Workers' Compensation
Oversight
Commission

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. Koetters
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

The next WCOC

Date: Jan. 25, 2007
Time: 11 a.m.
Location: William Green Building, Second Floor, Room 3

OVERSIGHT COMMISSION

Agenda

Date: **Dec. 14, 2006**
Time: **11:00 a.m.**
Location: **William Green Building, Second Floor, Room 3**

Opening remarks

Chairman's comments .... William Sopko

Old business

Approval of previous meeting minutes .... William Sopko

New Business

1. Administrator's comments .... Bill Mabe
2. CFO financial statement package .... Tracy Valentino
3. Audit Committee *(update)* ....Denise Farkas
4. Investment Committee *(update)* .... Mike Koetters
5. Passive Index Manager
   a. TIPS fixed income mandate, *first consideration, possible vote* .... Bruce Dunn
   b. Long Duration fixed income mandate, *first consideration, possible vote* .... Bruce Dunn
6. MCO Contract *(update)* .... Dr. Greg Jewell
7. Early Retirement Incentive – ERI *(update)* ....Barb Young
8. Group Rating Discussion .... Liz Bravender
9. Dividend Discussion .... Bill Mabe

Rules

1. Payment of hospital inpatient services rule (4123-6-37.1 OAC), *first consideration, possible vote* .... Dr. Greg Jewell

Adjourn .... William Sopko

WORKERS' COMPENSATION OVERSIGHT COMMISSION

THURSDAY NOVEMBER 16, 2006, 11:40 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 Charles Kranstuber Denise Farkas Edwin McCausland Representative Tim Schaffer
Members Absent:	William Burga Senator Steve Stivers Senator Eric Fingerhut Representative Timothy Cassell

ROLL CALL

Mr. Sopko called the meeting to order at 11:40 a.m. and the roll call was taken.

CHAIRMAN'S COMMENTS

Mr. Sopko reported that Mr. Burga was not present because he was attending a national function of the AFL-CIO.

Mr. Sopko thanked the Investment Committee and Audit Committee for their work prior to this meeting.

MINUTES OF SEPTEMBER 28, 2006

Ms. Carroll moved that the minutes of September 28, 2006, be approved. Mr. Koetters seconded and the minutes were approved by a unanimous roll call vote.

NEW BUSINESS

ADMINISTRATOR'S COMMENTS

William Mabe, BWC Administrator, reported on his first year. He sought to restore trust, increase transparency, and strengthen the balance sheet. In restoring the balance sheet, it has moved from a surplus of $700 million to $2 billion, with a combined trade ratio of 80. The results came from investment returns, improved collection of accounts receivable, and a 9% decline in medical expense. Trust has been restored through better reporting of financial, investment, and audit results. BWC is close to completion of the new contract for Managed Care Organizations (MCOs). The contract will require improved performance and reduced cost, without impairing quality and value.

CFO FINANCIAL STATEMENT REVIEW

Tracy Valentino, Chief Financial Officer, reported that the financial statements for both September and October are available. As of October 31, net assets are $2.2 billion, $561 million more than projected and after starting with $770 million last year. The revenues reflect current collections. Expenses are $38 million less and Mercer Oliver Wyman has recommended reducing reserves. Reserve evaluation will be done quarterly from now on to smooth-out results.

Ms. Valentino further reported that there has been $714 million in investment income, which is offset by benefits payments. There was $822 million less paid in premium and assessments than in the original projections because more employers participate in incentive programs than was anticipated. Income was greater than anticipated because of higher rates of interest return. The net assets for the State Insurance Fund are $19.6 billion and, as noted, a surplus of $2.2 billion.

Mr. Koetters asked if there will be changes in the report projections. Ms. Valentino replied not at the time of Mercer reports, but BWC will do so at the end of the year.

Ms. Valentino next reported that cash receipts were $47 million less because of employer participation in incentive programs. Collections of overdue payments have exceeding projections. The *Santos* case presents a one-time payment. Cash receipts have now become sufficient to pay operation expense without liquidating investments. However, Ms. Valentino warned that November and December typically produce the least revenue for the year. The investment portfolio is less expensive to manage. There has been a decline in cash. Net assets are projected to stay stable. The combined ratio is now at 115.9%; 100% is ideal.

Ms. Farkas asked what management is recommending with these improvements. Mr. Mabe replied that it could be in the form of either lower rates or dividends. Ms. Valentino continued that the trade-combined ratio is now 86.

Mr. Sopko thanked Mr. Koetters for requests made in 2005 for financial report timeliness and format. Mr. Koetters thanked BWC for responding to the needs of the Oversight Commission for reports.

AGENDA 06 REPORTS

Mr. Mabe introduced chief officers of each division, who provided progress reports for Agenda 06.

Bruce Dunn reported on the Investment Division. BWC received $166 million more in net income by transitioning to a passive managed fixed income portfolio. Other accomplishments were adoption of the new investment policy and building a new investment team. The Investment Division now has six investment managers, four of whom are Chartered Financial Analyst (CFA) charter holders. Controls have been adopted and enhanced. A Request for Proposal (RFP) will be issued November 17 for an investment accounting and reporting system.

Ms. Valentino reported on behalf of the Financial Department. The financial reporting packages have improved. Collections have improved by $160 million for the year. The division created cross-functional teams to improve collections in the field. The division is also reviewing alternative rating programs for effectiveness. BWC is implementing the Ohio Administrative Knowledge System (OAKS), and has thirty personal assigned. In January, checks will be issued for the first time under OAKS.

Tina Kielmeyer reported that Field Operations had eight items on Agenda 06, involving claims and employer compliance and equity. BWC is being transformed from a claims payment agency to a claims settlement agency. This will enable focus more on management of new claims. Auto adjudication was expanded. For the division, there has been $4.9 million in savings so far. BWC has begun workers' compensation specialist certification similar to one offered by Michigan State University.

Dr. Greg Jewell reported on projects of Medical Service. The division prepared rules for Senate Bill 7 implementation, improved the interface with MCOs, and worked on the MCO contract. BWC will comply with the National Provider identification number in May 2007. Rules have been changed on provider payment. Improved financial results came from decreased utilization and adherence to fee schedules.

Mr. Sopko asked how the pharmacy rate rule was working. Dr. Jewell replied that pharmacy rates were a major issue nationally. Workers' compensation differs from group health in its application. New rules have reduced cost and resulted in a $25 million savings. BWC will issue an RFP to review pharmacy processes.

James Barnes reported on the Legal Division. The subrogation program set a goal to collect $7 million in subrogation monies. That goal was far exceeded and another goal set at collecting $10 million by end of the calendar year. BWC has collected $9 million towards that goal. The pursuit of settlement program began in March 2006 with a goal of $5 million in MIRA reserve reductions. That goal was exceeded by July 2006. By October, there was a reduction of $14.5 million in MIRA reserves. All BWC service offices are now participating in the program.

The Division's Special Investigations Unit actively participated in the Capital Coin Fund investigation and subsequent conviction of Tom Noe. The SIU has provided tens of thousands of hours of investigative assistance to the Inspector General's Task Force. In fiscal year 2006, the Special Investigations Unit identified $90 million in savings.

Leo Genders reported on the Information Division. The division has thirty-six projects, supporting sixty BWC initiatives. Major initiatives include OAKS, Pursuit of Settlement, and web-site disaster recovery. The BWC Project Office now tracks all initiatives. New projects will include an electronic First Report of Injury.

Barb Young reported on Human Resources. BWC has hired highly qualified staff to add to the Investment Department. BWC has engaged search firm for a permanent Chief Financial Officer and Chief Actuarial Officer. Candidates will selected by December 15. All managers and staff are getting training on equal employment opportunity. As of October, early retirement incentives have saved $5 million. There has also been improved workers' compensation claims administration for BWC claims

Ms. Carroll asked if there will be significant hiring needs as employees retire on schedule. Ms. Young stated that BWC anticipates this happening and it will provide an opportunity to improve performance.

