



Oversight Commission

William E. Sopko, Chairman
 President,
 STAMCO Industries
representing state-fund employers

William A. Burga
 President
 Ohio AFL-CIO
representing organized labor

Mary Beth Carroll
 Vice President,
 FirstEnergy
representing self-insured

Michael C. Koettters
 Retired Chief Investment Officer,
 Wellpoint Inc.
representing the public

Denise M. Farkas, CFA
 Senior Vice President,
 Spero Smith Investment Advisers
representing investments

Edwin McCausland, CFA
 President,
 Investment Perspectives, LLC
representing investments

Charles W. Kranstuber, LPA
 President,
 The Law Offices of Kranstuber
representing injured workers

OVERSIGHT COMMISSION

Agenda

Date: Sept. 28, 2006
Time: 11 a.m.
Location: Dayton Convention Center, Level 3, Rooms 302-304
 22 E. Fifth St., Dayton, OH 45402

Opening remarks

Chairman's comments..... William Sopko

Old business

Approval of previous meeting minutes William Sopko

New Business

Administrator's comments Bill Mabe

MCO 2007 contract (*update*) Bill Mabe

CFO financial statement review Tracy Valentino

Actuarial audit presentation Jeff Scott and Jeff Scholl
Mercer Oliver Wyman, Actuarial Consultants

Dollars and Sense Jeremy Jackson

Audit Committee (*update*) Denise Farkas

Investment Committee (*update*)..... Mike Koettters

Investment policy recommendation for BWC ancillary portfolios,
first consideration, possible vote..... Mark Brubaker

Transition managers' recommendation, *first consideration, possible vote*
 Bruce Dunn and Mark Brubaker

Securities lending activity report; *resolution to amend IV.C.vii of the BWC*
investment policy & guidelines, first consideration, possible vote.....
 Bruce Dunn and Mark Brubaker

Investment manager for Ohio Passive Bond Market Index Fund: *discussion*

Investments..... Bruce Dunn and Mark Brubaker
 Finance Tracy Valentino
 Legal James Barnes

WCOC 07 Calendar (*review*) William Sopko

The next WCOC

Date: Nov. 16, 2006
 Time: 11 a.m.
 Location: William Green Building, Level 2, Room 3



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Rules

Attorney Fees for Child Support (4123-3-10 OAC), *first consideration*,
possible vote Tom Sico

Rate

Public Employer Taxing District Rate Indication, *first consideration*,
possible vote Elizabeth Bravender

Adjourn William Sopko

The next WCOC

Date: Nov. 16, 2006
Time: 11:00 a.m.
Location: William Green Building, Level 2, Room 3

WORKERS' COMPENSATION OVERSIGHT COMMISSION

**THURSDAY AUGUST 24, 2006, 11:00 A.M.
WILLIAM GREEN BUILDING
THE NEIL SCHULTZ CONFERENCE CENTER
30 WEST SPRING ST., 2nd FLOOR (MEZZANINE)
COLUMBUS, OHIO 43215**

Members Present: Bill Sopko, Chairman
Michael Koetters
Mary Beth Carroll
Thomas Bainbridge, Jr.
William Burga
Denise Farkas
Senator Steve Stivers
Representative Tim Schaffer
Representative Timothy Cassell

Members Absent: Edwin McCausland
Senator Eric Fingerhut

ROLL CALL

Mr. Sopko called the meeting to order at 11:30 a.m. and the roll call was taken.

CHAIRMAN'S COMMENTS

Mr. Sopko reported that in the afternoon there would be a presentation on ethics law by the Ohio Ethics Commission.

Mr. Sopko reported that Mr. McCausland would not be present for today's meeting.

MINUTES OF JULY 20, 2006

Mr. Bainbridge moved that the minutes of July 20, 2006, be approved. Ms. Carroll seconded and the minutes were approved by a unanimous roll call vote.

ADMINISTRATOR'S COMMENTS

William Mabe, BWC Administrator, reported on developments in Agenda 06. There continue to be improvements in reducing expense. BWC has achieved savings of \$288 million on its goal of reaching \$400 million

CFO FINANCIAL STATEMENT REVIEW

Mr. Sopko highlighted the Administrator's introduction in the *August Financial and Operational Report*. In part, he writes that the BWC trade combined ratio declined from 126.2 at the beginning of fiscal year 2006 to 107.7 as of June 30. If current trends continue, the trade combined ratio could be as low 88.7 by end of fiscal year 2007.

Tracy Valentino, Chief Financial Officer, reported on the financial statements for fiscal year 2006. These are the preliminary financial statements for the external audit. The net operating loss has decreased from \$1.1 billion to \$883 million. BWC projected \$714 million in net assets and the actual net assets are \$622 million. The State Insurance Fund has accrued more in reserves in fiscal year 2006 over the prior year. Accounts receivable continue to decline. Cash and investments decline because of transition to a fixed-income investment and because of the decline in the bond market. However, July and August have shown increases. Fewer funds are required from the portfolio to pay current costs. As noted, the ratios continue to improve. The absence of an employer dividend is the major driver of the \$233 million improvement in the operating loss. Finally, net investment income is based on actual investment returns and not market results.

Ms. Valentino stated that the goal is to close the time-gap in financial statement presentation. The September meeting will include July and August financial results. The actuarial audit to evaluate payment trends will be available and will be used to determine sustainable trends in payments. BWC is now awaiting the opinion from Mercer Oliver Wyman.

Mr. Mabe stated that the collection of premiums is also a driver. He predicts other significant improvements in future months.

Mr. Bainbridge asked for details in savings on prescriptions and hospitalization. Ms. Valentino responded that there are other improvements in cost, but these two are the most significant. Mr. Mabe stated that the hospital savings are based on older guidelines. When the new policy is implemented, there will be more savings. Also, the projections were that hospitalization expense would increase by 10%. Instead, there has been a decrease of 10% and this means a 20% difference between projections and actual expense.

Mr. Burga asked about whether utilization had declined. Mr. Mabe replied there has been little decline. The decline was in the reimbursement.

Senator Stivers asked why the securities lending income failed to meet projections. Ms. Valentino replied that there was a prior period correction reflected in the fourth quarter. BWC had no securities lending income during the fiscal year.

