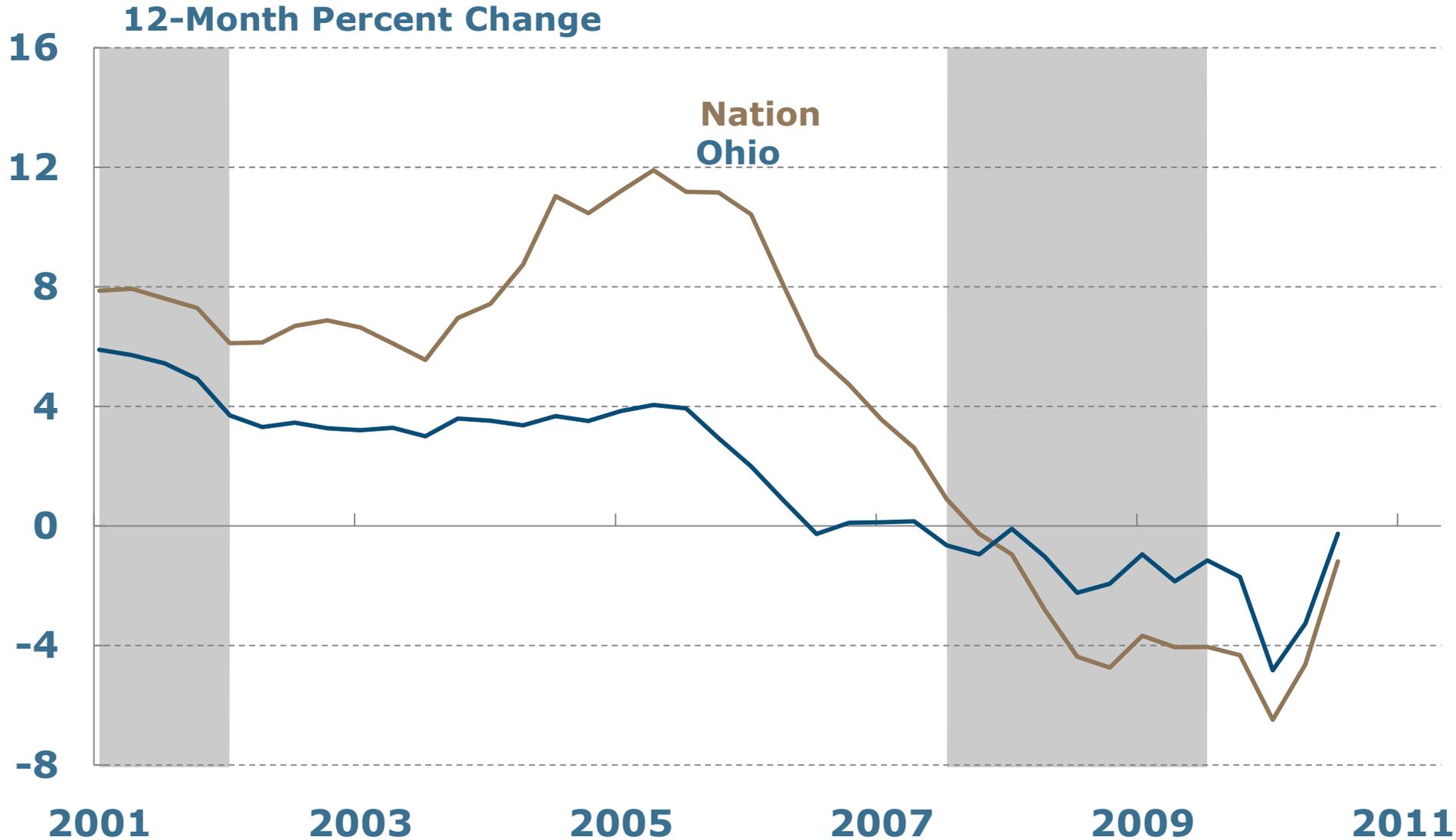
## How about Ohio?

- Our outlook is also for moderate growth rates in Ohio

## Fourth District Beige Book

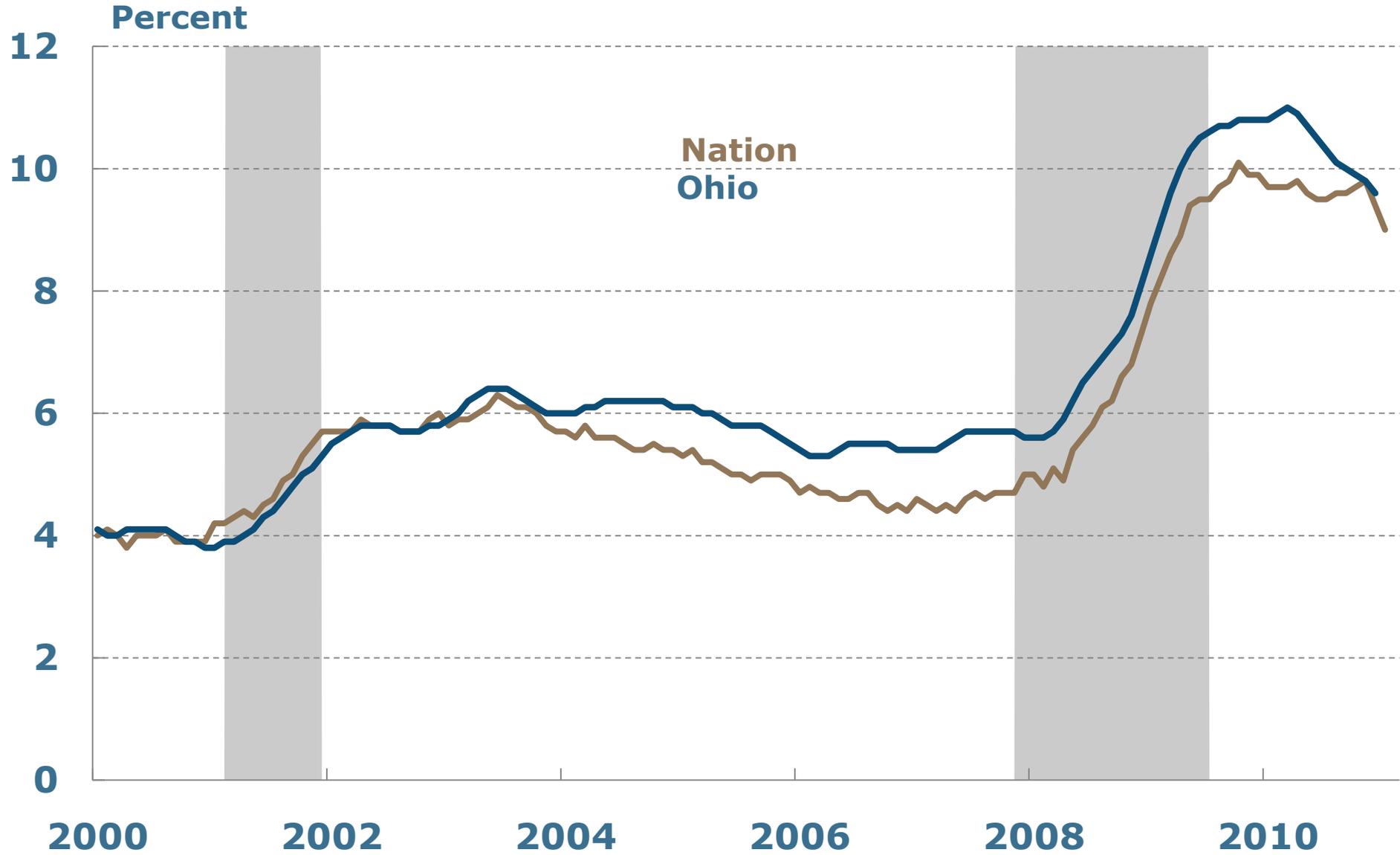
“On balance, economic activity in the Fourth District expanded at a modest pace since our last report. Manufacturers reported some improvement in demand. Information received from retailers and auto dealers on the holiday shopping season was generally positive. Energy production and freight transport volume were stable. Residential and nonresidential construction remained sluggish. And while demand for business loans showed some signs of a pickup, consumer borrowing was weak. ”

# FHFA Home Price Indexes



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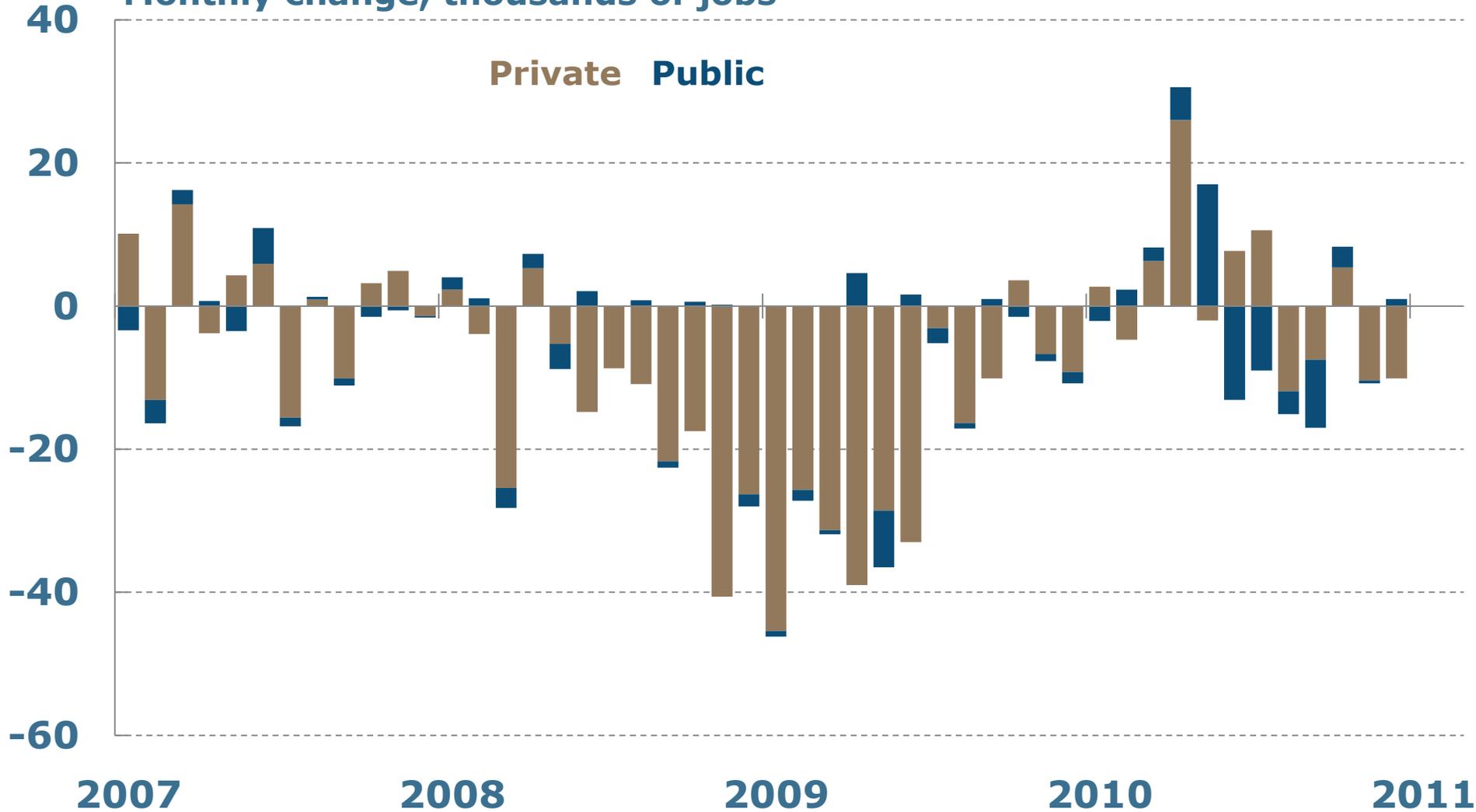
# Unemployment Rate



Source: Bureau of Labor Statistics.

# Ohio Payroll Employment

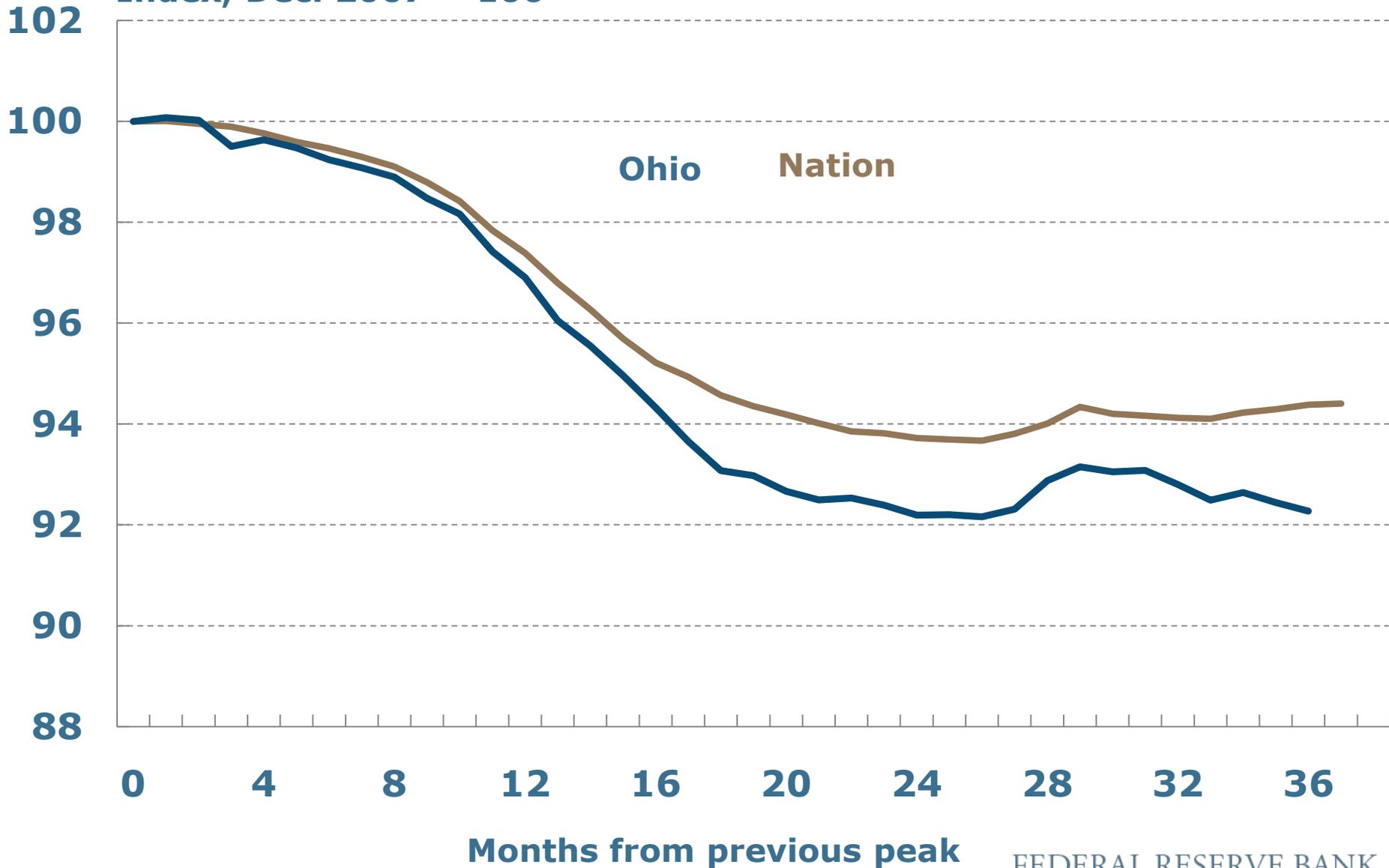
Monthly change, thousands of jobs



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# Payroll Employment

Index, Dec. 2007 = 100

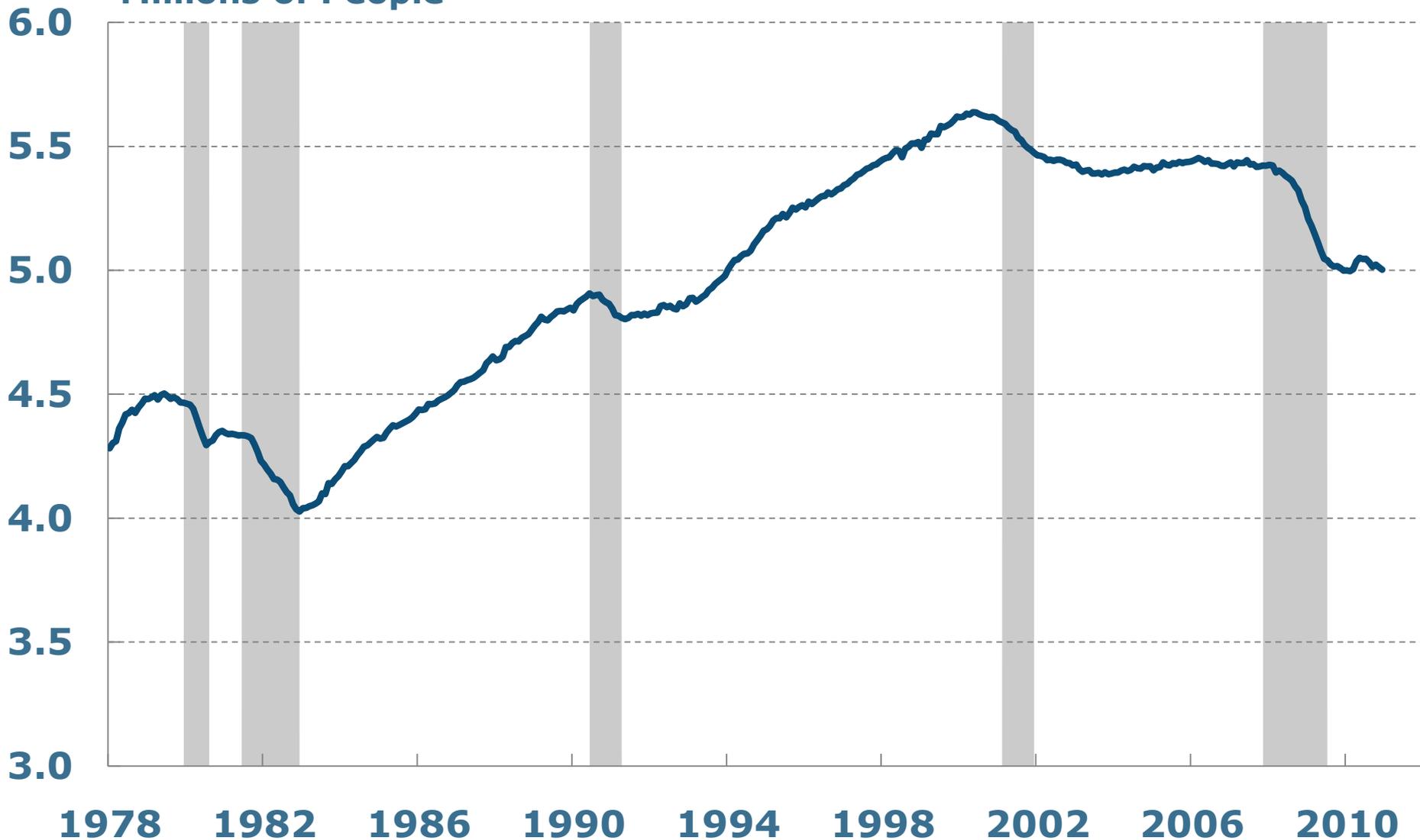


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Sources: Bureau of Labor Statistics.

