

Enterprise Report

August 2008

Financial Report

BWC's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The statements are prepared using the accrual basis of accounting and the economic resources measurement focus.

Statement of Operations

This statement reports operating revenues and expenses, as well as net investment revenues for the current fiscal year to date, projected, and prior fiscal year to date. A combining schedule for the statement of operations presents the current fiscal year to date revenue and expenses by fund. *Pages 5 and 6.*

Statement of Investment Income

This statement provides information on the sources of investment income, changes in investment fair value, and investment expenses. Information is presented for the current fiscal year to date, projected, and prior fiscal year to date. *Page 7.*

Administrative Cost Fund Budget Summary

This statement reports actual fiscal year to date administrative expenses and budget compared to the budget for the fiscal year and prior fiscal year to date expenses for BWC. The fiscal year budget is also compared to the agency appropriation. *Pages 8 and 9.*

State Insurance Fund Administrative Expense Summary

This statement reports administrative expenses that are permitted to be paid from the State Insurance Fund for the current and prior fiscal year to date along with the remaining open encumbrances for each of the contracts. *Page 10.*

Statement of Cash Flows

This statement presents cash flows from operating, capital and related financing activities, and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash and cash equivalents. *Page 11.*

Statement of Net Assets

This statement presents information reflecting BWC's assets, liabilities, and net assets. Net assets represent the amount of total assets less liabilities. This statement would be referred to as a balance sheet in the private sector. A combining schedule presents this information by fund. *Pages 12 and 13.*

Performance Metrics

Financial ratios reflecting BWC's performance are presented here. These financial ratios are insurance industry recognized financial metrics. *Pages 14 and 15.*

July Financial Analysis

BWC's net assets decreased by \$181 million in July 2008 resulting in net assets of \$2.0 billion at July 31, 2008 compared to \$2.2 billion at June 30, 2008.

<i>(\$ in millions)</i>	Fiscal YTD July 31, 2008
Operating Revenues	\$192
Operating Expenses	239
Operating Transfer Out	(2)
Net Operating Gain (Loss)	(49)
Net Investment Income (Loss)	(132)
Increase (Decrease) in Net Assets	(181)
Net Assets End of Period	\$2,042

- o Premium and assessment income of \$201 million was reduced by a \$9 million provision for uncollectible accounts receivable resulting in operating revenues of \$192 million in July 2008.
- o Benefits and compensation adjustment expenses of \$232 million along with other expenses of \$7 million resulted in operating expenses of \$239 million in July 2008.
- o The \$224 million reduction in portfolio market value during July exceeded interest and dividend income of \$92 million for the month, resulting in a net investment loss of \$132 million for the month after investment expenses.
- o A transfer of \$1.7 million was made to the Ohio Department of Natural Resources - Mine Safety Program. This transfer was made in accordance with the rule approved by the Board in May to provide funding of no more than \$5.5 million to the Mine Safety Program during the first 12 months of the program.
- o Premium collections in July were \$200 million, an expected increase from the \$25 million collected in June as private employers pay premiums for the January to June policy period. Employers choosing our future date option have increased by 46 percent this reporting period. The future date option allows employers to report their payroll and defer payment to a date they select up to the August 31 filing deadline.
- o Claim payments issued in July were \$166 million, including \$27 million in settlements.

Fiscal Year-to-Year Comparisons

BWC's total net assets have decreased by \$181 million for fiscal year-to-date 2009 resulting in net assets of \$2.0 billion compared to \$2.4 billion at July 31, 2007.

<i>(\$ in millions)</i>	Fiscal YTD July 31, 2008	Projected FYTD July 31, 2008	Fiscal YTD July 31, 2007
Operating Revenues	\$192	\$199	\$198
Operating Expenses	239	270	217
Operating Transfer Out	(2)	(1)	-
Net Operating Gain (Loss)	(49)	(72)	(19)
Net Investment Income	(132)	87	124
Increase (Decrease) in Net Assets	(181)	15	105
Net Assets End of Period	\$2,042	\$2,238	\$2,410

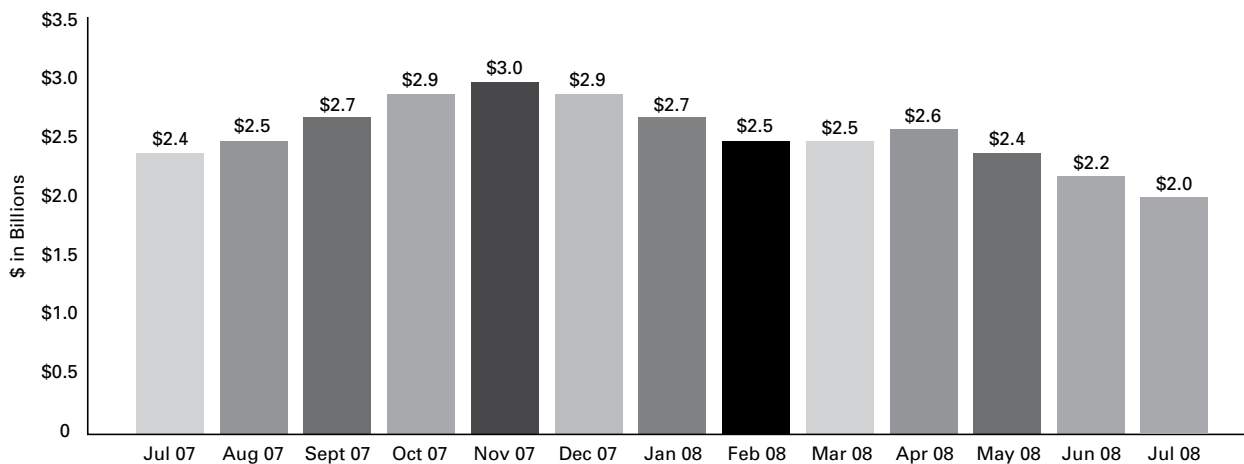
- o BWC's operating revenues for fiscal year-to-date 2009 were \$192 million, a decrease of \$6.0 million compared to fiscal year-to-date 2008.

- o Premium and assessment income is on target with the projections for this period.
- o Benefit and compensation adjustment expenses have increased by \$26 million in fiscal year 2009 due to an increase in the change in reserves for compensation and compensation adjustment expenses.
- o Claim payments have increased by \$1.5 million or almost 1 percent for fiscal year-to-date 2009 compared to the same period in fiscal year 2008. The increase is due to an \$824 thousand increase in medical payments and a \$667 thousand increase in indemnity payments.
- o BWC's net investment loss for fiscal year-to-date 2009 totaled \$132 million, comprised of \$92 million of interest and dividend income and \$224 million decline in portfolio fair market value reduced by \$259 thousand of investment expenses.
- o Cash used by operating activities is trending higher than the prior fiscal year-to-date but is \$4 million less than projected. Fiscal year-to-date 2009 premium collections are \$3 million lower while cash disbursements for claims are \$6 million higher.

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

- o Cash disbursements will continue to increase as payments are made to settle the remaining \$40 million liability resulting from the Ohio Hospital Association lawsuit disputing fee schedules that were not adopted through the Ohio Revised Code Chapter 119 rules process. No settlement payments were made to hospitals during July. Discussions have been taking place with several hospitals and we expect to receive releases soon.
- o Changes in the reserves for compensation and compensation adjustment expenses will be updated at the conclusion of the actuarial audit and receipt of new reserve projections from BWC's actuarial consultants.

Net Assets



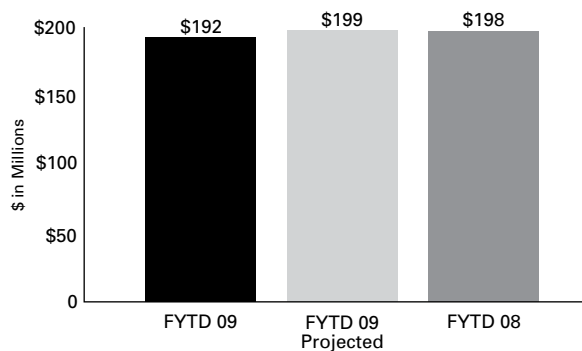
Statement of Operations

Fiscal year to date July 31, 2008

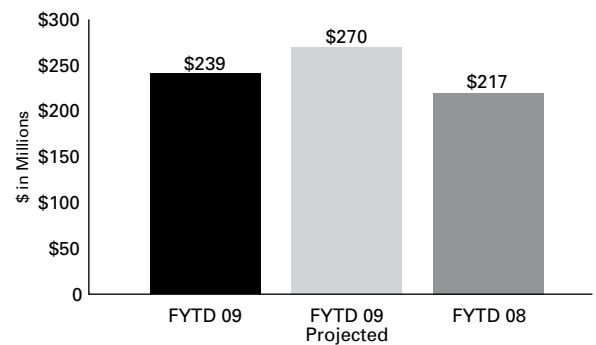
(in millions)

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
Operating Revenues					
Premium & Assessment Income	\$201	\$201	\$ -	\$198	\$3
Provision for Uncollectibles	(9)	(2)	(7)	-	(9)
Other Income	-	-	-	-	-
Total Operating Revenue	192	199	(7)	198	(6)
Operating Expenses					
Benefits & Compensation Adj. Expense	232	261	29	206	26
Other Expenses	7	9	2	11	(4)
Total Operating Expenses	239	270	31	217	22
Operating Transfers	(2)	(1)	(1)	-	(2)
Net Operating Gain (Loss)	(49)	(72)	23	(19)	(30)
Net Investment Income	(132)	87	(219)	124	(256)
Increase (Decrease) in Net Assets	\$(181)	\$15	\$(196)	\$105	\$(286)

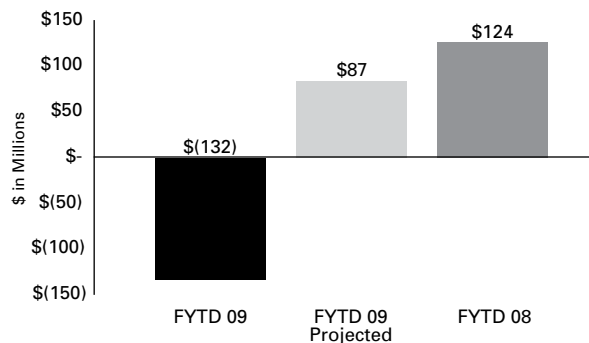
Operating Revenues



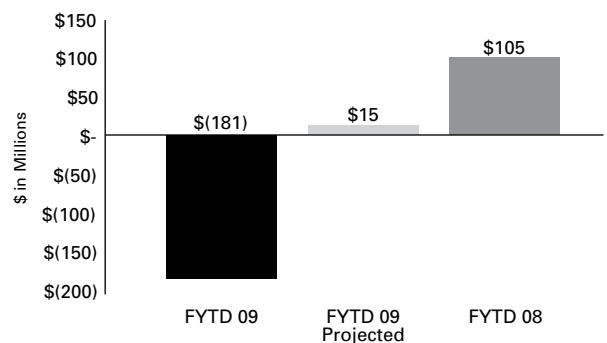
Operating Expenses



Net Investment Income



Change in Net Assets



Statement of Operations – Combining Schedule

Fiscal year to date July 31, 2008

(in thousands)

	State Insurance Fund Account	Disabled Workers' Relief Fund Account	Coal-Workers Pneumoconiosis Fund Account	Public Work Relief Employees' Fund Account	Marine Industry Fund Account	Self-Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Totals
Operating Revenues:								
Premium & Assessment Income	\$157,440	\$11,870	\$ -	\$19	\$61	\$(71)	\$30,635	\$199,954
Provision for Uncollectibles	(1,227)	(1,461)	-	-	-	331	(6,150)	(8,507)
Other Income	(99)	-	-	-	-	-	171	72
Total Operating Revenues	156,114	10,409	-	19	61	260	24,656	191,519
Operating Expenses:								
Benefits & Compensation Adj Expenses	198,171	11,669	94	35	22	(106)	22,227	232,112
Other Expenses	2,094	31	4	-	2	-	5,136	7,267
Total Operating Expenses	200,265	11,700	98	35	24	(106)	27,363	239,379
Net Operating Income (Loss) before Operating Transfers Out	(44,151)	(1,291)	(98)	(16)	37	366	(2,707)	(47,860)
Operating Transfers Out	(37)	-	(1,745)	-	-	-	37	(1,745)
Net Operating Income (Loss)	(44,188)	(1,291)	(1,843)	(16)	37	366	(2,670)	(49,605)
Investment Income:								
Investment Income	84,234	6,069	1,283	42	31	105	324	92,088
Bonds – Realized & Unrealized Gains (Losses)	(180,189)	(12,812)	(2,676)	-	-	-	-	(195,677)
Equities – Realized & Unrealized Gains (Losses)	(25,618)	(1,905)	(446)	-	-	-	-	(27,969)
Total Realized & Unrealized Capital Gains (Losses)	(205,807)	(14,717)	(3,122)	-	-	-	-	(223,646)
Investment Manager & Operational Fees	(226)	(24)	(10)	-	-	-	-	(260)
Gain (Loss) on Disposal of Fixed Assets	-	-	-	-	-	-	-	-
Total Non-Operating Revenues, Net	(121,799)	(8,672)	(1,849)	42	31	105	324	(131,818)
Increase (Decrease) in Net Assets (Deficit)	(165,987)	(9,963)	(3,692)	26	68	471	(2,346)	(181,423)
Net Assets (Deficit), Beginning of Period	1,938,903	843,157	179,874	18,727	14,563	8,918	(781,069)	2,223,073
Net Assets (Deficit), End of Period	\$1,772,916	\$833,194	\$176,182	\$18,753	\$14,631	\$9,389	\$(783,415)	\$2,041,650