Senator Stivers asked when BWC will have pro forma projections. Ms. Valentino replied that BWC has monthly and annual projections. These were presented in June and can be provided in future reports to include a twelve-month projection.

Senator Stivers asked what is the impact of self-insurance on coverage of employers and workers. Ms. Valentino replied that page thirty of this month's report has BWC demographics. However, there is no requirement for employers to report the number of their employees or full-time-equivalents. This is part of the discussion of change. BWC can find the information on employment from other state agency sources. Senator Stivers asked for information on employees going in and out of the State Insurance Fund system.

AUDIT COMMITTEE REPORT

Ms. Farkas reported that the Audit Committee met this morning and heard a report from the Auditor of State on selection of the external auditor. There were weekly teleconferences since the July meeting. The Auditor will submit to the Controlling Board today a proposal on a noncompetitive contract with Schneider Downs & Co., Inc. The target is to complete the fiscal year 2005 and fiscal year 2006 audits by December 31, a very compressed deadline.

Ms. Farkas also reported that the Audit Committee heard a report from the Internal Audit Division on the fiscal year 2007 audit plan. This is the first report under the new reporting system.

INVESTMENT COMMITTEE REPORT

Mr. Koettters reported that the Investment Committee met this morning and took two actions with respect to the private equity placement agent and the investment policy.

CIO REPORT

Bruce Dunn, Chief Investment Officer, reported on activities of the Investment Division as determined by the 06 agenda. The division has updated the table of organization to add two new employees: Douglas Walouke and Gregory Stought.

Concerning Strategic Initiative No. 5, approval of the new investment policy requires replacement of the QED investment accounting system. The Investment Division is discussing this with other BWC divisions. The Request for Proposal (RFP) for a vendor will be issued in September or October. Future investment reports will include a compliance section.

Mr. Dunn reported that there was a discussion at the meeting of the Investment Committee on "to be announced" pools (TBAs). State Street uses TBAs generously with mortgage-backed securities because of their efficiency. TBAs comprise 7% of the portfolio. There are some accounting issues because TBAs could be defined as derivatives. There is absolutely no leverage involved because State Street sets aside sufficient cash to cover commitments. Also, State Street states in writing that it complies with BWC investment policy.

Nevertheless, the Investment Committee recommends a change to the policy to include TBAs. These are not a high risk investment; TBAs are an expedient vehicle for managing the State Insurance Fund portfolio and further transition; TBAs improve the performance by State Street; and TBAs are used by all fixed-income managers.

Concerning all RFPs, Mr. Dunn reported that the process for the private equity agent is complete and will be finalized and presented today. For the transition manager, there have been ten responses. A committee formed by BWC and Wilshire Consulting has chosen six candidates. In September, there will be presentation of the recommended finalists. For the index managers, BWC is formulating the RFP now and will issue it in September, with an October response. BWC will combine four different types of passive managers into an RFP in order to expedite their selection. These managers are for Treasury Inflation-Protected Securities (TIPS), long-duration fixed-income investments, large-cap equities, and international equities. These managers will hold 60 % of the portfolio.

Senator Stivers asked why it will take six to nine months to obtain a more accurate match of assets and liabilities. Mr. Dunn replied BWC needs to add managers for transition management. BWC must use the RFP process as part of being a public entity. Senator Stivers asked why not use former managers. Mr. Brubaker replied that the change of managers could be made more quickly, but BWC was restricted by the public procurement process. Senator Stivers stated BWC had waived competitive bidding for the external audit. Mr. Dunn stated that page 9 of the investment policy should be reviewed and it may provide for up to 100% of the portfolio in passive investment strategies. This section may provide the vehicle for change. Mr. Koetters stated that the length of time was discussed in morning session of the Investment Committee and the issued was referred back to BWC staff for response. Ms. Farkas replied that the reason for a non-competitive bid for the external audit was that a competitive bid was used and failed. Ms. Valentino stated the Controlling Board will not waive competitive bidding and the Office of Budget and Management (OBM) does not know the process for waiving competitive bidding.

PRIVATE EQUITY PLACEMENT AGENT REQUEST FOR PROPOSAL PROCESS

Mr. Dunn outlined the steps for the RFP private equity agent. Mark Friedberg, Wilshire Consulting, reported that at the Investment Committee meeting this morning there was a presentation on the selection process. There are three components to the RFP process: scoring, on-site visits, and arriving at a consensus choice. The committee chose UBS Securities LLC. Mr. Dunn stated that UBS was chosen because of its experience, it is a sell-side firm, it is charging an appropriate fee, and BWC will have the final say on acceptance of any proposal of sale.

PRIVATE EQUITY PLACEMENT AGENT RECOMMENDATION

Mr. Dunn introduced Nigel Dawn, Philip Tsai, and Gerald Cooper, UBS. Mr. Dawn stated the BWC private equity sale will be one of the largest transactions in the secondary market this year. The RFP for this contract was the most comprehensive process that UBS has gone through. UBS is one of the largest investment banks, capitalized at \$100 billion. UBS has a long history in Ohio and has more than 700 employees in Ohio. The private equity team focuses on secondary market sales and that is its sole line. The team has eight professionals. The UBS

advantages are that the private equity team uses other divisions of UBS: Relationship Managers, Internal Legal Counsel, and the Financial Sponsors Group. The Wealth Management Division has a significant presence in Ohio.

Mr. Tsai further described other treatments and types of sales of secondary market sales. Mr. Tsai described the pitfalls in an auction. Overcoming pitfalls will require working with general partners and limited partners. Mr. Tsai then described case studies of large UBS transactions.

Mr. Cooper reported that UBS had conducted a preliminary analysis of the BWC portfolio. There will be great demand for the BWC investments because of their diversification. The largest funds are largely recognizable and will command attention in the market. The transaction approach will be to use dual processes by offering the entire portfolio and several sub-portfolios for auction. UBS will target large investors. There may be a smaller auction on the small and regional private equity firms.

