

Restoring Operational Excellence

Comprehensive, Customer-Focused Reform of Ohio's Workers' Compensation System



Ohio

Bureau of Workers'
Compensation



One year ago, Governor Ted Strickland asked me to help restore trust and integrity to the Ohio Bureau of Workers' Compensation. I was honored by this request and excited to help revive an institution that plays such an important role in the lives of working Ohioans and the economic vitality of our great state.

Like all Ohioans, I was deeply troubled by the investment scandals exposed in 2005. The actions of a few scarred an entire organization and tainted the once proud history of Ohio's workers' compensation system. These actions put BWC in the headlines and under a microscope — and rightly so. Since this time, BWC has placed a sharp focus on ethics and integrity, while also making many improvements in our financial and investment practices.

Today, a deep examination of our operations and service is under way. With the support of a new leadership team and a new, professionalized board of directors, we have made progress; but there is still much work to do.

The following will outline our recent improvements, which includes a **5-percent reduction in overall private employer premium rates** for the first time since 2001. It will also detail the comprehensive, customer-focused reforms that will fundamentally improve Ohio's workers' compensation system for the long term.

A stable, trusted workers' compensation system is critical to Ohio's future success. Governor Strickland has outlined a bold vision for strengthening Ohio's economic vitality. We must contribute to these efforts by establishing a workers' compensation system that is consistent, simple to understand, fair to our customers and competitively priced.

Sincerely,

A handwritten signature in black ink that reads "Marsha P. Ryan". The signature is fluid and cursive, with a long horizontal line extending to the right.

Marsha P. Ryan
BWC Administrator

Executive summary

The past few years have brought major changes to BWC. The accomplishments and milestones of the recent past have provided a strong foundation. Now, we are moving forward to comprehensively improve service for our customers and make fundamental changes to workers' compensation in Ohio. By providing effective, customer-focused services we will:

- Enhance the quality of life of Ohio's work force;
- Promote economic success for Ohio's employers, and;
- Strengthen the state's economic vitality.

This report provides a detailed overview of how we will comprehensively reform Ohio's workers' compensation system to improve service for all of our customers. The report is comprised of five major sections that, in short, explain where we are today, where we've been recently and where we're going as an agency.



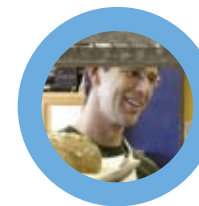
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This section provides basic demographic information about BWC and Ohio's workers' compensation system. It explains recent organizational changes and key improvements to the system's governance structure. It also highlights the five internal priorities to improve our approach to service delivery and policy making.



13 State of the agency

The well-publicized investment scandals in 2005 shook the public's confidence in BWC and Ohio's workers' compensation system. This section outlines the decisive steps that we took in 2005 and 2006 to pursue justice and stabilize the agency's financial footing. It summarizes more recent organizational changes, sweeping legislative reforms and our renewed focus on serving the public effectively and with integrity.



21 Restoring operational excellence

This section offers a road map for the future of workers' compensation in Ohio. It highlights and explains the fundamental changes that we will implement with input from stakeholders and customers. These forward-thinking changes will help modernize workers' compensation in Ohio without sacrificing the original values and purpose of the system.



43 Performance measures

As we implement sweeping changes to Ohio's workers' compensation system and the way we do business, we must have a clear, analytical way to measure and monitor our performance. This section explains how we are developing an enterprise reporting package to continuously track our financial and operational performance.



45 Improving service for the self-insuring community

Our self-insurance department is working on a number of initiatives to ensure security and stability for Ohio's self-insuring employers and the workers they employ. This section outlines our priorities to achieve these goals.

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Matt Zimmerman, owner of Zimmerman Wooden Boat Works in Columbus, has been in business restoring wooden boats for 15 years.

Operational overview

About us
 BWC Board of Directors
 BWC executive leadership
 Transforming our approach to service

About us

BWC provides work force insurance coverage for approximately 275,000 of the state's public and private employers. The State Insurance Fund covers medical expenses and lost wages for approximately two-thirds of Ohio workers. The remaining third receives workers' compensation coverage directly through their employers, which are part of a self-insurance program guided by strict qualifications set by BWC.