Representative Schaffer requested copies of training materials. Mr. Sopko thanked Representative Schaffer for his service on the Oversight Commission and congratulated him on his election to the Ohio Senate.

Jeremy Jackson reported on the Marketing Division. The two challenges for BWC were, first, in telling story with transparency and trust and, second listening to customers. BWC generated correspondence and improved quality control. Marketing also started as publication, *Dollars and Sense*, to get information out to the public. The divisions conducted customer service surveys, both external and internal and began more customer meetings.

Cathy Moseley reported as Chief of Staff. There has been a challenge of implementing better internal controls, which starts at the top. BWC has begun ethics training, which now has been completed by more than 90% of employees. BWC divisions are creating policies and procedures. Internal Audit has been established as an independent division. BWC follows part of the Sarbanes-Oxley Act on internal controls. BWC is also adhering to the five standards of the COSO model, which was recently adopted by the Government Accounting Office.

Mr. Mabe reported that Agenda 07 will roll out in January with new objectives. Mr. Koetters commended BWC for progress. He suggested that BWC next try for benchmarking and using best practices. Ms. Moseley reported that BWC has started to use benchmarks in several areas.

AUDIT COMMITTEE REPORT

Ms. Farkas reported that the Audit Committee met this morning and heard a report from the Internal Audit Division on its December site visit to State Street Bank and Trust. There was also a report on the Quarterly Executive Summary. The Summary only reports weaknesses. The committee also received a report on the Manual Override Audit. Schneider Downs & Co., Inc., will report by November 30 whether it can meet the December 31 deadline for the fiscal year 2005 and fiscal year 2006 audits. There was also an investment accounting report.

Ms. Farkas stated to Representative Schaffer that interim work associated with internal audits is an area that needs protection from public records scrutiny. Disclosure of interim information can interfere with the audit process.

She thanked Mr. Dunn for the hiring of individuals with the designation of Chartered Financial Analyst. This has greatly enhanced the quality of Investment Division staff.

INVESTMENT COMMITTEE REPORT

Mr. Koetters reported that the Investment Committee met this morning. A full-service consulting firm is required by statute and the contract requires annual renewal. Wilshire Consulting has consented to the extension. The Investment Committee hereby recommends renewal of the contract with Wilshire Consulting.

Ms. Farkas moved that the Workers' Compensation Oversight Commission approve WCOC Resolution 06-47 and accept the recommendation of the Investment Committee to renew the current contract with Wilshire Investment Consulting Services to serve the Commission as a full service investment consultant, with the fee increase requested by Wilshire for the renewal period, and that the Commission authorize the Administrator of the Bureau of Workers' Compensation to enter into the renewal contract with Wilshire upon such terms as are favorable to the Bureau and the Oversight Commission. Mr. McCausland seconded and the motion was approved by a unanimous roll call vote.

Mr. Koetters reported that the Committee also reviewed the speed of allocation of the investments for the State Insurance Fund. The Investment Committee approved three recommendations based on recommendations by Mr. Dunn. The Investment Committee will meet prior to December 14 to discuss other matters. Today, the Investment Committee recommends adoption of three resolutions.

CUSTODIAN STRUCTURE RECOMMENDATION

Mr. McCausland moved that the Workers' Compensation Oversight Commission approve WCOC Resolution 06-48 and accept the recommendation of the Investment Committee that each new portfolio account created from the implementation of the new BWC asset allocation policy be held in custody in a separate account structure with JPMorgan Chase. Ms. Farkas seconded.

Mr. Sopko asked Mr. Koetters if the Investment Committee supports this resolution and Mr. Koetters replied affirmatively. The motion was approved by unanimous roll call vote.

SECURITIES LENDING RECOMMENDATION

Ms. Farkas moved that the Workers' Compensation Oversight Commission approve WCOC Resolution 06-49 and accept the recommendation of the Investment Committee that the securities lending activity managed by State Street Bank and Trust be terminated at this time for the purpose of accommodating the BWC asset allocation strategy. Mr. McCausland seconded.

Mr. Sopko asked Mr. Koetters if the Investment Committee supported the resolution and Mr. Koetters responded affirmatively. The motion passed by a unanimous roll call vote.

STATE STREET S&P 500 INDEX FUND INVESTMENT RECOMMENDATION

Mr. McCausland moved that the Workers' Compensation Oversight Commission approve WCOC Resolution 06-50 and accept the recommendation of the Investment Committee that BWC achieve its 20% asset allocation target for equities for its three appropriate portfolio accounts (State Insurance Fund, Disabled Workers Relief Fund, and Coals Miners Fund) by initially investing the necessary funds in the State Street S&P 500 Index Fund ("Ohio Equity Fund") currently available to BWC. Ms. Farkas seconded the motion.

Mr. Sopko asked Mr. Koetters if the Investment Committee supported the resolution and Mr. Koetters replied affirmatively. The motion was approved by a unanimous roll call vote.

WILSHIRE PORTFOLIO PERFORMANCE MONTHLY FLASH REPORT FOR SEPTEMBER 2006 AND THIRD QUARTER 2006 QUARTERLY PERFORMANCE REPORT

Mark Brubaker presented the Wilshire Consulting reports for portfolio performance for September 2006 and the third quarter of 2006. BWC assets now exceed $17 billion. For the first fiscal quarter ending September 30, 2006, the BWC Total Fund earned 3.77%, excluding alternative investments. The investment policy benchmark produced a return of 3.81%. Alternative investments earned 2.66%

Ms. Carroll asked why the Self-Insured Bond Fund was kept in cash instead of investments. Mr. Brubaker responded that the Fund has a high volume turnover with many transactions. The fund is highly liquid, being essentially pay-as-you go.

Mr. Brubaker next highlighted a portion of the report which compares the State Street Aggregate Index with the Lehman Aggregate Index. This shows additional monitoring conducted by Wilshire. The State Street Aggregate Index earned 3.80%, the Lehman Aggregate Index, 3.81%. An additional exhibit provided by Wilshire on private equities shows a net annualized rate of return of 5.04%.

Ms. Farkas asked if the sale of the private equities will result in changes of valuation. Mr. Brubaker replied that UBS Securities will be able to report this at a later time. Wilshire anticipates a discount sale price from 5% to 10% of reported valuation.

RULES/RESOLUTION FOR FIRST CONSIDERATION: BWC ETHICS FIVE-YEAR RULE REVIEW, OHIO ADMINISTRATIVE CODE CHAPTER, 4123-15

Tom Sico, Director of Legal Operations, recommended amendment of Ohio Administrative Code rules on ethics. There is a five-year review of eight rules and approval of one amended rule. BWC rules follow the model rules of the Ohio Ethics Commission and follow the Industrial Commission rules, first adopted in 1978.

BWC recommends amendment of Ohio Administrative Code Rule 4123-15-3. Paragraph (B) is deleted and a new paragraph will be adopted from the model code. The executive summary differs somewhat from the rule, however, all rules are based on existing law. The rules cover filing of financial statements. The approval process is subject to the procedures for the Joint Commission on Agency Rule Review.

Rep Schaffer asked if the rules apply to BWC contractors. Mr. Sico replied that contractors are subject to ethics statutes. Mr. Sopko requested that BWC report to the Oversight Commission on existence of any contractors working at BWC subject to the ethics statutes.

Mr. Kranstuber asked where the penalty provisions of the rules were. Mr. Sico replied that penalties are contained in the ethics statutes. Mr. Sopko requested a report on the placement of penalty provisions. Mr. Sico stated that the Human Resources Division has placed them in the Employee Handbook. Mr. Kranstuber stated that it seemed the penalty provision should be set forth in the rules or cross-referenced.