Mr. Tsai reviewed the time-line. In Phase I, BWC records are in good shape, so UBS will not need to do as much preparation. Next, UBS will target and pre-screen buyers. Phase II will be due diligence by prospective buyers. Phase III will be contract negotiation and obtaining consent from the general partners. Phase IV is closing. The total time should be a period of five to six months. The keys to success will be general partner cooperation and due diligence.

Ms. Farkas moved that the Workers' Compensation Oversight Commission approve WCOC Resolution 06-36 accepting the recommendation of the Investment Committee to approve the selection of UBS Securities LLC to serve as the private equity investment placement agent for the BWC private equity portfolio, upon such terms as are outlined in UBS Securities' response to the request for proposals issued May 16, 2006 and such other terms as are favorable to the Bureau. Mr. Koettters seconded the motion and the motion was approved by unanimous roll call vote.

AMENDMENT OF THE INVESTMENT POLICY

Mr. Dunn reported that the Investment Policy prohibits derivative investments except for two types. He proposed that it be amended to include TBAs. The policy will still prohibit leveraging.

Assistant Attorney General John Williams reviewed the amendments. Page 13A adds TBAs for mortgage-backed bonds and defines TBAs. On page 18, there is a change in percentages for alternative investments. There is also a new Appendix XI to replace the Callan Associates asset allocation recommendation with the one from Wilshire.

Mr. Koettters moved that the Workers' Compensation Oversight Commission approve WCOC Resolution 06-37 relating to the approval and adoption of certain revisions to the Statement of Investment Policy and Guidelines, for the purpose of clarifying provisions previously adopted, as submitted to the Commission by the Investment Committee. Upon adoption of the motion, the Statement of Investment Policy and Guidelines shall read as set forth in the Appendix to WCOC Resolution 06-37. Ms. Farkas seconded the motion.

Senator Stivers objected to the first sentence of the footnote on page 18 which sets forth a six to twelve month timeline for changes in the portfolio.

Mr. Koettters stated that this issue had been discussed at the Investment Committee meeting and that he had raised the objection and that he agreed with Senator Stivers. Originally, the time period was eight months and he posed his objections to staff. Mr. Brubaker stated that Wilshire takes responsibility for the time-line. Ms. Farkas stated it was misleading to look at one point in time and focus on the miss-match between liabilities and investment. Because of its fiduciary responsibility, the Oversight Commission is moving at the correct rate. Mr. Dunn stated that all passive index managers will be selected by December or January. BWC cannot accelerate without bypassing the RFP process. BWC is following tight time-lines.

Mr. Koettters stated that the documented time-lines are clearly recorded. The timing of investments may change with the market. The BWC staff has been directed to focus on this. The options are to remove the sentence, to require BWC to compete "as soon as possible," or it could specify completion by July 1, 2007. Accordingly, he moved to amend to strike the first sentence of the footnote on page 18. Ms. Farkas and Mr. Sopko consented to the amendment. Mr. Koettters seconded the amended motion.

In a roll call vote, the amended motion on resolution 06-37 was approved by unanimous roll call vote.

RULES/RESOLUTION FOR FIRST CONSIDERATION: PUBLIC EMPLOYER RETROSPECTIVE RATING PLAN MINIMUM PREMIUM TABLE CHANGE, OHIO ADMINISTRATIVE CODE RULE, 4123-17-54

Ms. Bravender recommended that the Oversight Commission approve an amendment of Ohio Administrative Code Rule 4123-17-54 on calculation of the minimum premium for public employer taxing districts participating in the retrospective rating program. Mercer Oliver Wyman analyzed the retrospective program extensively to calculate the recommendation. The minimum premium encompasses insurance charges which include those claim costs that are charged to the Surplus Fund, funding of the Safety and Hygiene Fund, the Premium Payment Security Fund and a loading factor to pay for defaults on future retrospectively rated premiums and annual billings. The change will raise an additional \$9.4 million, raising total collections to \$48 million. The table was last updated in 1998.

Mr. Bainbridge moved that the Workers' Compensation Oversight Commission approve WCOC Resolution 06-38 relating to rules on the retrospective rating program. The resolution consents to the Administrator adopting Rule 4123-17-54 of the Administrative Code as presented today. Mr. Burga seconded and the motion was approved by unanimous roll call vote.

ADMINISTRATIVE BUDGET UPDATE

Mr. Sopko tabled the presentation on the administrative budget until the September meeting.

TIM BAINBRIDGE

Mr. Sopko commended Mr. Bainbridge for his eleven years service on the Oversight Commission and those present rendered applause. Mr. Sopko further reported that there is a nominating committee working on selection of a successor, but there is no nominee yet. Mr. Sopko stated he would serve on the Audit Committee until such time as a new member joins the Oversight Commission.

Mr. Sopko recessed the meeting for a luncheon honoring Mr. Bainbridge.

ETHICS INSTRUCTION

Following recess, Mr. Sopko convened the Oversight Commission at 2:40 p. m. for the Ethics Law Presentation by David Freel, Executive Director, Ohio Ethics Commission. Members present: Mr. Sopko, Mr. Koettters, Ms. Farkas, and Ms. Carroll. Others present were Cathy Moseley, Chief of Staff; Mr. Dunn; Lee Damsel, Director of Investments; Douglas Walouke, Investments; James Barnes, Chief Legal Officer; Mr. Williams, and Ian Lanoff, Fiduciary Counsel.

Ms. Farkas departed at 3:30 p. m., and there was no quorum of the Oversight Commission thereafter. Ms. Carroll left at 4:15 p. m.

The session ended at 4:30 p. m. There was no motion to adjourn as the public meeting had ended with the departure of Ms. Farkas.