# Ohio Payroll Employment

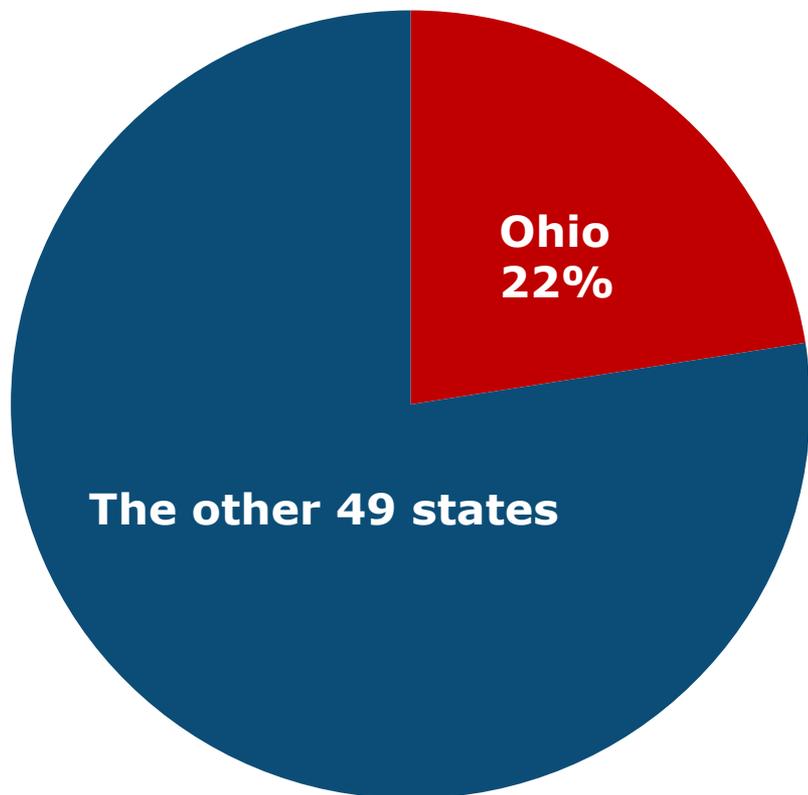
Millions of People



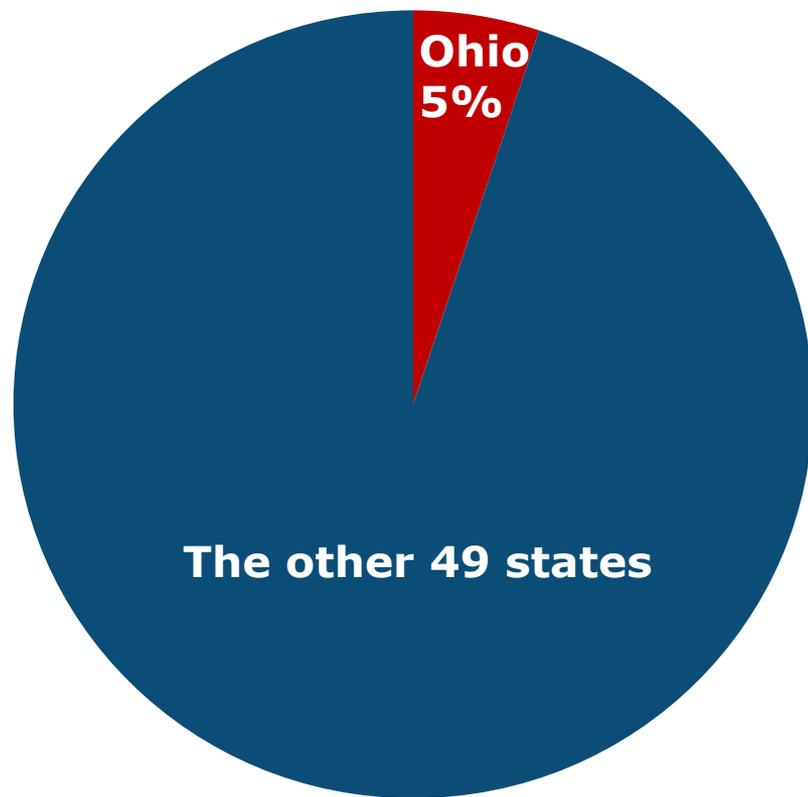
FEDERAL RESERVE BANK  
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Sources: Bureau of Labor Statistics.

# Payroll Employment Losses\*



**1980 & 1981  
Cycles Combined #**

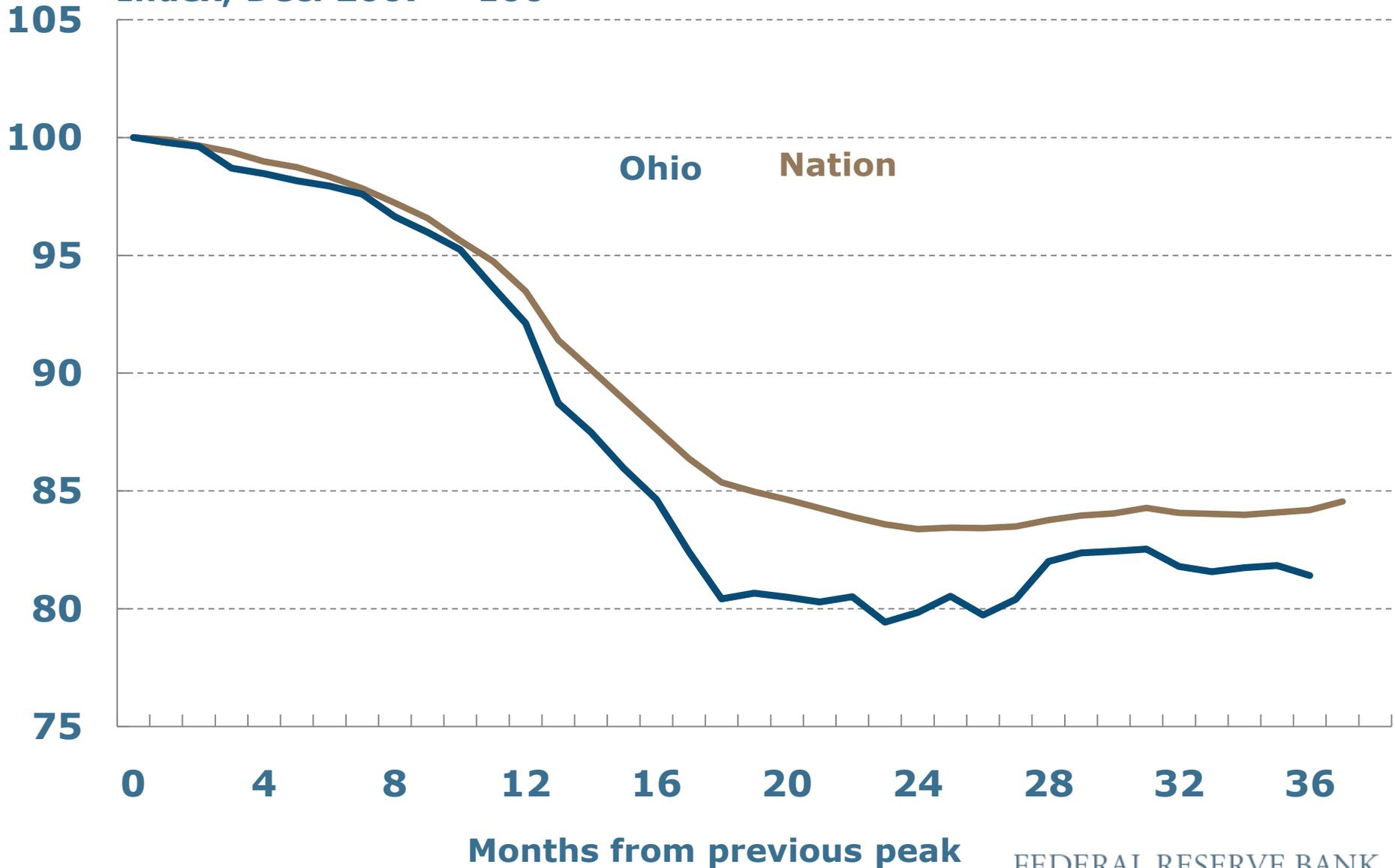


**Current Cycle**

\* Peak to trough losses, # Jan. 1980 to Nov. 1982  
Sources: Bureau of Labor Statistics.

# Payroll Employment: Manufacturing

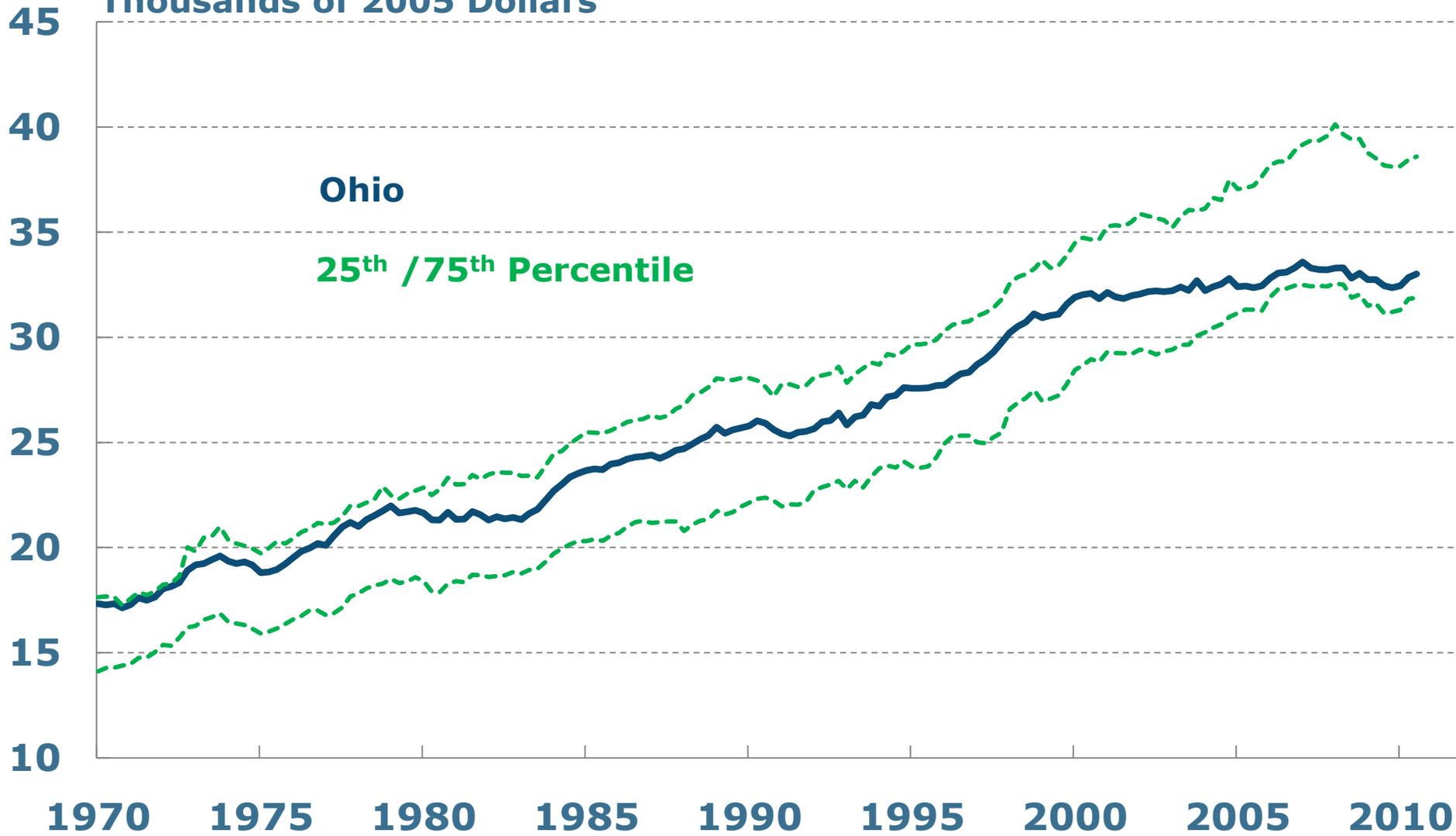
Index, Dec. 2007 = 100



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# Real Income Per Capita

Thousands of 2005 Dollars



**Ohio**

**25<sup>th</sup> /75<sup>th</sup> Percentile**

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# Educational Attainment Rankings, 2009

Ranking	State	% BS
1	Massachusetts	38.2
2	Colorado	35.9
3	Maryland	35.7
4	Connecticut	35.6
5	New Jersey	34.5
38	Ohio	24.1
	National Average	27.9

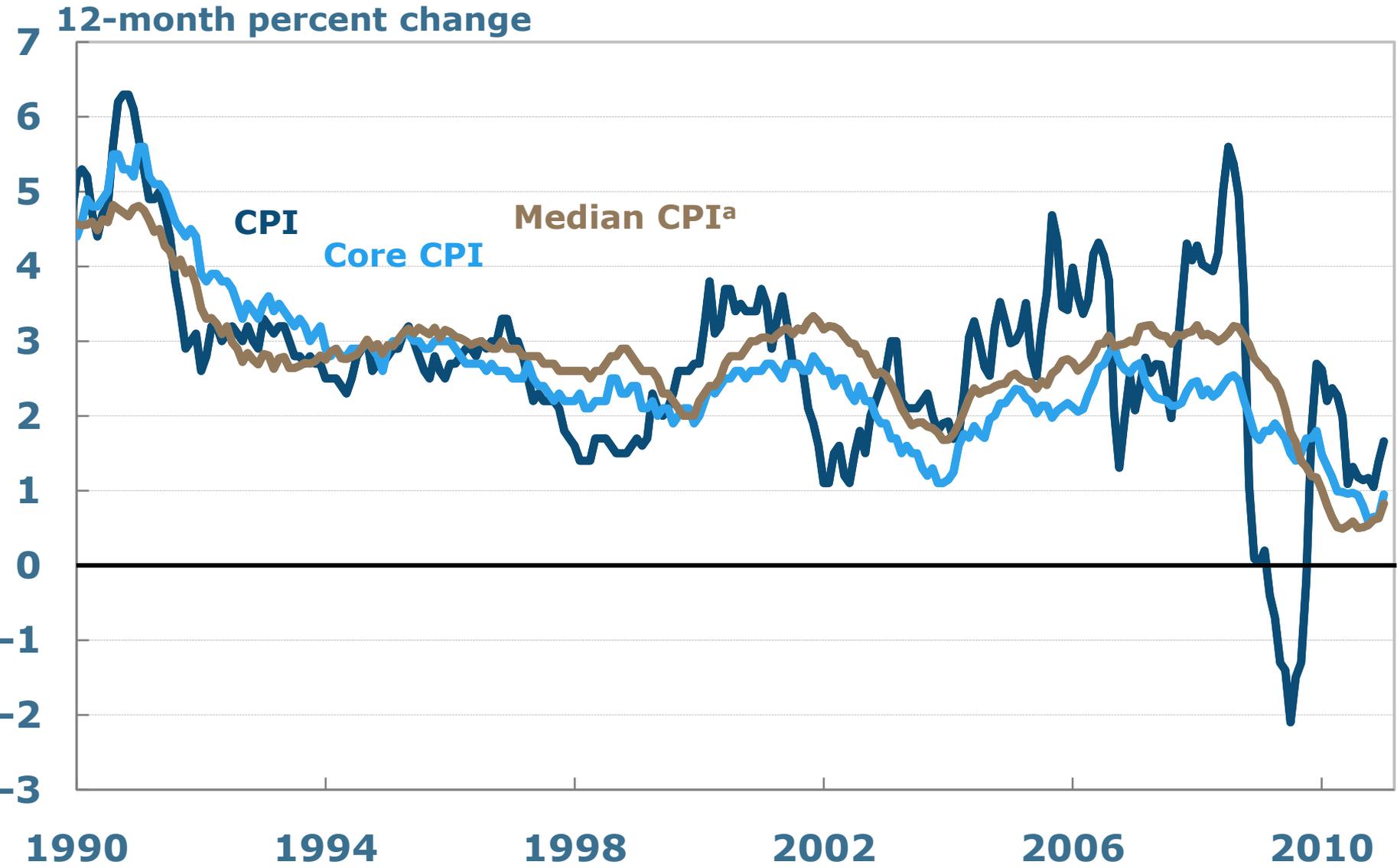
## How about Ohio?

- Our outlook is also for moderate growth rates in Ohio
- Ohio housing markets are also under pressure
- Ohio labor market following national labor market
  - Very large national shock has significant effects
  - Much more like the nation than 1980-1982
- State economic policy should focus on income growth over a longer horizon

## Inflation is critical in the policy outlook

- Critical uncertainty is the inflation outlook
- Output growth and unemployment are still well below the economy's potential, but potential is uncertain

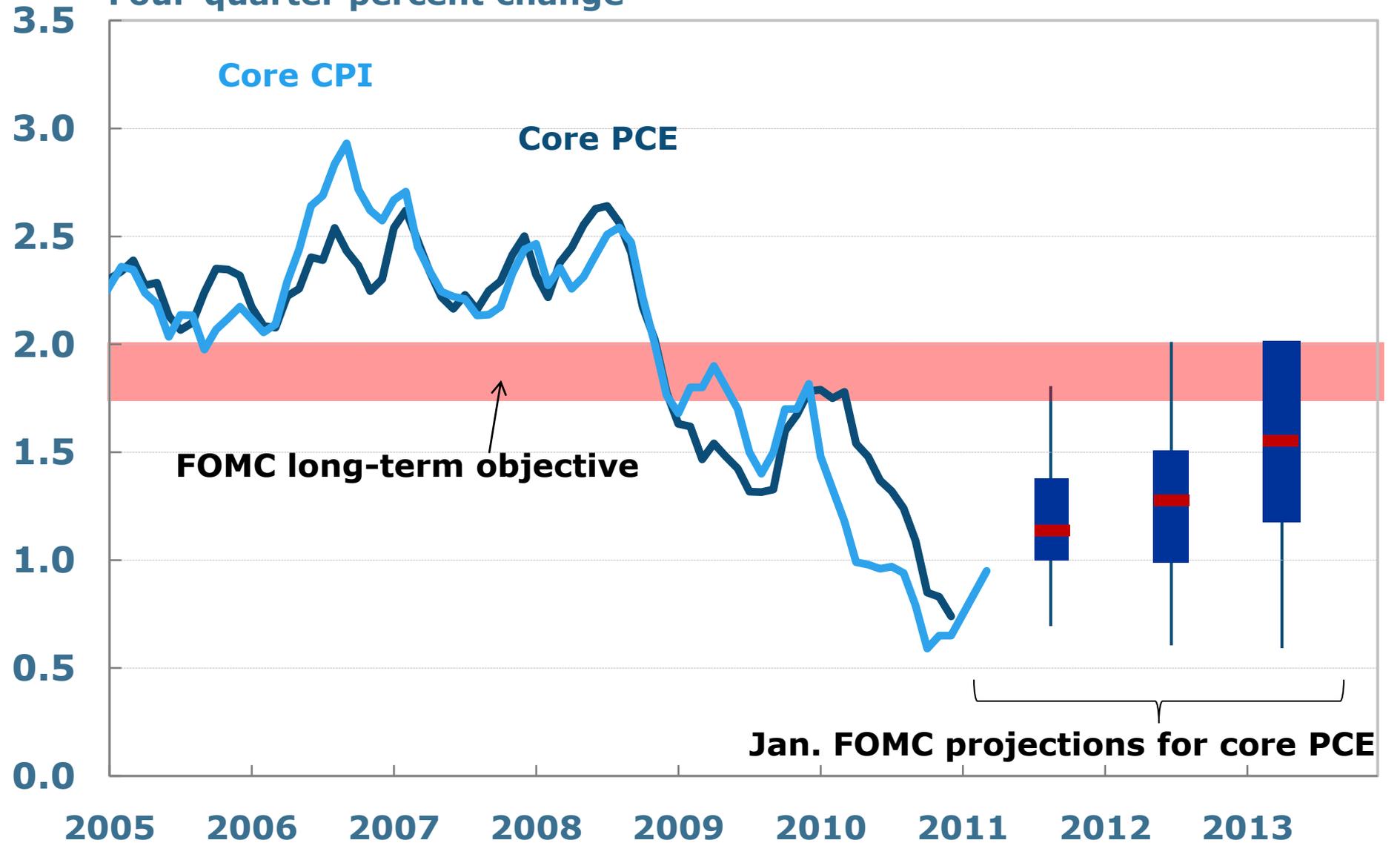
# Consumer Price Index



a. Calculated by the Federal Reserve Bank of Cleveland.  
SOURCES: U.S. Department of Labor, Bureau of Labor Statistics, FRBC.