Mr. Sopko tabled the consideration of the rules until the December meeting because two members have asked for reports.

RULES/RESOLUTION FOR FIRST CONSIDERATION: HEALTH PARTNERSHIP PLAN CREDENTIALING RULE, OHIO ADMINISTRATIVE CODE RULE, 4123-15-6-2.02

Dr. Jewell recommended approval of the HPP credentialing rule, Ohio Administrative Code Rule 4123-15-6-2.02. The rule had been originally approved in July. The public hearing process had resulted in comments and further amendment. The provisions on vocational rehabilitation have been removed. Page 2 covers provider coverage termination. The revisions have been resubmitted to stakeholder groups and there have been no responses.

Mr. Koetters moved that the Oversight Commission approve WCOC Resolution 06-45 in regard to rules on credentials for the Health Partnership Program. The Oversight Commission consents to amendment of Ohio Administrative Code Rule 4123-15-6-2.02 as presented today. Ms. Carroll seconded and the rule was approved by unanimous roll call vote.

RULES/RESOLUTION FOR FIRST CONSIDERATION: PUBLIC EMPLOYER TAXING DISTRICTS CONTRIBUTIONS TO THE STATE INSURANCE FUND AND CREDIBILITY TABLE FOR EXPERIENCE RATING, OHIO ADMINISTRATIVE CODE RULES, 4123-17-34 & 4123-17-33

Liz Bravender, Actuarial Director, recommended approval of Ohio Administrative Code Rules regarding premium rates of public employer taxing districts. The overall rate was approved by the Oversight Commission at its September meeting and BWC proceeded to compute individual employer rates. BWC is now requesting approval of these rates as embodied in Ohio Administrative Code Rules 4123-17-34 and 4123-17-33. After approval, these rates will still be lower than rates of 1995.

Mr. Sopko moved that the Oversight Commission adopt WCOC Resolution 06-46 regarding manual rates and the credibility table for public employer taxing districts. The commission consents to amendment of Ohio Administrative Code Rules 4123-17-34 and 4123-17-33 as presented today. Ms. Carroll seconded and the motion was approved by unanimous roll call vote.

Ms. Carroll noted that the rate for emergency responders heavily skewed the rate change. Ms. Bravender replied that the workers in this category were mostly volunteers for whom it is difficult to set a rate. The employers have minimal payroll in this category, but workers can be subject to serious injury.

ADJOURNMENT

Ms. Carroll moved to adjourn and Mr. Sopko adjourned the meeting.

Prepared by: Larry Rhodebeck, BWC Attorney
H:\Word\ldr\WCOC1106.doc
December 7, 2006

AGENDA ’06 SCORECARD

December 14, 2006

Workers’ Compensation Oversight Commission

BWC Project Office
As of October 31, 2006

AGENDA '06 SCORECARD

BWC SURPASSED ITS AGENDA '06 GOAL OF $424 MILLION IN ONLY NINE MONTHS AND HAS EXCEEDED THE MARK BY MORE THAN $98 MILLION. BWC'S NET ASSETS SURPLUS STANDS AT MORE THAN $2 BILLION AND THE AGENCY IS NOW IN A POSITION TO CONSIDER OFFERING EMPLOYER DIVIDENDS

GOALS	RESULTS (As of Sept. 2006)
Increase revenue by $129.1 million ➢ 12 projects ➢ 4,954 hours ➢ Key strategies: ▪ Establish coordinated collection program that ensures improved employer compliance, supports efforts to prevent employer fraud and ensures timely collection of outstanding balances	**Increased revenue by $199.6 million,** mainly through $189 million more from collections in Finance Division than in the same period in 2005
Reduce expenses by $194 million ➢ 44 projects ➢ 44,903 hours ➢ Key strategies: ▪ Seek passage in the General Assembly of Senate Bill 7 (Cates), Workers' Comp Reform ▪ Reduce cost and improve quality by implementing effective loss-control services ▪ Improve employer management-performance outcomes by measuring employer interventions and tracking accident causation	**Reduced expenses by $113 million**, with the main savings coming from reduced medical costs of $68.4 million relative to the same period in 2005
Add value: Improve customer service by $20.6 million ➢ 25 projects ➢ 49,240 hours ➢ Key strategies: ▪ Control health-care costs by revising reimbursement methodologies and integrating drug utilization reviews with medical management ▪ Improve health care quality by developing provider outcomes and strengthening provider certification	**Saved $5.5 million**, relative to the same period in 2005
Improve financial performance by $80.3 million ➢ 5 projects ➢ 2,426 hours ➢ Key Strategies: ▪ Increase annual cash income by transitioning to a fixed-income portfolio	**Generated $205 million in interest income** relative to the same period in 2005

AGENDA '06 SCORECARD

ACCOMPLISHMENTS

Chief of Staff/Internal Audit

Established the "Tone at the Top" policy that reflects the overall Control Environment mandated by upper management; involved in this policy is integrity, ethical values, competence, authority, and responsibility. As a result, a mandated Ethics Learning Session was completed for all BWC employees so that staff was educated and understood Ohio Ethics Law, the BWC Ethics Policy and Procedures, and BWC Gift Acceptance Policy. The BWC Intranet Intrafin has been leveraged on a scheduled basis for updates and reminders. Further education on terms and terminology have been posted to The Administrator's Page and awareness was further raised through speaking engagements about 'The Coso Model – An Integrated Framework' defining the importance of internal controls for both management and staff.

End-to-end process reviews were initiated in the Independent Internal Audit Division as standard practice using Sarbanes-Oxley Act of 2002 as a guideline. Consulting projects including Investment Division Policy and Procedures, Pursuit of Settlement Process, and E-FROI Process were designed and initiated as a value added advisory service to management.

Implemented a management mechanism to perform an assessment on the effectiveness of internal controls through a risk-based Internal Audit Plan for fiscal year 2007. A risk-based auditing process has also been established for the MCO audit process for calendar year 2007.

Established internal benchmarking measures for trend analysis and "best practices" through the Performance Ohio Initiative (created by the Governor) which tracks performance of all state agencies based on goals and four priorities (education, jobs, quality of life, and efficiency) related to the agency's strategic plan. BWC has four main goals, 13 objectives, and 21 measures related to Agenda '06. Issued redesigned BWC Indicators that are employer focused measures to provide the business community with expense data, claims volume, and other key processes, all of which are updated periodically.

Designed and implemented a monthly financial reporting package with the Finance Division that is submitted to all staff and the WCOC.

Finance

The Finance Division has improved financial reporting packages for internal and external customers. Improved internal collections and closer collaboration with the Attorney General's office generated more than $195 million in additional revenue compared to 2005.

In addition, Finance also created cross-functional teams to research and improve field collections. The division also reviewed alternative rating programs for effectiveness.

Phase One of OAKS (Ohio Administrative Knowledge System) is scheduled for December 2006 implementation.

Human Resources

The Human Resources Division re-allocated resources/human capital within BWC to increase efficiencies by ensuring that it supports divisional business strategies with solid staffing plans.

For example, human resources helped to restore credibility to the BWC Investment Division by hiring skilled, competent and knowledgeable staff uniquely qualified for the respective responsibilities. Reflecting this achievement, the Human Resources Division filled the chief investment officer position, as well as positions for two senior investment managers and two assistant investment managers.

The division mitigated potential liability and risk to BWC by conducting regional EEO supervisor training. The equal employment opportunity department has completed more than 66 percent of the scheduled supervisor training sessions and will complete the remaining areas by year-end 2006.

Human Resources reduced expenses by implementing the 2005 Early Retirement Incentive Program. The 2005 Early Retirement Incentive Program and employees who retired early in 2006 have saved BWC $5,519,675.06 as of October 2006.