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

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

Statement of Investment Income

Fiscal year to date July 31, 2008

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
Investment Income					
Bond Interest	\$86,850,081	\$63,491,000	\$23,359,081	\$58,119,451	\$28,730,630
Dividend Income—Domestic & International	4,627,069	5,750,000	(1,122,931)	1,634,880	2,992,189
Money Market/Commercial Paper Income	548,753	813,200	(264,447)	1,200,993	(652,240)
Misc. Income (Corp Actions, Settlements)	62,528	300,000	(237,472)	546,281	(483,753)
Private Equity	—	—	—	1,860,819	(1,860,819)
Securities Lending Income, Net of Fees	—	—	—	—	—
Total Investment Income	<u>92,088,431</u>	<u>70,354,200</u>	<u>21,734,231</u>	<u>63,362,424</u>	<u>28,726,007</u>
Realized & Unrealized Capital Gains and (Losses)					
Bonds - Net Realized Gains (Losses)	(1,584,345)	—	(1,584,345)	(17,680,511)	16,096,166
Bonds - Net Unrealized Gains (Losses)	<u>(194,090,851)</u>	—	<u>(194,090,851)</u>	<u>165,465,665</u>	<u>(359,556,516)</u>
Subtotal - Bonds	<u>(195,675,196)</u>	—	<u>(195,675,196)</u>	<u>147,785,154</u>	<u>(343,460,350)</u>
Stocks - Net Realized Gains (Losses)	(2,889,179)	—	(2,889,179)	821,515	(3,710,694)
Stocks - Net Unrealized Gains (Losses)	<u>(27,810,600)</u>	<u>17,250,000</u>	<u>(45,060,600)</u>	<u>(81,130,460)</u>	<u>53,319,860</u>
Subtotal - Stocks	<u>(30,699,779)</u>	<u>17,250,000</u>	<u>(47,949,779)</u>	<u>(80,308,945)</u>	<u>49,609,166</u>
Net Gain (Loss) - PE	<u>2,728,902</u>	—	<u>2,728,902</u>	<u>(7,071,565)</u>	<u>9,800,467</u>
Change in Portfolio Value	<u>(223,646,073)</u>	<u>17,250,000</u>	<u>(240,896,073)</u>	<u>60,404,644</u>	<u>(284,050,717)</u>
Investment Manager & Operational Fees	<u>(259,291)</u>	<u>(340,000)</u>	<u>80,709</u>	—	<u>259,291</u>
Net Investment Income	<u>\$(131,816,933)</u>	<u>\$87,264,200</u>	<u>\$(219,081,133)</u>	<u>\$123,767,068</u>	<u>\$(255,584,001)</u>

Administrative Cost Fund Expense Analysis

July 2008

- o BWC Administrative Cost Fund expenses are approximately \$6 million (21%) less than budgeted and approximately the same as fiscal year 2008. Changes in payroll within divisions varied due to vacant management positions that were filled in 2009, vacancies resulting from the 2008 Early Retirement Incentive and positions moving due to reorganization.
- o The change in the fiscal year leads to a significant number of payments for the previous fiscal year in the current month. Much of the activity in July is the preparation of purchase orders for the current fiscal year. Special counsel fees will resume when the Attorney General completes assignments. The first payment for William Green rent and Attorney General fees will be made in September 2008.
- o Positions not yet filled led to a reduction in the fiscal year budget as of July. Payroll will be increased as employees are hired.
- o BWC's current fiscal year 2009 budget is approximately \$22.7 million (6.9%) less than appropriated by the General Assembly.

Administrative Cost Fund Budget Summary

As of July 31, 2008

Expense Description	FTE's	Actual FY09	Budgeted FYTD09	FYTD09 Variance	FYTD09 Percentage Variance	FY09 Budget	FYTD08 Expenses	Increase (Decrease) in FY09	FYTD09 Percentage Variance
Payroll									
BWC Board of Directors	13	85,082	85,185	103	0.12%	824,870	12,377	72,705	587.42%
Workers' Comp Council		0	0	0		30,728	0	0	0.00%
BWC Administration	6	87,467	87,467	0	0.00%	812,151	47,732	39,735	83.25%
Customer Service	1,506	12,908,763	12,928,600	19,837	0.15%	113,885,007	13,812,053	(903,290)	-6.54%
Medical	144	1,226,356	1,226,362	6	0.00%	10,943,657	1,267,501	(41,145)	-3.25%
Special Investigations	130	1,300,626	1,301,073	447	0.03%	11,404,097	1,293,110	7,516	0.58%
Fiscal and Planning	66	544,238	545,811	1,573	0.29%	4,784,451	505,832	38,406	7.59%
Actuarial	19	188,987	188,987	0	0.00%	1,749,928	168,912	20,075	11.88%
Investments	10	131,072	131,228	156	0.12%	1,354,463	101,108	29,964	29.64%
Information Technology	314	3,455,804	3,460,888	5,084	0.15%	30,942,292	3,291,428	164,376	4.99%
Legal	75	751,032	751,032	0	0.00%	6,646,569	723,255	27,777	3.84%
Communications	34	337,102	337,102	0	0.00%	2,850,128	325,031	12,071	3.71%
Human Resources	69	632,063	631,915	(148)	-0.02%	5,686,281	416,301	215,762	51.83%
Internal Audit	14	156,557	156,751	194	0.12%	1,500,732	187,391	(30,834)	-16.45%
Ombuds Office	9	56,968	57,280	312	0.54%	608,647	39,372	17,596	44.69%
Early Retirement Expenses		0	0	0	0.00%	0	0	0	0.00%
Total Payroll	2,409	21,862,117	21,889,681	27,564	0.13%	194,024,001	22,191,403	(329,286)	-1.48%
Personal Services									
Information Technology		55,484	1,107,075	1,051,591	94.99%	13,486,024	0	55,484	
Legal - Special Counsel		0	130,185	130,185	100.00%	1,562,187	0	0	0.00%
Legal - Attorney General		0	1,111,022	1,111,022	100.00%	4,444,085	0	0	0.00%
Other Personal Services		30,262	921,817	891,555	96.72%	7,416,381	47,756	(17,494)	-36.63%
Total Personal Services		85,746	3,270,099	3,184,353	97.38%	26,908,677	47,756	37,990	79.55%
Maintenance									
William Green Rent		0	0	0	0.00%	20,686,500	0	0	0.00%
Other Rent and Leases		58,729	614,344	555,615	90.44%	11,156,933	44,153	14,576	33.01%
Software and Equipment Maintenance and Repairs		397,717	1,612,499	1,214,782	75.34%	19,426,703	192,614	205,103	106.48%
Inter Agency Payments		102,879	243,514	140,635	57.75%	4,014,750	9,313	93,566	1004.68%
Communications		353,216	547,813	194,597	35.52%	6,977,919	281,177	72,039	25.62%
Safety Grants and Long Term Care Loan		36,808	0	(36,808)		6,000,000	0	36,808	
Supplies and Printing		67,166	229,121	161,955	70.69%	3,186,593	35,578	31,588	88.79%
Other Maintenance		267,544	318,535	50,991	16.01%	3,756,883	344,230	(76,686)	-22.28%
Total Maintenance		1,284,059	3,565,826	2,281,767	63.99%	75,206,281	907,065	376,994	41.56%
Equipment									
		1,645	731,047	729,402	99.77%	10,349,296	13,863	(12,218)	-88.13%
Total Administrative Cost Fund Expenses		23,233,567	29,456,653	6,223,086	21.13%	306,488,255	23,160,087	73,480	0.32%

Total Agency Appropriation 329,210,479
 Budget to Appropriation Variance 22,722,224
 Percentage Variance 6.90%

State Insurance Fund

Administrative Expense Summary

As of July 31, 2008

	Actual FYTD 2009	Encumbrance Balance	FYTD Actual & Encumbrance	Encumbrance Closing Date	Actual FYTD 2008
Investment Administrative Expenses					
UBS Securities LLC	\$0	\$1,224,547	\$1,224,547	6/30/2008	\$0
Wilshire Associates Inc.	0	0	0	2/24/2008	0
JP Morgan Chase - Performance Reporting	0	14,734	14,734	6/30/2008	0
Mercer Investment Consulting	0	600,659	600,659	6/30/2009	0
Other Investment Expenses	0	308,860	308,860	6/30/2008	0
	0	2,148,800	2,148,800		0
Actuarial Expenses					
Oliver Wyman	179,506	1,327,951	1,507,457	12/31/2009	58,033
Deloitte Consulting LLP	479,698	1,070,396	1,550,094	12/31/2008	0
AON Risk Consultants	0	0	0		263,599
	659,204	2,398,347	3,057,551		321,632
Ohio Rehabilitation Services	605,407	0	605,407	6/30/2009	0
TOTAL	\$1,264,611	\$4,547,147	\$5,811,758		\$321,632

The above expenses are paid from the non-appropriated State Insurance Fund.

The investment administrative expenses are included in the investment expenses reported on the statement of investment income on page 7.

The encumbrance balance is the amount remaining on the contract and may extend beyond the end of this fiscal year.

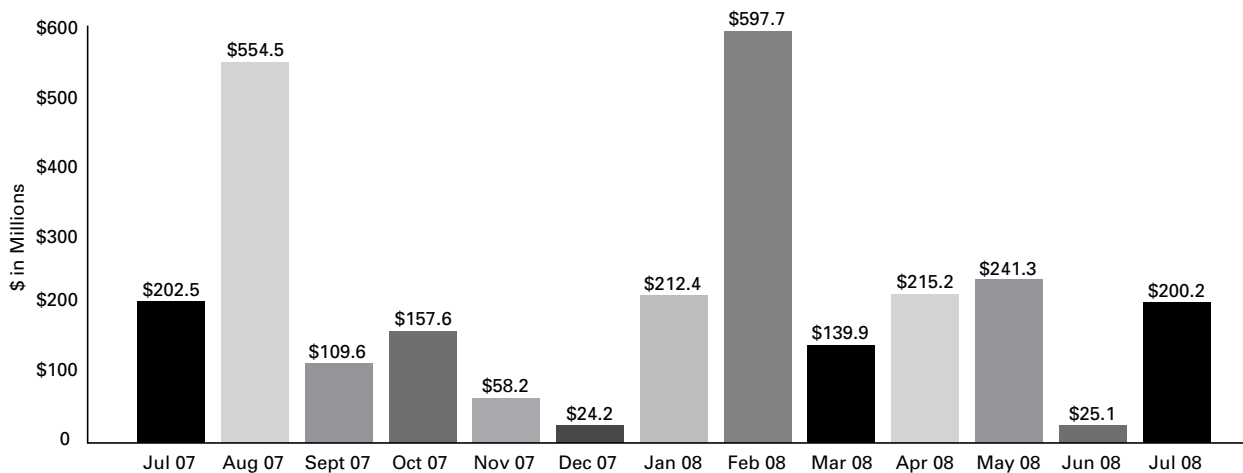
Statement of Cash Flows

Fiscal year to date July 31, 2008

(in millions)