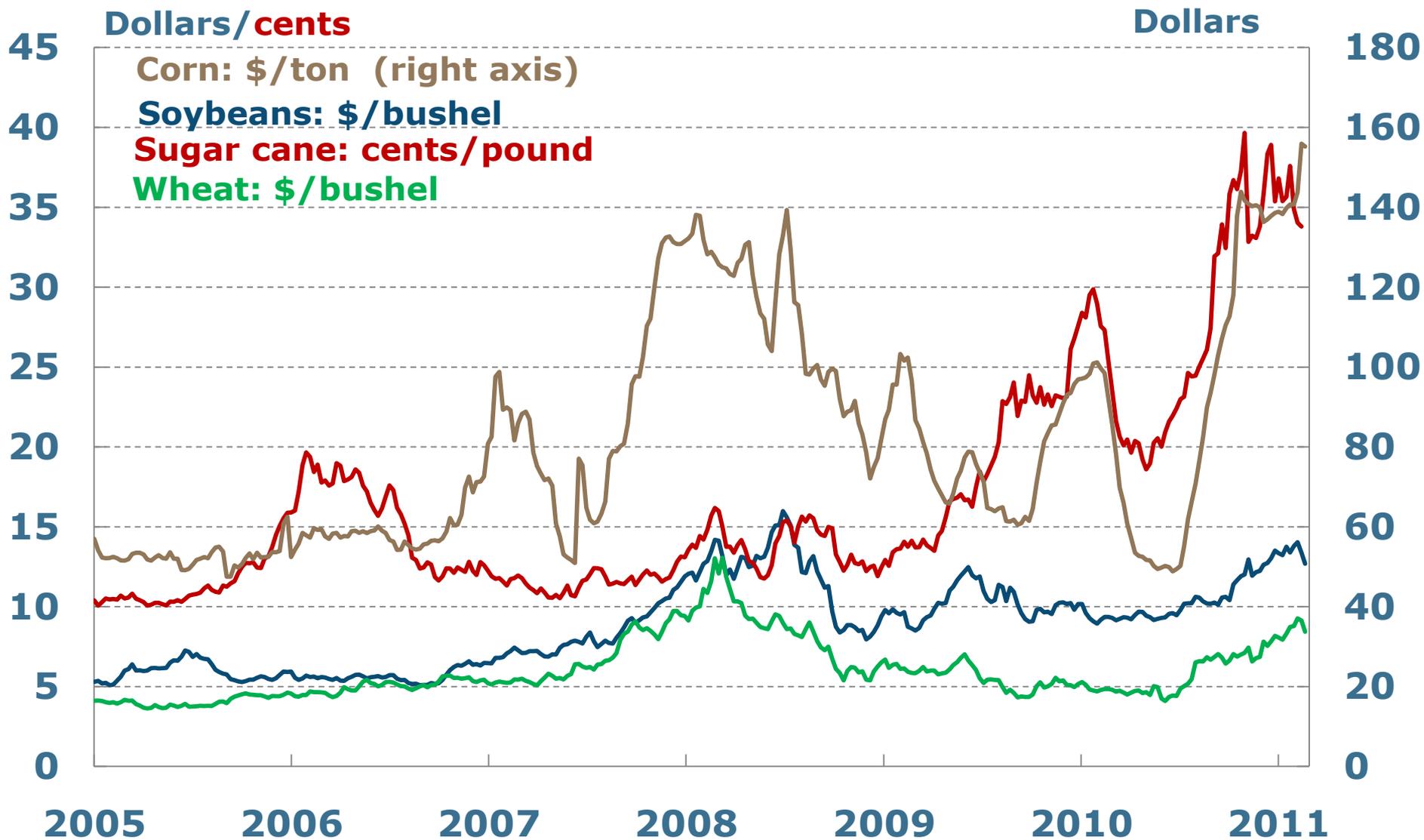
# Price Indices

Four-quarter percent change



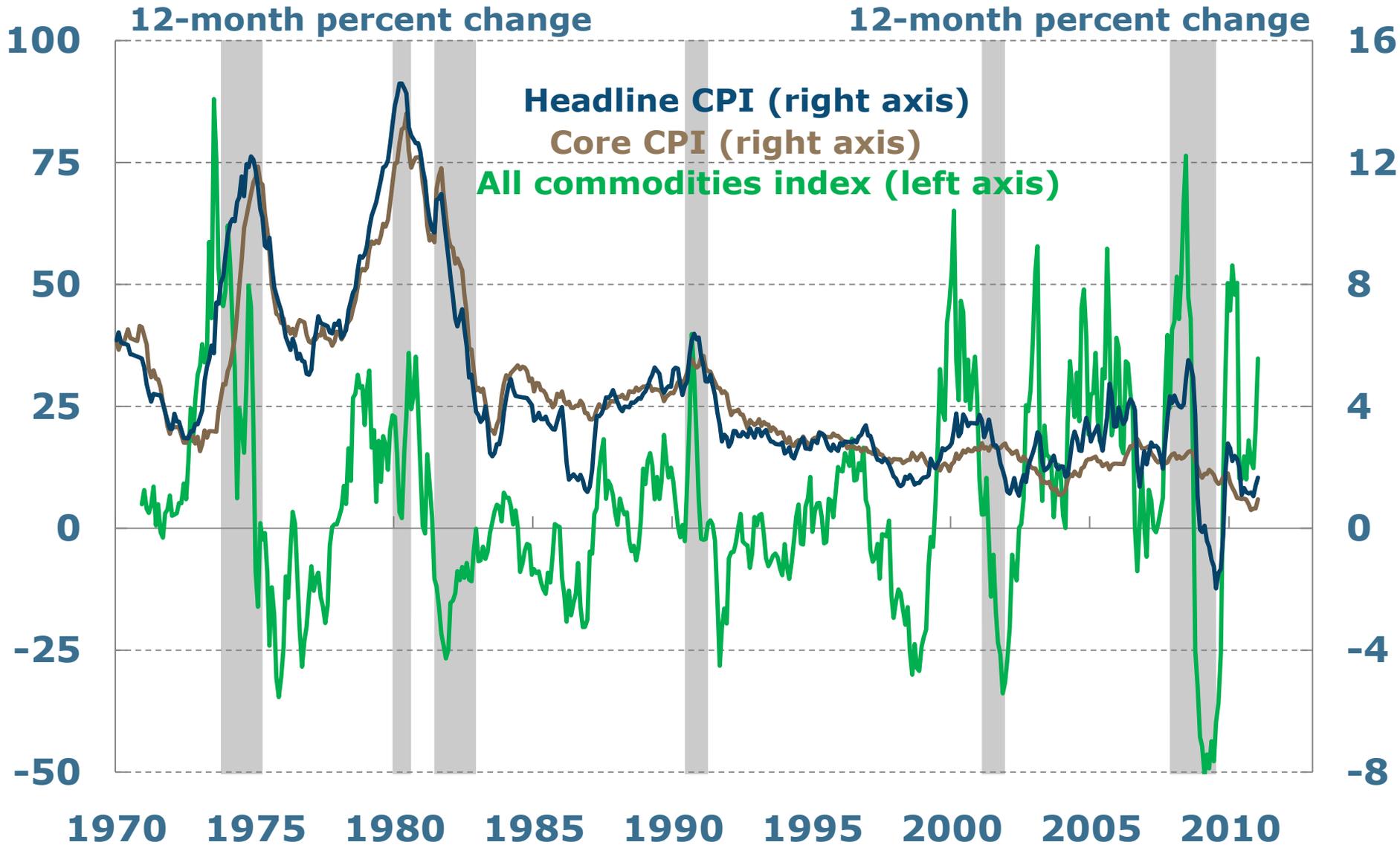
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# Agricultural Prices



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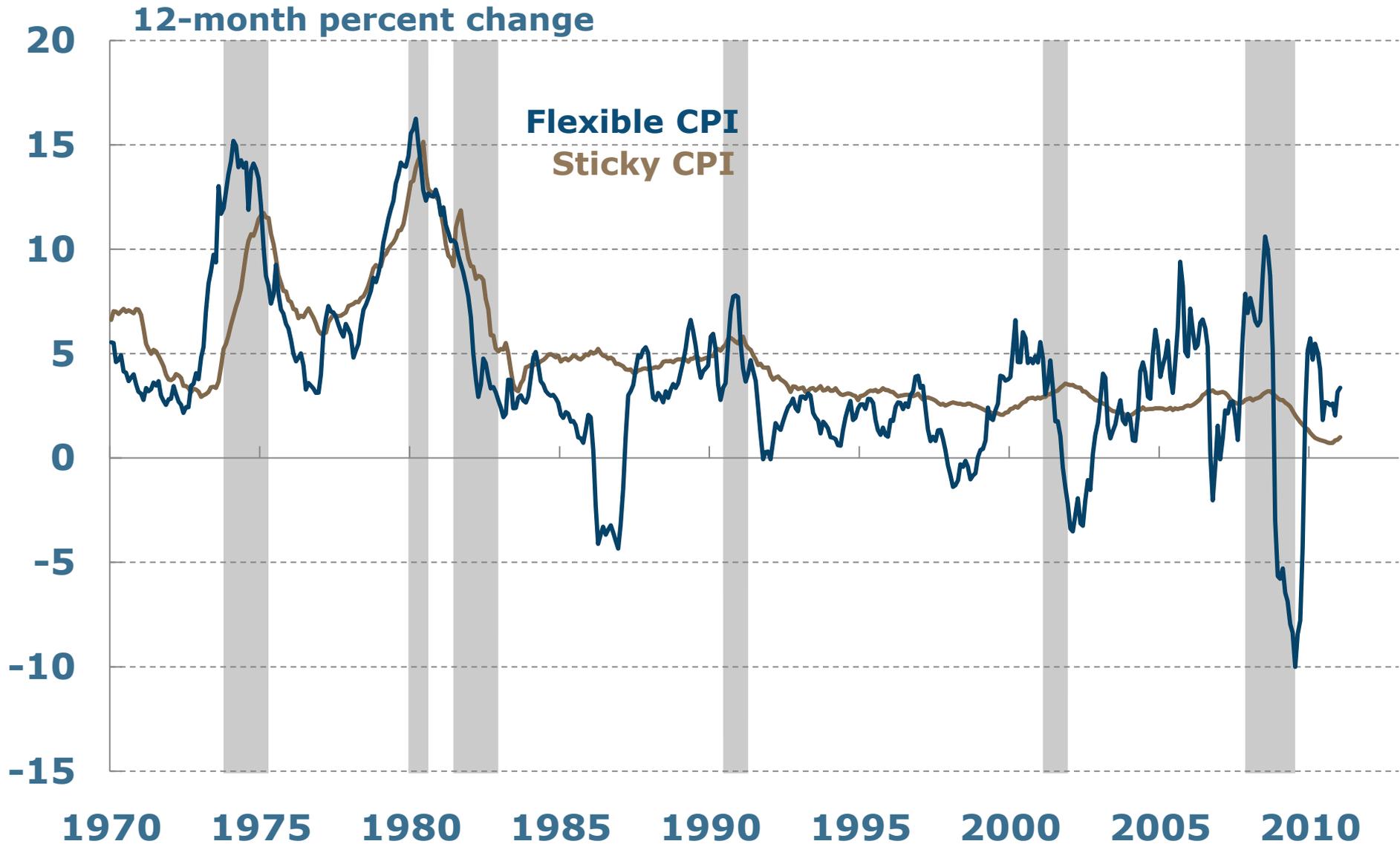
# Commodity and Consumer Price Indices



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Sources: Bureau of Labor Statistics; Standard & Poor's.

# Sticky and Flexible CPI

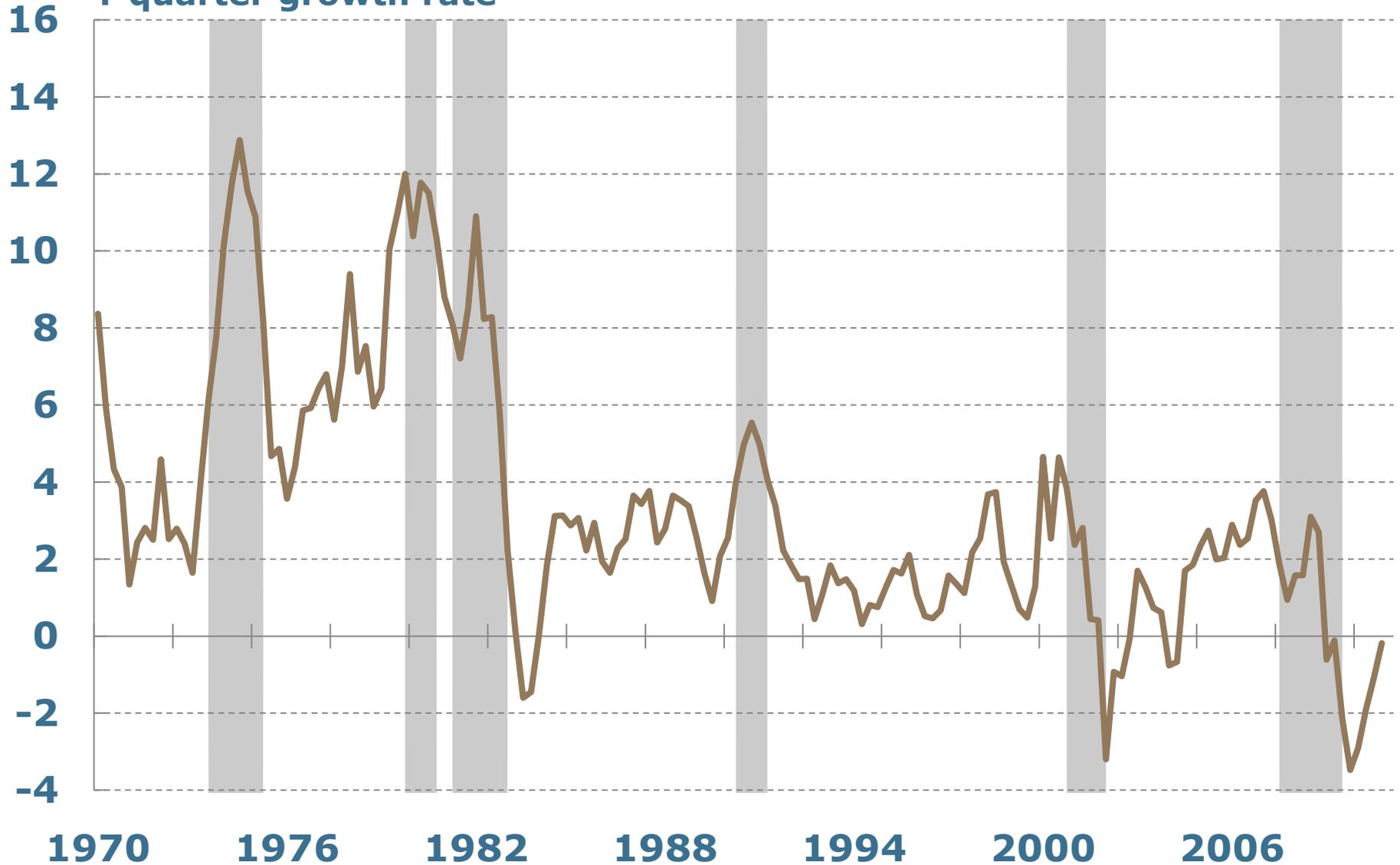


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Sources: Bureau of Labor Statistics; author's calculations.

# Unit Labor Costs

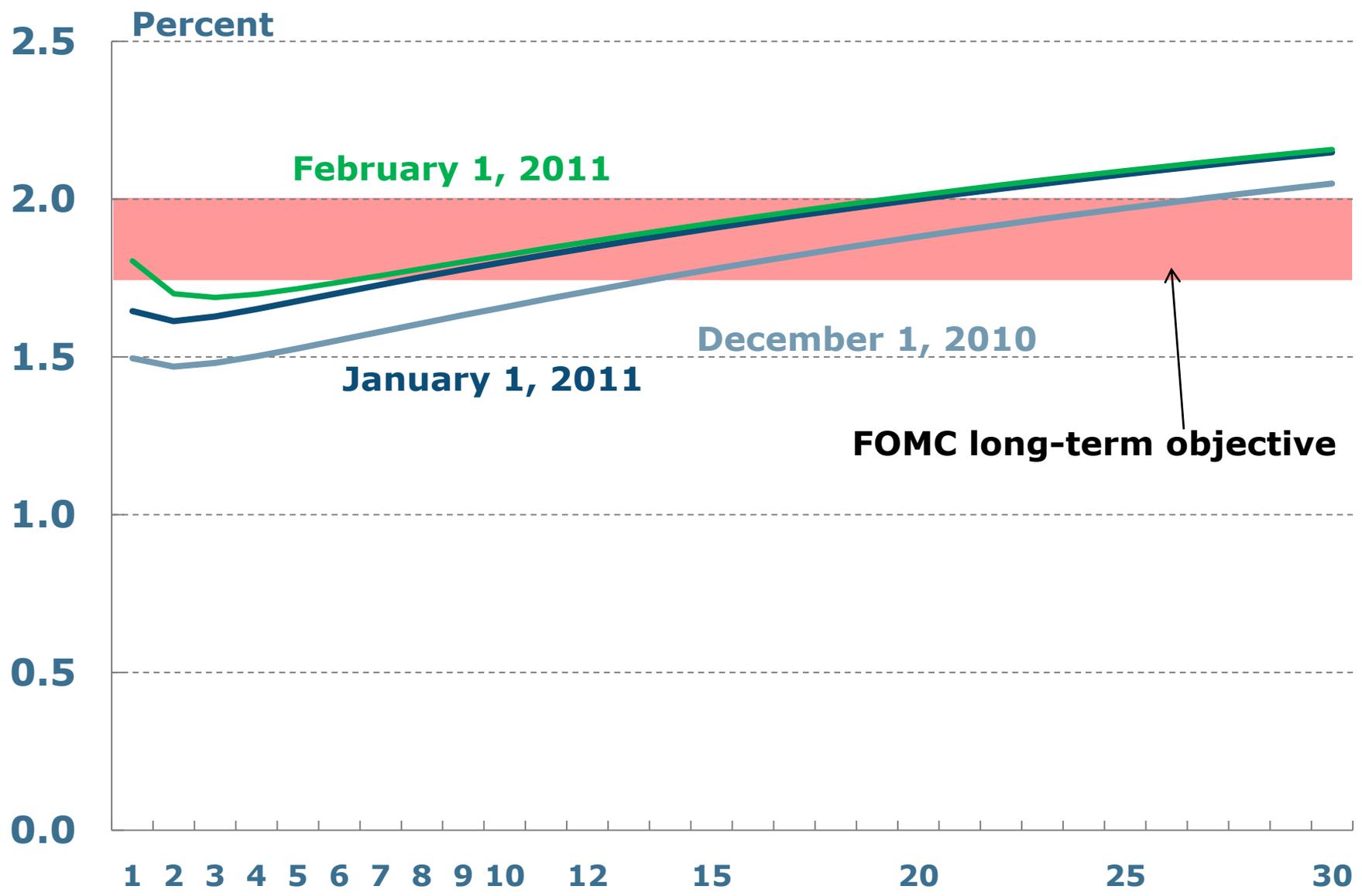
4-quarter growth rate



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Source: Bureau of Labor Statistics.

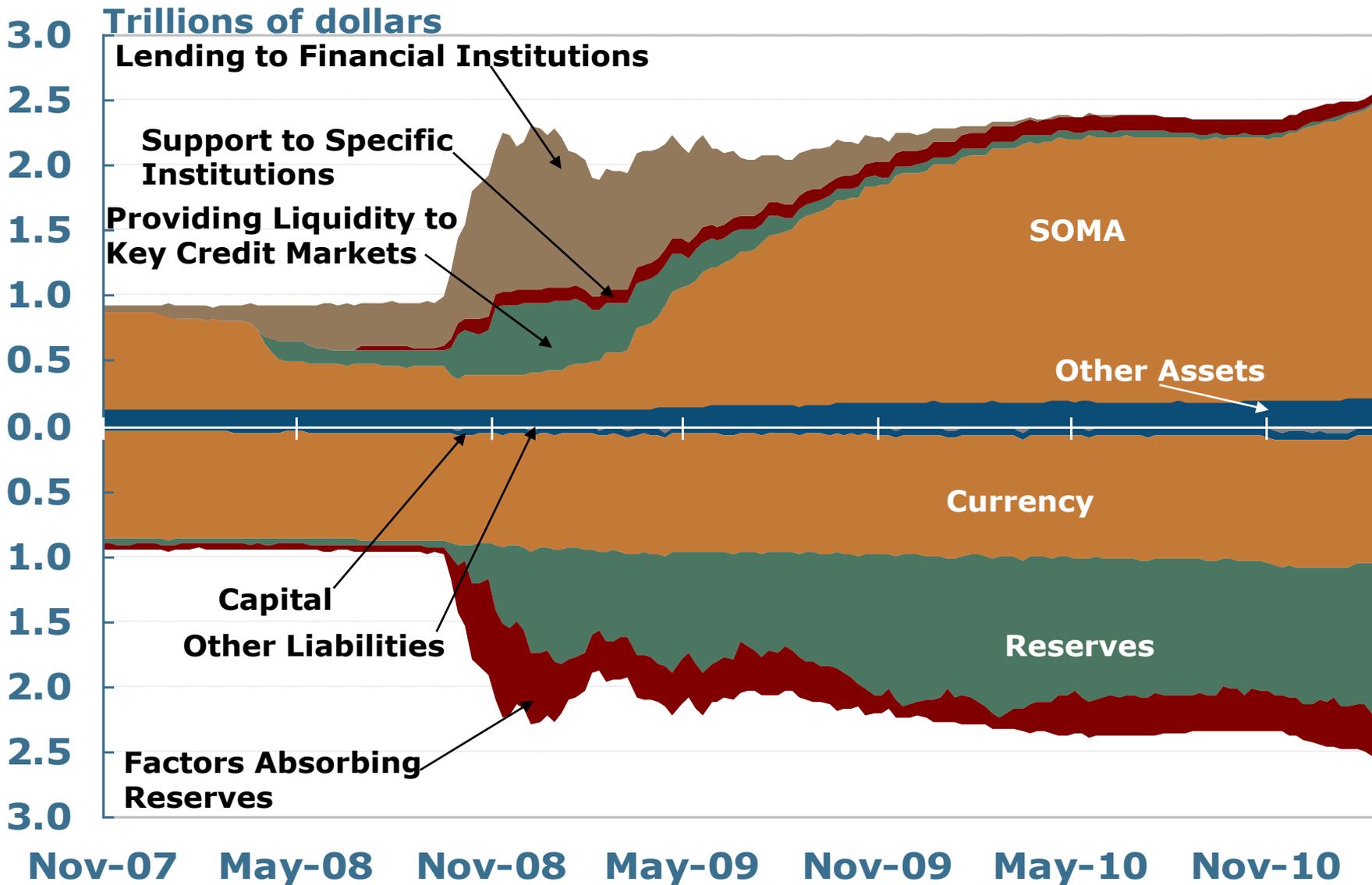
# Expected Inflation Yield Curve



## Inflation is critical in the policy outlook

- Critical uncertainty is the inflation outlook
- Output growth and unemployment are still well below the economy's potential, but potential is uncertain
  - The impact of output growth (or the gap) on inflation is uncertain and will depend on how potential evolves
- Incoming inflation data and underlying factors still soft with the exception of commodities
- Expected inflation still low which supports our outlook
- Inflation trajectory critical to monetary policy