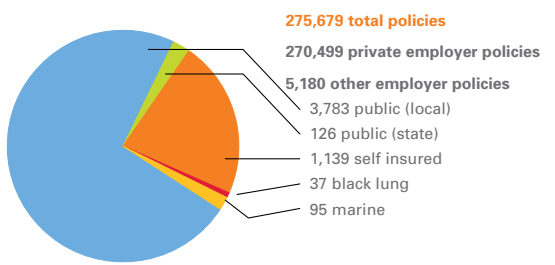
When a workplace accident occurs, we respond to the needs of the injured worker and employer to ensure a safe and timely return to work for the injured employee. We pay benefits on behalf of Ohio's employers in exchange for biannual premium payments, which should help protect them from the financial shock of any sudden, costly workplace accident.

In fiscal year 2007, we processed 171,692 claims of which 154,677 were allowed. The majority of these claims (133,221) required only payments for medical treatment, while an additional 19,487 claims required wage replacement or indemnity payments. There were 1,793 claims related to occupational diseases and, tragically, 176 workers lost their lives while on the job.

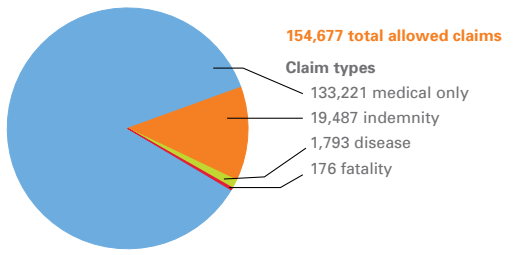
To meet the needs of injured workers and to control premium costs for employers, we are also active in the investment markets to generate additional revenue to the State Insurance Fund — the primary fund into which employers pay. In fiscal year 2007, we generated approximately \$911 million in investment income and the State Insurance Fund earned a return of 5.4 percent.

By pairing positive investment returns with better medical cost-containment, aggressive collection efforts and more effective claims management, we will further strengthen our financial footing in the future and, in turn, provide greater peace of mind to our customers.

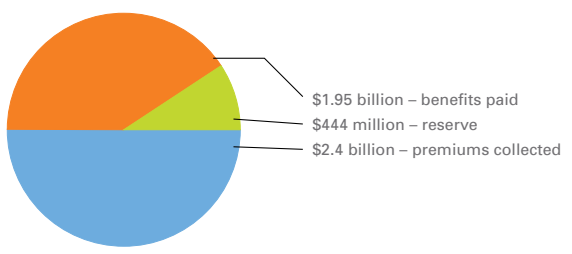
Employer policy totals and types (2007)



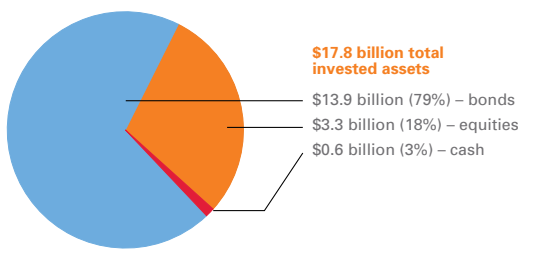
Claim totals and types (2007)



Premiums collected and benefits paid (2007)



Investment asset allocation (as of March 2008)



Source: BWC data warehouse. All statistics except the investment asset allocation chart are as of the end of fiscal year 2007.

BWC Board of Directors



William Lhota, chair of the board

Lhota, of Worthington, has been president and CEO of the Central Ohio Transit Authority (COTA) since 2004. Lhota previously spent 37 years at American Electric Power, where he served in various management positions.



James Harris, vice chair of the board

Harris, of Gahanna, works part-time for the United Auto Workers (UAW) on workers' compensation legislation. He retired in 2003 after more than 20 years of experience on the UAW international staff. Harris also served as the

director of the Ohio Department of Industrial Relations from 1983 to 1991.

Created by legislation in Ohio House Bill 100 (HB 100) and appointed by Gov. Strickland, the BWC Board of Directors provides greater professional expertise, strengthened accountability, transparency and a broad representation of our customers. As fiduciaries of Ohio's workers' compensation system, the board provides independent verification of our financial and operational performance. It also has direct authority in advising BWC's administrator and setting the agency's overall policies.

Board members represent the interests of Ohio workers and employers, and the public at large. All 11 members have full voting rights, and HB 100 requires that four members of this new board must have specific expertise in the areas of investments (two members), accounting and actuarial science. The board has three committees mandated by law: an actuarial, audit and investment committee that convene monthly. There is also a governance committee, which the board created to oversee its operations.