	Actual	Projected	Variance to Projected	Prior Yr. Actual	Year to Year Increase (Decrease)
Cash Flows from Operating Activities:					
Cash Receipts from Premiums	\$200	\$200	\$ –	\$203	\$(3)
Cash Receipts - Other	2	2	–	2	–
Cash Disbursements for Claims	(179)	(184)	5	(173)	(6)
Cash Disbursements for Other	(44)	(43)	(1)	(44)	–
Net Cash Provided (used) by Operating Activities	(21)	(25)	4	(12)	(9)
Net Cash Flows from Noncapital Financing Activities	(2)	(1)	(1)	–	(2)
Net Cash Flows from Capital and Related Financing Activities	–	–	–	–	–
Net Cash Provided (used) by Investing Activities	18	1	17	72	(54)
Net Increase (Decrease) in Cash and Cash Equivalents	(5)	(25)	20	60	(65)
Cash and Cash Equivalents, Beginning of Period	371	371	–	328	43
Cash and Cash Equivalents, End of Period	\$366	\$346	\$20	\$388	\$(22)

Premium and Assessment Receipts



Statement of Net Assets

As of July 31, 2008

(in millions)

	Actual	Prior Yr. Actual	Year to Year Increase (Decrease)
Assets			
Bonds	\$ 13,607	\$13,421	\$ 186
Stocks	3,149	2,560	589
Private Equities	3	427	(424)
Cash & Cash Equivalents	<u>366</u>	<u>388</u>	<u>(22)</u>
Total Cash and Investments	17,125	16,796	329
Accrued Premiums	4,638	4,750	(112)
Other Accounts Receivable	220	180	40
Investment Receivables	326	413	(87)
Other Assets	<u>118</u>	<u>120</u>	<u>(2)</u>
Total Assets	<u>22,427</u>	<u>22,259</u>	<u>168</u>
Liabilities			
Reserve for Compensation and Compensation Adj. expense	\$ 19,886	\$19,301	\$ 585
Accounts Payable	55	67	(12)
Investment Payable	182	231	(49)
Other Liabilities	<u>262</u>	<u>250</u>	<u>12</u>
Total Liabilities	<u>20,385</u>	<u>19,849</u>	<u>536</u>
Net Assets	\$ 2,042	\$2,410	\$(368)

Statement of Net Assets – Combining Schedule

As of July 31, 2008

(in thousands)

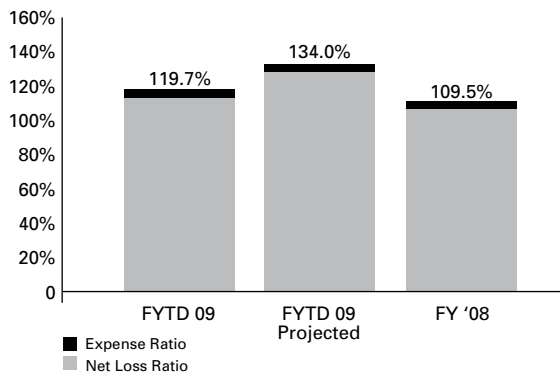
	State Insurance Fund Account	Disabled Workers' Relief Fund Account	Coal-Workers Pneumoconiosis Fund Account	Public Work Relief Employees' Fund Account	Marine Industry Fund Account	Self-Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Eliminations	Totals
Assets									
Bonds	\$12,513,855	\$ 902,850	\$ 190,554	\$ –	\$ –	\$ –	\$ –	\$ –	\$13,607,259
Stocks	2,904,042	199,201	45,411	–	–	–	–	–	3,148,654
Private Equities	3,216	–	–	–	–	–	–	–	3,216
Cash & Cash Equivalents	<u>252,828</u>	<u>11,574</u>	<u>1,384</u>	<u>22,666</u>	<u>16,792</u>	<u>55,696</u>	<u>4,581</u>	<u>–</u>	<u>365,521</u>
Total Cash and Investments	\$15,673,941	\$1,113,625	\$ 237,349	\$ 22,666	\$ 16,792	\$ 55,696	\$ 4,581	\$ –	\$17,124,650
Accrued Premiums	2,026,511	1,673,599	–	196	–	670,235	267,573	–	4,638,114
Other Accounts Receivable	166,104	23,167	(4)	29	–	7,441	23,642	–	220,379
Interfund Receivables	13,018	52,953	1	–	217	648	66,664	(133,501)	–
Investment Receivables	300,151	21,093	4,293	–	–	105	–	–	325,642
Other Assets	<u>26,066</u>	<u>22</u>	<u>–</u>	<u>42</u>	<u>31</u>	<u>–</u>	<u>92,044</u>	<u>–</u>	<u>118,205</u>
Total Assets	<u>\$18,205,791</u>	<u>\$2,884,459</u>	<u>\$ 241,639</u>	<u>\$ 22,933</u>	<u>\$ 17,040</u>	<u>\$ 734,125</u>	<u>\$ 454,504</u>	<u>\$(133,501)</u>	<u>\$22,426,990</u>
Liabilities									
Reserve for Comp and Comp Adj. expense	\$15,955,890	\$2,028,245	\$ 62,264	\$ 4,175	\$ 1,912	\$ 712,243	\$1,111,800	\$ –	\$19,876,529
Accounts Payable	53,477	–	–	–	–	–	1,182	–	54,659
Investment Payable	168,494	11,410	2,346	–	–	–	–	–	182,250
Interfund Payables	118,453	11,498	97	5	15	3,433	–	(133,501)	–
Other Liabilities	<u>136,561</u>	<u>112</u>	<u>750</u>	<u>–</u>	<u>337</u>	<u>–</u>	<u>124,937</u>	<u>–</u>	<u>262,697</u>
Total Liabilities	<u>16,432,875</u>	<u>2,051,265</u>	<u>65,457</u>	<u>4,180</u>	<u>2,409</u>	<u>724,736</u>	<u>1,237,919</u>	<u>(133,501)</u>	<u>20,385,340</u>
Net Assets	\$1,772,916	\$ 833,194	\$ 176,182	\$ 18,753	\$ 14,631	\$ 9,389	\$(783,415)	\$ –	\$2,041,650

Performance Metrics

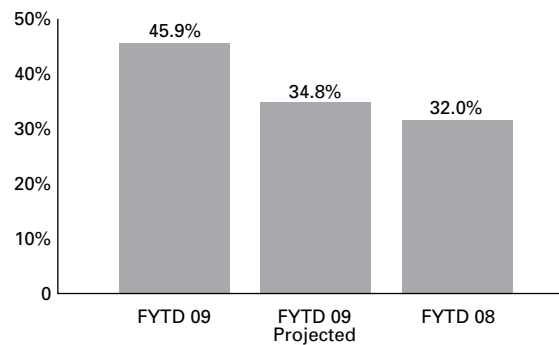
	Actual FY09 As of 7/31/08	Projected FY09 As of 7/31/08	Actual FY08 As of 7/31/07	Target
Loss Ratio	97.8%	106.9%	87.9%	
LAE Ratio - MCO	7.0%	7.0%	4.9%	
LAE Ratio - BWC	11.2%	15.9%	11.1%	
Net Loss Ratio	116.1%	129.8%	103.9%	120.0%
Expense Ratio	3.6%	4.3%	5.6%	5.0%
Combined Ratio	119.7%	134.0%	109.5%	125.0%
Net Investment Income Ratio	45.9%	34.8%	32.0%	
Operating Ratio (Trade Ratio)	73.8%	99.2%	77.5%	100.0%
Operating Cashflow Ratio	130.2%	120.5%	119.2%	118.0%
Total Reserves to Net Assets	9.7 to 1	8.9 to 1	8 to 1	7 to 1
Investments to Loss Reserves	86.1%	87.0%	87.0%	110.0%
Equities to Net Assets	1.54 to 1	1.42 to 1	1.06 to 1	
Bonds to Net Assets	6.7 to 1	6.2 to 1	5.6 to 1	

Target measures represent long-term goals for the agency. Business practices, peer group results, and historical data were considered in the establishment of the targets.

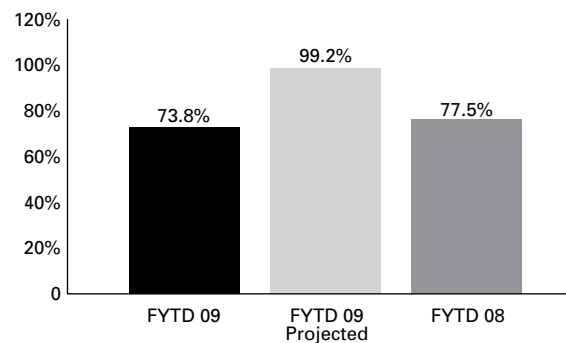
Combined Ratio



Investment Income Ratio



Operating Ratio



Performance Metrics Glossary

Loss Ratio

Measures loss experience – Compensation benefit expenses divided by premium and assessment income.

LAE Ratio

Measures loss adjustment experience – Loss adjustment expenses divided by premium and assessment income.

Net Loss Ratio

Measures underlying profitability or total loss experience – Sum of the loss ratio and the LAE ratios.

Expense Ratio

Measures operational efficiency – Other administrative expenses divided by premium and assessment income.

Combined Ratio

Measures overall underwriting profitability – Sum of net loss and expense ratios.

Net Investment Income Ratio

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

Operating Ratio

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

Operating Cash Flow Ratio

Measures the relationship between operating receipts and disbursements – Collections from operating activities (premiums, interest and dividends net of investment expenses) divided by operating disbursements.

Total Reserves to Net Assets

Measures the relationship between future claims and claim adjustment liabilities and net assets – Total reserves divided by premium and assessment income.

Investments to Loss Reserves

Measures the relationship of the investment portfolio to total reserves – Total cash and investments dividend by total loss reserves.

Equities to Net Assets

Measures the exposure of net assets to BWC's investment in equities – Equities divided by net assets.

Bonds to Net Assets

Measures the exposure of net assets to BWC's investment in bonds – Bonds divided by net assets.



Executive summary
FY 2009 Agency Strategic Goals and Operating Performance Metrics

Marsha Ryan, Administrator
Raymond Mazzotta, Chief Operating Officer
Tracy Valentino, Chief Fiscal & Planning Officer

This review will provide the Board of Directors with an overview of the agency's primary strategic goals and performance metrics for Fiscal Year 2009. The purpose of the overview is to provide the Board of Directors with general information regarding the strategic goals and how these goals relate to BWC's agency priorities of customer service, communications, internal controls, income management and cost control. In addition, BWC management will be presenting operating performance metrics recommended for inclusion in the agency's Enterprise Report.

The strategic goals presented are those which have overarching impact on BWC operations, customers, and stakeholders. The results of these strategic efforts should be reflected in the results of the operating performance metrics.

The operating performance metrics identified include loss cost measures, premium measures and expense/efficiency measures. These will assist BWC management in identifying those factors that drive costs. Identifying and measuring cost drivers will enable BWC to benchmark performance with similar organizations and understanding cost drivers will aid in the decision making process.

Strategic Goals

Fiscal Year 2009

Ohio Bureau of Workers' Compensation
Raymond Mazzotta, Chief Operating Officer
Tracy Valentino, Chief Fiscal & Planning Officer

August 29, 2008

Evaluate and implement employer premium programs in order to stabilize costs and improve equity between employers

- ***HB 100 Comprehensive Study (Deloitte)***
- ***Experience Rating Plan***
- ***Group Rating Program Analysis***
- ***Performance Based Incentive Programs***
- ***Employer Compliance Initiative***

Develop and implement strategies which will improve financial soundness and stability

- ***BWC Investment Policy Review***
- ***Net Asset Strategy***
- ***Cost Allocation Methodology Analysis***

Design and develop programs and processes to enhance medical services necessary to provide injured workers with prompt, cost effective, and efficient medical care