# Summary View



[www.clevelandfed.org/research](http://www.clevelandfed.org/research)

Ohio Bureau of Workers' Compensation Comprehensive Study  
**Quarterly Implementation Progress Report**

Executive Summary

January 2011

Progress since October Report

73 Recommendations "In Process"

- 6 stage upgrades
- 4 more recommendations "In Place"
- 1 "No Action" decision

Highlights

New Securitization Model for Self-Insured Employers

Performance Metrics in Medical Services

Process Improvements for Comprehensive Study Implementation

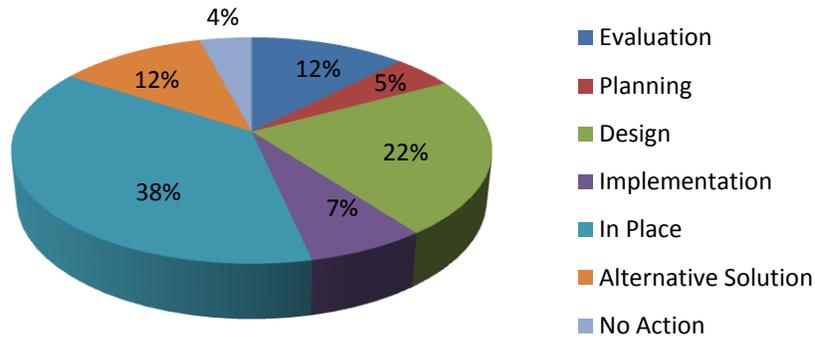
- Updated SharePoint Site
- Completed Compilation and Validation of Implementation Evidence
- "Recalibration" of Quarterly Reporting

"Recalibration" of Quarterly Reporting

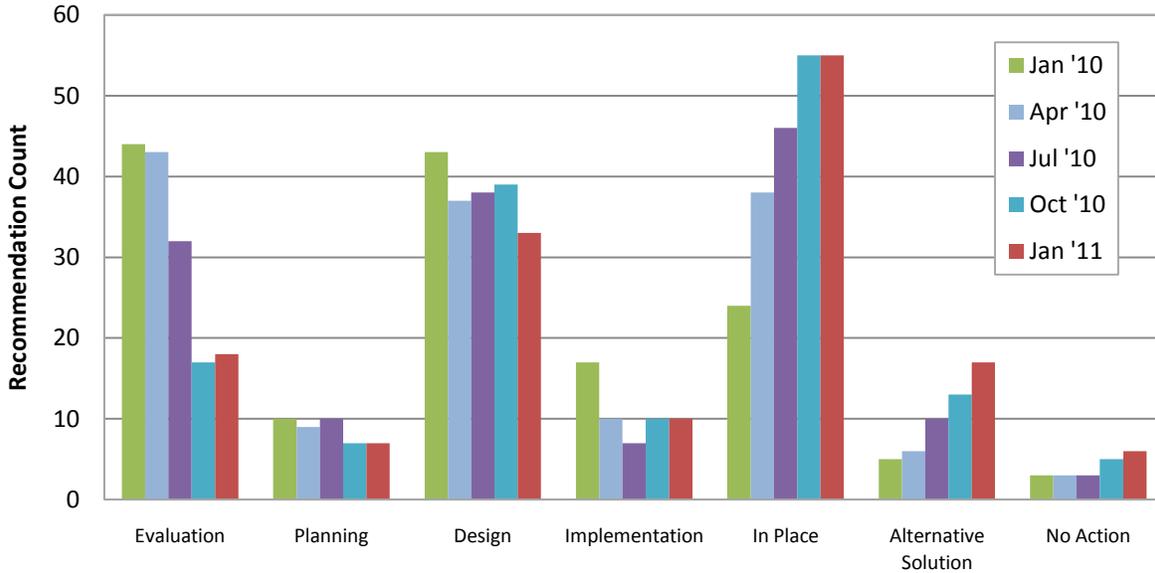
Changes due to recalibration are identified in blue in this report

- 4 recommendations shifted from "In Place" to "Alternative Solution"
- 1 stage downgrade
- 18 items previously reported as "No Action" items were split into 13 "Alternative Solution" items and 5 "No Action" items to more accurately reflect activity on recommendations

### Stages of Implementation



### Implementation Progress



### Historical Progress

Stage	Jan '10	Apr '10	Jul '10	Oct '10	Jan '11
Evaluation	44	43	32	17	18
Planning	10	9	10	7	7
Design	43	37	38	39	33
Implementation	17	10	7	10	10
In Place	24	38	46	55	55
Alternative Solution	5	6	10	13	17
No Action	3	3	3	5	6
<b>Total</b>	<b>146</b>	<b>146</b>	<b>146</b>	<b>146</b>	<b>146</b>

## Recommendations in Process, November 2010 -- January 2011

### Actuarial Audit Reserves and Expected Payments

- 2.1 1 Include Risk Margins
- 2.1 4 Further study of LSS Savings
- 2.1 5 Analyze risk of inflation on DWRF
- 2.1 6 Increase internal emphasis on actuarial audit reserves

### Actuarial Organization

- 4.4 1 Establish Rating & Programs Pricing Team
- 4.4 2 Establish Reserving & Net Asset Level Analysis Function
- 4.4 3 Establish Data Management
- 4.4 4 Actuarial Hiring and Development Program
- 4.4 5 Expand the BWC actuarial division responsibilities

### Ancillary Funds

- 4.1 10 Change DWRF from Pay-As-You-Go Basis to Support Reducing Unfunded Obligations
- 4.1 11 Set DWRF Rates to Meet Payments and Reduce Burden to Future Employers for DWRF Benefits
- 4.1 12 Establish a Good, Clear, and Long Term Rationale for Funding DWRF Benefits
- 4.1 13 Set Policy Rationale for Equity between Past, Current and Future Benefits to Pay DWRF Benefits
- 4.1 14 Charge Some Premium for CWPF Coverage with Credits/Dividends for Long Term CWPF Employers
- 4.1 16 Conduct Further Research to Support Legislative Change to Combine Funds

### Change of Employer Experience Rates

- 4.2 1 Eliminate/Restrict Changes to Employer Rates Due to Changes in Claims
- 4.2 2 Restrict Time to Report Errors
- 4.2 3 Establish Shorter and Clearly Defined Time Constraints

### Class Ratemaking

- 1.1 9 Calculate Catastrophe Factor by NCCI Hazard Group
- 1.1 11 Use Alternative Indication of Class Loss Costs to Credibility Weight Class Loss Costs
- 1.1 12 Separate Case Reserves in Estimating Historical Loss Costs

### Experience Rating

- 1.1 30 Change Credibility for Individual Experience to be In Line with Industry Practices

### Group Rating

- 1.1 13 Change the structure of the Group Rating Program to mitigate present inequities
- 1.1 14 Incent groups to focus on accident prevention and loss mitigation activities
- 1.1 15 Eliminate the use of the individual e-mod formula for group rating
- 1.1 16 Determine group rating through the use of a group discount factor
- 1.1 17 Establish a minimum number of years of experience for a group to qualify
- 1.1 18 Develop a group discount formula based on the past performance of each group
- 1.1 19 Apply a separate group rating off-balance adjustment to the group discount factors
- 1.1 20 Develop the group discount factor based on the actual past performance of each group
- 1.1 21 Include the experience of all group members only during the period they were in the group
- 1.1 22 Apply the group discount factor to the individual e-mod adjusted premium of each
- 1.1 23 Develop a group discount formula based on a loss ratio or loss rating approach

Evaluation

Alt. Solution/No Action

Planning

Design

Implementation

In Place

FY12 or later

✓

✓

✓

✓

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## Recommendations in Process, November 2010 -- January 2011

### Group Rating, continued

- 1.1 24 Vary the maximum discount factor with the premium size of the group
- 1.1 25 Apply a phase-in period of at least two years to new group members
- 1.1 26 Evaluate Group Dividend plan as a group rating alternative
- 1.1 28 Evaluate Per Accident Loss Limitations as a group rating alternative
- 1.1 29 Evaluate Tiering within a single group as a group rating alternative

### Handicap Reimbursement Program

- 3.3 2 Exclude Arthritis as a Handicap
- 3.3 3 Require That Existing Conditions be the Proximate Cause of a More Severe Second Injury
- 3.3 4 Reduce the Lag Time Allowed for Handicap Reimbursement

### MCO Effectiveness

- 2.6 2 Study feasibility of price-of-service competition among MCOs
- 2.6 6 Establish ODG as Mandated Disability Duration Guidelines (replacement for DODM)
- 2.6 7 Integrate use of ODG into the overall MCO performance measurement and compensation system
- 2.6 8 Re-institute Customer Surveys
- 2.6 10 Improve Provider Profiling, Credentialing, and De-Certification
- 2.6 12 Build a database and study causes of increasing average medical costs

### Medical Payments

- 2.3 1 Phase in pay-for-performance or Tiered Fee Schedule for all service types
- 2.3 2 Address Medical Payment Process Duplication
- 2.3 2 Standardize bill review edits
- 2.3 2 Explore elimination of MCO medical bill review process
- 2.3 4 Continue development of Blue Ribbon panel with provider incentives
- 2.3 5 Continue development of EDI submission of C-9's

### Minimum Premium Review

- 4.1 6 Examine the Feasibility of Raising the Minimum Premium
- 4.1 8 Consider a different minimum premium for domestic employees

### NCCI Classification System

- 4.1 1 Consider Using NCCI Class Codes for Public Taxing Districts

### PES Rate Setting

- 3.1 1 Change the Manner in which PES Rates are Calculated
- 3.1 2 Change the Method Used to Determine Expected Paid Losses in the Prospective Policy Year

### Retrospective Rating

- 3.1 3 Redesign the Retrospective Rating Program

### Safety Programs

- 3.1 4 Develop the capability to track the experience of employers participating in the safety & hygiene program

	Evaluation	Alt. Solution/No Action	Planning	Design	Implementation	In Place	FY12 or later
1.1 24				✓			▶
1.1 25				✓			▶
1.1 26				✓			▶
1.1 28				✓			▶
1.1 29				✓			▶
3.3 2	✓						
3.3 3	✓						
3.3 4	✓						
2.6 2	✓						
2.6 6						✓	
2.6 7				✓			▶
2.6 8	✓						▶
2.6 10					✓		
2.6 12					✓		
2.3 1						✓	
2.3 2				✓			▶
2.3 2				✓			▶
2.3 2				✓			▶
2.3 4					✓		
2.3 5			✓				▶
4.1 6	✓						▶
4.1 8	✓						▶
4.1 1	✓						▶
3.1 1				✓			▶
3.1 2				✓			▶
3.1 3	✓						▶
3.1 4					✓		▶

## Recommendations in Process, November 2010 -- January 2011

### Salary Continuation / \$15K Med Only Program

- 1.1 38 Perform periodic actuarial studies to evaluate the appropriateness of the credits offered under the various discount programs

### Self-Insurance

- 1.4 2 Require Additional Security for Employers Applying for Self-Insurance
- 1.4 5 Incorporate Objective Financial Criteria as Part of the Self-Insurance application
- 1.4 6 Consider Offering Enhanced Customer Service Aid to Employers
- 1.4 7 Consider Requiring an Anti-Fraud Program as Part of the Self-Insurance Application
- 1.4 8 Consider Requiring a Formal Safety Program as Part of the Self-Insurance Application
- 1.4 12 Do Not Allow Self-Insurers to Leave the State Insurance Fund Multiple Times
- 1.4 13 Expand Reporting Forms to Allow for More Detailed Internal Analysis

### Subrogation

- 1.2 1 Limit caseloads to no more than 400
- 1.2 2 Build functionality in V-3 to manage subrogation claims
- 1.2 3 Establish a more robust set of performance metrics
- 1.2 4 Investigate utilization of text mining

### Vocational Rehabilitation Program

- 4.1 17 Change Rules to Give BWC Sole Authority to Direct Rehab Services

	Evaluation	Alt. Solution/No Action	Planning	Design	Implementation	In Place	FY12 or later
<b>Salary Continuation / \$15K Med Only Program</b>							
1.1 38 Perform periodic actuarial studies to evaluate the appropriateness of the credits offered under the various discount programs				✓			
<b>Self-Insurance</b>							
1.4 2 Require Additional Security for Employers Applying for Self-Insurance						✓	
1.4 5 Incorporate Objective Financial Criteria as Part of the Self-Insurance application						✓	
1.4 6 Consider Offering Enhanced Customer Service Aid to Employers					✓		
1.4 7 Consider Requiring an Anti-Fraud Program as Part of the Self-Insurance Application	✓						
1.4 8 Consider Requiring a Formal Safety Program as Part of the Self-Insurance Application	✓						
1.4 12 Do Not Allow Self-Insurers to Leave the State Insurance Fund Multiple Times	✓						
1.4 13 Expand Reporting Forms to Allow for More Detailed Internal Analysis						✓	
<b>Subrogation</b>							
1.2 1 Limit caseloads to no more than 400				✓			▶
1.2 2 Build functionality in V-3 to manage subrogation claims				✓			
1.2 3 Establish a more robust set of performance metrics				✓			
1.2 4 Investigate utilization of text mining				✓			
<b>Vocational Rehabilitation Program</b>							
4.1 17 Change Rules to Give BWC Sole Authority to Direct Rehab Services			✓				
<b>Count = 73 Recommendations in Process</b>	18	1	7	33	10	4	47

## Appendix A: Recommendations in Place

### Actuarial Audit Reserves and Expected Payments

- 2.1 2 Disclose Margins/Discounts
- 2.1 3 Require Statement of Actuarial Opinion
- 2.1 7 Additional documentation in the Annual Actuarial Audit Report
- 2.1 8 Retrospective analysis of prior estimates in the Annual Actuarial Audit Report
- 2.1 9 Additional actuarial methods in the Annual Actuarial Audit Report (assess reserving risks)
- 2.1 10 An evaluation date prior to June 30th for the Annual Actuarial Audit Report
- 2.1 11 Consider supplementing PEC and PES historical development patterns
- 2.1 12 Limit potential distortions that may occur in the unpaid claim estimate
- 2.1 13 Consider claims counts for given type of loss when calculating historical severity patterns
- 2.1 14 Consider alternate methods to estimate unpaid losses for years 1976 & prior

### Actuarial Organization

- 4.4 7 Utilize external actuarial resources to supplement internal actuarial resources

### Administrative Cost Calculation

- 2.5 1 Re-evaluate portion of Administrative Expenses allocated to LAE

### Class Ratemaking

- 1.1 7 Eliminate Use of ER Off-Balance Adjustment Factor for Class Base Rates
- 1.1 10 Provide More Detailed Documentation for Each Adjustment Factor

### Excess Insurance and Reinsurance

- 2.4 5 Limit impact of CAT event to 5-10% of Net Assets
- 2.4 6 Test Reinsurance Market for CAT Protection

### Experience Rating

- 1.1 31 Prohibit Exclusion of Claims from Experience Rating Calculation

### Group Rating

- 1.1 27 Evaluate Group Retro Plan as a group rating alternative

### MCO Effectiveness

- 2.6 1 Sustain Trend of Decreasing Numbers of Participating MCOs
- 2.6 3 Remove the BWC from the ADR Appeal Process
- 2.6 5 Give MCOs More Flexibility in Allowable Condition Determinations
- 2.6 6 Establish ODG as Mandated Disability Duration Guidelines (replacement for DoDM)
- 2.6 9 Continue Public Forums
- 2.6 11 Update All Fee Schedules Every One-to-Two Years (duplicate of 2.3.1.2)

### Medical Payments

- 2.3 1 Conduct fee schedule update and maintenance
- 2.3 1 Update the fee schedule every one-to-two years
- 2.3 3 Eliminate the required employer waiver in proactive allowance

### Minimum Premium Review

- 4.1 7 Increase Premium Audits for Accounts that Report No Payroll but Have Claims

### MIRA II Reserving

- 1.1 34 Study the Impact of MIRA II Reserves on Class Rates and Experience Rating

### NCCI Classification System

- 4.1 2 Monitor Procedures used to Code Construction Classes
- 4.1 3 Audit most employers every three to five years
- 4.1 4 Increase Scope of Premium Audit Function
- 4.1 5 Consider an Audit Scoring Tool to Prioritize Audits

### Net Asset Level

- 2.4 1 Adopt a Funding Policy with Guidelines
- 2.4 2 Develop a customized approach to managing net asset level using a few key metrics
- 2.4 3 Target a Funding Ratio Range & Recommended Actions
- 2.4 4 Policy Guidance with Premium Options based on Funding Ratio

### Out-of-State Employer Experience Rating

- 4.3 1 Utilize only Ohio based Information to Determine Eligibility for Experience Rating

### Safety Programs

- 3.2 1 Make Grants Available Even if No Claims Related to the Intervention
- 3.2 2 Require Safety Report With Application for Safety Intervention Grant
- 3.2 3 Combine DFWP and DF-EZ Programs

### Salary Continuation / \$15K Med Only Program

- 1.1 37 Consider an Appropriately Priced Deductible Program as an Alternative

### Self-Insurance

- 1.4 1 Require an Actuarial Study for Self-Insurance Applicants
- 1.4 2 **Require Additional Security for Employers Applying for Self-Insurance**
- 1.4 4 Consider Trends within Industries to Determine Self-insurance Criteria
- 1.4 5 **Incorporate Objective Financial Criteria as Part of the Self-Insurance Application**
- 1.4 9 Require Organization Documents for Self-Insurance Application
- 1.4 13 **Expand Reporting Forms to Allow for More Detailed Internal Analysis**

### SIEGF

- 1.3 2 Collect Enhanced Data

### Statewide Rate Level

- 1.1 1 Provide More Responsiveness to Ohio Trends
- 1.1 2 Perform Baseline Indication Before Discounting
- 1.1 3 Develop the range of indicated rate changes (Optimistic to Conservative)
- 1.1 4 Include Alternative Method in Calculating Indicated Rate Change
- 1.1 5 Display Historical Loss Costs at Proposed Cost and Wage Levels
- 1.1 6 Display Impact of Collecting Premium in Arrears on the Rate Change Indication

### Vocational Rehabilitation Program

- 4.1 18 Reconsider the Rules Associated with the Experience Rating Treatment of LM Claims

## Appendix B: Alternative Solution and No Action Items

In its review and consideration of the 146 recommendations resulting from the Comprehensive Study (the "Study"), BWC staff has categorized 17 recommendations as "Alternative Solution" items and 6 recommendations as "No Action" items.

"**Alternative Solution**" items are ones for which the staff has identified a solution other than the one proffered by Deloitte Consulting to address the concern raised by Deloitte in making the recommendation.

The following recommendations have been changed from "In Place" to "Alternative Solution" in the recalibration of quarterly reporting:

Area	No.	Recommendation	Discussion
Actuarial Organization	4.4.6	Transition data gathering from the Rating team to a Data Management Team	Resources did not permit creation of new team separate from the Rating Team; to address the issue raised by Deloitte, the Actuarial Division created a project team to manage data tasks.
Class Ratemaking	1.1.8	Apply Individual ER Off-Balance Adjustment Factor for Class Base Rates	The break-even factor applied to group-rated employers addresses the concern raised by Deloitte in making this recommendation.
Self-Insurance	1.4.11	Continuation of Security upon Returning to the State Insurance Fund	If security is required of a SI employer, such security remains in the SIEGF upon that employer's return to the State Insurance Fund.
SIEGF	1.3.3	Require Collateral from Higher Risk Employers	The new securitization model, effective January 1, 2011, requires appropriate security from SI employers based on a combination of factors, including risk.

"**No Action**" items are ones for which staff has evaluated the risk inherent in the concern raised by Deloitte and, after evaluation of the proposed solution and alternatives, determined the solutions are cost prohibitive for the amount of risk they are intended to address.

One additional recommendation has been added to the "No Action" list in this quarterly report:

Area	No.	Recommendation	Discussion
Change of Employer Experience Rates	4.2.2	Restrict Time to Report Errors	Deloitte's recommendation suggests conforming to typical industry practice, but that is not possible under our current billing system. Typical industry practice is to bill prospectively; the issue Deloitte raises cannot be addressed in a system that bills in arrears.