For more information on individual board members, please see Appendix A.



BWC hosts public forums

The BWC Board of Directors has received input from injured workers, employers, providers and stakeholders by hosting public forums.

Nov. 14, 2007 – Employers and stakeholders express opinions about potential changes to group rating

April 24, 2008 – Input provided on improving BWC's medical services

June 26, 2008 – Further improvements to medical services

Chief Actuarial Officer John Pedrick (standing) answers questions during the first BWC Board of Directors meeting held in August 2007.



BWC executive leadership



Administrator Marsha Ryan

Appointed by Gov. Strickland, Ryan is charged with leading BWC in achieving our mission to protect injured workers and employers from loss as a result of workplace accidents and to enhance the general health and

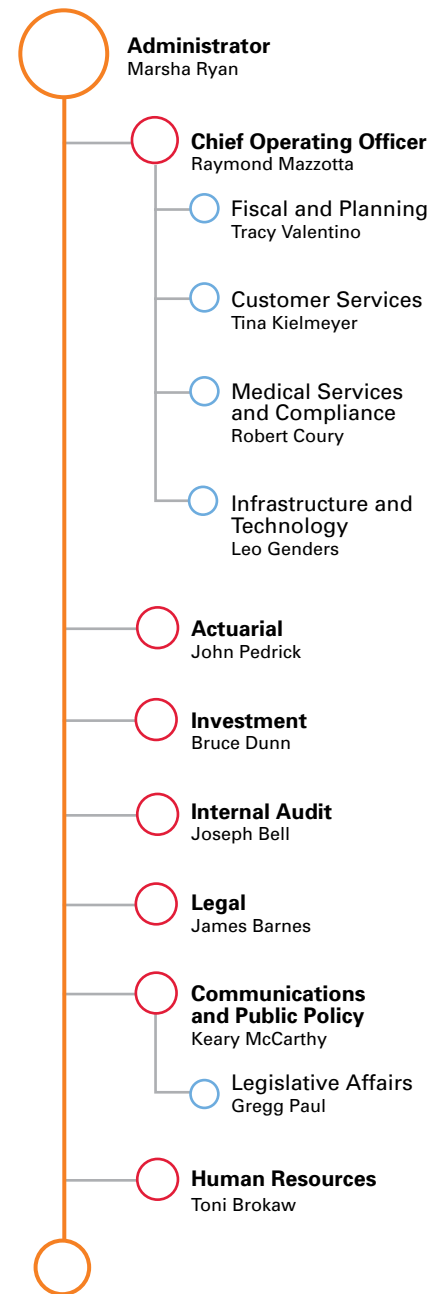
well-being of Ohioans and the Ohio economy. With an outstanding dedication to quality customer service, Ryan is leading efforts to make BWC more responsive and accountable to Ohio's injured workers and employers.



Chief Operating Officer Raymond Mazzotta

As COO, Mazzotta strives to ensure our operational divisions work together seamlessly to effectively meet the needs of injured workers, employers and medical providers. He manages the Fiscal and Planning, Customer Services, Medical Services and Compliance, and Infrastructure and Technology divisions.

Medical Services and Compliance, and Infrastructure and Technology divisions.



Transforming our approach to service

To serve our customers more effectively and efficiently, we have set five priorities to help guide our decision making and define our approach. These internal initiatives for restoring operational excellence include a focus on customer service, communications, internal controls, income management and cost control.

Customer service

Providing quality customer service is one of the cornerstones of restoring operational excellence. We are fundamentally improving our service by implementing a system to track, analyze and respond to customer inquiries. We are also refocusing our efforts to clearly and effectively communicate claim and premium information to our customers.

Communications

We are streamlining business correspondence to provide clear and concise information, eliminate duplication and, ultimately, make processes more efficient for our customers. We are thoroughly mapping the customer journey and we're developing strategies to improve communications processes for injured workers. We have improved the premium rate letter to make it easier for employers to understand their rates and premiums. We will also develop a comprehensive e-communications strategy.