Finally, the division led an overall management of the BWC employees’ workers’ compensation claims by individually staffing and implementing aggressive return-to-work strategies. Of the 31 claims employees filed through October 2006, only five were lost time; and all five have successfully returned to work safely and quickly (through the Transitional Work Program).

Infrastructure and Technology

The Infrastructure and Technology Division is engaged in 20 strategic initiatives and 36 projects and has been integral in the success of Agenda ’06. Significant efforts included work toward Senate Bill 7’s sweeping changes, OAKS: The State’s PeopleSoft Implementation and The Pursuit of Claims Settlement Program.

It established the Web Disaster Recovery Hot site in 2006, which gives BWC the ability to recover both internal and external Web-based systems and e-mail services in the event of a disaster, recognizing the new mission-critical nature of these vital systems.

Launched in February 2006, IT established the “BWC Project Office” to initiate, support and measure progress on over 50 strategic initiatives and 110 projects for Agenda ’06 and the enterprise overall. This industry best-practices Enterprise Project Management Office moves forward into 2007 with increasing program and project-management related offerings.

Finally, implementing the electronic billing system (system-to-system eFROI) reduced the “hassle factor” for providers and MCOs. The division initiated efforts to improve customer service levels via the Call Center and interactive voice response (IVR) Services. It reduced costs and efficiencies gained via the Streamlined Voyager Bill Reconciliation Process. Additionally, it made possible significant reductions in mail delays through workflow analysis and improved communications with the U.S. Postal Service.

Investments

Beginning in January 2006, BWC transitioned its actively managed investment portfolios to a fixed income index. BWC completed the transition at the end of March 2006 with actual costs well below estimates. Additional interest income earned for YTD 2006 (ending October 31) was $205.6 million greater for 2006 than the previous year, representing a significantly higher level than a comparable target for the entire calendar year.

Five experienced individuals joined the BWC Investments Division between March and August 2006 as a result of establishing a new internal investment organization. The new additions to the division include a chief investment officer, two senior investment managers, and two assistant investment managers. As a result of Investment’s new team-building process, it hired experienced professionals with high expectations of integrity and competence. Four current staff credentialed as chartered financial analysts reflect these expectations.

The division implemented and outsourced a new system for reporting monthly performance on the BWC State Insurance Fund portfolio and ancillary portfolios to a custodian (JP Morgan Chase) in March 2006. Wilshire Associates, serving as a BWC consultant, also began monthly and quarterly reporting to the Workers’ Compensation Oversight Commission, monitoring the fixed income portfolios and alternative asset portfolios (includes coin fund and private equity funds).

Beginning in April 2006, the Oversight Commission approved a new investment policy for BWC, establishing proper controls and procedures to protect the assets of the State Insurance Fund. It has amended the policy twice as of July and September 2006, allowing for more investment flexibility while maintaining strict monitoring and managing mandates established in the new policy.

Legal

The Legal Division enhanced the process to certify bankruptcy claims to the Attorney General’s (AG’s) Office upon filing of proof of claims. The division certifies the claims to the AG’s office immediately upon receipt and review. Early referral enhances the division’s ability to collect amounts due.

The settlement pursuit initiative program (administrative settlement of death claims and permanent total disability claims) has been highly successful. The goal for the program was $5 million. Through October 2006, however, BWC identified $14. million in net MIRA individual reserve reductions. All service offices are now participating in the program.

It also effectively increased the Legal Division’s attorney participation in Industrial Commission of Ohio hearings. Established a list of priority hearings to attend and developed a tracking system to monitor results. Examples of priority hearings include, but are not limited to, fraud, BWC appeals, bankrupt self-insured claims, loss of use, overpayments, and temporary total disability claims.

The fiscal year 2006 goal for subrogation collections was $7 million. The division far exceeded that goal, and established a new goal of $10 million for calendar year 2006. Through October 2006, BWC's subrogation collections totaled $8.6 million for the calendar year. The division returned the collected monies to the State Insurance Fund and reduced employer premium obligations through a subrogation credit.

The division worked with stakeholders to strengthen the employer felony statute. Under Senate Bill 7, the AG’s office adds employer fraud to a felony charge on unpaid assessments of more than $500.

Marketing

The Marketing Division increased transparency by creating publications such as Dollars and Sense that provided unfiltered information regarding BWC's balance sheet and its progress towards achieving Agenda ’06

AGENDA '06 SCORECARD

It also created a new department to improve relationships with stakeholder groups; a staff of four people have created networks with 73 business and labor groups in six months

In addition, the division implemented a customer service index which uses a platform developed by MIT to measure the effectiveness of both internal and external customer service

The division developed the Mass Communications Team (MCT), which allows internal customers to pass correspondence through a group of diverse disciplines to ensure consistent and accurate information is shared with both internal and external customers. The MCT processes an average of 50 requests each month that affect 100,000 unique customers.

Medical Services

Under provider reimbursement, the Medical Services Division is planning for implementation of in-patient hospital reimbursement Jan. 1, 2007. It has completed rules, policies, flows and testing.

In addition, the division is working toward the April 2007 implementation of provider certification. The Oversight Commission has passed the adjustment of the rule, and the division is drafting process and policy.

The division is also working to complete MCO collaboration in early 2007.

Operations

The Operations Division has completed implementation of a comprehensive claims-management approach assuring injured workers receive the correct benefits in a timely manner that resulted in $10.5 million in savings. The new policy mandates performing a disability management independent medical exam every 45 days, ensuring correct and timely medical treatment or return-to-work. It systematically reviews high-risk claims for targeted criteria. The division improved communication on return-to-work expectations and barriers early in the claim lifecycle. And strategies to settle claims sooner through proactive settlement activity leverage correspondence to claimant parties.

New auto-adjudication rules that systematically allow more minor or low-cost claims have reduced the average claim determination time by two days.

The implementation of a new employer compliance and premium audit program has increased revenue by $4 million through the establishment of policy to impose new fines for late premium payments and stop-work orders for non-compliant employers.

The implementation of six new rules for employer policy management and rating has resulted in over $900,000 in savings. The new rules include an increase in the minimum premium/administrative fee, new minimum and maximum payroll amounts, and clearly defining successorship liability.

The division has developed an Ohio Workers' Compensation Certification Program to build skills and provide a career path for BWC employees. The program involves three levels, with skill focus and job qualifications for higher classifications at each level.

AGENDA ’06 SCORECARD

It has implemented the Breeze Virtual classroom product to leverage training through e-learning. It also used the product for the release of a new BWC timekeeping system.

December '06

Financial Reporting Package

Ohio Bureau of Workers' Compensation

Statement of Operations

Fiscal year to date November 30, 2006

(in millions)	Actual	Projected	Variance	Prior Yr. Actual	Increase (Decrease)
Total Operating Revenues	$ 1,020	$ 1,037	$ (17)	$ 914	$ 106
Total Operating Expenses	1,247	1,291	44	1,245	2
Net Operating Gain (Loss)	(227)	(254)	27	(331)	104
Net Investment Income	889	87	802	457	432
Increase (Decrease) in Net Assets	662	(167)	829	126	536
Net Assets Beginning of Period	1,667	1,667	–	722	945
Net Assets End of Period	$ 2,329	$ 1,500	$ 829	$ 848	$ 1,481