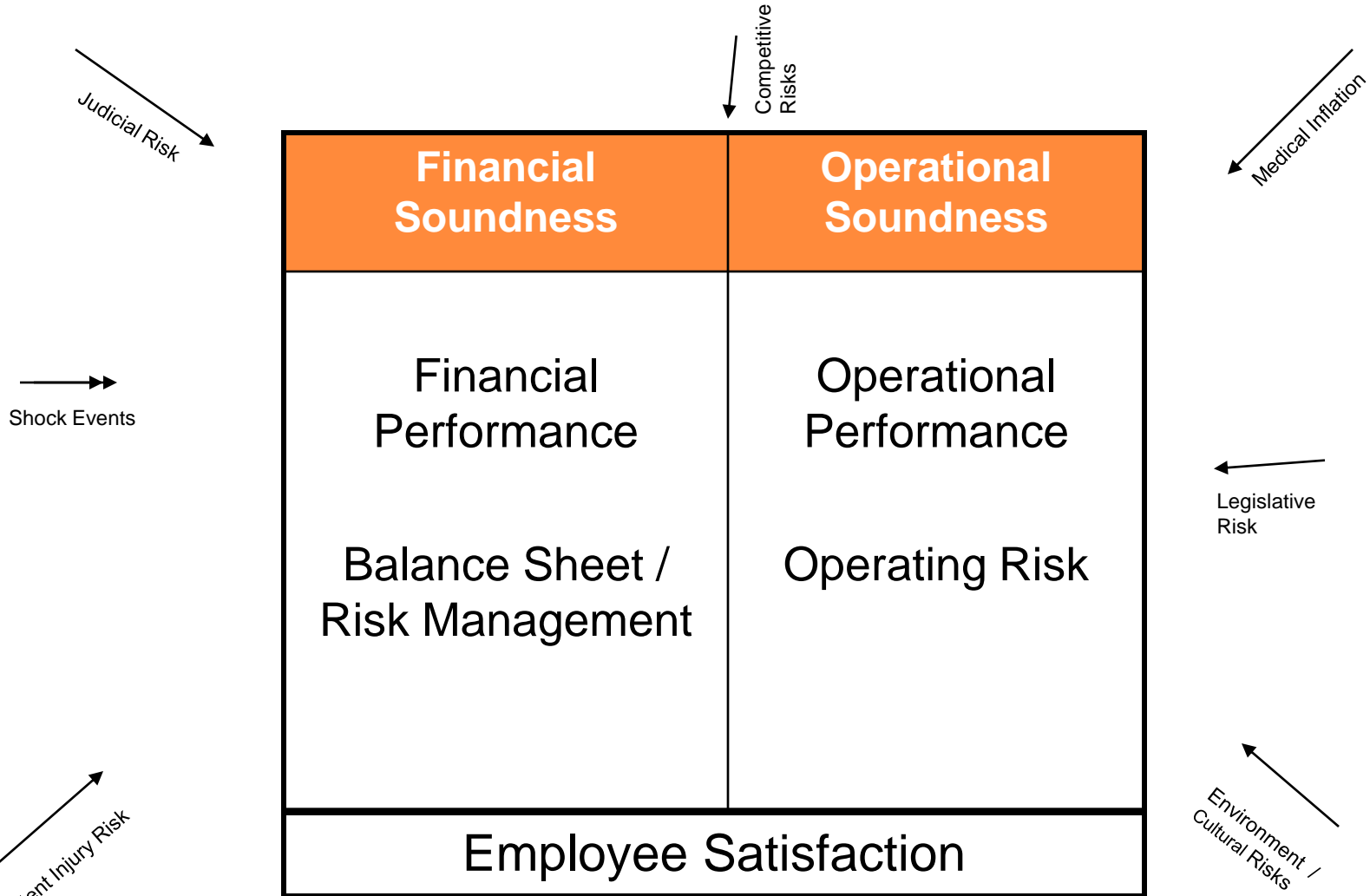
- ***Benefit Plan Design***
- ***Managed Care Process Evaluation***
- ***Medical Provider Network Review***
- ***Medical Bill Payment Process Analysis***

Establish administrative processes and procedures that reflect our commitment to providing quality customer service that is efficient and economically sound

- ***Fiscal Year 2010-2011 Biennial Budget***
- ***Shared Services Model***
- ***Green/Energy Saving Program***
- ***Safety Services Review***
- ***Process Mapping Initiative***

Measuring Performance

Enterprise Reporting Package



Four Primary Types of Operational Metrics

- *Loss Cost Measures*
- *Expense/Efficiency Measures*
- *Premium Measures*
- *Other Potential Measures*

Operational Metrics

Loss Costs

- *New Claims Volume*
- *Frequency*
- *Benefit Payments*
- *Severity*
- *First Report of Injury*
- *Return to Work*
- *Duration of Disability*
- *Benefit Payment Segregation*

Premium Costs

- *Premium Income by Employer Segment*
- *Aggregate Reported Payroll*
- *Premium Stability*

Expense/Efficiency

- *Revenue per Employee*
- *Salary as a Percentage of Premium*
- *IT Costs per End User*
- *Finance Costs as a Percentage of Premium Income*
- *Human Resource Costs per Employee*

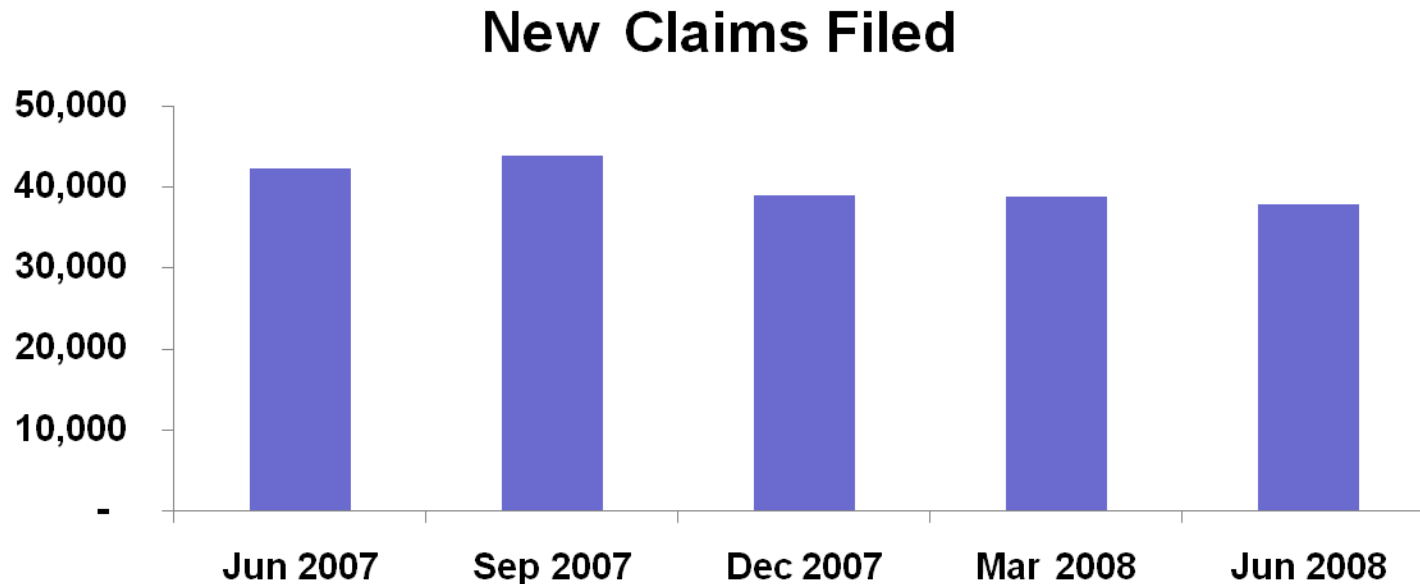
Other Measures

- *Access/Quality of Care*
- *Customer Satisfaction*
- *Safety Service*
- *Employer Compliance*
- *Employee Satisfaction*

New Claims Volume

Definition: Measures the number of new State Insurance Fund claims filed each quarter

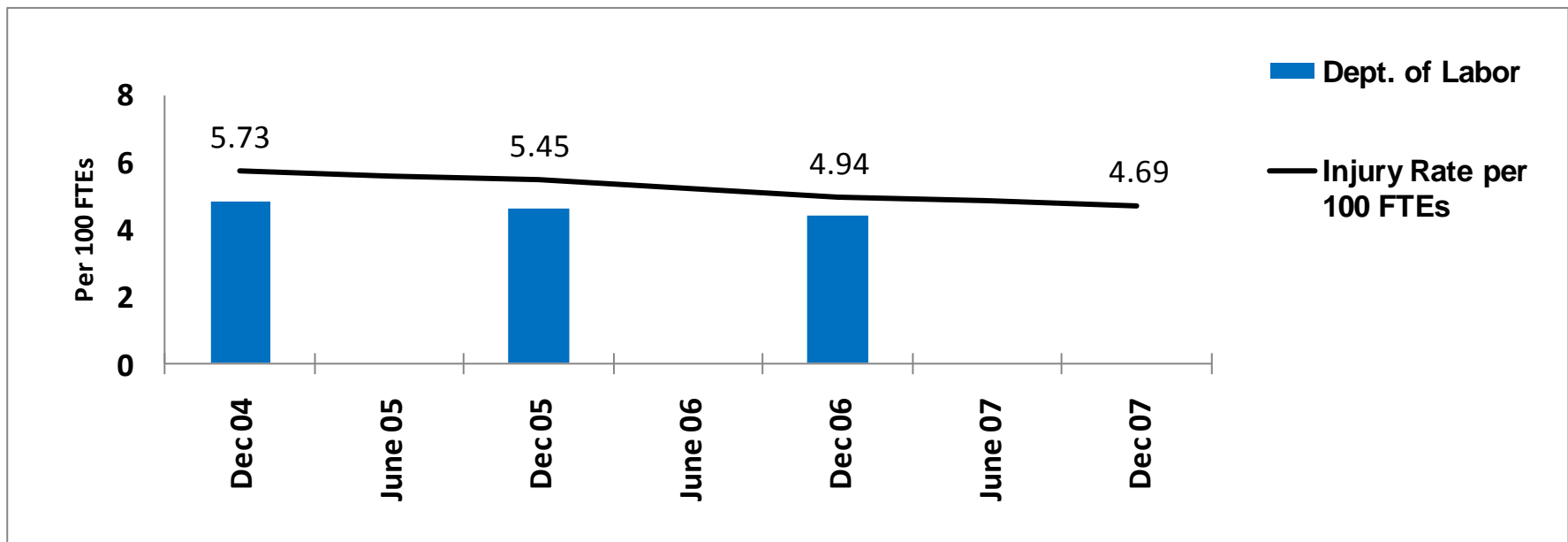
Why important: Identifies the volume of claims activity and the trends in the activity that impacts loss costs



Frequency

Definition: Measures the number of injured workers per 100 workers covered by State Insurance Fund and the change from period to period

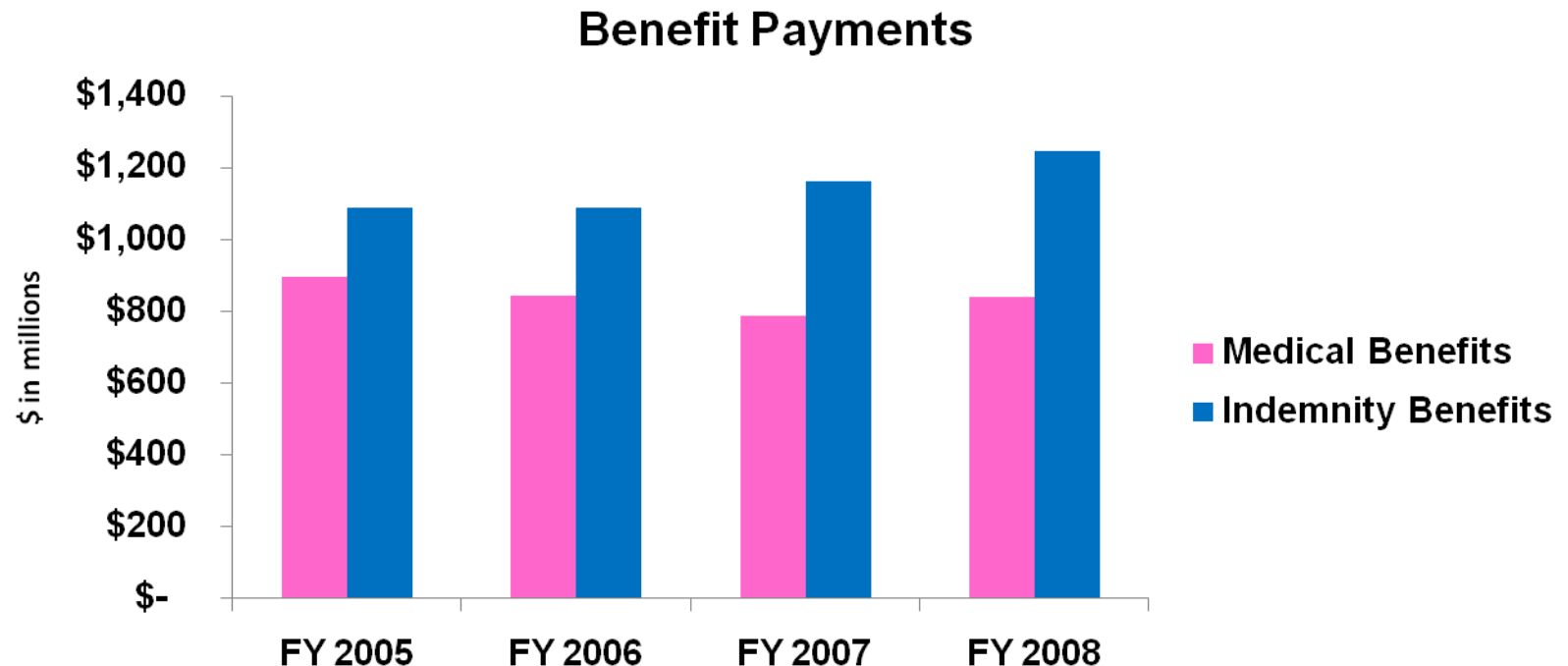
Why important: Identifies the volume of claims activity and the trends in the activity that impacts loss costs