Internal controls

We are strengthening our internal controls by making business processes open, clear and well documented. Our Internal Audit Division regularly tests internal controls and assesses compliance. The BWC Board of Directors' Audit Committee is chaired by a certified public accountant, ensuring that the division continues to operate independently of management. Audit recommendations are presented publicly to this committee, increasing our transparency and accountability.

Income management

The Investment Division is working with the BWC Board of Directors' Investment Committee to establish strategic goals that yield the strongest return on investment, while also matching the long-term nature of our liabilities. We are also taking an aggressive approach to collect premiums from noncompliant employers. This will lessen the burden on Ohio's compliant employers who are forced to pay more than their fair share to cover the cost of those who choose not to pay for workers' compensation insurance.

Cost control

To improve efficiency and service, we are reviewing our fundamental functions and reallocating resources and staff to improve our services. We have moved injured worker payments to electronic deposits and debit cards. We are also reviewing opportunities to pay providers electronically to further reduce costs. We have also consolidated two underused customer service offices for a savings of more than \$800,000 for the remainder of the biennium.



Donna Putnam makes footballs at the Wilson Sporting Goods factory in Ada.

State of the agency

Restoring public confidence

Key milestones on the road to recovery

BWC today – Setting a new course

Restoring public confidence

BWC's efforts to restore trust are rooted in sound business practices and comprehensive improvements to the system. We are afforded this focus today because of a thorough criminal investigation, diligent recovery of losses and a committed task force of investigators who began their work following the well-publicized investment scandals exposed in 2005.

The wrongdoing and criminal activity perpetrated by several investment brokers, former agency staff and various state officials deeply weakened the public's trust in BWC. The multi-agency task force, led by Ohio Inspector General Thomas Charles, deserves significant credit in bringing justice to bear on those who violated that trust. To date, the task force has secured 19 criminal convictions associated with fraudulent investment activities and other matters.

In addition to pursuing justice, the state of Ohio has also been focused on recovering investments lost by Capital Coin Fund and MDL Capital Management Inc. Through the liquidation of the remaining assets in the Capital Coin Fund, we are close to recovering the original investment of \$50 million. Efforts continue to recover monies lost by MDL from leveraging a fund beyond the established contractual risk parameters.

This vigilant pursuit of justice and efforts to recover public money has helped to restore public confidence in our operations, but much needed improvements are required to fundamentally improve our service to Ohio's injured workers and employers.

Key milestones on the road to recovery

The road to recovery began in 2006 when we secured our \$17 billion investment portfolio, completely rebuilt our Investment Division, and established a thorough investment policy with necessary internal controls. There was also a sharp focus on securing our bottom line by decreasing medical costs and developing a successful settlement strategy to generate long-term savings. These efforts helped to produce clean financial audits for two of the agency's most turbulent years — 2005 and 2006.

Ethics and accountability

In 2007, Ohioans welcomed Gov. Strickland to the statehouse. Immediately following his inauguration, the governor signed an executive order to establish new ethics requirements for himself, his staff, cabinet agencies and state boards and commissions (Jan. 8, 2007). This set a new tone for a responsive and accountable government — particularly at BWC — aimed at making Ohio a great place to live and work.

“Recent scandals in Columbus have created the perception that decisions are made to reward political friends instead of making decisions that are best for Ohio. The people of Ohio need to have faith in their government, and this first executive order is the first step in strengthening their faith.”

— Gov. Strickland

New BWC leadership

Citing her commitment to ethics and integrity, Gov. Strickland appointed Marsha Ryan as BWC's new administrator on March 20, 2007. Ryan began her tenure on May 1, 2007, and started developing a new executive leadership team. She also outlined her vision for success to BWC staff: “Together, we will tackle the challenges that lie ahead with a relentless focus on customer service, good communications, alignment of our organizational goals and clear performance measurements.”

“Marsha's impeccable integrity and unwavering focus on improving the bureau has been extraordinary. Under Marsha's leadership, and that of the new, professionalized board of directors, Ohio businesses and injured workers are getting the balanced and accountable workers' compensation system they deserve.”

— Gov. Strickland

Sweeping legislative reforms

In addition to establishing new leadership, Gov. Strickland and the Ohio General Assembly worked to pass House Bill 100 (HB 100). The law has helped to significantly improve the accountability and operational integrity of BWC. Perhaps the largest component of this sweeping reform bill was the creation of a new, external governance structure that would fundamentally improve BWC's policy-making process.