## Alternative Solution Items

Area	No.	Recommendation	Discussion
Actuarial Organization	4.4.6	Transition data gathering from the Rating team to a Data Management Team	Resources did not permit creation of new team separate from the Rating Team; to address the issue raised by Deloitte, the Actuarial Division created a project team to manage data tasks.
Ancillary Funds	4.1.9	Address Large Unfunded Obligation Including Possible Long Term Funding	DWRF is being examined in a study that will review Deloitte's other recommendations relating to DWRF (Recommendations 2.1.5, 4.1.10, 4.1.11, 4.1.12, and 4.1.13). Management will monitor the unfunded obligation closely.
	4.1.15	Develop Funding Policies for Each Ancillary Fund (DWRF, MIF, CWPF)	We are pursuing Recommendation 4.1.16 at this time. Combining the funds would negate the need for individual funding policies for the ancillary funds.
Class Ratemaking	1.1.8	Apply Individual ER Off-Balance Adjustment Factor for Class Base Rates	The break-even factor applied to group-rated employers addresses the concern raised by Deloitte in making this recommendation.
Handicap Reimbursement Program	3.3.1	Terminate the Handicap Reimbursement Program	It is not our intention to terminate the Handicap Reimbursement Program at this time. The three alternative solutions offered by Deloitte (Recommendations 3.3.2, 3.3.3, and 3.3.4) and two additional remedies are being pursued to limit abuse and return the program to its intended purpose.
MCO Effectiveness	2.6.4	Legislate Change to Mandatory IME Requirement at 90 Days Lost Time	Management has determined that a February 09 rule change negated the concern raised by Deloitte.
Medical Payments	2.3.2.3	Adopt an audit model of provider medical payment monitoring	Alternative solution (Recommendation 2.3.2) was selected to address the concern raised by Deloitte.
Out-of-State Employer Experience Rating	4.3.2	Adopt the Industry Standard of using Base Premiums as the Eligibility Criteria for Experience Rating	Alternative solution (Recommendation 4.3.1) was selected to address the concern raised by Deloitte.
Salary Continuation/ \$15K Med Only Program	1.1.35	Terminate the Salary Continuation Program	It is not our intention to eliminate the Salary Continuation Program at this time. The problem of not accounting for all of the costs that salary continuation presents is being addressed by making salary continuation claims with dates of injury on or after January 1, 2011 eligible for a claim reserve (both medical and indemnity reserve).
	1.1.36	Terminate the \$15,000 Medical Only Program	It is not our intention to eliminate the \$15,000 Medical-Only Program (\$15K) at this time. Instead, BWC will eliminate MIRA transition rules that systematically reduce or eliminate reserves associated with medical-only claims. Employers actively participating in the \$15K Program will not see a reserve on those medical-only claims until they remove the claim from the \$15K Program.

## Alternative Solution Items

Area	No.	Recommendation	Discussion
Self-Insurance	1.4.1	Require an Actuarial Study for Self-Insurance Applicants	Actuarial studies are already being used in select cases to establish exposure to the fund when the risk or exposure are unknown (e.g. collateral reduction requests, no parental guarantee, etc.). Other recommendations such as collecting enhanced reserves data (1.4.5 and 1.4.6), retooling the model for securitization (1.4.2), and enhancing the governance (1.4.13) of the SI program will allow for enhanced underwriting of the risk to the fund.
	1.4.10	Require an Actuarial Study for Self-Insurers Returning to the SIF	Re-entry into SI is rare and circumstances surrounding departure are already closely considered during the underwriting of each application.
	1.4.11	Continuation of Security upon Returning to the State Insurance Fund	If security is required of a SI employer, such security remains in the SIEGF upon that employer's return to the State Insurance Fund.
SIEGF	1.3.1	Institute Pre-Assessment Alternatives	Alternative solutions are being deployed to protect the SIEGF. If the concern raised by Deloitte is not resolved by restructuring SI securitization and collateral requirements, then this recommendation may be revisited in the future.
	1.3.3	Require Collateral from Higher Risk Employers	The new securitization model, effective January 1, 2011, requires appropriate security from SI employers based on a combination of factors, including risk.
	1.3.4	Revise Assessment Base	This is an expensive, long-term, and perhaps iterative process. If the concern raised by Deloitte is not resolved by restructuring SI securitization and collateral requirements, then this recommendation may be revisited in the future.
	1.3.5	Reinsure Certain Bankruptcy Losses	The reinsurance market has been approached. There was no compatible product as of the fall of 2009. The SI community is pursuing alternative securitization options.

## No Action Items

Area	No.	Recommendation	Discussion
Change of Employer Experience Rates	4.2.2	Restrict Time to Report Errors	Deloitte's recommendation suggests conforming to typical industry practice, but that is not possible under our current billing system. Typical industry practice is to bill prospectively; the issue Deloitte raises cannot be addressed in a system that bills in arrears.
Experience Aggregation Approach	4.1.19	Use NCCI Approach to Common Majority Ownership for Experience	Current remedies are in place to check for duplicate policies and successor rules provide some protection from the issue Deloitte raised. Management accepts the risk associated with not implementing this recommendation.
	4.1.20	Discontinue the current practice of relying primarily on the federal tax identification number to	Current remedies are in place to check for duplicate policies and successor rules provide some protection from the issue Deloitte raised. Management accepts the risk associated with not implementing this recommendation.
MIRA II Reserving	1.1.32	Develop an Alternative to the Exclusive Use of MIRA II	The plan is to allow the MIRA II data to mature, then re-evaluate the reserving accuracy in a few years. In the short-term, BWC is focusing claims staff on claims resolution rather than setting reserves. To date, MIRA II has provided an unparalleled level of consistency and confidence in reserving compared to former reserving systems/methods. If additional precision is desired after a future evaluation, this recommendation may be reconsidered.
	1.1.33	Determine Where MIRA II Claim Values are Most Predictive	
Self-Insurance	1.4.3	Consider Offering Group Self-Insurance	It is imperative that the fundamental structure of the group rating program be repaired before considering this recommendation, as this recommendation offers an additional level of complexity to the group rating program. BWC may consider this product in the future.

## All Recommendations -- Stage of Implementation

### Actuarial Audit Reserves and Expected Payments

- 2.1 1 Include Risk Margins
- 2.1 2 Disclose Margins/Discounts
- 2.1 3 Require Statement of Actuarial Opinion
- 2.1 4 Further study of LSS Savings
- 2.1 5 Analyze risk of inflation on DWRF
- 2.1 6 Increase internal emphasis on actuarial audit reserves
- 2.1 7 Additional documentation in the Annual Actuarial Audit Report
- 2.1 8 Retrospective analysis of prior estimates in the Annual Actuarial Audit Report
- 2.1 9 Additional actuarial methods in the Annual Actuarial Audit Report (assess reserving risks)
- 2.1 10 An evaluation date prior to June 30th for the Annual Actuarial Audit Report
- 2.1 11 Consider supplementing PEC and PES historical development patterns
- 2.1 12 Limit potential distortions that may occur in the unpaid claim estimate
- 2.1 13 Consider claims counts for given type of loss when calculating historical severity patterns
- 2.1 14 Consider alternate methods to estimate unpaid losses for years 1976 & prior

### Actuarial Organization

- 4.4 1 Establish Rating & Programs Pricing Team
- 4.4 2 Establish Reserving & Net Asset Level Analysis Function
- 4.4 3 Establish Data Management
- 4.4 4 Actuarial Hiring and Development Program
- 4.4 5 Expand the BWC actuarial division responsibilities
- 4.4 6 [Transition data gathering from the Rating team to a data management team](#)
- 4.4 7 Utilize external actuarial resources to supplement internal actuarial resources

### Administrative Cost Calculation

- 2.5 1 Re-evaluate portion of Administrative Expenses allocated to LAE

### Ancillary Funds

- 4.1 9 [Address Large Unfunded Obligation Including Possible Long Term Funding](#)
- 4.1 10 Change DWRF from Pay-As-You-Go Basis to Support Reducing Unfunded Obligations
- 4.1 11 Set DWRF Rates to Meet Payments and Reduce Burden to Future Employers for DWRF Benefits
- 4.1 12 Establish a Good, Clear, and Long Term Rationale for Funding DWRF Benefits
- 4.1 13 Set Policy Rationale for Equity between Past, Current and Future Benefits to Pay DWRF Benefits
- 4.1 14 Charge Some Premium for CWPF Coverage with Credits/Dividends for Long Term CWPF Employers
- 4.1 15 [Develop Funding Policies for Each Ancillary Fund \(DWRF, MIF, CWPF\)](#)
- 4.1 16 Conduct Further Research to Support Legislative Change to Combine Funds

### Change of Employer Experience Rates

- 4.2 1 Eliminate/Restrict Changes to Employer Rates Due to Changes in Claims
- 4.2 2 [Restrict Time to Report Errors](#)
- 4.2 3 Establish Shorter and Clearly Defined Time Constraints

	Evaluation	Alt. Solution/No Action	Planning	Design	Implementation	In Place	FY12 or later
2.1 1	✓						
2.1 2						✓	
2.1 3						✓	
2.1 4			✓				▶
2.1 5					✓		▶
2.1 6					✓		▶
2.1 7						✓	
2.1 8						✓	
2.1 9						✓	
2.1 10						✓	
2.1 11						✓	
2.1 12						✓	
2.1 13						✓	
2.1 14						✓	
4.4 1				✓			▶
4.4 2					✓		▶
4.4 3				✓			▶
4.4 4			✓				▶
4.4 5				✓			▶
4.4 6		A					▶
4.4 7						✓	
2.5 1						✓	
4.1 9		A					▶
4.1 10	✓						▶
4.1 11	✓						▶
4.1 12	✓						▶
4.1 13	✓						▶
4.1 14	✓						▶
4.1 15		A					▶
4.1 16					✓		▶
4.2 1				✓			
4.2 2		N					
4.2 3				✓			



## All Recommendations -- Stage of Implementation

### MCO Effectiveness

- 2.6 1 Sustain Trend of Decreasing Numbers of Participating MCOs
- 2.6 2 Study feasibility of price-of-service competition among MCOs
- 2.6 3 Remove the BWC from the ADR Appeal Process
- 2.6 4 [Legislate Change to Mandatory IME Requirement at 90 Days Lost Time](#)
- 2.6 5 Give MCOs More Flexibility in Allowable Condition Determinations
- 2.6 6 [Establish ODG as Mandated Disability Duration Guidelines \(replacement for DODM\)](#)
- 2.6 7 Integrate use of ODG into the overall MCO performance measurement and compensation system
- 2.6 8 Re-institute Customer Surveys
- 2.6 9 Continue Public Forums
- 2.6 10 Improve Provider Profiling, Credentialing, and De-Certification
- 2.6 11 Update All Fee Schedules Every 1 - 2 Years (duplicate of 2.3.1.2)
- 2.6 12 Build a database and study causes of increasing average medical costs

### Medical Payments

- 2.3 1 Conduct fee schedule update and maintenance
- 2.3 1 [Phase in pay-for-performance or Tiered Fee Schedule for all service types](#)
- 2.3 1 Update the fee schedule every one-to-two years
- 2.3 2 Address Medical Payment Process Duplication
- 2.3 2 Standardize bill review edits
- 2.3 2 Explore elimination of MCO medical bill review process
- 2.3 2 [Adopt an audit model of provider medical payment monitoring](#)
- 2.3 3 Eliminate the required employer waiver in proactive allowance
- 2.3 4 Continue development of Blue Ribbon panel with provider incentives
- 2.3 5 Continue development of EDI submission of C-9's

### Minimum Premium Review

- 4.1 6 Examine the Feasibility of Raising the Minimum Premium
- 4.1 7 Increase Premium Audits for Accounts that Report No Payroll but Have Claims
- 4.1 8 Consider a different minimum premium for domestic employees

### MIRA II Reserving

- 1.1 32 Develop an Alternative to the Exclusive Use of MIRA II
- 1.1 33 Determine Where MIRA II Claim Values are Most Predictive
- 1.1 34 Study the Impact of MIRA II Reserves on Class Rates and Experience Rating

### NCCI Classification System

- 4.1 1 Consider Using NCCI Class Codes for Public Taxing Districts
- 4.1 2 Monitor Procedures used to Code Construction Classes
- 4.1 3 Audit most employers every three to five years
- 4.1 4 Increase Scope of Premium Audit Function
- 4.1 5 Consider an Audit Scoring Tool to Prioritize Audits

### Net Asset Level

- 2.4 1 Adopt a Funding Policy with Guidelines
- 2.4 2 Develop a customized approach to managing net asset level using a few key metrics
- 2.4 3 Target a Funding Ratio Range & Recommended Actions
- 2.4 4 Policy Guidance with Premium Options based on Funding Ratio

	Evaluation	Alt. Solution/No Action	Planning	Design	Implementation	In Place	FY12 or later
2.6 1	✓					✓	
2.6 2						✓	
2.6 3						✓	
2.6 4		A				✓	
2.6 5						✓	
2.6 6						✓	
2.6 7				✓			▶
2.6 8	✓						▶
2.6 9						✓	
2.6 10					✓		
2.6 11					✓	✓	
2.6 12					✓		
<b>Medical Payments</b>							
2.3 1						✓	
2.3 1					✓		
2.3 1				✓		✓	▶
2.3 2				✓			▶
2.3 2				✓			▶
2.3 2				✓			▶
2.3 2		A				✓	
2.3 3					✓		
2.3 4					✓		
2.3 5			✓				▶
<b>Minimum Premium Review</b>							
4.1 6	✓						▶
4.1 7						✓	
4.1 8	✓						▶
<b>MIRA II Reserving</b>							
1.1 32		N					
1.1 33		N					
1.1 34						✓	
<b>NCCI Classification System</b>							
4.1 1	✓						▶
4.1 2						✓	
4.1 3						✓	
4.1 4						✓	
4.1 5						✓	
<b>Net Asset Level</b>							
2.4 1						✓	
2.4 2						✓	
2.4 3						✓	
2.4 4						✓	

## All Recommendations -- Stage of Implementation

### Out-of-State Employer Experience Rating

- 4.3 1 Utilize only Ohio based Information to Determine Eligibility for Experience Rating
- 4.3 2 Adopt the Industry Standard of using Base Premiums as the Eligibility Criteria for Experience Rating

### PES Rate Setting

- 3.1 1 Change the Manner in which PES Rates are Calculated
- 3.1 2 Change the Method Used to Determine Expected Paid Losses in the Prospective Policy Year

### Retrospective Rating

- 3.1 3 Redesign the Retrospective Rating Program

### Safety Programs

- 3.2 1 Make Grants Available Even if No Claims Related to the Intervention
- 3.2 2 Require Safety Report With Application for Safety Intervention Grant
- 3.2 3 Combine DFWP and DF-EZ Programs
- 3.1 4 Develop the capability to track the experience of employers participating in the safety & hygiene program

### Salary Continuation / \$15K Med Only Program

- 1.1 35 Terminate the Salary Continuation Program
- 1.1 36 Terminate the \$15,000 Medical Only Program
- 1.1 37 Consider an Appropriately Priced Deductible Program as an Alternative
- 1.1 38 Perform periodic actuarial studies to evaluate the appropriateness of the credits offered under the various discount programs

### Self-Insurance

- 1.4 1 Require an Actuarial Study for Self-Insurance Applicants
- 1.4 2 Require Additional Security for Employers Applying for Self-Insurance
- 1.4 3 Consider Offering Group Self-Insurance
- 1.4 4 Consider Trends within Industries to Determine Self-insurance Criteria
- 1.4 5 Incorporate Objective Financial Criteria as Part of the Self-Insurance application
- 1.4 6 Consider Offering Enhanced Customer Service Aid to Employers
- 1.4 7 Consider Requiring an Anti-Fraud Program as Part of the Self-Insurance Application
- 1.4 8 Consider Requiring a Formal Safety Program as Part of the Self-Insurance Application
- 1.4 9 Require Organization Documents for Self-Insurance Application
- 1.4 10 Require an Actuarial Study for Self-Insurers Returning to the SIF
- 1.4 11 Continuation of Security upon Returning to the State Insurance Fund
- 1.4 12 Do Not Allow Self-Insurers to Leave the State Insurance Fund Multiple Times
- 1.4 13 Expand Reporting Forms to Allow for More Detailed Internal Analysis

### SIEGF

- 1.3 1 Institute Pre-Assessment Alternatives
- 1.3 2 Collect Enhanced Data
- 1.3 3 Require Collateral from Higher Risk Employers
- 1.3 4 Revise Assessment Base
- 1.3 5 Reinsure Certain Bankruptcy Losses

	Evaluation	Alt. Solution/No Action	Planning	Design	Implementation	In Place	FY12 or later
		A				✓	
				✓			▶
				✓			▶
	✓						▶
						✓	
						✓	
						✓	
					✓		▶
		A					
		A					
						✓	
				✓			
					✓		
					✓		
					✓		
	✓						
	✓						
						✓	
		A					
		A					
	✓						
					✓		
					✓		
		A					
		A				✓	
		A					
		A					

## All Recommendations -- Stage of Implementation

### Statewide Rate Level

- 1.1 1 Provide More Responsiveness to Ohio Trends
- 1.1 2 Perform Baseline Indication Before Discounting
- 1.1 3 Develop the range of indicated rate changes (Optimistic to Conservative)
- 1.1 4 Include Alternative Method in Calculating Indicated Rate Change
- 1.1 5 Display Historical Loss Costs at Proposed Cost and Wage Levels
- 1.1 6 Display Impact of Collecting Premium in Arrears on the Rate Change Indication

### Subrogation

- 1.2 1 Limit caseloads to no more than 400
- 1.2 2 Build functionality in V-3 to manage subrogation claims
- 1.2 3 Establish a more robust set of performance metrics
- 1.2 4 Investigate utilization of text mining

### Vocational Rehabilitation Program

- 4.1 17 Change Rules to Give BWC Sole Authority to Direct Rehab Services
- 4.1 18 Reconsider the Rules Associated with the Experience Rating Treatment of LM Claims

	Evaluation	Alt. Solution/No Action	Planning	Design	Implementation	In Place	FY12 or later
1.1 1 Provide More Responsiveness to Ohio Trends						✓	
1.1 2 Perform Baseline Indication Before Discounting						✓	
1.1 3 Develop the range of indicated rate changes (Optimistic to Conservative)						✓	
1.1 4 Include Alternative Method in Calculating Indicated Rate Change						✓	
1.1 5 Display Historical Loss Costs at Proposed Cost and Wage Levels						✓	
1.1 6 Display Impact of Collecting Premium in Arrears on the Rate Change Indication						✓	
1.2 1 Limit caseloads to no more than 400				✓			▶
1.2 2 Build functionality in V-3 to manage subrogation claims				✓			
1.2 3 Establish a more robust set of performance metrics				✓			
1.2 4 Investigate utilization of text mining				✓			
4.1 17 Change Rules to Give BWC Sole Authority to Direct Rehab Services			✓				
4.1 18 Reconsider the Rules Associated with the Experience Rating Treatment of LM Claims						✓	
<b>Count = 146 total recommendations:</b>	18	23	7	33	10	55	47

# **Enterprise Report**

February 2011

# 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 18.*

## January Financial Analysis

BWC's net assets decreased by \$9 million in January resulting in net assets of \$5.01 billion at January 31, 2011 compared to \$5.02 billion at December 31, 2010.

<i>(\$ in millions)</i>	<b>Month Ended</b> Jan. 31, 2011	<b>Month Ended</b> Dec. 31, 2010	<b>Month Ended</b> Jan. 31, 2010
Operating Revenues	\$150	\$164	\$138
Operating Expenses	(203)	(191)	(179)
Operating Transfers	(1)	–	(1)
Net Operating Gain (Loss)	(54)	(27)	(42)
Net Investment Income (Loss)	45	234	(3)
Increase (Decrease) in Net Assets	(9)	207	(45)
Net Assets End of Period	\$5,011	\$5,020	\$3,905

- o Premium and assessment income net of the provision for uncollectible accounts receivable and ceded reinsurance premiums resulted in operating revenues of \$150 million in January. The accrual of ceded reinsurance premiums is netted against earned premiums in the Statement of Operations.
- o Benefits and compensation adjustment expenses of \$194 million along with other expenses of \$9 million resulted in operating expenses of \$203 million.

<i>(\$ in millions)</i>	<b>Month Ended</b> Jan. 31, 2011	<b>Month Ended</b> Dec. 31, 2010	<b>Increase</b> <b>(Decrease)</b>
Change in Reserves	\$22	\$22	\$ –
Net Benefit Payments	146	132	14
Payments for Comp Adjust Expenses	14	15	(1)
MCO Admin Payments	12	12	–
Other expenses	9	10	(1)
	\$203	\$191	\$12

- o An increase of \$6 million in medical benefits contributed to increased net benefit payments in January while net benefits in December were reduced by \$2 million in pharmacy rebates and \$6 million billed in a medical provider fraud case.
- o A \$6 million decrease in the fair value of the investment portfolio in January along with interest and dividend income of \$51 million for the month, resulted in net investment income of \$45 million for the month after investment expenses of \$0.5 million. The decrease in the fair value of the portfolio is comprised of \$3 million in net realized gains and \$9 million in net unrealized losses.
- o Cash and cash equivalents include \$150 million in money market holdings in the outside investment manager accounts. These funds are committed to covering a \$98 million net investment trade payable for transactions that will settle in February.
- o Premium and assessment receipts of \$171 million were collected in January. Additionally, \$17 million was redeemed from the investment portfolio to meet operating cash needs during January prior to significant premium collections occurring at the end of January.