Benefit Payments

Definition: Measures the dollar amount of claim payments by type

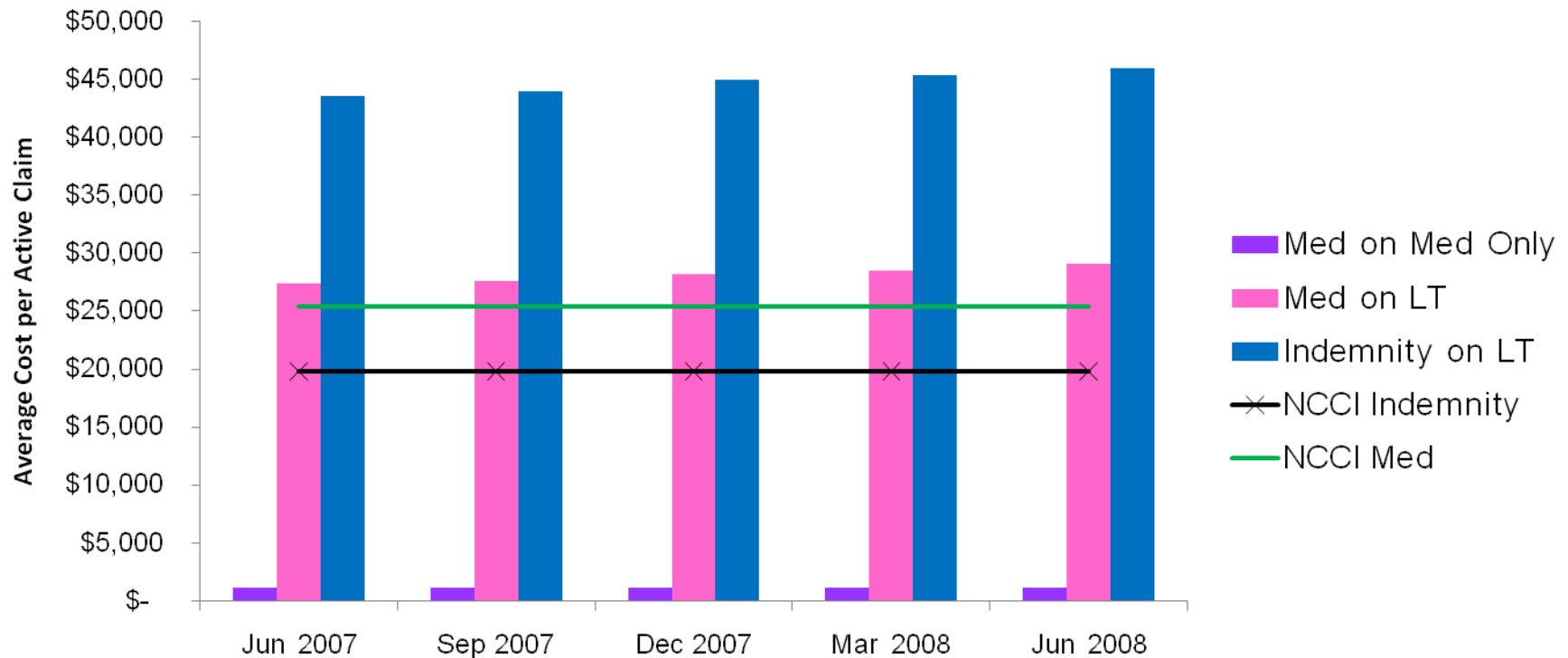
Why important: Identifies the costs associated with active claims and the trends in the types of claims related expenses



Severity

Definition: Measures the average cost of medical and indemnity expenses per medical only and lost time claim

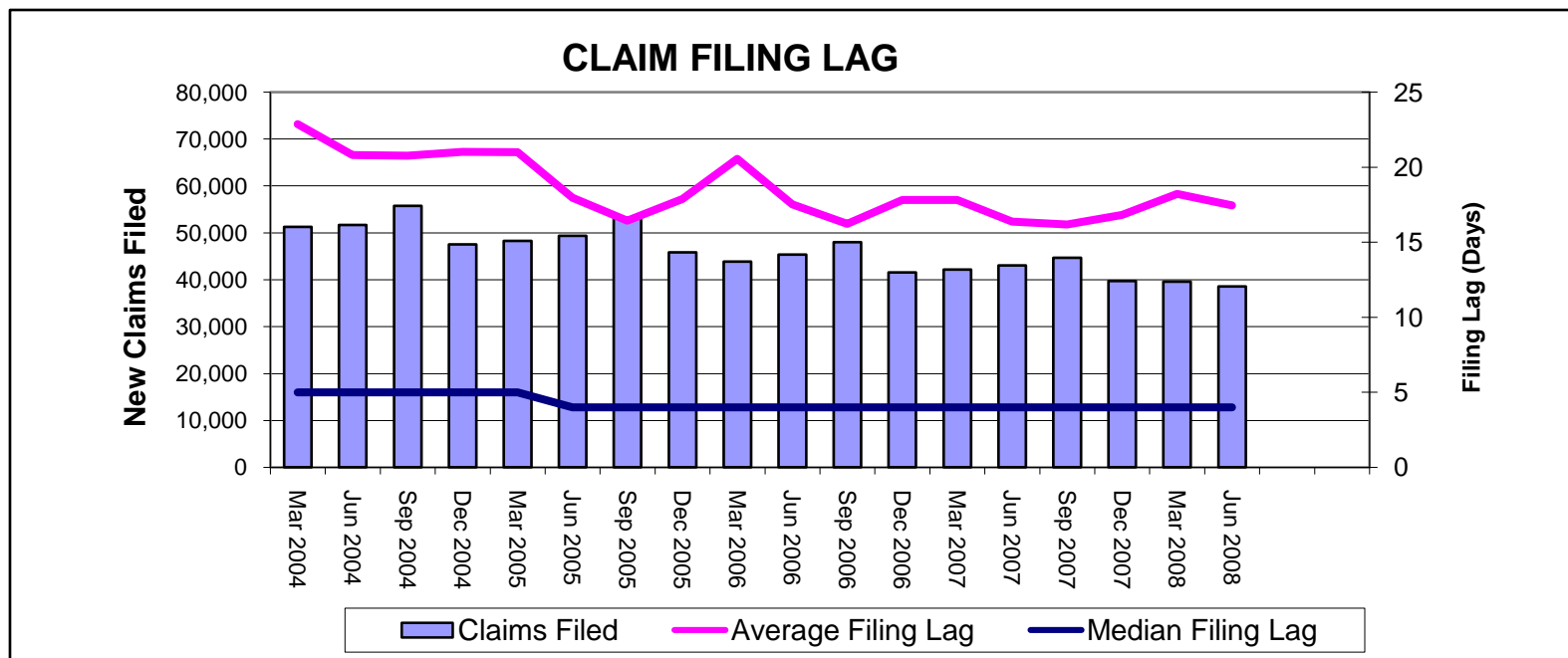
Why important: Identifies the costs associated with active claims and the trends in the types of claims related expenses



Time between Injury to Claim Filing

Definition: Measures the median number of days from the date of injury to date of claim filing

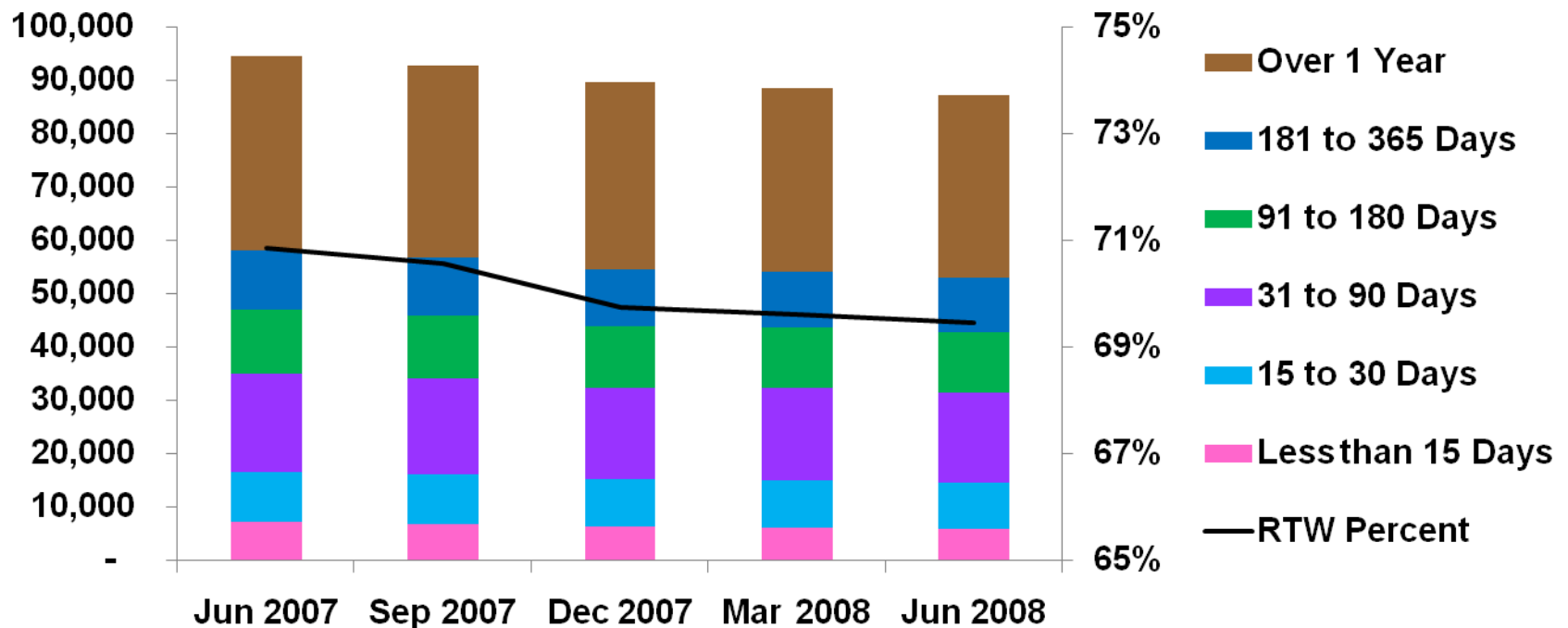
Why important: Early medical intervention assists in reducing the costs associated with an injury



Return to Work Rates

Definition: Measures the percentage of injured workers who have returned to work relative to the claim population eligible to return to work

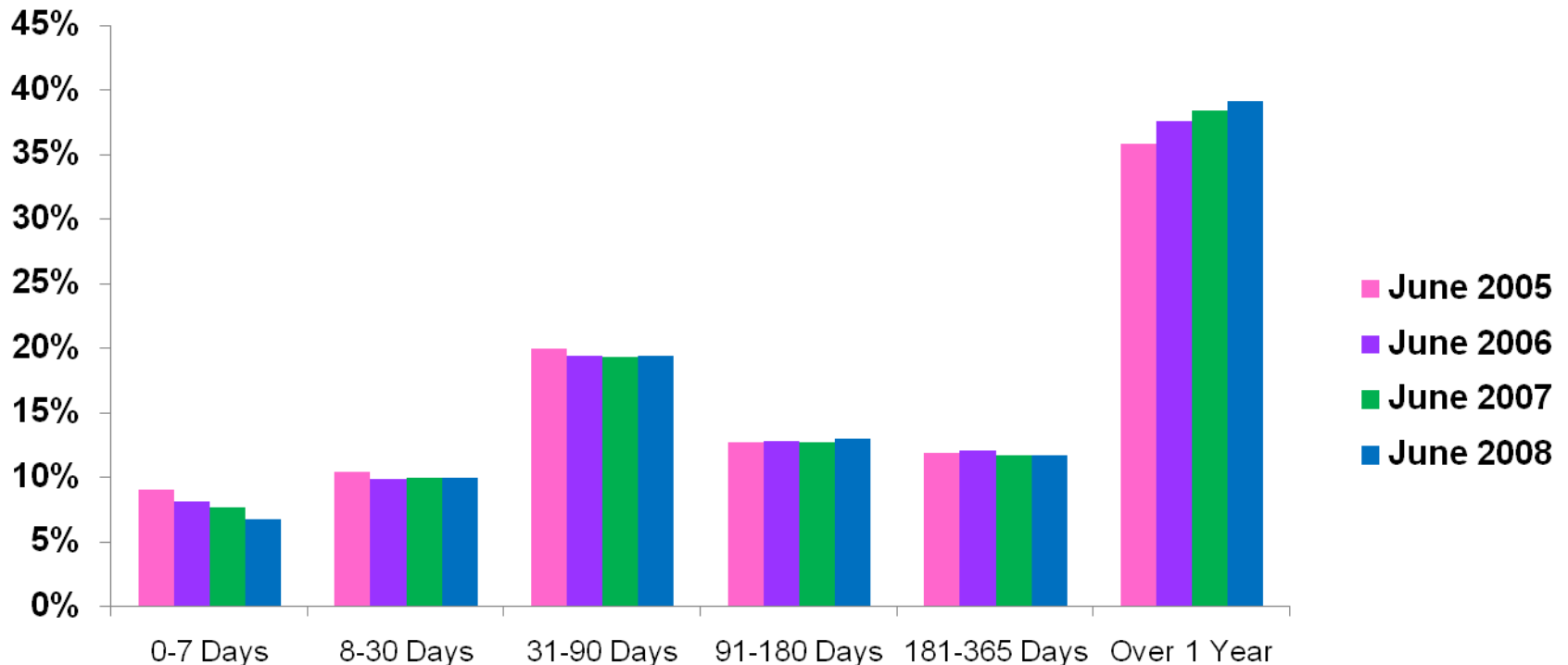
Why important: Early return to work reduces the cost associated with indemnity claims