New BWC Board of Directors

Gov. Strickland named members to the board on July 31, 2007, effectively abolishing the Workers' Compensation Oversight Commission and creating a more independent governance system for BWC. The new board has a much broader representation of BWC customers and a fiduciary responsibility to ensure greater accountability.

Workers' Compensation Council

In addition to the board of directors, HB 100 created many other monumental changes at BWC. It called for the creation of the Workers' Compensation Council, an 11-member body comprised of six legislative and five non-legislative members. The Ohio senate president and speaker of the house jointly appoint these members. The council reviews all BWC and Industrial Commission of Ohio (IC) related bills introduced in the Ohio General Assembly for probable costs, actuarial implications and public policy desirability.

Deputy Inspector General at BWC

To ensure additional oversight, HB 100 also created the Office of the Deputy Inspector General specifically for BWC and the IC. HB 100 calls for the deputy inspector general to investigate wrongful acts or omissions that have been or are being committed by BWC and IC officers and employees. Joe Montgomery, the first deputy inspector general for BWC and the IC, began his duties on Sept. 17, 2007.

“Deputy Inspector General Montgomery will not only provide the proper oversight and enforcement, but his presence will also demonstrate to our customers how serious we are about ethics and accountability, especially at the management level.”

— BWC Administrator Marsha Ryan

Comprehensive rate study

The portions of HB 100 discussed so far emphasize oversight. Another major focus of the reform legislation is to ensure accuracy and accountability. The bill charged the BWC administrator to contract with a reputable outside consulting firm to perform a **comprehensive review of base rates and all of BWC's rating programs**. For more information, see *Conducting a comprehensive study of all rating programs* on page 38.

“We are pleased to report that we have contracted with Deloitte Consulting LLP. While the legislation gave a deadline for the study to be complete by September of 2009, we are well ahead of schedule. We expect the study to be complete by the end of calendar year 2008, with some findings complete as soon as June 2008. We look forward to the results, which will not only indicate the effectiveness of all rate-related programs individually, but also how these programs interact with one another.”

— BWC Chief Actuarial Officer
John Pedrick

New claims reserving system

Finally, HB 100 charged the administrator to **transition from the current claims reserving system to a different system or a different version of that system**. By July 1, 2008, BWC will have met this legislative requirement and will have fully implemented a new version of the Micro Insurance Reserving Analysis system, or MIRA II. This new system produces more accurate reserves on each claim. It also provides greater transparency for Ohio's employers by allowing them to see what factors impact reserves for the injuries their employees sustain. For more information, see *Transitioning to a new claims reserving system* on page 35.

Regulatory reform

On Feb. 12, 2008, Gov. Strickland signed Executive Order 2008-04S, *Common Sense Business Regulation*. This directive requires all state agencies to review existing rules and processes to ensure a favorable and friendly business climate for Ohio.

The *Common Sense Business Regulation* directive requires state agencies to treat those affected by their rules and regulatory processes as customers — with consistency across regions, offices and departments. And it requires agencies to consolidate regulatory rules and processes. State agencies are charged to amend or rescind rules that are unnecessary, that needlessly impede economic growth, or that have had unintended negative consequences.

We have begun this process by undertaking a comprehensive review of our existing and newly developed rules and procedures. We currently have over 500 regulatory rules and procedures in place affecting nearly every exchange or interaction with our customers. One month after this order was issued we eliminated 14 unnecessary rules and are scheduled to review 150 additional rules in 2008 alone. The BWC Board of Directors has also adopted a form to make sure the order is followed for every rule consideration.