Statement of Operations

Fiscal year to date November 30, 2006

(in millions)	Actual	Projected	Variance	Prior Yr. Actual	Increase (Decrease)
Operating Revenues					
Premium & Assessment Income	$ 1,048	$ 1,056	$ (8)	$ 950	$ 98
Provision for Uncollectibles	(35)	(24)	(11)	(42)	7
Other Income	7	5	2	6	1
Total Operating Revenue	1,020	1,037	(17)	914	106
Operating Expenses					
Benefits & Compensation Adj. Expense	1,207	1,246	39	1,192	15
Other Expenses	40	45	5	53	(13)
Total Operating Expenses	1,247	1,291	44	1,245	2
Net Operating Gain (Loss)	(227)	(254)	27	(331)	104
Investment Income					
Interest and dividend income	366	365	1	268	98
Realized & unrealized capital gains (losses)	528	(271)	799	237	291
Investment manager and operational fees	(5)	(7)	2	(48)	(43)
Gain (loss) on disposal of fixed assets	–	–	–	–	–
Net Investment Income	889	87	802	457	432
Increase (Decrease) in Net Assets	662	(167)	829	126	536
Net Assets Beginning of Period	1,667	1,667	–	722	945
Net Assets End of Period	$ 2,329	$ 1,500	$ 829	$ 848	$ 1,481

Statement of Net Assets

As of November 30, 2006

(in millions)	Actual	Projected	Variance	Prior Yr. Actual	Increase (Decrease)
Assets					
Total Cash and Investments	$ 16,881	$ 16,181	$ 700	$ 16,005	$ 876
Accrued Premiums	2,511	2,106	405	2,348	163
Other Accounts Receivable	97	448	(351)	134	(37)
Investment Receivables	143	139	4	63	80
Other Assets	124	123	1	131	(7)
Total Assets	$ 19,756	$ 18,997	$ 759	$ 18,681	$ 1,075
Liabilities					
Reserve for Compensation and Compensation Adj. Expense	$ 16,725	$ 16,725	$ –	$ 17,093	$ (368)
Accounts Payable	47	61	(14)	35	12
Other Liabilities	655	711	(56)	705	(50)
Total Liabilities	17,427	17,497	(70)	17,833	(406)
Net Assets	$ 2,329	$ 1,500	$ 829	$ 848	$ 1,481

Statement of Cash Flows

Fiscal year to date November 30, 2006

(in millions)	Actual	Projected	Variance	Prior Yr. Actual	Increase (Decrease)
Cash flows from operating activities:					
Cash receipts from premiums	$ 1,009	$ 1,039	$ (30)	$ 992	$ 17
Cash receipts – other	13	5	8	12	1
Cash disbursements for claims	(876)	(871)	(5)	(867)	(9)
Cash disbursements for other	(250)	(182)	(68)	(185)	(65)
Net cash provided (used) by operating activities	(104)	(9)	(95)	(48)	(56)
Net cash flows from capital and related financing activities	(5)	(3)	(2)	(5)	–
Net cash provided (used) by investing activities	287	10	277	250	37
Net increase (decrease) in cash and cash equivalents	178	(2)	180	197	(19)
Cash and cash equivalents, beginning of period	194	194	–	1,283	(1,089)
Cash and cash equivalents, end of period	$ 372	$ 192	$ 180	$ 1,480	$ (1,108)

Statement of Investment Income

Fiscal year to date November 30, 2006

	Actual	Projected	Variance	Prior Yr. Actual	Increase (Decrease)
Interest Income					
Bond Interest	$ 352,168,263	$ 346,200,000	$ 5,968,263	$ 151,765,986	$ 200,402,277
Dividend Income (Dom & Int'l)	1,924,822	1,200,000	724,822	34,674,550	(32,749,728)
Money Market/ Commercial Paper Income	5,666,447	10,000,000	(4,333,553)	25,235,443	(19,568,996)
Misc. Income (Corp actions, etc.)	1,544,728	1,500,000	44,728	19,463,077	(17,918,349)
Private Equity	2,260,774	3,130,000	(869,226)	2,126,132	134,642
Net Securities Lending Income	2,376,035	2,500,000	(123,965)	2,675,144	(299,109)
Total Interest Income	365,941,069	364,530,000	1,411,069	235,940,332	130,000,737
Realized & Unrealized Capital Gains and (Losses)					
Net realized gain (loss) - Stocks (Dom & Int'l)	742,599	–	742,599	277,319,007	(276,576,408)
Net realized gain (loss) - Bonds	5,158,141	(110,000,000)	115,158,141	(49,737,444)	54,895,585
Net gain (loss) - PE	(7,114,511)	9,460,000	(16,574,511)	4,463,080	(11,577,591)
Unrealized gain (loss) - Stocks (Dom & Int'l)	(1,636,830)	4,667,000	(6,303,830)	154,493,428	(156,130,258)
Unrealized gain (loss) - Bonds	530,794,918	(175,001,000)	705,795,918	(149,961,245)	680,756,163
Change in Portfolio Value	527,944,317	(270,874,000)	798,818,317	236,576,826	291,367,491
Investment Expenses-Manager & Operational Fees	(5,307,207)	(6,521,042)	1,213,835	(15,469,487)	(10,162,280)
Total Investment Income	$ 888,578,179	$ 87,134,958	$ 801,443,221	$ 457,047,671	$ 431,530,508

Projected Statement of Operations

July 1, 2006 – November 30, 2006

(in millions)	Actual Quarter Sept. 30, 2006	Actual Oct. 31, 2006	Actual Nov. 30, 2006	Projected Dec. 31, 2006	Projected Quarter Dec. 31, 2006
Total Operating Revenues	$ 596	$ 205	$ 219	$ 228	$ 652
Total Operating Expenses	773	197	276	232	705
Net Operating Gain (Loss)	(177)	8	(57)	(4)	(53)
Net Investment Income	602	111	175	(47)	239
Increase (Decrease) In Net Assets	425	119	118	(51)	186
Net Assets Beginning of Period	1,667	2,092	2,211	2,329	2,092
Net Assets End of Period	$ 2,092	$ 2,211	$ 2,329	$ 2,278	$ 2,278

(in millions)	Projected Quarter March 31, 2007	Projected Quarter June 30, 2007	Projected Fiscal Year June 30, 2007
Total Operating Revenues	$ 627	$ 600	$ 2,475
Total Operating Expenses	748	785	3,011
Net Operating Gain (Loss)	(121)	(185)	(536)
Net Investment Income	191	197	1,229
Increase (Decrease) In Net Assets	70	12	693
Net Assets Beginning of Period	2,278	2,348	1,667
Net Assets End of Period	$ 2,348	$ 2,360	$ 2,360

Projected Statement of Cash Flows

July 1, 2006 – November 30, 2006

(in millions)	Actual Quarter Sept. 30, 2006	Actual Oct. 31, 2006	Actual Nov. 30, 2006	Projected Dec. 31, 2006	Projected Quarter Dec. 31, 2006
Cash flows from operating activities:					
Cash receipts from premiums	$ 821	$ 138	$ 50	$ 29	$ 217
Cash receipts – other	9	2	2	1	5
Cash disbursements for claims	(509)	(164)	(203)	(157)	(524)
Cash disbursements for other	(139)	(70)	(41)	(30)	(141)
Net cash provided (used) by operating activities	182	(94)	(192)	(157)	(443)
Net cash flows from capital and related financing activities	(5)	–	–	–	–
Net cash provided (used) by investing activities	9	9	269	2	280
Net increase (decrease) in cash and cash equivalents	186	(85)	77	(155)	(163)
Cash and cash equivalents, beginning of period	194	380	295	372	380
Cash and cash equivalents, end of period	$ 380	$ 295	$ 372	$ 217	$ 217

(in millions)	Projected Quarter March 31, 2007	Projected Quarter June 30, 2007	Projected Fiscal Year June 30, 2007
Cash flows from operating activities:			
Cash receipts from premiums	$ 1,002	$ 482	$ 2,522
Cash receipts – other	3	3	20
Cash disbursements for claims	(508)	(534)	(2,075)
Cash disbursements for other	(101)	(103)	(484)
Net cash provided (used) by operating activities	396	(152)	(17)
Net cash flows from capital and related financing activities	(17)	–	(22)
Net cash provided (used) by investing activities	(2)	6	293
Net increase (decrease) in cash and cash equivalents	377	(146)	254
Cash and cash equivalents, beginning of period	217	594	194
Cash and cash equivalents, end of period	$ 594	$ 448	$ 448