Prepared by: Larry Rhodebeck, BWC Attorney
With additional information from AAG John Williams
H:\Word\ldr\WCOC0806.doc
September 20, 2006

**Workers' Compensation Oversight Commission
Audit Committee
September 28, 2006**

External Audit Schedule:

- **September 11, 2006:** Selection of independent public accountant, Schneider Downs & Co. Inc. (Schneider Downs), approval from Controlling Board received.
- **September 19, 2006:** BWC Internal Audit Division and Schneider Downs pre-audit planning meeting.
- **September 25, 2006:** BWC Finance Division and Schneider Downs pre-audit planning meeting.
- **September 27, 2006:** Schneider Downs commences fieldwork.
- **September 29, 2006:** BWC Finance Division to provide draft financial statements, notes and all required supplementary schedule to Schneider Downs.
- **November 30, 2006:** Schneider Downs to provide all recommendations, revisions, and suggestions for improvement to BWC. **
- **December 10, 2006:** Schneider Downs to deliver a revised report, including draft auditor's report, to BWC. **
- **December 18, 2006:** Review of draft report completed by BWC staff and WCOG Audit Committee no later than one week after delivery of draft.
- **December 22, 2006:** Delivery of final audit report to BWC and Auditor of State.**

**Schneider Downs will notify Auditor of State and BWC by November 30, 2006 of an alternative date if not expected to meet these deliverables.

Executive Summary
Attorney Fees for Child Support, R.C. 3121.0311
Rule 4123-3-10

Background Law

S.B. 7 was signed into law by Gov. Bob Taft to be effective June 30, 2006. This legislation made various reforms in the workers' compensation system.

The Act adopts R.C. 3121.0311 to allow BWC or self-insuring employers to deduct attorney's fees and necessary expenses from a lump sum payment and pay that amount directly to and solely in the name of the attorney if specified procedures are followed relative to child support orders. The Act specifies that if a lump sum payment consists of workers' compensation benefits and the obligor is represented by an attorney, prior to issuing the required notice to the child support enforcement agency, BWC must notify the obligor and the obligor's attorney that the obligor is subject to a support order and that BWC must hold the payment for 30 days. The attorney may file a copy of the fee agreement, along with an affidavit setting forth the amount of the attorney's fee for the lump sum payment award and the amount of necessary expenses. BWC processes the application and must deduct from the lump sum payment the amount of the attorney's fee and expenses and pay that amount directly to the attorney within 14 days. Then, if the lump sum payment is \$150 or more, BWC must hold the balance of the lump sum award in accordance with the normal notification, holding, and payment requirements in the child support statutes.

Note: This provision of the Act is one of the provisions not included in the pending referendum effort.

Reason for Rule Proposal

This provision of S.B. 7 became effective June 30, 2006. Originally, BWC did not adopt a rule on this subject, but did adopt policies and procedures for the implementation of this statutory mandate. Over the past two months of implementation, however, BWC has identified some issues that should be clarified and adopted under the authority of a rule.

Overview of Rule

Rule 4123-3-10 is an existing BWC rule for payment of awards. The rule has been in effect since 1964 and BWC most recently updated the rule effective October 4, 2004, under a five year rule review. Under R.C. 119.01, the rule is subject to the public hearing and Joint Committee on Agency Rule Review process.

Rule Amendments

4123-3-10 Awards.

The amendments to the rule are as follows:

In Paragraph (A)(3)(a), the statement that awards of compensation are payable only to a claimant is amended to include that the awards can be paid directly to the attorney in the case of attorney fees under R.C. 3121.0311.

The rule contains a new Paragraph (A)(8) to detail the procedure for a lump sum payment and attorney fees where the claimant is an obligor for child support payments.

Paragraph (A)(8)(a) provides that if a claimant is entitled to a lump sum payment of \$150 or more and owes child support, BWC shall notify the claimant and the claimant's attorney, and shall hold the award for thirty days.

Under Paragraph (A)(8)(b), the attorney shall file a copy of the signed fee agreement and an affidavit setting forth the amount of the attorney's fee and the amount of all necessary expenses incurred by the attorney with respect to obtaining that lump sum award. The rule states that the attorney shall provide a copy of the affidavit to the claimant.

Under Paragraph (A)(8)(b)(i), the fee agreement shall clearly establish the fee for the lump sum payment in the claim. The rule suggests that the attorney highlight in the fee agreement the language supporting the attorney fee and expenses.

Paragraph (A)(8)(b)(ii) requires the attorney to file a notarized affidavit in the form provided by the bureau.

Paragraph (A)(8)(b)(iii) limits the fee to the services of obtaining the specific lump sum payment that is the subject of the BWC notice. The rule also limits the attorney fee to the fee agreement of the initial lump sum payment of the award. Paragraph (A)(8)(b)(iv) limits expenses to services for obtaining the lump sum payment subject of the BWC notice. The attorney shall provide itemized expenses and documentation to support the expenses. If the attorney fails to provide the required information, BWC may reject that portion of the fee application, but shall process the attorney fee portion of the application.

Paragraph (A)(8)(b)(v) states that BWC will not pay an attorney fee under the child support provision and also honor a power of attorney for that award.

Paragraph (A)(8)(b)(vi) requires BWC to provide an attorney an opportunity to cure any defects in the attorney fee application during the thirty day hold period.

Under Paragraph (A)(8)(c), if BWC approves the fee affidavit, BWC shall pay the attorney within 14 days. Under Paragraph (A)(8)(d), the balance is reported to the Child Support Enforcement Agency as provided by statute.

Finally, Paragraph (C)(5) is added to provide that self-insuring employers shall follow the procedures in paragraph (A)(8) of the rule relating to a lump sum payment and attorney fees where the claimant is an obligor for child support payments.

Dollars&Sense

A comprehensive update on the progress of Agenda '06 as of July 31, 2006



From the desk of **Administrator/CEO Bill Mabe**

Seven months into Agenda '06, the Ohio Bureau of Workers' Compensation's (BWC's) journey to complete Agenda '06 is getting closer to bearing fruit. To date, we have improved our performance by nearly \$343 million, which puts us 81 percent of the way to our goal. Investments, with interest income of \$136 million more than last year, and finance, with increased collections, are the primary drivers of this success. Additionally, medical costs have declined \$47 million.

More telling is the growing financial health of the organization. We ended July with a trade combined ratio of 75.8 percent. At this time last fiscal year, it stood at 96.4 percent, so we've made substantial improvements.

Perhaps more important is the fact our net assets position has grown to \$1.8 billion, a gain of about 200 percent from the same time last year. While Agenda '06 has provided significant improvements to BWC's bottom line, the long-term effect is that collection efforts improve cash flow and reductions in medical costs significantly reduce reserve requirements.