BWC today — Setting a new course

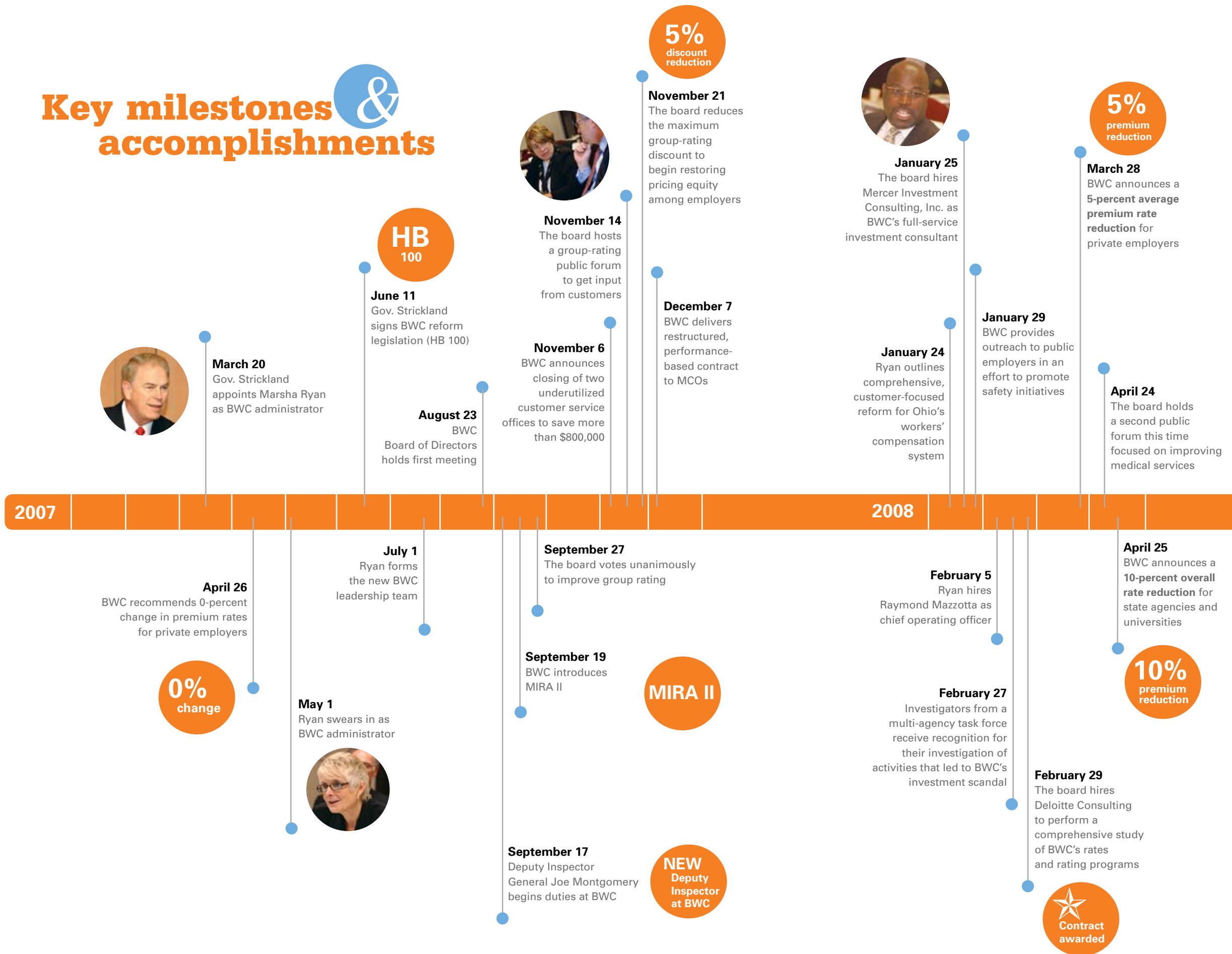
Today's ever-changing global economy challenges Ohio's work force and businesses like never before. Adding to this challenge is a workers' compensation system that, despite recent progress, is sometimes inconsistent, confusing and seemingly uncompetitive with other states.

As Gov. Strickland and Lt. Gov. Lee Fisher work to make Ohio great by developing the building blocks for a strong economy — including the bipartisan jobs stimulus package — we must contribute by comprehensively improving to better serve Ohio's injured workers and employers.

We have made progress since 2005. The financial improvements of 2006 and the complete organizational reforms in 2007 have provided a platform to make fundamental, long-term improvements to Ohio's workers' compensation system.

The framework for a successful workers' compensation system is in place. Yet, fundamental changes are required if we are to positively contribute to Ohio's success. The focus of this comprehensive reform effort is to improve our services, help working Ohioans, provide value for businesses, and become a competitive advantage for attracting new jobs to Ohio.

Key milestones & accomplishments



Progress & results

Premium rates now lower by 5 percent
For the first time in seven years, we have lowered the overall premium rates for private employers by 5 percent. This rate decrease will take effect on July 1, 2008.