Projected Statement of Investment Income

July 1, 2006 – November 30, 2006

	Actual Quarter Sept. 30, 2006	Actual Oct. 31, 2006	Actual Nov. 30, 2006	Projected Dec. 31, 2006	Projected Quarter Dec. 31, 2006
Interest Income					
Bond Interest	$ 210,425,631	$ 71,001,361	$ 70,741,270	$ 62,400,000	$ 204,142,631
Dividend Income (Dom & Int'l)	99,113	1,851,977	(26,268)	2,400,000	4,225,709
Money Market/ Commercial Paper Income	3,413,767	1,269,784	982,896	2,000,000	4,252,680
Misc. Income (Corp actions, etc.)	1,403,869	73,370	67,489	300,000	440,859
Private Equity	4,984,705	539,238	(3,263,169)	590,000	(2,133,931)
Net Securities Lending Income	1,541,324	506,275	328,437	500,000	1,334,712
Total Interest Income	221,868,409	75,242,005	68,830,655	68,190,000	212,262,660
Realized & Unrealized Capital Gains and (Losses)					
Net realized gain (loss) - Stocks (Dom & Int'l)	881,489	(55,089)	(83,801)	–	(138,890)
Net realized gain (loss) - Bonds	(75,423)	(12)	5,233,576	(110,000,000)	(104,766,436)
Net gain (loss) - PE	2,807,629	546,537	(10,468,678)	1,775,000	(8,147,141)
Unrealized gain (loss) - Stocks (Dom & Int'l)	(1,911,863)	119,042	155,991	9,334,000	9,609,033
Unrealized gain (loss) - Bonds	382,119,778	35,619,771	113,055,370	(15,000,000)	133,675,141
Change in Portfolio Value	383,821,610	36,230,249	107,892,458	(113,891,000)	30,231,707
Investment Expenses-Manager & Operational Fees	(3,411,150)	(268,655)	(1,627,402)	(1,681,933)	(3,577,990)
Total Investment Income	$ 602,278,869	$ 111,203,599	$ 175,095,711	$ (47,382,933)	$ 238,916,377

	Projected Quarter March 31, 2007	Projected Quarter June 30, 2007	Projected Fiscal Year June 30, 2007
Interest Income			
Bond Interest	$ 200,062,500	$ 202,987,500	$ 817,618,262
Dividend Income (Dom & Int'l)	7,312,500	7,537,500	19,174,822
Money Market/ Commercial Paper Income	6,456,250	7,368,750	21,491,447
Misc. Income (Corp actions, etc.)	900,000	900,000	3,644,728
Private Equity	490,000	–	3,340,774
Net Securities Lending Income	1,500,000	1,500,000	5,876,036
Total Interest Income	216,721,250	220,293,750	871,146,069
Realized & Unrealized Capital Gains and (Losses)			
Net realized gain (loss) - Stocks (Dom & Int'l)	21,000,000	–	21,742,599
Net realized gain (loss) - Bonds	–	(2,000,000)	(106,841,859)
Net gain (loss) - PE	(18,525,000)	–	(23,864,512)
Unrealized gain (loss) - Stocks (Dom & Int'l)	28,220,083	28,656,249	64,573,502
Unrealized gain (loss) - Bonds	(45,390,000)	(46,170,000)	424,234,919
Change in Portfolio Value	(14,694,917)	(19,513,751)	379,844,649
Investment Expenses-Manager & Operational Fees	(11,310,799)	(3,430,800)	(21,730,739)
Total Investment Income	$ 190,715,534	$ 197,349,199	$ 1,229,259,979

Insurance Ratios

July 1, 2006 – November 30, 2006

	Actual FY07	Projected FY07	Actual FY06
Loss Ratio	94.34%	92.08%	104.95%
LAE Ratio - MCO	8.17%	10.53%	9.23%
LAE Ratio - BWC	12.73%	15.40%	11.29%
Net Loss Ratio	115.24%	118.01%	125.47%
Expense Ratio	3.79%	4.28%	5.43%
Policyholder Dividend Ratio	0.00%	0.00%	0.13%
Combined Ratio	119.03%	122.29%	131.03%
Net Investment Income Ratio	34.43%	33.89%	23.21%
Operating Ratio (Trade Ratio)	84.60%	88.40%	107.82%

	Actual FY07	Projected FY07	Actual FY06
Premiums to surplus	0.45	0.70	1.12
Assets to liabilities	1.13	1.09	1.04
Total reserves to surplus	7.18	11.15	20.15
Loss reserves to surplus	6.48	10.06	18.10
Investments to loss reserves	1.12	1.07	1.04
Cash + bonds to loss reserves	1.09	1.04	0.57
Cash % of total investments	2%	1%	9%
Bond % of total investments	95%	96%	46%
Equities % of total investments	0%	0%	43%
Equities as % of surplus	0%	0%	804%

Projected Insurance Ratios

Fiscal years 2002 – 2007

	Projected FY 07	Preliminary FY06	Preliminary FY05	FY04	FY03	FY02
Loss Ratio	92.71%	72.10%	111.9%	96.7%	128.9%	105.6%
LAE Ratio - MCO	8.79%	8.29%	7.3%	9.1%	8.8%	9.4%
LAE Ratio - BWC	13.76%	6.47%	15.1%	8.3%	12.9%	9.2%
Net Loss Ratio	115.26%	86.86%	134.3%	114.2%	150.6%	124.1%
Expense Ratio	3.76%	3.82%	4.1%	5.1%	4.1%	4.0%
Policyholder Dividend Ratio	0.00%	-0.37%	10.6%	18.6%	28.7%	62.4%
Combined Ratio	119.02%	90.31%	149.0%	137.9%	183.4%	190.5%
Net Investment Income Ratio	33.56%	29.43%	22.8%	20.5%	23.9%	27.0%
Operating Ratio (Trade Ratio)	85.46%	60.88%	126.2%	117.3%	159.5%	163.5%

Note: FY 06 ratios have been significantly impacted by improvements in medical payment trends due to reductions in the cost of pharmacy benefits and lower payments to hospitals. These trends contributed to an approximately $1 billion reduction in loss expenses in FY 06.

	Projected FY 07	Preliminary FY06	Preliminary FY05	FY04	FY03	FY02
Premiums to surplus	1.07	1.34	3.04	2.59	4.04	1.25
Assets to liabilities	1.13	1.10	1.03	1.04	1.03	1.09
Total reserves to surplus	7.25	9.87	23.31	18.90	28.93	7.88
Loss reserves to surplus	6.53	8.92	20.94	16.98	25.90	7.02
Investments to loss reserves	1.13	1.09	1.11	1.12	1.13	1.30
Cash + bonds to loss reserves	0.90	1.06	0.63	0.65	0.75	0.85
Cash % of total investments	3%	1%	8%	10%	13%	14%
Bond % of total investments	77%	96%	49%	48%	54%	52%
Equities % of total investments	20%	0%	38%	36%	30%	32%
Equities as % of surplus	148%	1%	880%	680%	869%	292%

Dollars&Sense

From the desk of
Administrator/ CEO Bill Mabe

Without a doubt, 2006 has been both a challenging and encouraging year for the Ohio Bureau of Workers' Compensation (BWC). In spite of those challenges, we've made significant progress through Agenda '06, in which we committed to improving the bottom line by $424 million. We started by terminating all external money managers without prejudice and moving the portfolio towards fixed-income. The result: $205 million more in interest income.