## Fiscal Year-to-Year Comparisons

- o BWC's total net assets have increased by \$1.2 billion for fiscal year-to-date 2011 resulting in net assets of \$5.0 billion at January 31, 2011 compared to \$3.9 billion at January 31, 2010.

(\$ in millions)	Fiscal YTD Jan. 31, 2011	Projected FYTD Jan. 31, 2011	Fiscal YTD Jan. 31, 2010
Operating Revenues	\$1,106	\$1,104	\$1,209
Operating Expenses	(1,430)	(1,471)	(1,364)
Operating Transfers	(5)	(3)	(3)
Net Operating Gain (Loss)	(329)	(370)	(158)
Net Investment Income (Loss)	1,515	563	1,548
Increase (Decrease) in Net Assets	1,186	193	1,390
Net Assets End of Period	\$5,011	\$4,018	\$3,905

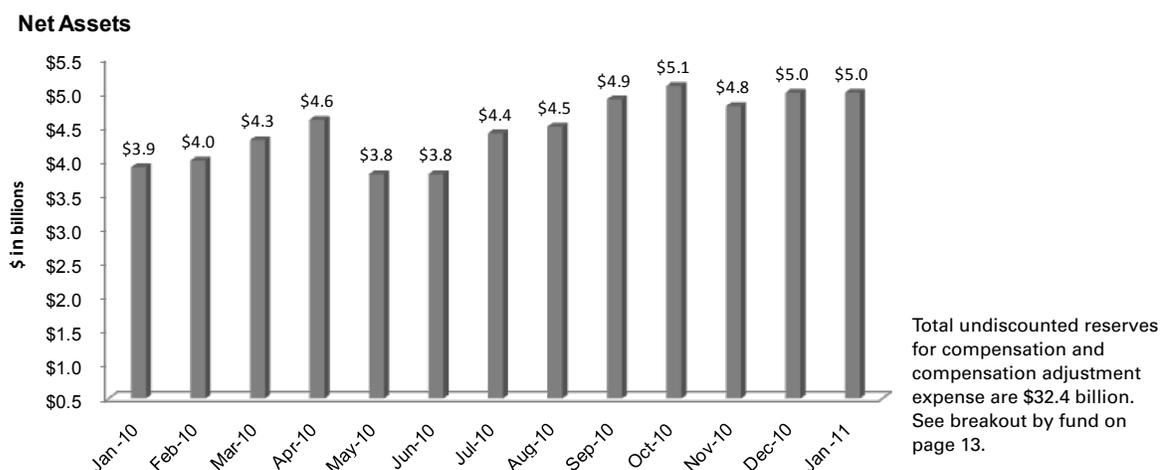
- o BWC's premium and assessment income for fiscal year-to-date 2011 is \$1.1 billion compared to \$1.2 billion for fiscal year-to-date 2010 reflecting decreased payroll and premium rates for private and state agency employers effective July 1, 2010 and January 1, 2010 for public employer taxing districts.
- o Benefit and compensation adjustment expenses increased by \$47 million for fiscal year-to-date 2011 compared to prior fiscal year-to-date expenses.

(\$ in millions)	Fiscal YTD Jan. 31, 2011	Fiscal YTD Jan. 31, 2010	Increase (Decrease)
Change in Reserves	\$152	\$41	\$111
Net Benefit Payments	1,004	1,047	(43)
Payments for Comp Adjust Expenses	110	134	(24)
MCO Admin Payments	96	93	3
	\$1,362	\$1,315	\$47

- o BWC's net investment income for fiscal year-to-date 2011 totaled \$1,515 million comprised primarily of \$914 million in net unrealized gains and \$206 million in net realized gains, along with \$399 million of interest and dividend income, net of \$4 million in investment expenses. This compares to last year's fiscal year-to-date net investment income of \$1,548 million.
- o Declines in private employer payroll and premium rates have contributed to premium collections being \$74 million less than prior fiscal year-to-date collections.

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

- o Through February 10<sup>th</sup>, approximately 125,000 or 50% of the private employers have filed their payroll report for the July through December 2010 policy period which is consistent with the filing pattern for the same period last year. Premium collections from January 1 through February 10, 2011 total \$273 million and are approximately \$5.5 million higher compared to collections for this same time frame in 2010.



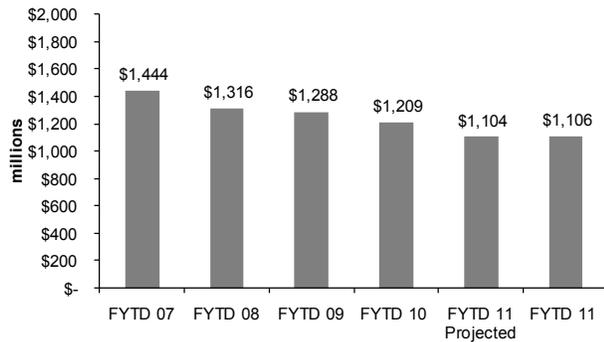
# Statement of Operations

Fiscal year to date January 31, 2011

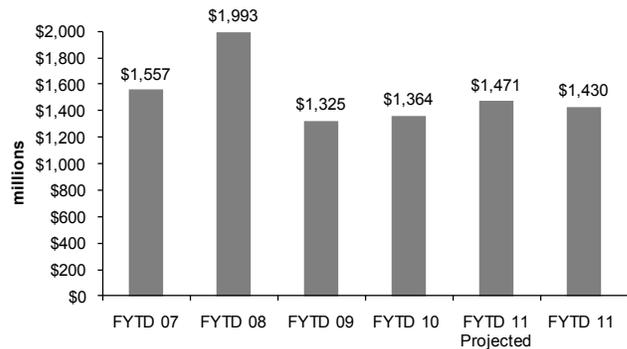
(in millions)

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
<b>Operating Revenues</b>					
Premium & Assessment Income	\$ 1,146	\$1,126	\$ 20	\$ 1,202	(56)
Ceded Premiums	(4)	(3)	(1)	–	(4)
Provision for Uncollectibles	(42)	(24)	(18)	1	(43)
Other Income	6	5	1	6	–
<b>Total Operating Revenue</b>	<b>1,106</b>	<b>1,104</b>	<b>2</b>	<b>1,209</b>	<b>(103)</b>
<b>Operating Expenses</b>					
Benefits & Compensation Adj. Expense	1,362	1,395	33	1,315	47
Other Expenses	68	76	8	49	19
<b>Total Operating Expenses</b>	<b>1,430</b>	<b>1,471</b>	<b>41</b>	<b>1,364</b>	<b>66</b>
<b>Operating Transfers</b>	<b>(5)</b>	<b>(3)</b>	<b>(2)</b>	<b>(3)</b>	<b>(2)</b>
<b>Net Operating Gain (Loss)</b>	<b>(329)</b>	<b>(370)</b>	<b>41</b>	<b>(158)</b>	<b>(171)</b>
<b>Net Investment Income (Loss)</b>	<b>1,515</b>	<b>563</b>	<b>952</b>	<b>1,548</b>	<b>(33)</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$ 1,186</b>	<b>\$ 193</b>	<b>\$ 993</b>	<b>\$ 1,390</b>	<b>\$(204)</b>

Operating Revenues



Operating Expenses



# Statement of Operations – Combining Schedule

Fiscal year to date January 31, 2011

(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	\$907,024	\$49,311	\$1,073	\$230	\$298	\$15,702	\$172,876	\$1,146,514
Ceded Premiums	(3,356)	-	-	-	-	-	-	(3,356)
Provision for Uncollectibles	(37,385)	320	(113)	-	(1)	(872)	(4,237)	(42,288)
Other Income	3,906	-	-	-	-	-	1,872	5,778
<b>Total Operating Revenues</b>	<b>870,189</b>	<b>49,631</b>	<b>960</b>	<b>230</b>	<b>297</b>	<b>14,830</b>	<b>170,511</b>	<b>1,106,648</b>
<b>Operating Expenses:</b>								
Benefits & Compensation Adj Expenses	1,179,534	45,911	597	16	23	14,768	120,991	1,361,840
Other Expenses	11,728	123	183	-	51	-	56,296	68,381
<b>Total Operating Expenses</b>	<b>1,191,262</b>	<b>46,034</b>	<b>780</b>	<b>16</b>	<b>74</b>	<b>14,768</b>	<b>177,287</b>	<b>1,430,221</b>
Net Operating Income (Loss) before Operating Transfers Out	(321,073)	3,597	180	214	223	62	(6,776)	(323,573)
Operating Transfers Out	-	-	(4,425)	-	-	-	(425)	(4,850)
<b>Net Operating Income (Loss)</b>	<b>(321,073)</b>	<b>3,597</b>	<b>(4,245)</b>	<b>214</b>	<b>223</b>	<b>62</b>	<b>(7,201)</b>	<b>(328,423)</b>
<b>Investment Income:</b>								
Investment Income	369,506	20,721	4,588	334	250	24	3,205	398,628
Net Realized Gains (Losses)	89,170	94,608	22,039	-	-	-	-	205,817
Net Unrealized Gains (Losses)	942,506	(17,988)	(10,205)	72	54	-	-	914,439
Total Realized & Unrealized Capital Gains (Losses)	1,031,676	76,620	11,834	72	54	-	-	1,120,256
Investment Manager & Operational Fees	(3,966)	(132)	(28)	(6)	(4)	-	-	(4,136)
Gain (Loss) on Disposal of Fixed Assets	-	-	-	-	-	-	(24)	(24)
Total Non-Operating Revenues, Net	1,397,216	97,209	16,394	400	300	24	3,181	1,514,724
<b>Increase (Decrease) in Net Assets (Deficit)</b>	<b>1,076,143</b>	<b>100,806</b>	<b>12,149</b>	<b>614</b>	<b>523</b>	<b>86</b>	<b>(4,020)</b>	<b>1,186,301</b>
<b>Net Assets (Deficit), Beginning of Period</b>	<b>3,305,546</b>	<b>1,044,635</b>	<b>193,297</b>	<b>22,568</b>	<b>16,398</b>	<b>7,025</b>	<b>(764,390)</b>	<b>3,825,079</b>
<b>Net Assets (Deficit), End of Period</b>	<b>\$4,381,689</b>	<b>\$1,145,441</b>	<b>\$205,446</b>	<b>\$23,182</b>	<b>\$16,921</b>	<b>\$7,111</b>	<b>\$(768,410)</b>	<b>\$5,011,380</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.

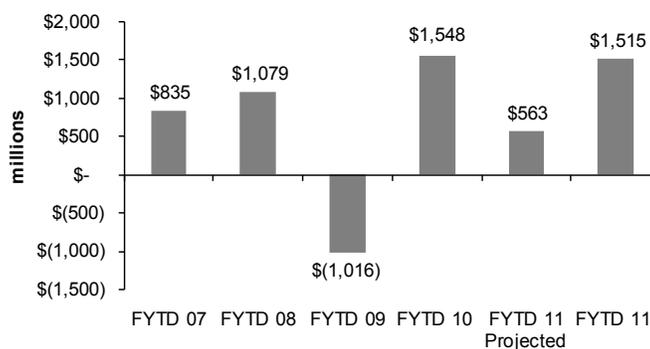
# Statement of Investment Income

Fiscal year to date January 31, 2011

(in thousands)

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
<b>Investment Income</b>					
Bond Interest	\$ 350,483	\$ 388,940	\$ (38,457)	\$ 377,841	\$ (27,358)
Dividend Income—Domestic & International	47,384	51,844	(4,460)	46,733	651
Money Market/Commercial Paper Income	194	917	(723)	967	(773)
Misc. Income (Corp Actions, Settlements)	567	2,800	(2,233)	2,351	(1,784)
<b>Total Investment Income</b>	<u>398,628</u>	<u>444,501</u>	<u>(45,873)</u>	<u>427,892</u>	<u>(29,264)</u>
<b>Realized &amp; Unrealized Capital Gains and (Losses)</b>					
Bonds – Net Realized Gains (Losses)	161,365	–	161,365	(809)	162,174
Stocks – Net Realized Gains (Losses)	50,896	–	50,896	(588,933)	639,829
Non –U.S. Equities – Net Realized Gains (Losses)	(6,444)	–	(6,444)	(6,287)	(157)
Subtotal – Net Realized Gains (Losses)	<u>205,817</u>	<u>–</u>	<u>205,817</u>	<u>(596,029)</u>	<u>801,846</u>
Bonds – Net Unrealized Gains (Losses)	(387,661)	–	(387,661)	545,137	(932,798)
Stocks – Net Unrealized Gains (Losses)	880,535	123,276	757,259	1,185,768	(305,233)
Non –U.S. Equities – Net Unrealized Gains (Losses)	421,565	–	421,565	(11,277)	432,842
Subtotal – Net Unrealized Gains (Losses)	<u>914,439</u>	<u>123,276</u>	<u>791,163</u>	<u>1,719,628</u>	<u>(805,189)</u>
<b>Change in Portfolio Value</b>	<u>1,120,256</u>	<u>123,276</u>	<u>996,980</u>	<u>1,123,599</u>	<u>(3,343)</u>
<b>Investment Manager &amp; Operational Fees</b>	<u>(4,136)</u>	<u>(4,447)</u>	<u>311</u>	<u>(3,678)</u>	<u>458</u>
<b>Net Investment Income (Loss)</b>	<u>\$ 1,514,748</u>	<u>\$ 563,330</u>	<u>\$ 951,418</u>	<u>\$ 1,547,813</u>	<u>\$ (33,065)</u>

## Net Investment Income (Loss)



# Administrative Cost Fund Expense Analysis

January 2011

- o BWC Administrative Cost Fund expenses through fiscal year to date (FYTD) January 2011 are approximately \$10 million (6.5%) less than budgeted and approximately the same as last fiscal year to date.
- o Decreases in payroll through FYTD January 2011 are a result of decreases in staffing due to retirements and hiring controls. As of January 2011, there were approximately 175 less full time equivalent positions compared to the same time last year. 35 employees retired in December 2010, with an additional 15 employees retiring in January 2011. Payroll changes within the Fiscal and Planning and Information Technology divisions are the result of Office Services and Facilities departments moving between divisions. Through January 2011 journal entries BWC staff have taken 144,500 (85%) of the available 170,000 hours for a savings of approximately \$4.3 million, which is about the same as last fiscal year.
- o The timing of the receipt of invoices for payment in fiscal year 2011 contributed to actual expenditures being less than the amount budgeted through January. Purchase orders have been completed in the Maintenance categories to encumber the FYTD 2011 budgeted amounts. A delay in FY11 projects resulted in FYTD actual Personal Services and Equipment costs being less than budgeted. Payments in Other Personal Services and Special Counsel were greater for FYTD 2011 than FYTD 2010 due to timing of invoice payments and additional contract hours for Special Counsel services. Changes to the Safety Grant Program in fiscal year 2010 caused a reduction in activity for that fiscal year.
- o Identification of additional costs savings and reevaluation of approved projects resulted in a \$19 million reduction in the fiscal year 2011 budget.
- o BWC's current fiscal year 2011 budget is approximately \$63 million (19%) less than appropriated by the General Assembly.

# Administrative Cost Fund Budget Summary

As of January 31, 2011

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)
<b>Payroll</b>									
BWC Board of Directors	8	496,146	496,146	0	0.00%	874,873	501,400	(5,254)	-1.05%
BWC Administration	11	847,770	848,006	236	0.03%	1,350,621	834,182	13,588	1.63%
Customer Service	1,329	62,716,756	62,707,748	(9,008)	-0.01%	101,864,694	64,820,416	(2,103,660)	-3.25%
Medical	114	5,922,412	5,922,412	0	0.00%	9,729,608	6,642,234	(719,822)	-10.84%
Special Investigations	119	6,248,632	6,246,793	(1,839)	-0.03%	10,137,683	6,277,773	(29,141)	-0.46%
Fiscal and Planning	102	4,481,027	4,471,727	(9,300)	-0.21%	7,515,330	3,032,315	1,448,712	47.78%
Actuarial	21	1,163,992	1,163,950	(42)	0.00%	1,958,974	1,258,924	(94,932)	-7.54%
Investments	10	723,653	723,653	0	0.00%	1,200,115	757,019	(33,366)	-4.41%
Information Technology	231	14,994,877	15,026,116	31,239	0.21%	24,859,547	17,188,127	(2,193,250)	-12.76%
Legal	78	4,115,669	4,116,016	347	0.01%	6,952,802	4,064,695	50,974	1.25%
Communications	20	883,969	884,269	300	0.03%	1,441,927	979,384	(95,415)	-9.74%
Human Resources	65	3,056,158	3,055,928	(230)	-0.01%	5,147,197	3,019,726	36,432	1.21%
Internal Audit	13	741,870	741,870	0	0.00%	1,228,939	781,355	(39,485)	-5.05%
Ombuds Office	7	314,169	314,169	0	0.00%	516,627	319,466	(5,297)	-1.66%
<b>Total Payroll</b>	<b>2,128</b>	<b>106,707,100</b>	<b>106,718,803</b>	<b>11,703</b>	<b>0.01%</b>	<b>174,778,937</b>	<b>110,477,016</b>	<b>(3,769,916)</b>	<b>-3.41%</b>
<b>Personal Services</b>									
Information Technology		3,383,583	4,572,106	1,188,523	26.00%	8,238,131	3,327,032	56,551	1.70%
Legal - Special Counsel		671,017	619,627	(51,390)	-8.29%	1,060,032	380,903	290,114	76.16%
Legal - Attorney General		3,062,398	3,466,387	403,989	11.65%	4,621,850	3,126,992	(64,594)	-2.07%
Other Personal Services		3,343,724	4,907,369	1,563,645	31.86%	8,406,379	2,548,723	795,001	31.19%
<b>Total Personal Services</b>		<b>10,460,722</b>	<b>13,565,489</b>	<b>3,104,767</b>	<b>22.89%</b>	<b>22,326,392</b>	<b>9,383,650</b>	<b>1,077,072</b>	<b>11.48%</b>
<b>Maintenance</b>									
William Green Rent		1,552,110	1,554,697	2,587	0.17%	19,049,395	1,930,362	(378,252)	-19.59%
Other Rent and Leases		6,881,779	7,331,468	449,689	6.13%	9,607,149	7,188,834	(307,055)	-4.27%
Software and Equipment Maintenance and Repairs		9,227,119	10,626,561	1,399,442	13.17%	14,489,842	8,268,330	958,789	11.60%
Inter Agency Payments		2,828,353	2,597,553	(230,800)	-8.89%	4,727,920	2,328,348	500,005	21.47%
Communications		1,603,644	2,256,787	653,143	28.94%	4,067,924	1,584,089	19,555	1.23%
Safety Grants and Long Term Care Loan		1,778,751	1,990,000	211,249	10.62%	4,000,000	710,112	1,068,639	150.49%
Supplies and Printing		640,066	843,525	203,459	24.12%	1,417,848	526,696	113,370	21.52%
Other Maintenance		1,579,155	2,020,772	441,617	21.85%	3,514,804	1,568,642	10,513	0.67%
<b>Total Maintenance</b>		<b>26,090,977</b>	<b>29,221,363</b>	<b>3,130,386</b>	<b>10.71%</b>	<b>60,874,882</b>	<b>24,105,413</b>	<b>1,985,564</b>	<b>8.24%</b>
<b>Equipment</b>									
		1,015,830	4,865,778	3,849,948	79.12%	7,250,799	770,675	245,155	31.81%
<b>Total Administrative Cost Fund Expenses</b>		<b>144,274,629</b>	<b>154,371,433</b>	<b>10,096,804</b>	<b>6.54%</b>	<b>265,231,010</b>	<b>144,736,754</b>	<b>(462,125)</b>	<b>-0.32%</b>

Total Agency Appropriation 328,602,765  
Budget to Appropriation Variance 63,371,755  
Percentage Variance 19.29%

# State Insurance Fund

## Administrative Expense Summary

As of January 31, 2011

	Actual FYTD 2011	Encumbrance Balance	FYTD Actual & Encumbrance	Actual FYTD 2010
<b>Investment Administrative Expenses</b>				
JP Morgan Chase - Performance Reporting	\$63,250	\$39,418	\$102,668	\$41,458
Mercer Investment Consulting	285,833	292,748	578,581	243,749
Other Investment Expenses	264,136	146,913	411,049	233,902
	<u>613,219</u>	<u>479,079</u>	<u>1,092,298</u>	<u>519,109</u>
<b>Actuarial Expenses</b>				
Oliver Wyman - Actuarial Services	0	0	0	583,051
Deloitte Consulting - Actuarial Services	1,046,785	1,308,067	2,354,852	234,965
	<u>1,046,785</u>	<u>1,308,067</u>	<u>2,354,852</u>	<u>818,016</u>
<b>Reinsurance Expenses</b>				
Towers Watson	4,578,357	0	4,578,357	0
<b>Ohio Rehabilitation Services</b>	<u>605,407</u>	<u>0</u>	<u>605,407</u>	<u>605,407</u>
<b>TOTAL</b>	<u>\$6,843,768</u>	<u>\$1,787,146</u>	<u>\$8,630,914</u>	<u>\$1,942,532</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 January 31, 2011