By most appearances, Agenda '06 has truly become a success story not only for BWC, but for the employers and injured workers of Ohio. Undoubtedly, there are more challenges to face; tackling managed care costs is one of the more prominent issues on the immediate horizon. But I am confident that not only will BWC's successes thus far sustain themselves, but we'll be able to rebuild the workers' compensation system into an efficient, cost-effective model. Such results will make Ohio more competitive in the national marketplace and reduce the financial burden businesses must bear.

Total assets

As of July 31, 2006

\$19.1 billion

Total liabilities

As of July 31, 2006

\$17.3 billion

Net assets

As of July 31, 2006

\$1.8 billion

William Mabe
Administrator/CEO
Ohio Bureau of Workers' Compensation



Trade combined ratio

As of July 31, 2006

75.8%

The trade combined ratio is an indicator of the potential profitability of BWC's business. The trade combined ratio includes the impact of BWC's operating and investment revenues, and all related expenses.

Currently, BWC incurs expenses of approximately \$.76 for every \$1 it earns.

Increasing revenue

Revenue collection

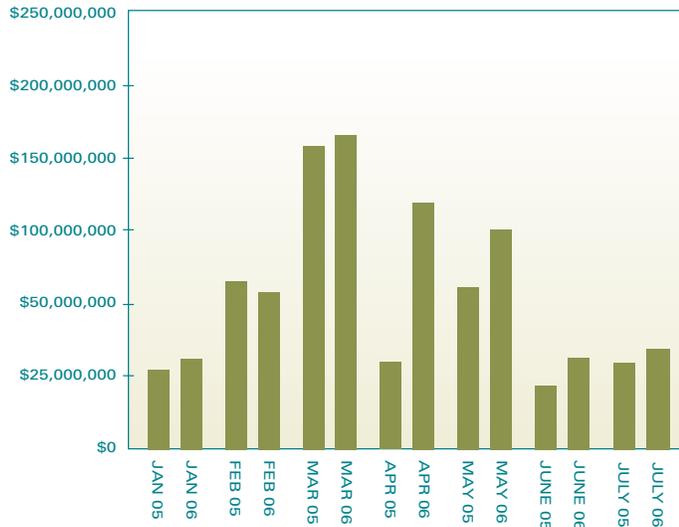
Agenda '06 revenue goal

\$105 million

To date

\$155.3 million

BWC Receipts



Accounts Receivable

Collections through July 2006 increased \$150 million, exceeding the goal of \$105 million set forth at the beginning of the calendar year. More than \$34 million was collected in July, which is \$12.5 million more than the same month last year. The net accounts receivable balance now stands at \$172 million.

Subrogation

BWC's subrogation collections continue to outpace last year's performance. For calendar year 2006, BWC has collected more than \$5.3 million. BWC exceeded its fiscal year 2006 collection goal of \$7 million by collecting \$8.5 million.

Better investment management

Agenda '06 revenue goal

\$100 million

To date

\$136 million

Total Fund

BWC's Total Fund – which is comprised of the State Insurance Fund (SIF) and all ancillary accounts – slightly underperformed its benchmark, the Lehman Brothers Aggregate Index and the Merrill Lynch 3 Month US T-Bill, by two basis points during July 2006. The Total Fund returned 1.33 percent, on both a net of fee and gross of fee basis, during July 2006 versus a benchmark return of 1.35 percent. The Total Fund as of July 31, 2006, is \$16.4 billion.

SIF

By generating an additional \$36 million in investment income for July 2006 compared to July 2005, BWC increased its year-to-date total variance to \$136 million, exceeding the goal of \$100 million in additional investment income for the year with five months remaining.

Performance Measures Gross of Fees Month ending July 31, 2006

	BWC Investment Returns Monthly (Gross of Fees)	New Benchmark Returns Monthly	New Benchmark Variance	BWC Investment Returns 3 Month Trailing (Gross of Fees)	New Benchmark Returns 3 Month Trailing	New Benchmark Variance
BWC SIF Fund Investments	1.33%	1.35%	-0 .02%	1.53%	1.46%	0.07%

Improving customer value and productivity

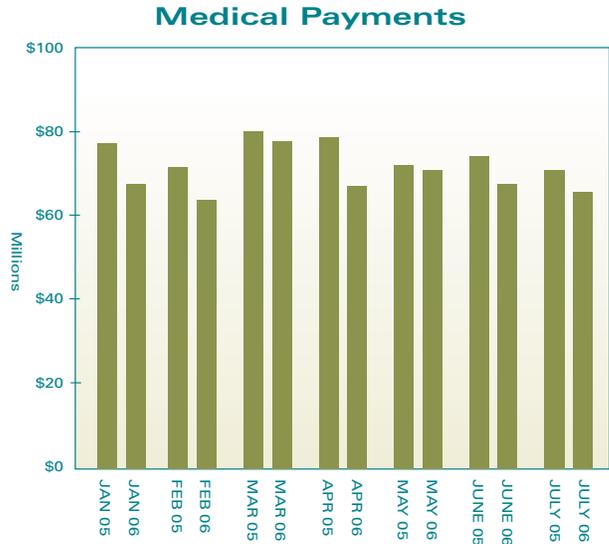
Reducing expenses



Medical

By controlling health-care costs through revising reimbursement methodologies and integrating drug utilization reviews with medical management, BWC's Medical Services Division has saved \$47 million dollars through calendar year 2006 relative to the same period in 2005.

In July 2006, BWC paid \$65 million in medical costs, which is about \$5 million less than what BWC paid in July 2005. Medical payments to hospitals were \$164 million for the calendar year through July 2006, compared to \$186 million for the same period last year, accounting for \$22 million in savings.



Agenda '06 customer value and productivity goal

\$216 million

To date

\$48.6 million

Indemnity

Indemnity payments are approximately \$2 million higher for fiscal year 2006 compared to fiscal year 2005. With respect to temporary total payments, BWC paid \$271 million in fiscal year 2006, which represents a decrease of approximately \$15 million.

Overall, settlement payouts increased by \$21 million from fiscal year 2005 to fiscal year 2006. This is due to BWC's Agenda '06 focus on high reserve, permanent total disability and death claim settlements.