We also committed to reining in runaway medical costs by implementing tighter fee schedules. This has paid off as well: overall, medical expenses have declined by $68.4 million with decreases in hospital, prescrip-tion drug, and physician costs. Additionally, we pledged to improve collections, which has resulted in an increase in collections of $195 million.

We've honored other commitments as well. BWC's trade combined ratio has declined from 105.53 percent to 80.88 percent, and our surplus has jumped from $770 million a year ago to more than $2.2 billion today. We also have surpassed our Agenda '06 goal by $98 million dollars with two months to spare. Most importantly, we've accomplished this as claims continue to decline, showing employers' continued commitment to safety.

Again, we've taken several steps in the right direction, but there's more we can, and will, do in 2007. By focusing on service, we're hoping to make the system less confusing and easier to navigate. We're pledging to further leverage technology to make things simpler. And we're also going to work hard to make sure we're providing services that are actually of value to our customers.

With this objective and a commitment to being mindful of the bottom line, we're confident BWC can once again be trusted to protect the state's most important assets – the workers and employers of Ohio.

WMabe

William Mabe, Administrator/CEO
Ohio Bureau of Workers' Compensation

Total assets
As of Oct. 31, 2006

$19.6 billion

Total liabilities
As of Oct. 31, 2006

$17.4 billion

Net assets
As of Oct. 31, 2006

$2.2 billion

Trade combined ratio
As of Oct. 31, 2006

80.88%

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 $.81 for every $1 it earns.

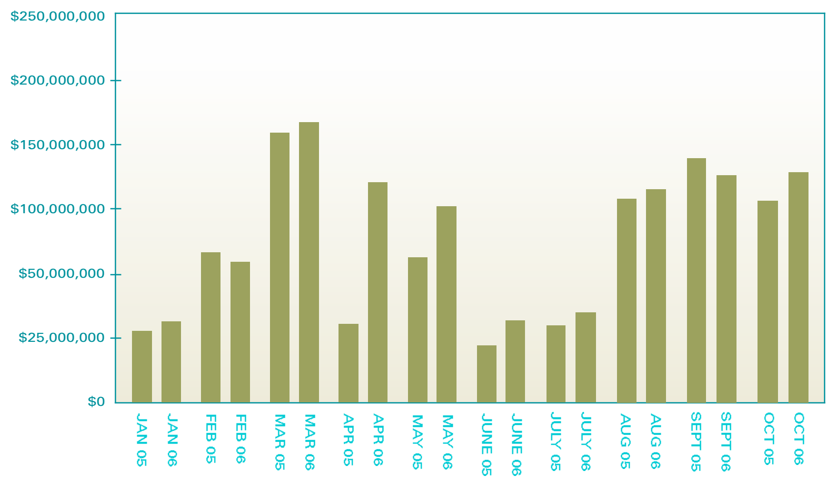
Increasing revenue

Revenue collection

Improvement in bottom line

$199.6 million

BWC Receipts



Accounts receivable

Through October, BWC has collected more than $905 million in premiums and other outstanding obligations from employers. This represents an increase of 26 percent compared to the same period in 2005, or $188.4 million more.

Additionally, the attorney general's office has increased its collections on behalf of BWC by 18.2 percent, or $5.4 million. For the first ten months, they've returned $35 million.

Currently, the net accounts receivable balance stands at $140 million. Of that, only $51.8 million is more than one year old.

Employer compliance

In October, the employer compliance department (ECD) conducted 1301 audits, resulting in a net credit to BWC of more than $450,000. For the year, the ECD has generated nearly $4.6 million in credits to the agency.

Better investment management

Improvement in bottom line

$205 million

Total Fund

BWC's Total Fund, 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 October 2006. The Total Fund returned 0.64% on both a net-of-fee and gross-of-fee basis. The Total Fund value as of October 2006 was $17 billion.

SIF

By generating an additional $28 million in investment income for the month of October 2006 compared to the same period of in 2005, BWC increased its year to date total variance to $205 million, surpassing its goal of generating an additional $100 million dollars during calendar year 2006 by $105 million with two months remaining

Performance Measures Net of Fees

Month ending October 31, 2006

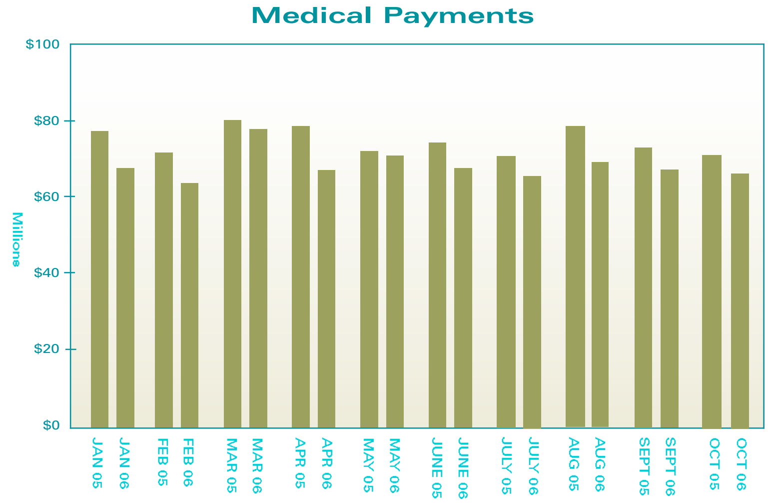
	BWC Investment Returns Monthly (Net of Fees)	Benchmark Returns Monthly	Benchmark Variance	BWC Investment Returns 3 Month Trailing (Net of Fees)	New Benchmark Returns 3 Month Trailing	Benchmark Variance
BWC SIF Fund Investments	0.64%	0.66%	-0.02%	3.02%	3.10%	-0.08%

Improving customer value and productivity

Reducing expenses

Improvement in bottom line

$113 million



Indemnity

Indemnity payments continue to trend slightly higher through the first ten months of 2006. Through October, compensation had increased nearly 3 percent, or about $2.8 million per month. Total payments have exceeded $870 million.

The biggest driver of indemnity costs continues to be lump sum settlements (LSS); this is because one of BWC's Agenda '06 items was to focus on settling high-dollar claims. LSS payments have increased by more than $27 million compared to 2005. However, MIRA reserve savings as a result of this initiative exceed $14 million.

Temporary total payments have decreased by nearly $8 million, and death benefit payments are essentially flat. However, permanent total disability benefits and percent permanent partial awards jumped nearly $5 million each.

Medical

Overall, medical costs have decreased $68.4 million compared to the same period of time in October. Hospital expenses have dropped $33.7 million, a decrease of nearly 13 percent. Additionally, prescription drug costs have declined 19.7 percent, saving $24.6 million. Finally, payments to physicians are $9.4 million lower as well.

Special investigations unit

Through October, BWC's special investigations unit has identified more than $74 million in savings while generating a return on investment of $7.79 for every dollar spent on resources and personnel. They've received 5,181 allegations in ten months and have closed 2,810 cases while continuing to support the Task Force that was examining the agency's investment department and the Capital Coin Fund.

Adding value

Improvement in bottom line

$5.5 million

BWC is continuing to work with managed care organizations on optimizing inefficient and redundant processes within the system and determining a fair rate of compensation. However, the agency announced plans to initiate another early retirement beginning in December and running through November 2007.

There are 363 people that are eligible to take the buyout, and BWC currently plans to backfill only 50 percent of those positions. As a result, the expected savings should exceed $8 million, which is more than twice the $3.1 million in savings generated from this year's initiative.