Greater premium equity
We lowered the maximum discount for group-rated employers by 5 percent — from 90 percent to 85 percent. This important change will take effect starting July 1, 2008. This will lead to greater premium equity among employers, thus lowering Ohio's base rates. It will also help to make Ohio more competitive with workers' compensation systems throughout the country.

Performance-based MCO contract
We restructured our contract with Ohio's managed care organizations. The new contract significantly increases performance requirements for the MCOs. It also includes a revised fee structure to stabilize costs.

10-percent rate reduction for state agencies and universities
We recommended and the board approved a 10-percent premium rate reduction for 106 state agencies, 16 state universities and four university hospitals effective July 1, 2008. This will save these Ohio employers approximately \$7.3 million for the upcoming program year. The reduction is the first for these employers since 1999.



Ron Wehner, of Upper Arlington, inspects his handiwork at the Great Harvest Bread Co.

Restoring operational excellence

- Stable costs
- Better services
- Accurate rates
- Safe workplaces

Comprehensive, customer-focused reform

Comprehensive reform starts by identifying a clear organizational mission. In January 2008, we announced a new mission statement that clearly outlines the core values we must provide for Ohio's injured workers and employers.

Our new mission is to **protect injured workers and employers from loss as a result of workplace accidents, and to enhance the general health and well-being of Ohioans and the Ohio economy.**

This mission statement reflects a renewal of the founding principle of loss protection that brought both business and labor together to establish a constitutionally protected workers' compensation system.

Before the system was established, employers faced the financial burden of large punitive damages and injured workers faced the financial burden of lost work and wages. This instability hurt both groups and adversely impacted Ohio's quality of life and economic prosperity.

Establishing our performance objectives

Our new mission statement not only captures the key purpose for which BWC was founded; it also defines the desired outcomes of enhancing the health and well-being of Ohioans and the Ohio economy. Clearly defining our organizational mission and value, as well as understanding our purpose and the desired outcomes of our efforts, allows us to set proper performance objectives.

As a result, we have identified four areas of focus for comprehensive improvements to the system.

- Provide **stable costs** to avoid unexpected financial hardship for employers.
- Develop **better services** to clearly demonstrate BWC's value and enhance Ohio's quality of life.
- Establish **accurate rates** to fairly match rates with risks and to ensure proper distribution of costs among all employers.
- Create **safe workplaces** by promoting safety awareness to prevent claims that cause loss.

Through these four areas of focus we will be well positioned to restore operational excellence and provide meaningful service improvements to Ohio's injured workers and employers.

A proud history of protecting Ohioans

While running for president in 1920, Gov. James Cox often touted the success of Ohio's workers' compensation system. He told a story of a company that split the border of Ohio and Pennsylvania. One day, he explained, a machine operator's legs were mangled and he became instantly immobilized. Knowing his family would be better taken care of in Ohio, the injured worker dragged himself across the factory floor from the Pennsylvania-side to the Ohio-side of the plant. Cox's account speaks to the importance of Ohio's system of workers' compensation and illustrates the proud history BWC once knew.

Stable costs

- Making Ohio's workers' comp system competitive
- Establishing stable premiums
- Managing loss and operating costs
- Strengthening investment returns and controls



Providing stable costs

Workers' compensation cannot and should not be a burden on Ohio's employers or a roadblock for the state's economic growth. When financial markets and the overall economy take a turn for the worse, it becomes even more crucial that we provide stable costs and predictability for our customers. We have identified four primary objectives to achieve this goal, including:

- Making Ohio's workers' comp system competitive;
- Establishing consistent, equitable premiums;
- Managing loss and operating costs;
- Strengthening investment returns and controls.

We have begun taking the necessary steps to make Ohio's workers' compensation system competitive both regionally and nationally. This starts with our efforts to overhaul several aspects of our rate-making process and to fix existing programs that have made premium rates unstable and unpredictable for many Ohio employers.

We, as an agency, are also focused on managing our loss and operating costs by making the most of our resources and streamlining many of our business processes. Finally, we are following a targeted investment strategy to meet the needs of injured workers and help control premium costs for employers.