Duration of Disability

Definition: Measures the percentage of claims within defined ranges of calendar days missed as a result of a workplace injury using same claim population used in the return to work calculation

Why important: Length of disability is directly related to the overall cost of a claim



Revenue by Employer Segment

Definition: Measures the revenue earned by each employer group and the changes in revenue levels

Why important: Provides information on trends associated with revenue

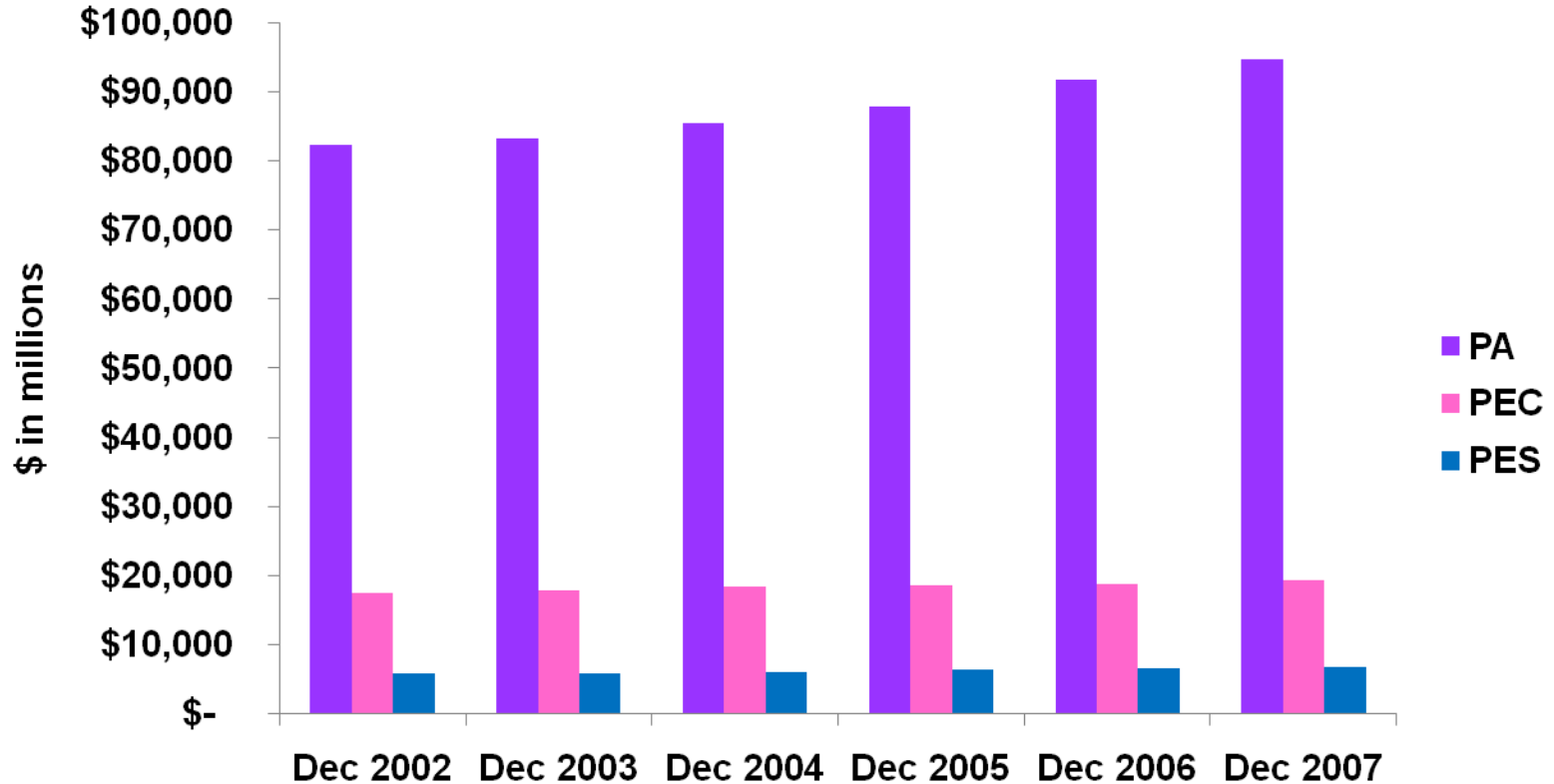
\$ in millions	FY 2006	FY 2007*	FY 2008
Private	\$1,638	\$1,917	\$1,956
PEC	338	315	286
PES	171	4	76
SI	16	216	51
Black Lung	1	1	1
Marine	1	1	1
	\$2,165	\$2,454	\$2,371

* Excludes one-time adjustment to income of \$1.9 billion due to statutory accounting change for DWRP.

Aggregate Reported Payroll

Definition: Measures reported payroll by employer type

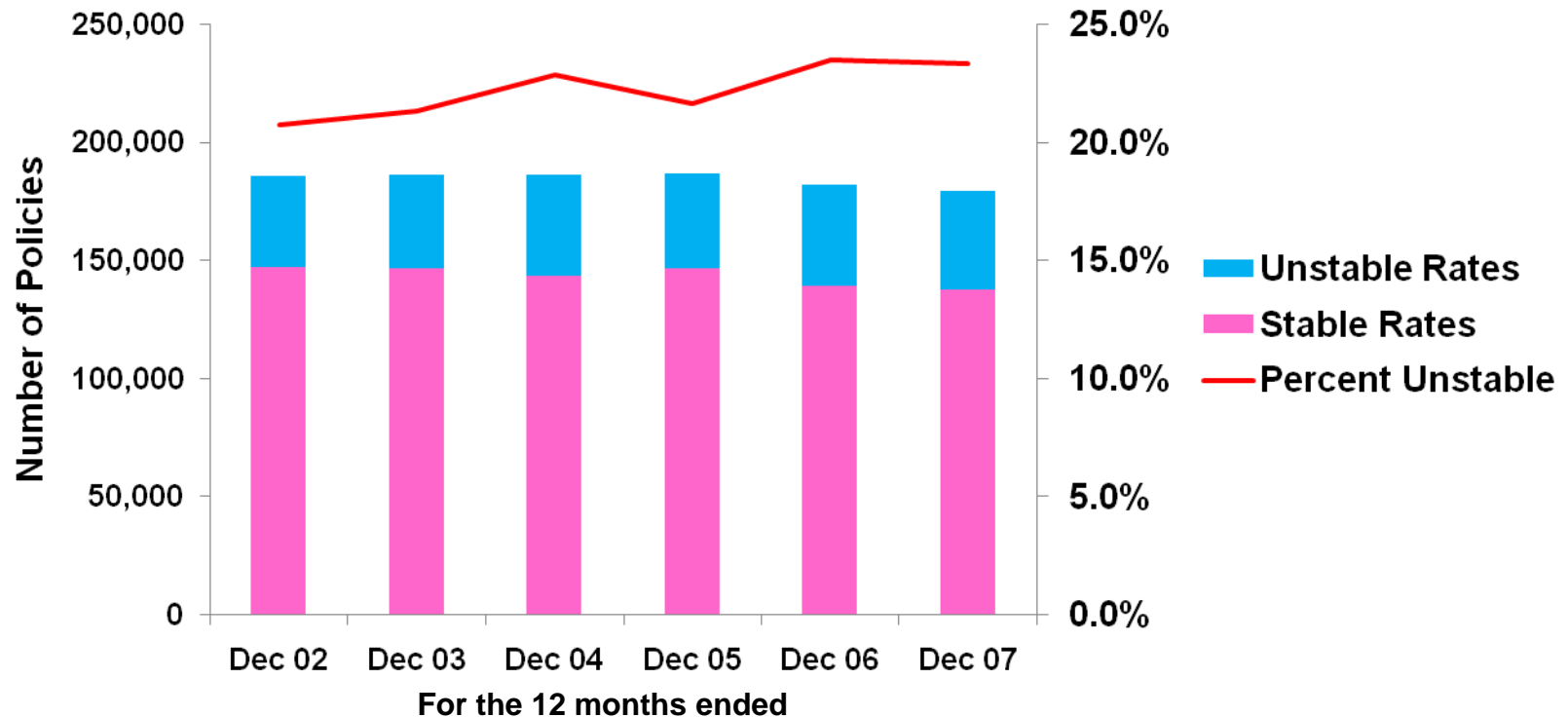
Why important: Provides information on payroll trends



Premium Stability

Definition: Measures the number of employers whose premium increases greater than 20 percent from the prior year

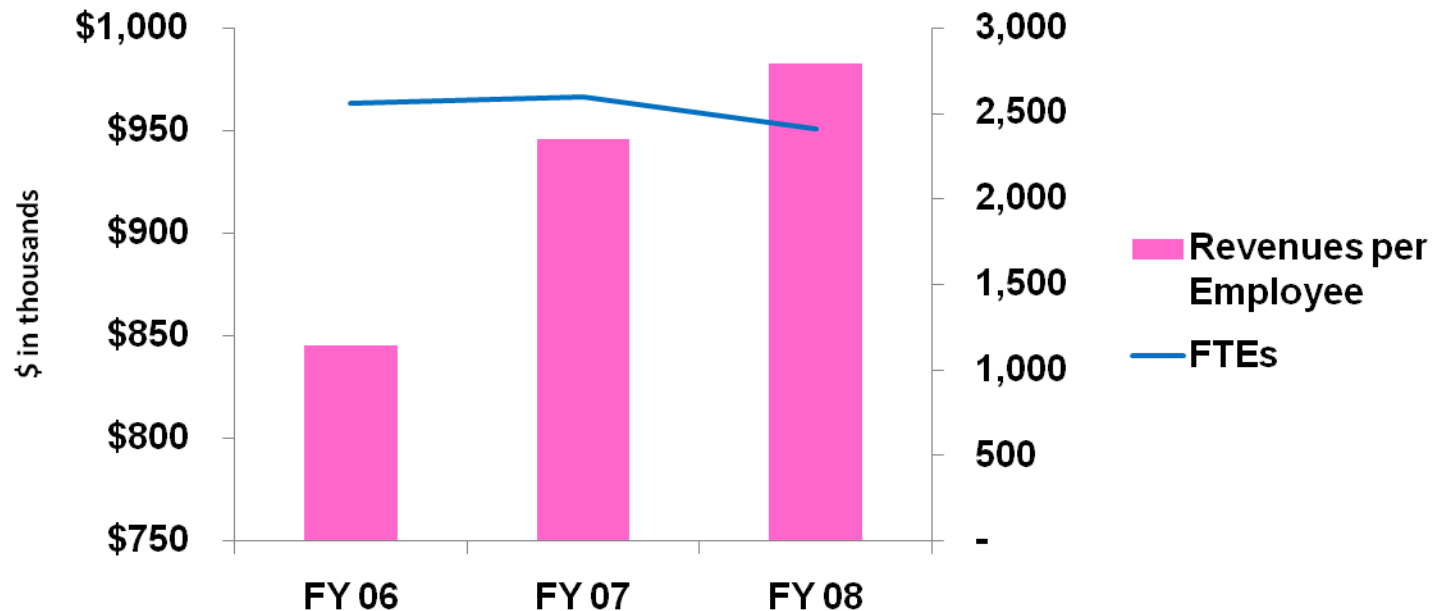
Why important: Provides information on changes in employers premium costs