	FYTD 2011	FYTD 2010	Source
Workers' Compensation Council	\$ -	\$ 325,000	Administrative Cost Fund
Ohio Dept. of Natural Resources			
Mine Safety Fund	2,145,000	1,891,575	Coal Workers' Pneumoconiosis Fund
Strip Mining Admin Fund	2,280,000	-	Coal Workers' Pneumoconiosis Fund
Ohio Inspector General	<u>425,000</u>	<u>425,000</u>	Administrative Cost Fund
<b>TOTAL</b>	<u>\$ 4,850,000</u>	<u>\$2,641,575</u>	

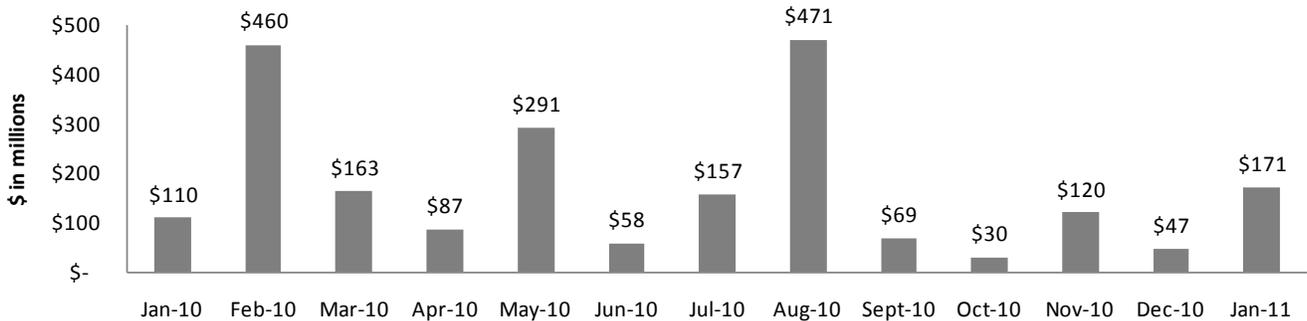
# Statement of Cash Flows

Fiscal year to date January 31, 2011

(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, Net of Reinsurance	\$ 1,065	\$ 1,051	\$14	\$ 1,139	\$ (74)
Cash Receipts – Other	20	18	2	37	(17)
Cash Disbursements for Claims	(1,158)	(1,215)	57	(1,195)	37
Cash Disbursements for Other	(228)	(253)	25	(243)	15
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>(301)</b>	<b>(399)</b>	<b>98</b>	<b>(262)</b>	<b>(39)</b>
<b>Net Cash Flows from Noncapital Financing Activities</b>	<b>(5)</b>	<b>(3)</b>	<b>(2)</b>	<b>(3)</b>	<b>(2)</b>
<b>Net Cash Flows from Capital and Related Financing Activities</b>	<b>(4)</b>	<b>(2)</b>	<b>(2)</b>	<b>(3)</b>	<b>(1)</b>
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>176</b>	<b>61</b>	<b>115</b>	<b>820</b>	<b>(644)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(134)</b>	<b>(343)</b>	<b>209</b>	<b>552</b>	<b>(686)</b>
<b>Cash and Cash Equivalents, Beginning of Period</b>	<b>436</b>	<b>436</b>	<b>–</b>	<b>504</b>	<b>(68)</b>
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$302</b>	<b>\$93</b>	<b>\$209</b>	<b>\$ 1,056</b>	<b>\$ (754)</b>

## Premium and Assessment Receipts



# Statement of Net Assets

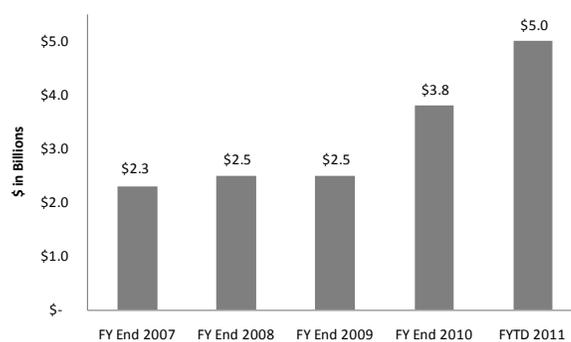
As of January 31, 2011

(in millions)

	Actual	Prior Yr. Actual	Year to Year Increase (Decrease)
<b>Assets</b>			
Bonds	\$ 13,349	\$12,653	\$ 696
U.S. Equities	4,468	3,745	723
Non-U.S. Equities	2,072	1,616	456
Cash & Cash Equivalents	<u>302</u>	<u>1,056</u>	<u>(754)</u>
Total Cash and Investments	20,191	19,070	1,121
Accrued Premiums	4,730	4,693	37
Other Accounts Receivable	145	146	(1)
Investment Receivables	297	522	(225)
Other Assets	<u>99</u>	<u>103</u>	<u>(4)</u>
<b>Total Assets</b>	<u>25,462</u>	<u>24,534</u>	<u>928</u>
<b>Liabilities</b>			
Reserve for Compensation and Compensation Adj. Expense	\$ 19,957	\$19,288	\$ 669
Accounts Payable	55	44	11
Investment Payable	258	1,110	(852)
Other Liabilities	<u>181</u>	<u>187</u>	<u>(6)</u>
<b>Total Liabilities</b>	<u>20,451</u>	<u>20,629</u>	<u>(178)</u>
<b>Net Assets</b>	\$ 5,011	\$3,905	\$1,106

Total undiscounted reserves for compensation and compensation adjustment expense are \$32.4 billion. See breakout by fund on page 13.

**Net Assets (Deficit)**



# Statement of Net Assets – Combining Schedule

As of January 31, 2011

(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	\$12,190,999	\$ 895,349	\$ 217,710	\$ 25,426	\$ 19,170	\$ -	\$ -	\$ -	\$13,348,654
U.S. Equities	4,137,698	292,052	38,556	-	-	-	-	-	4,468,306
Non-U.S. Equities	1,903,340	145,972	22,101	-	-	-	-	-	2,071,413
Private Equities	35	-	-	-	-	-	-	-	35
Cash & Cash Equivalents	251,895	1,244	223	211	192	47,102	1,452	-	302,319
Total Cash & Investments	18,483,967	1,334,617	278,590	25,637	19,362	47,102	1,452	-	20,190,727
Accrued Premiums	1,860,325	1,788,440	-	403	-	852,287	228,279	-	4,729,734
Other Accounts Receivable	87,529	21,362	(117)	-	1	11,161	25,580	-	145,516
Interfund Receivables	11,663	42,768	178	-	40	716	116,513	(171,878)	-
Investment Receivables	296,916	-	-	-	-	2	-	-	296,918
Other Assets	25,458	22	-	-	-	-	73,599	-	99,079
<b>Total Assets</b>	<b>\$20,765,858</b>	<b>\$3,187,209</b>	<b>\$ 278,651</b>	<b>\$ 26,040</b>	<b>\$ 19,403</b>	<b>\$ 911,268</b>	<b>\$ 445,423</b>	<b>\$ (171,878)</b>	<b>\$25,461,974</b>
<b>Liabilities</b>									
* Reserve for Compensation & Compensation Adj. Expense	\$15,824,794	\$2,031,444	\$ 72,400	\$ 2,844	\$ 2,344	\$ 900,856	\$1,122,119	\$ -	19,956,801
Accounts Payable	53,532	-	-	-	-	-	867	-	54,399
Investment Payable	258,358	-	-	-	-	-	-	-	258,358
Interfund Payables	158,171	10,277	97	11	21	3,301	-	(171,878)	-
Other Liabilities	89,314	47	708	3	117	-	90,847	-	181,036
<b>Total Liabilities</b>	<b>16,384,169</b>	<b>2,041,768</b>	<b>73,205</b>	<b>2,858</b>	<b>2,482</b>	<b>904,157</b>	<b>1,213,833</b>	<b>(171,878)</b>	<b>20,450,594</b>
<b>Net Assets</b>	<b>\$ 4,381,689</b>	<b>\$ 1,145,441</b>	<b>\$ 205,446</b>	<b>\$ 23,182</b>	<b>\$ 16,921</b>	<b>\$ 7,111</b>	<b>\$(768,410)</b>	<b>\$ -</b>	<b>\$ 5,011,380</b>

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

(in thousands)

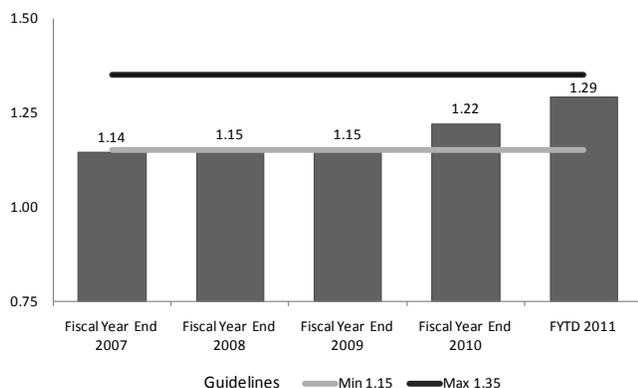
SIF	\$24,988,025
DWRF	3,497,292
CWPF	181,858
PWRE	4,600
MIF	3,542
SIEGF	1,963,383
ACF	1,799,375
<b>Total</b>	<b>\$32,438,075</b>

# Financial Performance Metrics

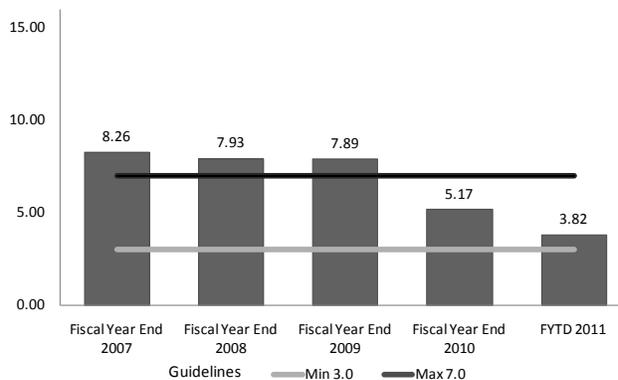
	Actual FY11 As of 1/31/11	Projected FY11 As of 1/31/11	Actual FY10 As of 1/31/10	Guidelines
<b>Funding Ratio (State Insurance Fund)</b>	<b>1.29</b>	<b>1.23</b>	<b>1.24</b>	<b>1.15 to 1.35</b>
<b>Net Leverage Ratio (SIF)</b>	<b>3.82</b>	<b>4.80</b>	<b>4.73</b>	<b>3.0 to 7.0</b>
Loss Ratio	99.1%	103.4%	90.3%	
LAE Ratio - MCO	9.1%	8.9%	7.8%	
LAE Ratio - BWC	10.6%	11.6%	11.3%	
<b>Net Loss Ratio</b>	<b>118.8%</b>	<b>123.9%</b>	<b>109.4%</b>	<b>102.5%</b>
Expense Ratio	5.9%	6.8%	4.1%	7.5%
<b>Combined Ratio</b>	<b>124.7%</b>	<b>130.7%</b>	<b>113.5%</b>	<b>110.0%</b>
Net Investment Income Ratio	34.4%	39.1%	35.3%	
<b>Operating Ratio (Trade Ratio)</b>	<b>90.3%</b>	<b>91.6%</b>	<b>78.2%</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**



**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.

**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 and 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**

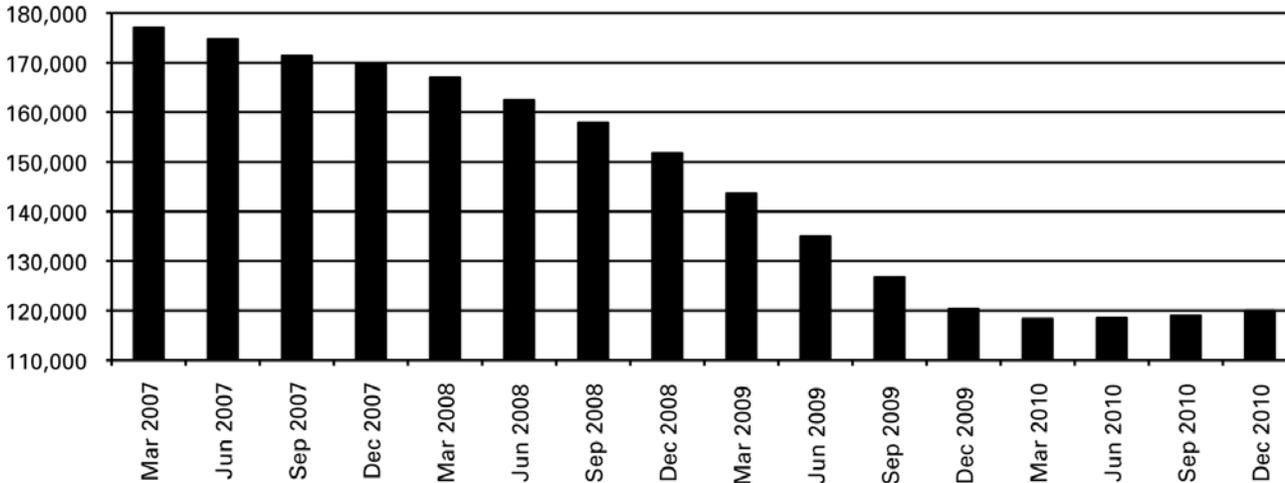
Measures the investment income component of profitability – Interest and dividend income less investment expenses divided by premium and assessment income. This ratio does not include realized or unrealized capital gains and losses.

**Operating Ratio**

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

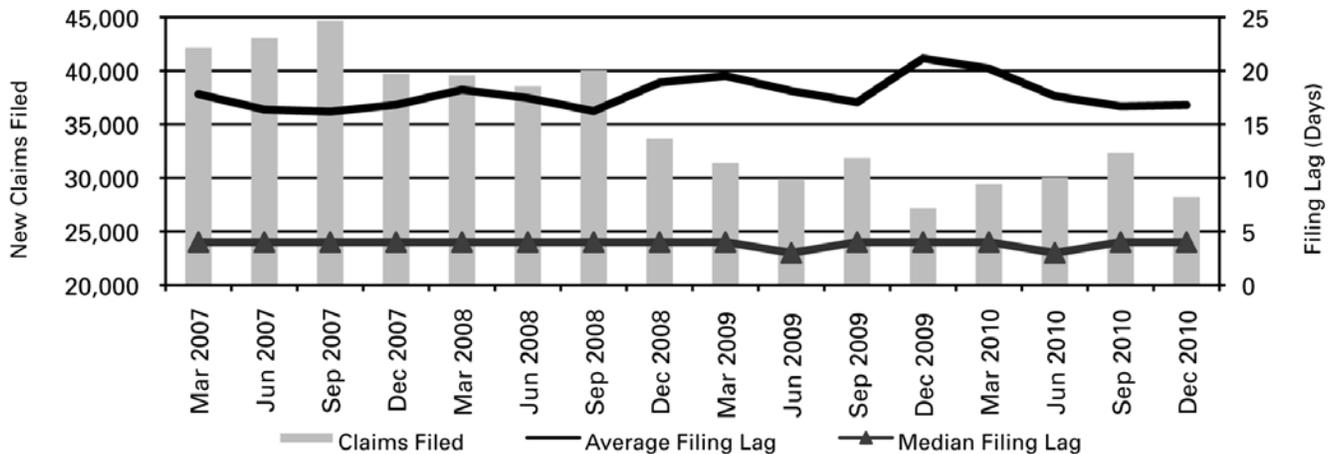
# Operational Performance Metrics

**New Claims Filed - Twelve months ended**



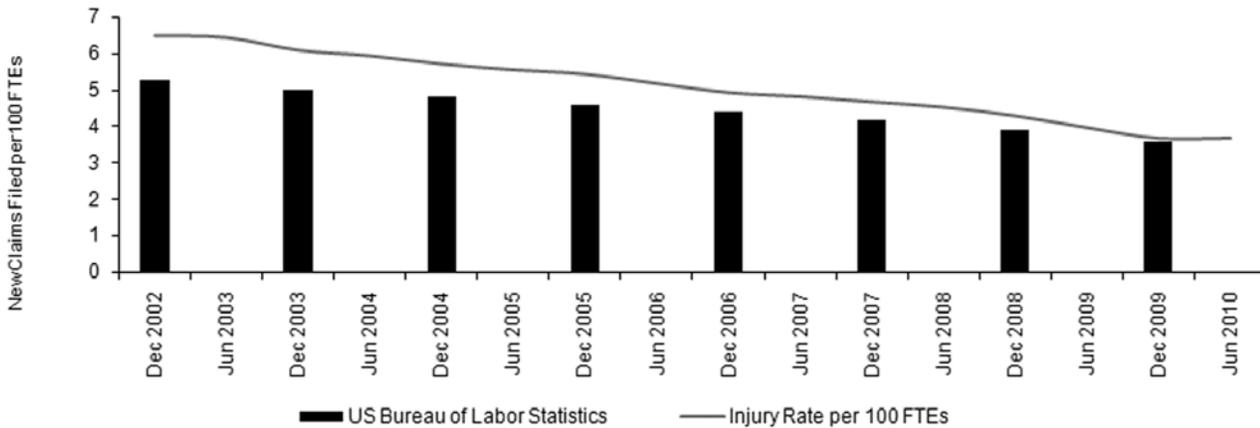
New Claims Filed measures the number of new State Insurance Fund claims filed in rolling twelve month periods measured quarterly. A steady downward trend was in place from the twelve months ended March 31, 2007 through the twelve months ended December 31, 2009 (from 177,107 new claims to 120,279 new claims). The trend has been relatively flat over the past four quarters with 120,015 new claims filed in the twelve months ended December 31, 2010.

**Claim Filing Lag - Reported quarterly**



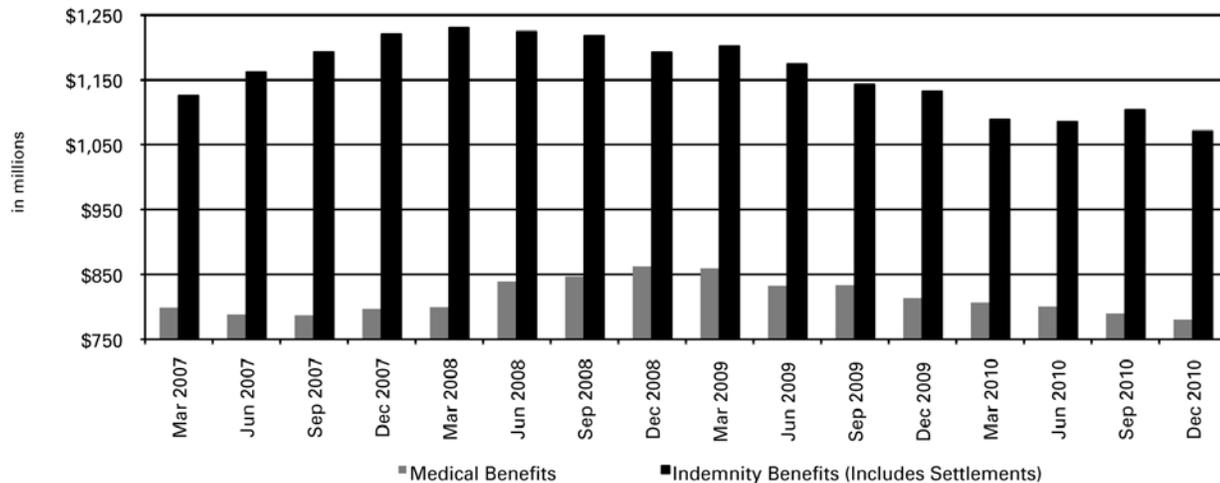
Claim Filing Lag measures the average and median number of days from the date of injury to the date of claim filing. Average claim filing lag has varied from 16.19 days to 21.16 days from the quarter ended March 31, 2006 through the quarter ended December 31, 2010. The median claim filing lag has varied between three and four days over the same time period. Numbers of new claims filed per quarter are also provided and peaked at 44,656 in the quarter ended September 30, 2007, trended down to a low of 27,173 in the quarter ended December 31, 2009 and were at 28,235 in the quarter ended December 31, 2010.