Special Investigations Unit

BWC's special investigations unit (SIU) identified \$90 million in savings for fiscal year 2006. Approximately 85 percent of these savings are due to injured worker fraud, with the remainder of the cases comprised of employer and provider fraud. In the first month of fiscal year 2007 SIU identified \$15.6 million in savings.

Adding value



Early retirement initiative

Starting in the fall of 2005, more than 150 employees opted for BWC's early retirement initiative. To date, total savings resulting from positions not being backfilled has exceeded \$3.1 million.

Customer service index

There was a slight decrease in the customer service index, which measures customer service performance based on feedback from all BWC customer types. Overall, BWC's score was 86.5, down slightly from 86.7 in the previous month.

Agenda '06 giving customers the right service at the right time goal

\$3 million

To date

\$3.1 million



Statement of Operations

➤➤ Fiscal year to date July, 31, 2006

<i>(in millions)</i>	Actual	Projected	Variance	Prior Yr. Actual	Increase (Decrease)
Total Operating Revenues	\$ 206	\$ 208	\$ (2)	\$ 194	\$ 12
Total Operating Expenses	<u>233</u>	<u>254</u>	<u>21</u>	<u>225</u>	<u>8</u>
Net Operating Gain (Loss)	(27)	(46)	19	(31)	4
Net Investment Income	<u>212</u>	<u>12</u>	<u>200</u>	<u>214</u>	<u>(2)</u>
Increase (Decrease) in Net Assets	185	(34)	219	183	2
Net Assets Beginning of Period	<u>1,627</u>	<u>1,627</u>	<u>—</u>	<u>722</u>	<u>905</u>
Net Assets End of Period	\$ 1,812	\$ 1,593	\$ 219	\$ 905	\$ 907

This table reflects BWC's financial performance, including the amount of money we're earning (revenues), the amount of costs we are incurring (expenses), and our surplus position (net assets).

Actual – The amounts of revenue earned and expenses incurred for the given period
Projected – The estimated amount expected for the given period
Variance – The difference between the actual and projected amounts
Prior Year Actual – The amount of revenues earned and the expenses incurred for the given period
Increase (Decrease) – The difference between current year actual and prior year actual



A look ahead



BWC recently began contract discussions with the managed care organizations (MCOs). MCOs provide case management services on more difficult claims, and they oversee some of the processes involved with claims. BWC is reviewing MCO compensation, which currently comprises 8 percent of premiums, as well as their responsibilities to reduce system inefficiencies and control compensation costs. The current contract runs through Dec. 31, 2006.

Also, Workers' Compensation University (WCU) began on Sept. 7 in Cincinnati and will visit eight cities through the beginning of October. The conference is free to all and will focus on claims management and accident prevention. More than 20 seminars will be offered at each location. If you are interested in attending, you can pre-register by calling 1-800-644-6292 or by visiting ohiobwc.com.

(A) Compensation check issuance, delivery and endorsement.

(1) Definition of claimant.

As used in this rule the word "claimant" shall apply to an employee who sustained an injury or contracted an occupational disease in the course of and arising out of employment, to the dependent of a deceased employee, as well as to any person who was awarded compensation under the Ohio Workers' Compensation Act.

(2) Time limit for issuance.

(a) Any order, finding or decision of the bureau, the industrial commission, or its hearing officers wherein payment of compensation is to be made shall be promptly forwarded to the appropriate department of the bureau charged with the duty of making the payment, or in the case of a self-insuring employer to the personnel of such employer charged with the disbursement of funds in industrial claims.

(b) The initial check of the bureau in payment of compensation under an order shall be issued within the time limits set forth in division (H) of section 4123.511 of the Revised Code. The payment will include compensation accrued and due the claimant at that time. Further payment of compensation due under that order shall be made by the bureau in biweekly installments. In self-insuring employers' claims payment will be made in accordance with the law and the rules of the bureau.

(3) To whom paid.

(a) Awards of compensation shall be made payable only to the claimant as defined in paragraph (A)(1) of this rule, except in cases of lump sum advancements, or where the claimant is an incompetent person or is a minor awarded a lump sum of compensation, or in the case of attorneys fees as provided in paragraph (A)(8) of this rule.

(b) In cases of lump sum advancements, claimant's creditors may be co-payees.

(c) If the claimant is an incompetent person, checks shall be issued payable and shall be mailed to the claimant's legally appointed guardian upon the receipt of documentary proof establishing the existence of such guardianship.

- (d) If the claimant is a minor and was awarded a lump sum of compensation, such sum shall be paid to the claimant's legally appointed guardian or in accordance with section 2111.05 of the Revised Code.
- (e) If the bureau or the industrial commission determines that it is to the best interest of the claimant that a guardian of the property be appointed to receive the benefits payable, payment shall be withheld until such guardian is appointed.

(4) Information to accompany checks.

All checks for compensation shall be accompanied by information which clearly indicates the source of payment, type of payment, method of computation, inclusive days of payment, the reason for any changes in payment and the telephone number or address for inquiries concerning the payment that was made.

(5) Mail delivery of the bureau's checks to claimant and exceptions.

The standard method of delivering checks of the bureau is by mail. The bureau's checks payable to a claimant shall be mailed to the claimant's address, as officially recorded in the claim file, except as provided below:

- (a) The mailing of the bureau's compensation check to a place requested by the claimant in a power of attorney, executed in accordance with paragraph (A)(6) of this rule, must be approved by the administrator or the administrator's designee, or by the industrial commission or designee.
- (b) Checks for lump sum settlements or lump sum advancements shall be disbursed in accordance with instructions of the bureau or industrial commission, as indicated in the order approving such advancements.
- (c) In cases of advancements made by the employer during a period of disability, the bureau's checks shall be delivered in accordance with rule 4123-5-20 of the Administrative Code.

(6) Personal pick-up of the bureau's checks by a claimant and/or by parties other than a claimant.

- (a) Provided approval has been given by a member of the industrial commission or designee, the administrator of the bureau of workers' compensation or the administrator's designee, or a hearing officer, a claimant, an attorney for a claimant, or any other person authorized by a claimant, may pick-up a compensation check issued by the bureau of workers' compensation.