Revenue per BWC Employee

Definition: Measures revenue earned per full time equivalent employee of BWC

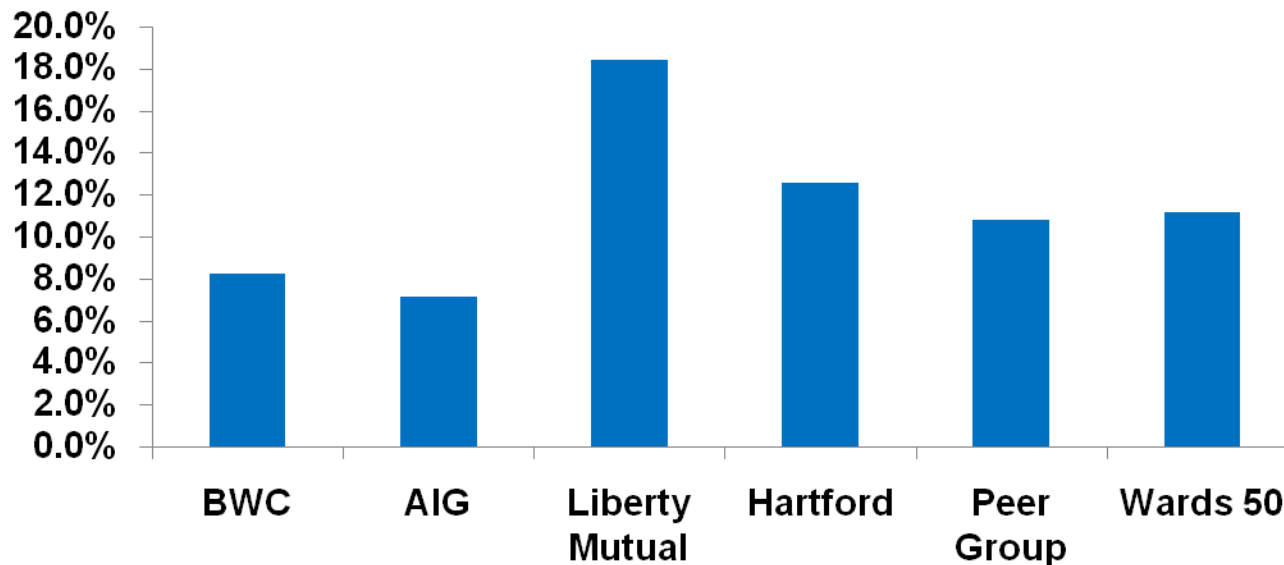
Why important: Provides information on operational efficiency relative to revenue earned



Salary Costs as a Percentage of Revenue

Definition: Measures the costs associated with staffing operations relative to revenue

Why important: Provides information on efficiency of operations

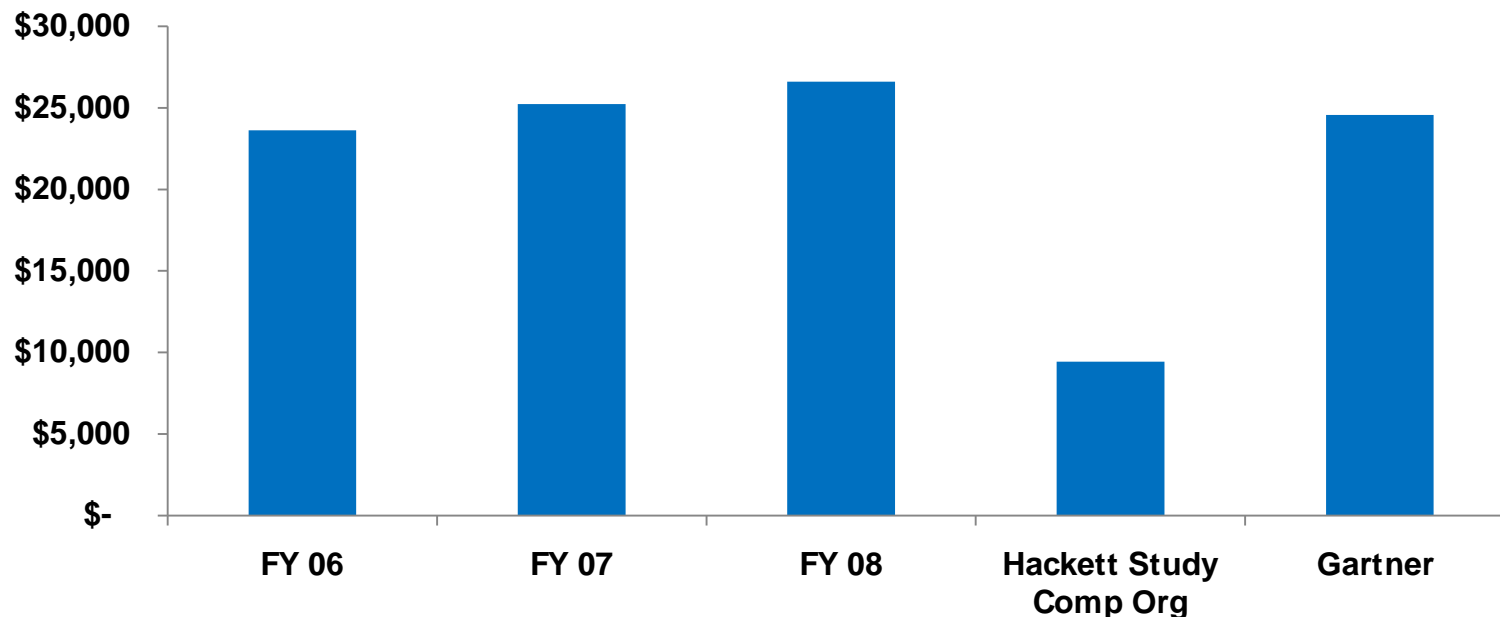


- Data for BWC is average of the last 5 fiscal years
- Data for private sector insurance companies is a 5 year average from the 2006 edition of Wards Results
- Peer Group 12 – Commercial and Other with Premiums Over \$500 million

Information Technology Costs per End User

Definition: Measures the cost of technology operations per end user

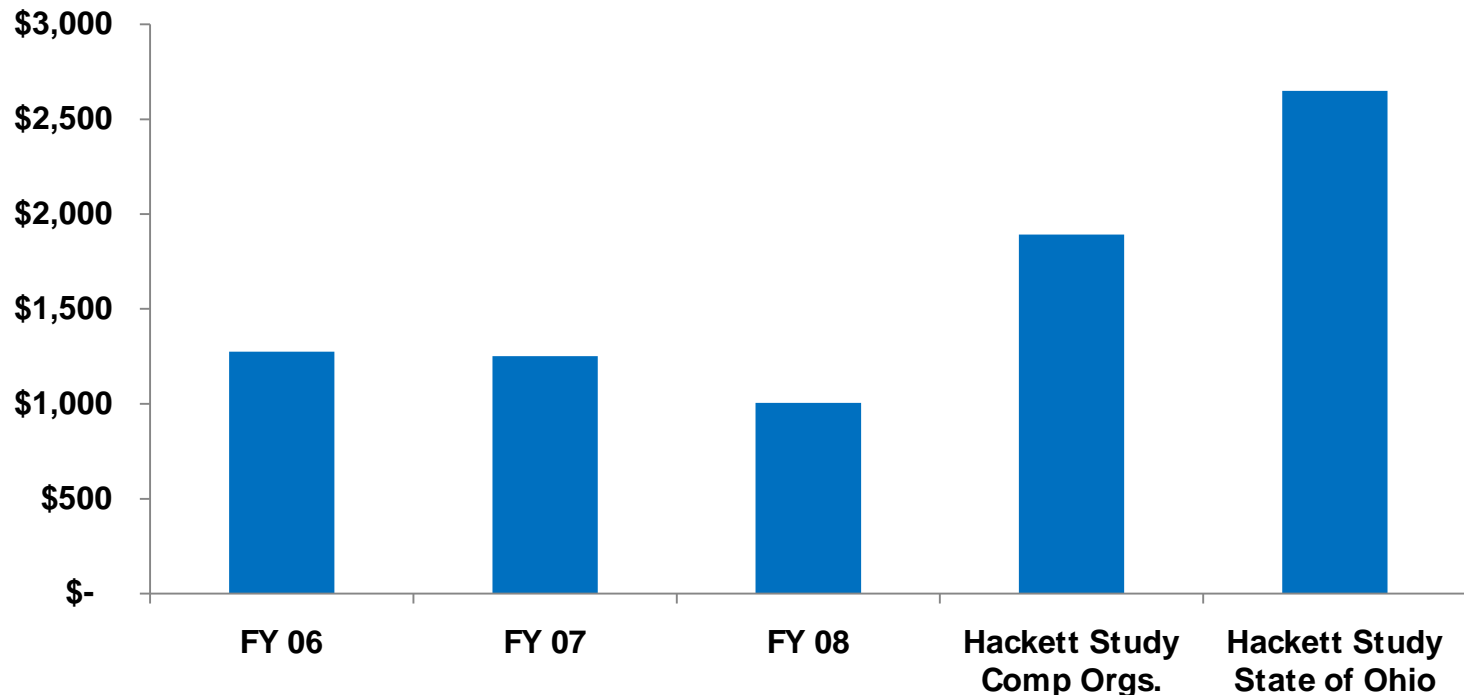
Why important: Provides information regarding the cost effectiveness of maintaining and supporting technology operations



Human Resource Costs per Employee

Definition: Measures the cost of the Human Resource operation within the organization relative to the number of employees

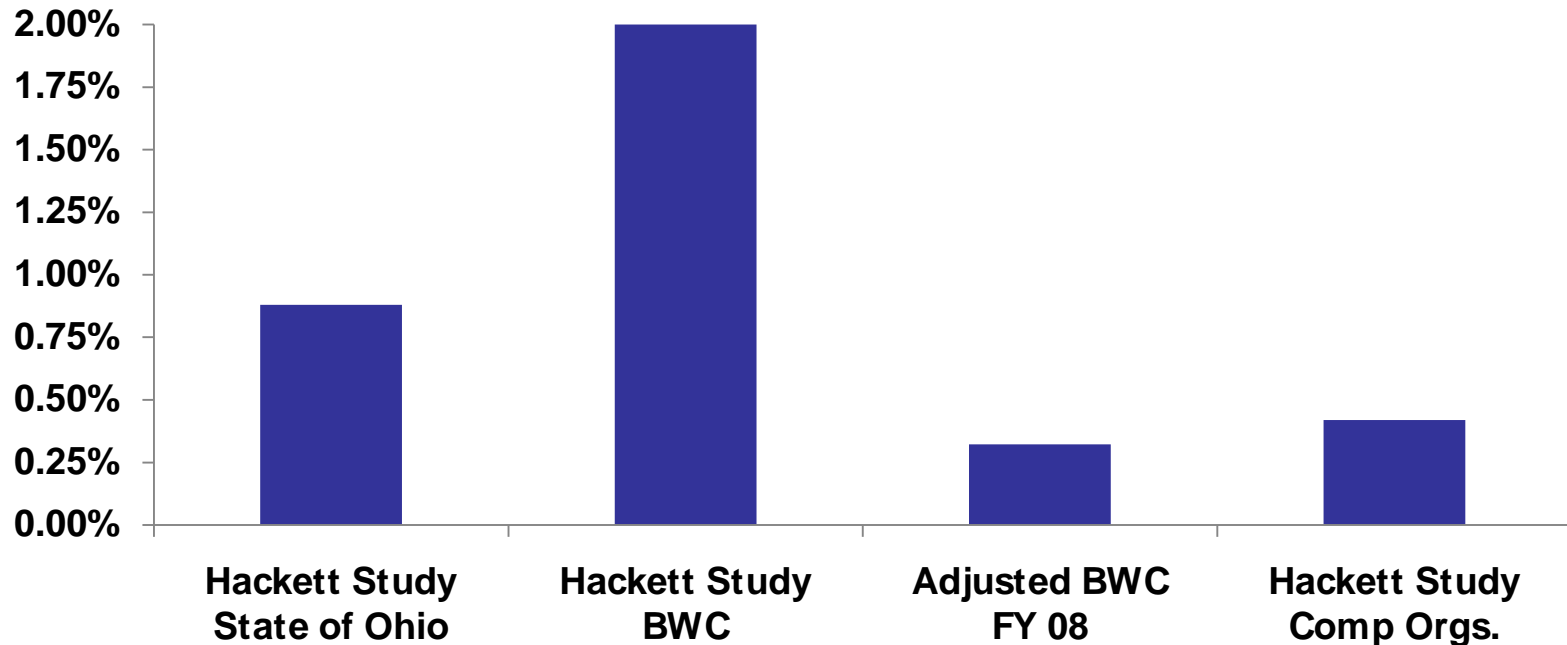
Why important: Provides information on the cost effectiveness of the human resource operations within the agency



Finance Operations as a Percentage of Revenues

Definition: Measures the cost of financial operations within the organization relative to the revenues earned

Why important: Provides information on the cost effectiveness of the financial organization within the agency



Other Measures

- ***Access and Quality of Care***
- ***Customer Satisfaction***
- ***Safety Services***
- ***Employer Compliance***
- ***Employee Satisfaction***

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A Service of Ohio's Workers' Comp System

To: BWC Board of Directors
From: Michael Travis, Esq., Chief Ombuds Officer
Date: August 29, 2008
Re: Ombuds Office Executive Update for first half of 2008

This memo provides an executive summary of the activities of the Ombuds Office for the period 1/1/2008 through 6/30/2008. The Ombuds Office is created by ORC 4121.45, and is statutorily independent of both BWC and the Industrial Commission. The Chief Ombuds Officer is appointed by the Industrial Commission Nominating Council, which is comprised of ten members, with four representing labor, four representing employers, and two representing the general public.