**Frequency - Reported semi-annually**



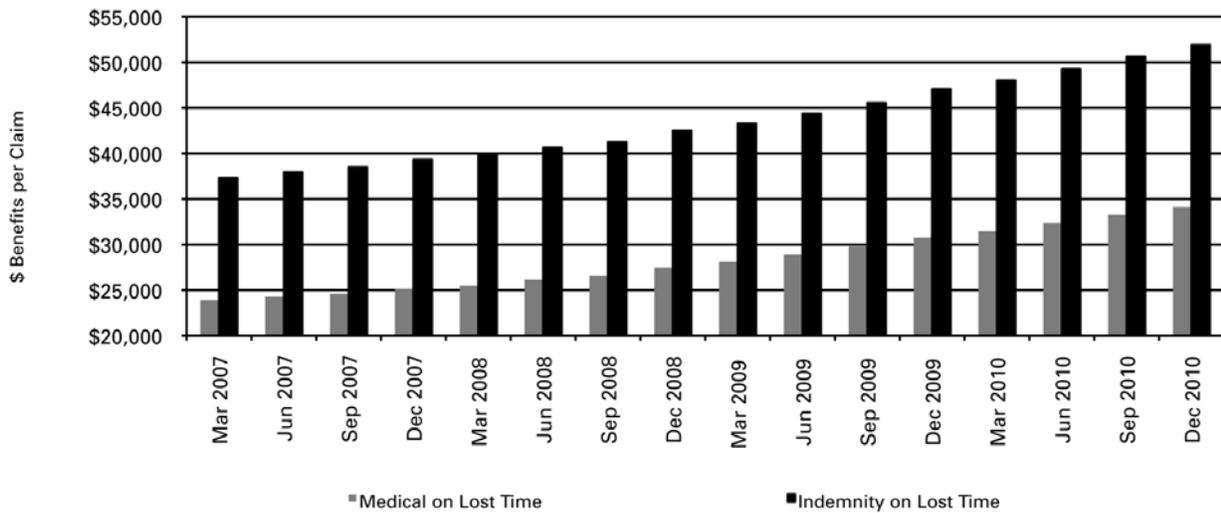
Frequency measures the number of injuries reported per 100 workers covered by the State Insurance Fund updated semi-annually. The US Bureau of Labor Statistics figure decreased from 5.3 injuries per 100 workers in 2002 to 3.6 injuries per 100 workers in 2009. The BWC figure decreased from 6.52 injuries per 100 workers in 2002 to 3.68 injuries per 100 workers as of December 2009 and June 2010. Numbers of employees for BWC statistics are calculated by dividing reported payroll by the statewide average weekly wage.

**Benefit Payments - Twelve months ended**



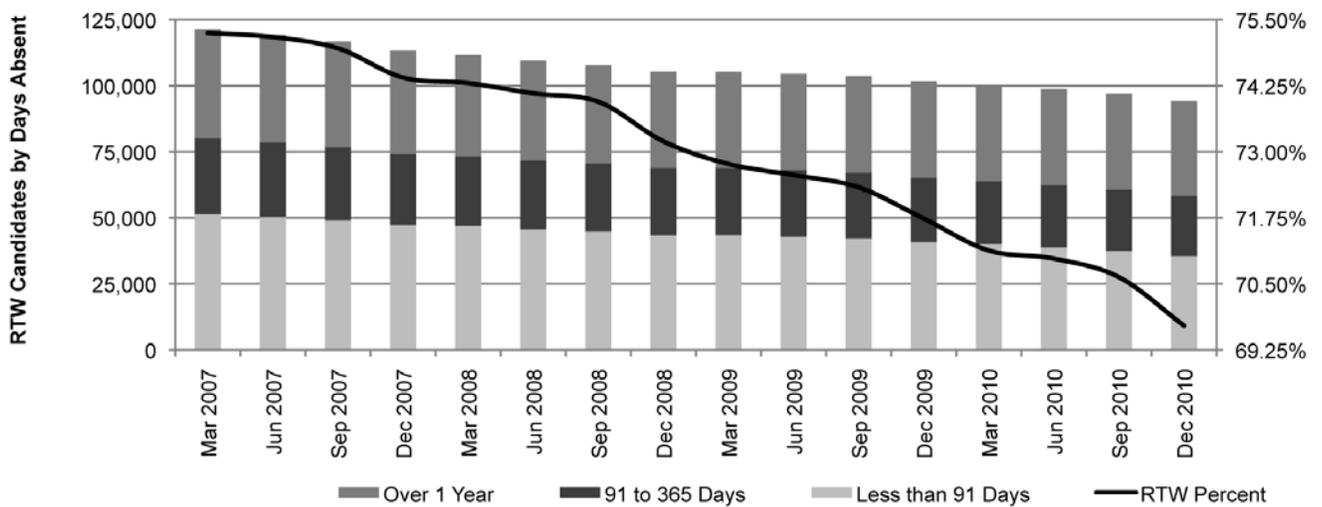
Benefit Payments measures the dollar amount of medical and indemnity payments for rolling twelve month periods updated quarterly. Indemnity payments include settlements and peaked at \$1.230 billion in the twelve months ended March 31, 2008 and have trended down to \$1.071 billion in the twelve months ended December 31, 2010. Medical payments peaked at \$863 million in the twelve months ended December 30, 2008 and have decreased to \$781 million in the twelve months ended December 31, 2010.

**Severity - Cumulative from date of injury through end of reporting quarter**



Severity measures the average cost of medical and indemnity expenses per active lost time claim. Indemnity amounts exclude settlements. BWC changed the definition of active claims in October 2010 from claims receiving payment or filing an application for benefits within thirteen months to twenty-four months. This change in definition increased the number of active claims by over 40%. Prior quarters have been re-stated to present an accurate quarter to quarter comparison. Average medical expenses per active lost time claim have increased from \$23,917 as of March 31, 2007 to \$34,118 as of December 31, 2010. Average indemnity expenses per active lost time claim have increased from \$37,329 to \$51,901 over the same period. Medical expenses on Medical Only claims (not reflected in chart) have increased from \$949 to \$1,139 during this period.

**Return to Work - Reported quarterly**



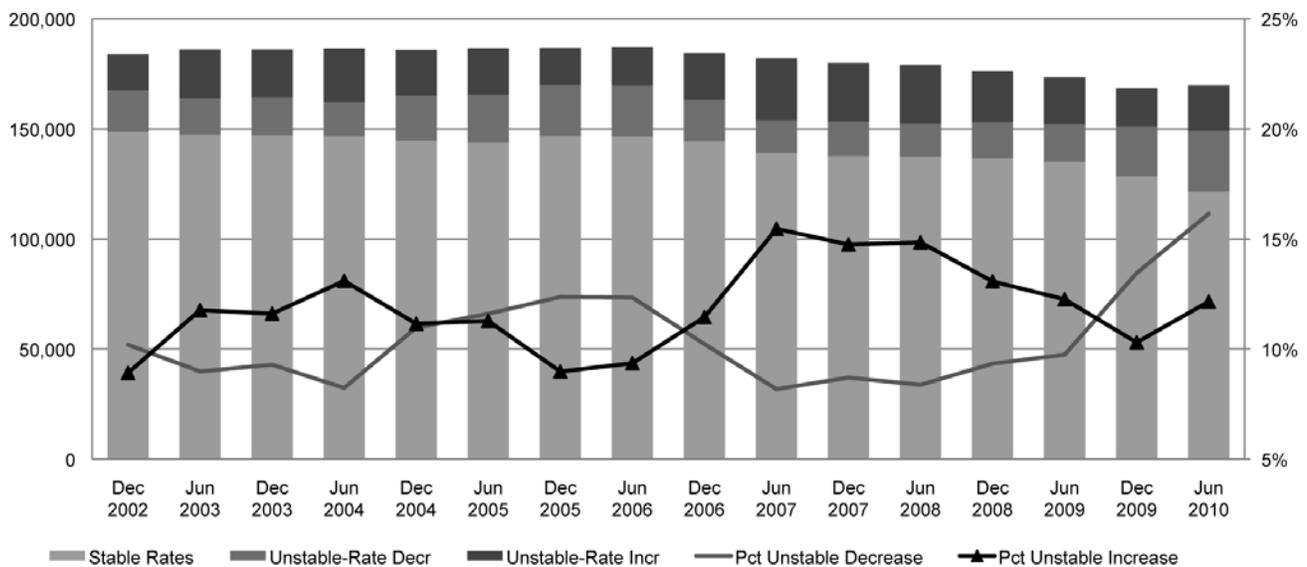
Return to Work (RTW) measures the percentage of injured workers with active claims who have returned to work relative to the claim population that has received temporary income replacement benefits. Prior quarters have been re-stated to present an accurate quarter to quarter comparison based on the new definition of active claims. The total number of active claims receiving temporary income replacement benefits has dropped from 121,409 as of March 31, 2007 to 94,234 as of December 31, 2010. The RTW rate has dropped from 75.2% to 69.7% over the same period.

### 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	\$19,753	\$7,384	\$139	\$4
Jun 2010	\$86,408	\$19,753	\$7,161	\$153	\$4

Aggregate Reported Payroll measures reported payroll by employer type for a rolling twelve month period, updated semi-annually. 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. The bulk of payroll is reported by Private employers which rose steadily from December 2002 through June 2008 but has decreased over the past four reporting periods.

### Premium Stability



Premium Stability measures the number of employers whose premium rate changed more than five percent and total premium changed more than \$500 from the previous year broken down into the number of employers that experienced increases versus decreases. Employers with significant payroll changes (> \$10,000, at least 20% of first or second year payroll and > \$500 premium change) are excluded. December 2009 was the first payroll period since June 2006 where the percentage of employers with unstable rate decreases exceeded those with unstable rate increases. This trend continued in June 2010.

# **Ohio Bureau of Workers' Compensation**

## **Fiscal**

### **Glossary of Terms**

**Administrative Cost Fund (ACF):** The ACF provides for administrative expenses for the BWC and the Industrial Commission. Administrative expenses include, but are not limited to salary, rent, supplies and equipment (see attached Operational Cost Overview for more details). The ACF is funded through a separate assessment to all employers in the state of Ohio. The budget for the ACF is subject to biennial review by the Ohio General Assembly.

**Administrative Expenses:** Also known as general expenses. Cost incurred in conducting an insurance operation other than loss adjustment expenses: underwriting expenses; investment expenses; and overhead expenses.

**Assessment Income:** Includes amounts earned from all employers to cover administrative costs for the various other workers' compensation funds (i.e., Administrative Cost Fund, Disabled Workers' Relief Fund, etc.). Also includes amounts earned from self-insured employers for various funds (i.e., Handicap Reimbursement, Self Insured Employer Guaranty Fund, etc.)

**Asset:** Resources of a business that will generate future economic benefits.

**Biennium (Biennial):** A period of two years under which the budget of the administrative funds are approved by the Ohio General Assembly.

**Budget:** The planned cost of administrative expenditures during a fiscal year, not including the State Insurance Fund. Under certain circumstances, including but not limited to, cash flow shortage and change in strategic direction, the budget may be evaluated and revised during the course of the fiscal year.

**Coal Workers' Pneumoconiosis Fund (CWPF):** The CWPF provides benefits for workers under the Federal Coal Mine Health and Safety Act of 1969. The federal government sets benefit levels and determines claim eligibility for benefits. The CWPF provides voluntary coverage (employers may choose to purchase the insurance from BWC, from a private carrier, or self insure) to employers who have employee exposure to coal dust, as required by federal law.

**Combined Ratio (financial basis):** The sum of the loss ratio and expense ratio (financial basis). The underlying ratios are computed as follows:

**Loss ratio:** Incurred loss and loss adjustment expenses as a percentage of net premiums earned.

**Expense ratio:** Administrative expenses (excluding loss adjustment expenses) as a percentage of net premiums earned.

# **Ohio Bureau of Workers' Compensation**

## **Fiscal**

### **Glossary of Terms**

**Combined Financial Statements:** Financial statements that report the results of operations and the financial position of a group of funds as if the group was a single entity.

**Disabled Workers' Relief Fund I (DWRF I):** The DWRF I provides for supplementary payments to workers whose combined Permanent Total Disability (PTD) plus Social Security disability benefits are lower than the DWRF entitlement amount on claims that occurred prior to 1987.

**Disabled Workers' Relief Fund II:** The DWRF II provides supplementary payments to workers whose combined PTD plus Social Security disability benefits are lower than the DWRF entitlement amount on claims that occurred in 1987 and after. Senate Bill 307 established DWRF II, with the apparent legislative intent of actuarially solvent pre-funding of DWRF benefits for injuries occurring in 1987 and subsequent. This pre-funding caused the DWRF II fund to grow. However, a formal Attorney General opinion in 1993 required that DWRF II operate on a terminal funding or cash flow basis.

**Expense ratio:** Administrative expenses (excluding loss adjustment expenses) as a percentage of net premiums earned.

**Fiscal Year:** The period of time in which BWC reports financial and operational results. This period runs from July 1 through June 30 consistent with the State of Ohio fiscal year.

**Funding Ratio:** Provides an indication of financial strength and security. The underlying calculation is funded assets divided by funded liabilities.

**Generally Accepted Accounting Principles (GAAP):** A method for reporting the financial results of a business using a going-concern basis.

**Government Accounting Standards Board (GASB):** A private sector organization for establishing standards of financial accounting and reporting by government entities.

**Increase (Decrease):** The difference between the actual revenues and expenses for a given period and the actual activity for the prior same period.

**Investment Income:** Money earned from invested assets. This includes realized and unrealized gains and losses. Net investment income is investment income less investment expenses.

**Loss Adjustment Expenses:** All of the costs associated with the management and settlement of claims, except the claim payment itself.

**Ohio Bureau of Workers' Compensation**  
**Fiscal**  
**Glossary of Terms**

**Loss ratio:** Incurred loss and loss adjustment expenses as a percentage of net premiums earned.

**Market Value:** The price that an investment would bring in a competitive open market under all conditions requisite to a fair sale. Quoted market prices may be fair value, where such a market exists.

**Marine Industry Fund (MIF):** The MIF provides voluntary coverage (employers may choose to purchase the insurance from BWC, from a private carrier, or self insure) to employers who have employees who work on or about navigable waters, as required by the Federal Longshoremen and Harbor Workers' Act.

**Net Leverage Ratio:** Measures the combination of BWC's exposure to pricing errors and errors in estimating its liabilities in relation to net assets. The underlying calculation is premium income plus reserves for compensation and compensation adjustment expenses divided by premium and assessment income.

**Net Assets:** The undistributed and unappropriated amount of assets at the balance sheet date. Net assets represent funds that are available to meet unpredictable contingencies of an unspecified nature and losses from future operations.

**Net Investment Income:** This includes dividends and interest earned on the investment portfolio, realized and unrealized gains and losses on the investment portfolio, and the external managerial and administrative costs associated with maintaining the investment portfolio.

**Net Investment Income Ratio:** Net investment income as a percentage of net premiums earned. Net investment income for this calculation does not include other operating income/expense or capital gains/losses.

**Operating Ratio (Trade Ratio):** The combined ratio less the net investment income ratio.

**Premium:** The amount of money an insurance company charges to provide coverage.

**Premium Income:** Includes all amounts earned from private, public state agencies, and public taxing districts to the State Insurance Fund to be used to pay claims related expenses for claims with injury dates during the policy year.

**Projected:** The estimated or forecasted revenue and expense activity for a fiscal year including all workers' compensation funds. Projected activity is evaluated on a monthly basis and revisions of future projected activity are made as necessary going forward.

**Ohio Bureau of Workers' Compensation**  
**Fiscal**  
**Glossary of Terms**

**Public Workers' Relief Employees Fund (PWRE):** This fund provides workers' compensation benefits for "work-relief employees" who are engaged in any public relief employment and receiving "work-relief" in the form of public funds or goods in exchange for any service or labor rendered in connection with any public relief employment. Employers are public employer taxing districts or public employer state agencies.

**Safety & Hygiene Fund (S&H):** The S&H provides for the administrative costs associated with the safety and loss prevention activities performed by the Safety and Hygiene Division (see attached Operational Cost Overview for more details). The S&H is funded through a portion of the premiums paid by private and public employers in the state of Ohio and a separate assessment to the self-insured employers in Ohio. The budget for the S&H is subject to biennial review by the Ohio General Assembly.

**Self Insured Employers Guarantee Fund/Surety Bond Fund:** This fund provides for payment of compensation and benefits to injured workers of bankrupt self-insured employers. Prior to 1987, self-insured employers provided security in the form of letters of credit or bonds from private insurance carriers to cover the cost of claims in the event of bankruptcy or default. It was replaced by the Self Insured Employers Guaranty Fund (SIEGF) in 1987.

**State Insurance Fund (SIF):** A trust fund established under Article 11, Section 35 of the Ohio Constitution for the purpose of providing compensation and medical benefits to injured workers in Ohio. Under the Ohio Revised Code, the fund is authorized to pay expenses related indemnity replacement, medical expenses, and a limited number of other types of expenses (see attached Operational Cost Overview for more details). The SIF is funded through a premium payment from private and public employers in the State of Ohio.

**Statutory Accounting Principles (SAP):** A method for reporting the financial results of a business using a solvency basis. These principles, required by state law, must be followed by insurance companies in submitting their financial statements to state insurance departments. These principles have been adopted by all states.

**Variance:** The difference between the actual revenues and expenses for a given period and the projected activity for that same period.

**Workers' Compensation Funds:** The list of all funds currently administered by the BWC. This includes the SIF, ACF, CWRF, DWRF, PWRE, SIEGF, and MIF.

# **Bureau of Workers' Compensation**

## **Fund Descriptions**

### **State Insurance Fund (SIF):**

**Description of Fund:** A trust fund established under Article 11, Section 35 of the Ohio Constitution for the purpose of providing compensation and medical benefits to injured workers in Ohio.

**Benefits provided by fund:** Under the Ohio Revised Code, the fund is authorized to pay expenses related indemnity replacement, medical expenses, and a limited number of other types of expenses.

### **Disabled Workers' Relief Fund I (DWRF I)**

**Description of Fund:** The DWRF I provides for supplementary payments to workers whose combined PTD plus Social Security disability benefits are lower than the DWRF entitlement amount on claims that occurred prior to 1987.

**Benefits provided by fund:** This allows for cost of living increases to injured workers receiving PTD benefits.

### **Disabled Workers' Relief Fund II (DWRF II)**

**Description of Fund:** The DWRF II provides supplementary payments to workers whose combined PTD plus Social Security disability benefits are lower than the DWRF entitlement amount on claims that occurred in 1987 and after. Senate Bill 307 established DWRF II, with the apparent legislative intent of actuarially solvent pre-funding of DWRF benefits for injuries occurring in 1987 and subsequent. This pre-funding caused the DWRF II fund to grow. However, a formal Attorney General opinion in 1993 required that DWRF II operate on a terminal funding or cash flow basis.

**Benefits provided by fund:** This allows for cost of living increases to injured workers receiving PTD benefits.

### **Coal Workers' Pneumoconiosis Fund (CWPF)**

**Description of Fund:** The CWPF provides benefits for injured workers under the Federal Coal Mine Health and Safety Act of 1969. The federal government sets benefit levels and determines claim eligibility for benefits. The CWPF provides voluntary coverage (employers may choose to

purchase the insurance from BWC, from a private carrier, or self insure) to employers who have employee exposure to coal dust, as required by federal law.

**Benefits provided by fund:** CWPF provides Permanent and Total Disabled (PTD) pension benefits and medical payments to employees who have contracted pneumoconiosis in the course of their employment. CWPF provides for Death benefits for surviving spouses of injured workers who have contracted pneumoconiosis in the course of their employment and subsequently died from the pneumoconiosis.

## **Marine Industry Fund (MIF)**

**Description of Fund:** The MIF provides voluntary coverage (employers may choose to purchase the insurance from BWC, from a private carrier, or self insure) to employers who have employees who work on or about navigable waters, as required by the Federal Longshoremen and Harbor Workers' Act.

**Benefits provided by fund:** A Marine Fund claim is filed with both the Department of Labor and the BWC; therefore, two claims will exist for the same injury. The Federal Government determines the claimant eligibility for benefits and sets the benefit levels. An injured worker may only receive lost time benefits from the federal claim or the BWC claim, but not from both for the same period. Medical benefits may be paid from either the federal claim or the BWC claim as long as duplicate payments do not occur. Injured workers covered under the Marine Industry Fund are entitled to the same benefits as other injured workers **except** for the following:

- Living Maintenance and Living Maintenance Wage Loss benefits
- Lump Sum Advancements
- Rehabilitation Services only as ordered by the Department of Labor

## **Public Workers' Relief Employees Fund (PWRE)**

**Description of Fund:** The PWRE fund provides workers' compensation benefits for "work-relief employees" who are engaged in any public relief employment and receiving "work-relief" in the form of public funds or goods in exchange for any service or labor rendered in connection with any public relief employment. Employers are public employer taxing districts or public employer state agencies.

**Benefits provided by fund:** Injured workers covered under the PWRE are entitled to the same benefits as other injured workers without any exceptions.

## **Self Insured Employers Guarantee Fund (SIEGF) /Surety Bond Fund (SBF)**

**Description of Fund:** This fund provides for payment of compensation and benefits to injured workers of bankrupt self-insured employers. Claims with injury dates prior to 1987, self-insured employers provided security in the form of letters of credit or bonds from private insurance carriers to cover the cost of claims in the event of bankruptcy or default referred to as the Surety Bond Fund (SBF). It was replaced in 1993 by the Self Insured Employers Guaranty Fund (SIEGF) for claims with injury dates after 1986.

**Benefits provided by fund:** All injured worker benefits (including DWRF benefits) that would normally be paid by the self-insured employer that has defaulted.

## **Administrative Cost Fund (ACF)**

**Description of Fund:** The Administrative Cost Fund (ACF) provides for administrative expenses for the BWC and the Industrial Commission. ACF also includes the portion of premiums paid by employers earmarked for the safety and loss prevention activities performed by the Safety and Hygiene Division. The financial statements include loss adjustment expense (LAE) reserves for claims expenses to be incurred in all claims.

**Benefits provided by fund:** Pays for BWC and IC administration, salaries, rent, other operating costs.