- (b) When a claimant authorizes another person to pick up the claimant's compensation check, the authorization shall be by a power of attorney. On all types of compensation, other than percentage of permanent partial compensation, the authorization must be filed prior to or at the hearing. For authorization to receive compensation checks in connection with permanent partial disability applications and applications for increases thereof, the authorization must be filed with the application, with the agreement of permanent partial disability, with the election, or with the industrial commission at formal hearing or not later than prior to the date of mailing of the findings resulting from the formal hearing.
 - (c) The warrant will be made payable to the claimant and sent in care of the attorney/representative identified on the power of attorney. The warrant shall be mailed to the address that the claimant indicated on the request, or may be designated for pick-up at the bureau's central office.
 - (d) A person authorized to pick-up the check at the bureau shall furnish adequate identification and sign a dated receipt verifying acceptance of the check.
 - (e) In self-insuring employers' claims, the claimant and the employer may agree on check delivery or pick-up, such agreement to be based on the same principles as outlined in this rule.
- (7) Endorsement of checks and procedure in the event of claimant's death.
- (a) A power of attorney, allowing an attorney or an employee of an attorney to cash or endorse a check on behalf of the claimant is prohibited. Checks payable to claimant's guardian must be endorsed by said guardian in the guardian's official capacity.
 - (b) When a claimant dies, prior to endorsing a compensation check, no one has the right to endorse and cash such check. In order to ensure that the bureau or commission effectively obtains notice of death of a claimant, each check payable to a claimant shall bear on the reverse side, immediately above the point specified for endorsement, a printed certification to the effect that the signer or endorser certifies that he or she is the person to whom the check is payable and that the signature is his or her signature.
 - (c) Checks that cannot be endorsed because the claimant is deceased must be returned to the bureau's benefits payable section, PO box 15429, Columbus, Ohio 43215-0429 by the party handling the claimant's affairs, notifying the bureau of the date of death, if known. Upon receipt of information of claimant's death, payment of compensation shall be terminated and proper entry made in the records of the bureau.

(8) Procedure for a lump sum payment and attorney fees where the claimant is an obligor for child support payments.

(a) If a claimant is entitled to a lump sum payment of one hundred and fifty dollars or greater and the claimant is a obligor for child support payments, prior to issuing the lump sum payment, the bureau shall notify the claimant and the claimant's attorney in writing that the claimant is subject to a support order. The bureau shall hold the lump sum payment for thirty days, pending application by the attorney for attorney fees as provided in paragraph (A)(8)(b) of this rule.

(b) The bureau shall instruct the claimant's attorney in writing to file a copy of the fee agreement signed by the claimant, along with an affidavit signed by the attorney setting forth the amount of the attorney's fee with respect to that lump sum payment award to the claimant and the amount of all necessary expenses, along with documentation of those expenses, incurred by the attorney with respect to obtaining that lump sum award. The attorney shall file the fee agreement and affidavit with the bureau within thirty days after the date the bureau sends the notice under paragraph (A)(8)(a) of this rule. The attorney shall provide a copy of the affidavit to the claimant.

(i) The attorney shall file a copy of the fee agreement that clearly establishes the fee for the lump sum payment in the claim. The attorney's failure to file a copy of the fee agreement shall be a reason for the bureau to reject the application. The attorney should highlight in the fee agreement the language supporting the attorney fee for the type of award that is the subject of the lump sum payment, and, if the attorney is claiming reimbursement for necessary expenses, the language in the fee agreement supporting reimbursement for expenses. However, the attorney's failure to highlight this information in the fee agreement shall not be a reason for the bureau to reject the application.

(ii) The attorney shall file an affidavit in the form provided by the bureau. The attorney may complete the affidavit on the form provided by the bureau or in an affidavit that contains at least all of the elements of the form established by the bureau. The affidavit shall be notarized. The attorney's failure to file an affidavit in the form proscribed by the bureau or failure to obtain a notary signature shall be a reason for the bureau to reject the application.

(iii) The attorney fee shall be limited to the fee for obtaining the specific lump sum payment that is the subject of the bureau notice provided in paragraph (A)(8)(a) of this rule. The attorney fee shall be limited to the written fee agreement of the initial lump sum payment of the award. The bureau will reject a fee application that includes fees from awards

other than the subject lump sum payment or that request a fee from future payments of the award after the lump sum payment.

(iv) If the attorney claims reimbursement for expenses in the affidavit, the expenses shall be limited to the expenses for obtaining the specific lump sum payment that is the subject of the bureau notice provided in paragraph (A)(8)(a) of this rule. The attorney shall provide itemized expenses and documentation to support the expenses. If the attorney fails to provide the required information on expenses, the bureau may reject that portion of the fee application, but shall process the attorney fee portion of the application.

(v) Where the bureau has paid the attorney fee under paragraph (A)(8)(c) of this rule, the bureau will not honor a power of attorney for that award under paragraph (A)(6) of this rule.

(vi) Before rejecting an attorney fee affidavit or fee agreement due to noncompliance with any part of this rule, the bureau shall notify the attorney of the noncompliance and provide the attorney an opportunity to submit additional information during the thirty day hold period provided in paragraph (A)(8)(a) of this rule.

(c) Upon receipt of the fee agreement and attorney affidavit, the bureau shall review the affidavit as provided in this rule. If the affidavit complies with this rule, the bureau shall deduct from the lump sum payment the amount of the attorney's fee and necessary expenses and pay that amount directly to and solely in the name of the attorney within fourteen days after the fee agreement and attorney affidavit have been filed with the bureau.

(d) After deducting any attorney's fee and necessary expenses, if the lump sum payment is one hundred fifty dollars or more, the bureau shall hold the balance of the lump sum award in accordance with division (A)(10) of section 3121.037 of the Revised Code.

(B) Medical awards.

Medical awards shall be paid by the bureau within the time limits set forth in rule 4123-6-12 of the Administrative Code.

(C) Rules for self-insuring employers.

Self-insuring employers shall make payment of compensation and benefits within the time as required by law and rules of the bureau.

(1) It is the duty of the employer to pay, in accordance with the act, the amount of compensation due a claimant whose injury or occupational disease has resulted

in more than seven days lost time. Payment to be made in the manner provided by law and the rules of the bureau.