The Ombuds Office is charged with three key functions, within Ohio's workers' compensation system:

- A. Handle complaints and customer inquiries from external stakeholders of Ohio's workers' compensation system, including employers, injured workers, and medical providers.
- B. Analyze the data from these customer inquiries, to determine future trends, within Ohio's workers' compensation system.
- C. Proactively identify problem areas within Ohio's workers' compensation system, research the issues underlying these problems, and provide proposed solutions to executives at both BWC and the Industrial Commission.

Key issues related to the Ombuds Office in the first half of 2008

1. **Customer Contacts** - The overall contact volume for the Ombuds Office for the first half of 2008 was 4,416 customer contacts, which was down slightly from the same time frame of 2007, totaling 4,857 customer contacts. The Ombuds Office has implemented a marketing/customer contact program, as described below, to increase the overall awareness of the services offered by the workers' compensation Ombuds Office.
2. **Marketing & Awareness of Ombuds Office Services** - Since 1Q 2008, the Ombuds Office has implemented a sustained marketing effort, to increase awareness of Ombuds services among both internal and external customers of Ohio's workers' compensation system. The Ombuds Office has developed a new capabilities brochure, and has presented at employer, labor, and government events all across Ohio, highlighting the role of the Ombuds Office within Ohio's workers' compensation system.

In 2008, Ombuds Office presentations have been made to a wide range of groups, from the Teamsters annual convention to the Industrial Commission hearing officer's conference, and from local chambers of commerce to the Latino Business Affairs Council.

3. Industrial Commission/BWC/Ombuds Office Relationship - The working relationship between the Ombuds Office and BWC continues to be maintained at a high level. The Ombuds Office has full access and cooperation with BWC staff and senior management, in addressing problems and concerns. The Ombuds Office recently met with the new Executive Director of the Industrial Commission, and fully anticipates developing a strong working relationship with the IC, as well.

4. EFT/EBT Conversion - In 1Q 2008, the Ombuds Office worked with BWC in successfully handling customer inquiries related to the mandatory conversion of injured worker payments from paper checks to electronic payments. Approximately 60,000 bi-weekly payments are made to Ohio injured workers.

5. Customer Complaint Tracking - In 4Q 2008, the Ombuds Office will be converting all complaint tracking to EPower, an industry standard call center software program. Multiple benefits of this conversion include the more efficient exchange of claims data with BWC, and the ability to generate a wide variety of management reports. This program also allows for more versatility in data mining and data trend analysis.

6. Complaint Handling Unit / Ombuds Office Consolidation - In 3Q 2008, in a show of cooperation, the BWC Complaint Handling Unit staff merged into the Ombuds Office, aligning all complaint handling functions into one standardized unit. This consolidation should allow for a more timely and efficient handling and tracking of complaints from external stakeholders in Ohio's workers' compensation system.

7. Common Sense Business Initiative - In February 2008 Governor Strickland issued Executive Order 2008-04S, which directed all state agencies to streamline administrative roles, and ease business regulations. A key component of this order was mandating that all large state agencies that regularly interact with businesses must create an Ombuds Office. Because the workers' compensation system Ombuds Office has been in place since 1978, this office has taken the lead in providing guidance and assistance in other state agencies creating new business Ombuds offices. The Chief Ombuds Officer of each agency meet on a regular basis, to ensure good inter-agency cooperation and information flow.

8. Shared Services - This new key initiative from Governor Strickland involves the anticipated consolidation of backroom operations of state agencies, to save money through both eliminating duplicate services and providing economies of scale. Potential areas of consolidation include fleet, IT, finance, payroll, purchasing, and HR. The Ombuds Office, as an independent and neutral third party, expects to play a leading role in fostering cooperation between BWC and the IC, in implementing shared services.

Opportunities for Improvement from the Ombuds 2008 Annual Report

A key segment of the Ombuds Annual Report is a listing of *Opportunities for Improvement*. These are topics that the Ombuds Office has specifically identified as areas for potential improvement within Ohio's workers' compensation system that should be addressed, from a quality improvement standpoint. Listed below is a brief summary of key *Opportunities for Improvement* from the 2008 Ombuds Annual Report that the Ombuds Office is currently working on:

- 1. Real Estate Vacancies** - The William Green Building in downtown Columbus currently has a vacancy rate of 25 – 30%, and efforts should be made to house other state agencies in the Bureau's HQ facility, to increase rental revenues and amortize fixed building costs. BWC senior management, in conjunction with DAS, is working on addressing this concern. An update on this issue will be included in the 2009 Ombuds Office Annual Report.
- 2. Employer Non-Compliance** - The Ombuds Office reported in its Annual Report in 1Q 2008 that non-compliance by Ohio employers was a growing problem, with an estimated 10,000 non-complying employers annually, and uncollected annual premium of \$20 million. The Ombuds Office is pleased to note that BWC has created a formal non-compliance unit, to systematically address this issue. The efforts of this unit will provide an increased level of fairness for Ohio employers, by relieving employers who pay their full premium, while also subsidizing non-complying employers. An update on the efforts of this team will be provided in the Ombuds Office 2009 Annual Report.
- 3. BWC / IC Forms** - The Ohio workers' compensation system uses 105 different forms, between injured workers, employers, and medical providers. In 4Q 2008, the Ombuds Office will begin tracking utilization of these specific forms to determine what forms can be consolidated or eliminated, to reduce the administrative burden on Ohio employers, injured workers, and medical providers.
- 4. Out-of-State Claims** - The Ombuds Office has noted an increasing trend in the volume of injured workers, usually older PTD recipients no longer living in Ohio, expressing concerns about their inability to receive BWC authorized medical treatment. There are currently over 45,000 injured workers receiving benefits from BWC who do not currently live in Ohio. The Ombuds Office is working with both BWC and Managed Care Organizations on how best to address this rising concern. An update on these efforts will be provided in the Ombuds Office 2009 Annual Report.
- 5. Industrial Commission Hearing Consistency** - A frequent concern received by the Ombuds Office from employers involves a lack of consistency in Industrial Commission hearing outcomes. Employers are concerned that similar fact patterns, argued in front of hearing officers in different IC offices state-wide, receive substantially different outcomes. The Ombuds Office is not aware of any current efforts by the IC to track consistency, related to Industrial Commission orders. In 4Q 2008, the Ombuds Office hopes to work with IC management to explore methods of tracking consistency in hearing outcomes. An update on this matter will be presented in the 2009 Ombuds Office Annual Report.

6. Business Dispute ADR Process - As reported in 1Q 2008, the Ombuds Office expressed concerns about the lack of timeliness in the alternative dispute resolution process for employer complaints, through the BWC Adjudicating Committee. In 2Q 2008 the Ombuds Office was fortunate to participate in the State of Ohio's first *Kaizen* quality control process, which successfully restructured the adjudicating committee workflow, yielding improvements in both timelessness and output quality. The Ombuds Office is analyzing other processes within Ohio's workers' compensation system and may recommend other workflows that may be well suited for a *Kaizen* review.

BWC Legislative Report
Gregg Paul and Laura Abu-Absi

August 11 – August 25, 2008

Regulatory Reform Task Force

Sen. Keith Faber (R-Celina)-Chairman
Rep. Jim Zehringer (R-Fort Recovery)-Vice Chairman.
Sen. Tom Niehaus (R-New Richmond)
Sen. Capri Cafaro (D-Hubbard)
Rep. Steve Reinhard (R-Bucyrus)
Rep. Jay Goyal (D-Mansfield).

The task force is to travel the state in the coming months and gather input on how to improve the interaction between government and business. First meeting held on August 13, 2008 in Columbus. Chairman Faber indicated the task force would meet for the second time somewhere in Southwest Ohio on an undetermined date.

August 13, 2008—First Hearing

Testimony provided to the Task Force by the following organizations:

Ohio Farm Bureau
Ohio Small Business Council
Joint Committee on Agency Rule Review
Ohio Society of CPAs
Ohio Aggregates and Industrial Minerals Association
U.S. Small Business Administration—Office of Advocacy
National Federation of Independent Businesses

Workers' Compensation Council—Rep. Bill Batchelder—Chair

August 13, 2008-2nd meeting

Presentation on MIRA II provided by Rex Blateri, MIRA II Project Manager/Business Lead

Next meeting: September 17, 2008.

State Controlling Board—Joe Secest—Chair

August 4, 2008 meeting:

Approved BWC consulting contract with David Hollingsworth for services related to Group-rating discount program reform.

August 18, 2008 meeting:

Approved Office of Budget and Management request to approve the creation of a new fund and establish appropriation authority in the amount of \$650,000.00 in fund 5DR0, line item 321001, Workers' Compensation Council.

Enacted legislation currently under rule development:

SB 323 (Sen. Niehaus-R-New Richmond) Pneumoconiosis Fund –Transfer portion of interest for ODNR Mine Safety Program.

Summary: Implement into law recommendations made by Underground Mine Safety Task Force. Allows BWC Administrator to transfer a portion of the Coal-Miners Pneumoconiosis Fund to ODNR's Mine Safety Fund.

- MIRA II date change amendment added to legislation by unanimous vote in committee
- Legislation approved unanimously (32- 0) by Senate on 5/7
- Proponent/Opponent/Interested Party Testimony in House Agriculture and Natural Resources Committee on 5/28. Voted out of committee unanimously
- Voted on by full House on 5/29. Passed unanimously (94-0).
- **Signed by Governor Strickland on 6/11**
- **BWC Board of Directors adopted rules to govern the transfer of interest to the Mine Safety Fund on 5/30. Rules will become effective immediately upon the Governor's signature.**

SB 334 (Sen. Faber-R-Celina)--Interstate Jurisdiction

- Summary: Prohibits injured workers from double-recovery on claims in multiple jurisdictions for same injury (Ohio and another state.) To provide interstate workers' compensation for Ohio employers. To provide for the segregation of payrolls. Provides BWC Administrator the discretionary and contingency authority to make charges to the surplus fund. Prohibits Workers' Compensation Council from reviewing this legislation.
 - Sponsor Testimony provided on 5/14 in Senate Insurance, Commerce and Labor Committee
 - Proponent, Opponent, Interested Party testimony provided on 5/21/08 in Senate ICL.
 - 3rd Hearing Testimony on 5/27 in Senate Insurance, Commerce and Labor Committee. Bill unanimously voted out of Senate same day.
 - House Commerce and Labor Committee met on 5/28 to hear Sponsor Testimony and Proponent Testimony. Bill unanimously voted out of committee.
 - On 5/29 House unanimously voted out legislation (93-0).
 - **Signed by Governor Strickland on 6/11**

HB 397/SB 290 (Rep. Szollosi-D-Oregon, Senator Wagoner-R-Ottawa Hills) Eliminates concurrent jurisdiction.

Summary: Exempts workers covered under federal Longshore and Harbor Workers' Compensation Act (FLHWCA) from state coverage unless it is elected by the employer.

- All provisions of HB 397 added to HB 562 Omnibus Amendment on 5/22/08 by House Finance and Appropriations Committee. BWC remains an interested party.
- **HB 562 Conference Committee adopted by Senate and House on 6/10. Bill to be signed by Governor Strickland week of 6/16**