Statement of Operations

Fiscal year to date October 31, 2006

(in millions)	Actual	Projected	Variance	Prior Yr. Actual	Increase (Decrease)
Total Operating Revenues	$ 801	$ 854	$ (53)	$ 768	$ 33
Total Operating Expenses	971	1,009	38	986	(15)
Net Operating Gain (Loss)	(170)	(155)	(15)	(218)	48
Net Investment Income	714	138	576	266	448
Increase (Decrease) in Net Assets	544	(17)	561	48	496
Net Assets Beginning of Period	1,667	1,667	–	722	945
Net Assets End of Period	$ 2,211	$ 1,650	$ 561	$ 770	$ 1,441

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

Executive Summary
Proposed Revisions to HPP Hospital Inpatient Services Payment Rule

Background

Ohio Administrative Code 4123-6-37 provides general criteria for the payment of inpatient and outpatient hospital services under the HPP. Earlier this year, the Workers' Compensation Oversight Commission (WCOC) approved rule OAC 4123-6-37.1, which provides specific methodology for the payment of inpatient hospital services, and which is currently scheduled to take effect January 1, 2007.

BWC has since identified several enhancements to the previously approved inpatient hospital services payment rule, which are proposed herein.

<u>4123-6-37.1 Payment of hospital inpatient services.</u>

First, the revised rule clarifies that unless an MCO has negotiated a different payment rate with a hospital, reimbursement for hospital inpatient services (other than outliers and payments to DRG-exempt hospitals and distinct-part units of hospitals) shall be equal to one hundred fifteen percent of the applicable diagnosis related group (DRG) reimbursement rate for the hospital inpatient service under the Medicare program.

The revised rule proposes that, in addition to the payment specified above, hospitals operating approved graduate medical education programs and receiving additional reimbursement from Medicare for costs associated with these programs shall receive an additional per diem amount for direct graduate medical education costs associated with hospital inpatient services reimbursed by the bureau, and provides a formula for calculation of the per diem amount.

The definition of, and reimbursement of, outliers is unchanged from the rule as previously approved by the WCOC. However, the cost-to-charge ratios used in the determination and reimbursement are more specifically identified.

Next, the revised rule identifies how reimbursement for inpatient services provided by hospitals and distinct-part units of hospitals designated by the Centers for Medicare and Medicaid Services' Medicare program as exempt from DRG-based reimbursement (where there is no "applicable DRG reimbursement rate") shall be determined.

Finally, the revised rule provides greater specificity as to the Medicare regulations under which the "applicable DRG reimbursement rate" is determined, and which are incorporated by reference into the rule.

Executive Summary
December 2006

4123-6-37.1 Payment of hospital inpatient services.

~~(A)~~ Unless an MCO has negotiated a different payment rate with a hospital pursuant to rule 4123-6-08 of the Administrative Code, reimbursement for hospital inpatient services~~,~~ ~~excluding~~ shall be as follows:

(A) Reimbursement for hospital inpatient services, other than outliers as defined in paragraph ~~(B)~~ (C) of this rule or services provided by hospitals subject to reimbursement under paragraph (D) of this rule, shall be equal to one hundred fifteen percent of the applicable diagnosis related group (DRG) reimbursement rate for the hospital inpatient service under the ~~medicare program established under Title XVIII of the Social Security Act, 79 Stat. 286 (1965), 42 U.S.C. 1395 as amended~~ Medicare program.

(B) In addition to the payment specified by paragraph (A) of this rule, hospitals operating approved graduate medical education programs and receiving additional reimbursement from Medicare for costs associated with these programs shall receive an additional per diem amount for direct graduate medical education costs associated with hospital inpatient services reimbursed by the bureau. Hospital specific per diem rates for direct graduate medical education shall be calculated annually by the bureau effective October 1 of each year, using the most current cost report data available from the Centers for Medicare and Medicaid Services, according to the following formula:

> 1.15 x [(Total Approved Amount for Resident Cost + Total Approved Amount for Allied Health Cost)/ Total Inpatient Days] = Direct Graduate Medical Education Per Diem

Direct graduate medical education per diems shall not be applied to outliers as defined in paragraph (C) of this rule or services provided by hospitals subject to reimbursement under paragraph (D) of this rule

~~(B)~~ (C) Reimbursement for outliers shall be determined as follows:

> (1) For hospitals with a ~~reported~~ 2004 total inpatient cost-to-charge ratio as reported to Ohio Medicaid, outliers shall be defined as hospital inpatient stays in which the hospital's allowable billed charges multiplied by the hospital's ~~reported~~ 2004 total inpatient cost-to-charge ratio as reported to Ohio Medicaid is more than two standard deviations above the applicable ~~medicare~~ Medicare DRG value, and reimbursement for outliers shall be equal to the hospital's allowable billed charges multiplied by the hospital's ~~reported~~ 2004 total inpatient cost-to-charge ratio as reported to Ohio Medicaid, not to exceed sixty percent of the hospital's allowable billed charges;
>
> (2) For hospitals without a ~~reported~~ 2004 total inpatient cost-to-charge ratio as reported to Ohio Medicaid and out-of-state hospitals, outliers shall be defined as hospital inpatient stays in which sixty percent of the hospital's allowable billed

charges is more than two standard deviations above the applicable ~~medicare~~ Medicare DRG value, and reimbursement for outliers shall be equal to sixty percent of the hospital's allowable billed charges.

(D) Reimbursement for inpatient services provided by hospitals and distinct-part units of hospitals designated by the Medicare program as exempt from DRG-based reimbursement shall be determined as follows:

(1) For Ohio hospitals with a 2004 total inpatient cost-to-charge ratio as reported to Ohio Medicaid, reimbursement shall be equal to the hospital's allowable billed charges multiplied by the hospital's reported cost-to-charge ratio plus twelve percentage points, not to exceed seventy percent of the hospital's allowed billed charges.

(2) For Ohio hospitals without a 2004 total inpatient cost-to-charge ratio as reported to Ohio Medicaid and out-of-state hospitals, reimbursement shall be equal to sixty-six percent of the hospital's allowed billed charges.

For purposes of this rule, the "applicable diagnosis related group (DRG) reimbursement rate" or "value" shall be determined in accordance with the Medicare program established under Title XVIII of the Social Security Act, 79 Stat. 286 (1965), 42 U.S.C. 1395 as amended, as implemented by the following materials, which are incorporated by reference:

(a) 42 CFR Part 412 as published in the October 1, 2006 Code of Federal Regulations;

(b) Department of Health and Human Services, Centers for Medicare and Medicaid Services' "42 CFR Parts 409, 410, 412, 413, 414, 424, 485, 489, and 505 Medicare Program; Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2007 Rates; Fiscal Year 2007 Occupational Mix Adjustment to Wage Index; Health Care Infrastructure Improvement Program; Selection Criteria of Loan Program for Qualifying Hospitals Engaged in Cancer-Related Health Care and Forgiveness of Indebtedness; and Exclusion of Vendor Purchases Made Under the Competitive Acquisition Program (CAP) for Outpatient Drugs and Biologicals Under Part B for the Purpose of Calculating the Average Sales Price (ASP)." Federal Register, Volume 71, Number 160, Pages 47869-47918, August 18, 2006;

(c) Department of Health and Human Services, Centers for Medicare and Medicaid Services' "42 CFR Parts 409, 410, 412, 413, 414, 424, 485, 489,and 505 Medicare Program; Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2007 Rates; Correction." Federal Register, Volume 71, Number 191, Pages 58286-58287, October 3, 2006;

(d) Department of Health and Human Services, Centers for Medicare and Medicaid Services' "Medicare Program; Hospital Inpatient Prospective Payment Systems and Fiscal Year 2007 Rates: Final Fiscal Year 2007 Wage Indices and Payment Rates After Application of Revised Occupational Mix Adjustment to Wage Index" Federal Register, Volume 71, Number 196, Page 59885-60043 October 11, 2006.

Effective:

R.C. 119.032 review dates:

Certification

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Date

Promulgated Under: 119.03

Statutory Authority: 4121.12, 4121.30, 4121.31, 4123.05

Rule Amplifies: 4121.121, 4121.44, 4121.441, 4123.66
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