- (2) It is the duty of the employer to pay for necessary medical services rendered by health care providers as a result of an injury or occupational disease for which a claim was recognized by the employer or allowed by the industrial commission.
- (3) It is the duty of the employer to pay the amount of compensation and/or benefits due in a compensable death case, and to make payment to the proper dependents or to such other persons who may be entitled thereto in accordance with the governing statutes and the orders and rules of the bureau. In the event death is the result of a compensable injury or occupational disease, the employer shall also pay the funeral allowance provided by statute at the time of death.
- (4) All awards made by self-insuring employers must be at least equal to the amounts specified in the applicable statutes, the rules of the bureau and the industrial commission.
- (5) Self-insuring employers shall follow the procedures in paragraph (A)(8) of this rule relating to a lump sum payment and attorney fees where the claimant is an obligor for child support payments.

Workers' Compensation Oversight Commission
Executive Summary
Public Employer Taxing District Rates
January 1, 2007 Policy Year

Public Employer Taxing Districts

Public Employer Taxing Districts include all non-state government entities in Ohio. They consist of approximately 3,800 cities, counties, townships, villages, schools and special districts. The 1-1-2006 policy year projected payroll was \$19.3 billion and the projected premium was \$362 million.

Time Line

The policy year for the taxing districts' rates that we are now creating is January 1, 2007, through December 31, 2007. The premium will be due to BWC in May and September 2008.

Base rates for the manual classifications for taxing districts must be filed with the Legislative Services Commission and the Secretary of State by December 20, 2006, ten days prior to the effective date of January 1, 2007.

Letters informing the taxing districts of their premium rates will be created and mailed before January 1, 2007.

WCOC Process

The BWC Administrator recommends premium rates to the Workers' Compensation Oversight Commission. The Workers' Compensation Oversight Commission provides its advice and consent. An overall rate change recommendation will be presented at the September WCOC meeting. In November, the Administrator will present two rate rules for approval by the WCOC. These rules will contain the calculated base rates for all manual classifications assigned to taxing districts. (The Actuarial Section will calculate these base rates in October and early November.)

Rate Level Recommendation

The Administrator is recommending a 3.2% rate increase for the policy year beginning January 1, 2007.

Rate Level Changes

The overall rate level change affects employers differently. A base or average rate is calculated for each manual classification. These rates result in an overall rate level that is the required change from last year at the aggregate level. However, some manual classifications may have rate changes that are smaller or larger than the average. In addition, many employers are experience rated. For these employers, their individual loss data are used to help determine the individual rates they must pay.

Past Rate Changes

The history of rate changes for Public Employer Taxing Districts is attached. Last year, the overall rate level was decreased by 1%.

Rate Indication

Trends

1. Frequency – This measures the projection of ultimate lost-time claims (claims that are compensable for indemnity benefits and excludes medical-only claims). It can be expressed as a number per \$100 of payroll; per the number of weeks worked or per 100 employees. The selected Public Employer Taxing District (PEC) Employers’ projected ultimate number of lost time claims remains the same as last year. Overall, the PEC employer frequency rate has been lower than Private Employers (PA).
2. Payments – Actuarial tracks the actual payments to “expected” payments by medical payment and indemnity payment types. Expected payments are (projected by Mercer Oliver Wyman, actuarial consultants) compared to the actual payments as they occur on monthly, quarterly and fiscal year reports. Medical payments for the past fiscal year have been lower than the expected amounts. Indemnity payments for the past fiscal year have been higher than expected. The rate indication baseline scenario assumes a slight decrease in both medical and indemnity.
3. Average Claim Costs – The Actuarial Audit projects the discounted average claim cost per ultimate lost-time claim count by injury year. Excerpts of the PEC claims costs from the Actuarial Audit are in the table below. Medical inflation continues to grow at a faster rate than the payroll inflation. The medical portion of a lost-time claim now accounts for 70% of the ultimate cost of the claim.

Injury Year	Medical	Indemnity	Total
1994	\$12,191	\$11,289	\$23,480
2005	\$42,619	\$18,404	\$61,023

4. Rates – Attached is the rate change history for PEC employers since 1-1-1984.

Rate Indication – Rate Level Scenarios

1. Baseline scenario is a statistical extrapolation of historical pure premiums obtained directly from the June 30, 2006 audit and anticipates annual decreases in combined medical and indemnity pure premiums (i.e. losses divided by payroll) of approximately -0.1%. This produces a rate indication of a +3.2%.
2. Reasonable Expectation – Optimistic anticipates a reduction of 4.0% in loss experience. This produces a rate indication of a -0.6%.
3. Reasonable Expectation – Conservative anticipates expected losses being equal to the accident year 2005 projected loss rate. This scenario is approximately 4.5% higher than the baseline and produces a rate indication of a +7.5%.
4. 5% Discount Rate Baseline Expectation uses a discount rate assumption of 5.00% and a decrease in combined medical and indemnity pure premiums of -0.1%. This produces a rate indication of a +6.1%.

Other factors considered in Rate Level Scenarios

1. Investment returns/discount rate of 5.25%

2. Health Partnership Plan costs remaining at 8.0%
3. Non-claim costs paid from the State Insurance Fund
4. Safety & Hygiene factor – to fund the operations of the Division of Safety and Hygiene

Percent Change in Base Rates for Public Employer Taxing Districts

Period	Percent Change
1-1-1984	6% decrease
1-1-1985	6% decrease
1-1-1986	4% increase
1-1-1987	16% increase
1-1-88 – 1987 payroll	10% increase
1-1-88 – 1988 payroll	10% increase
1-1-1989	4% increase
1-1-1990	2% increase
1-1-1991	No Change
1-1-1992	4.5% increase
1-1-1993	4.8% increase
1-1-1994	No Change
1-1-1995	No Change
1-1-1996	7.3% decrease
1-1-1997	5 % decrease
1-1-1998	10% decrease
1-1-1999	10% decrease
1-1-2000	No Change
1-1-2001	3.7% increase
1-1-2002	6.4% increase
1-1-2003	12.1% increase
1-1-2004	2% increase

1-1-2005	2% increase
1-1-2006	1% decrease