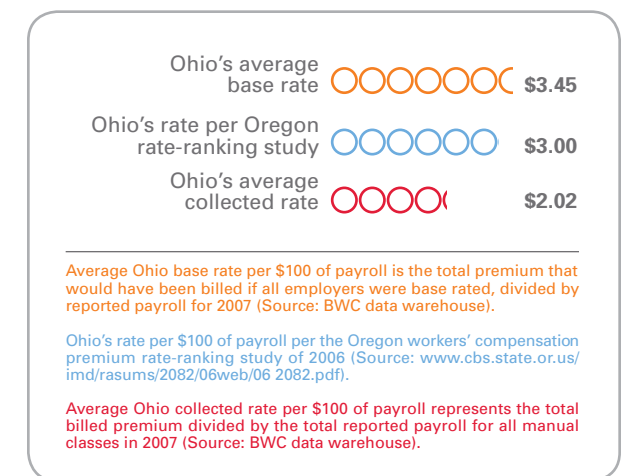
Accomplishing these objectives will provide security, peace of mind and better service for our customers. It also will promote economic success for existing employers and attract new business to our state.

Making Ohio's workers' comp system competitive

We offer various rating programs to provide employers with an extra incentive to maintain safe workplaces by allowing them to earn premium discounts. Though these programs can reduce costs for some, they also create confusion and add complexity to the system. Furthermore, programs such as group rating inflate Ohio's base rates and cause pricing inequities between those who participate and those who do not.

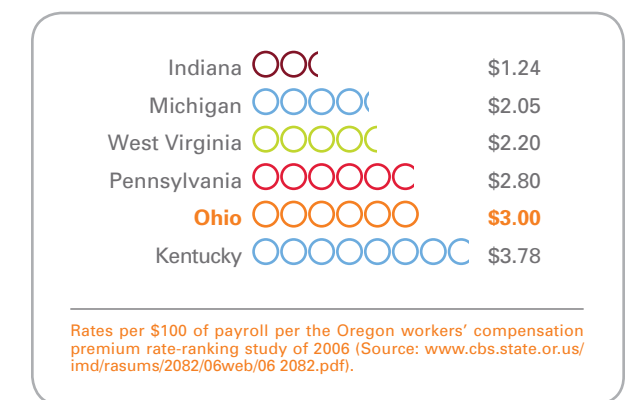
As a result, it is difficult and confusing to get a true comparison about Ohio's competitiveness with other states. A rate comparison study conducted by the state of Oregon shows Ohio's base rates to be uncompetitive. Taking an average of Ohio's base rates also indicates we are uncompetitive. However, our average collected rate reveals a more competitive picture. This ambiguity underscores the complexity of the current system as the chart below illustrates.

Determining Ohio's cost competitiveness



This ambiguity ultimately hurts Ohio's ability to attract capital investment and grow our economy. As the regional cost-comparison chart illustrates, our base rates appear uncompetitive with neighboring states ranked in the Oregon study.

Regional cost comparison



Optimizing the system requires that we establish premium stability and reduce the average base rate for all Ohio employers. By stabilizing premiums from year to year, and minimizing the impact one claim can have on premiums, Ohio's workers' compensation system will fulfill its pledge to help protect businesses from significant financial hardship as a result of workplace accidents.

Our goal is to **provide consistent premiums** based on sound rating principles that appropriately match the right insurance risk with the fairest rate. Doing so will **stabilize costs**, allow individual employers to **better manage their costs**, and **reward employers for cultivating safe work environments** for their employees.

Last year, we took an important step toward making Ohio more competitive when we **reduced the maximum group-rating discount from 90 percent to 85 percent**. This change will take effect on July 1, 2008. It will ultimately help to lower Ohio's base rates and restore equity to our workers' compensation system.

Establishing stable premiums

A sound insurance program must provide competitive pricing and protect its customers when accidents occur.

As the previous section outlined, we are diligently working to make Ohio's workers' compensation system more competitive. We must do this while also ensuring that employers are properly protected from financial hardship when the unexpected occurs.

Today, one expensive claim can result in extraordinary premium increases for certain employers. This volatility undermines basic insurance principles and hurts individual businesses. The threat of skyrocketing premiums also creates hostility between an injured worker and an employer.

Furthermore, unpredictable premium rates prevent businesses from budgeting for long-term success. When a business is forced to pay for unexpected premium increases instead of hiring additional personnel, and is unable to estimate workers' compensation premium in its mid-term and long-term business plans — the individual company and Ohio's overall economy suffer.

There are three primary drivers behind the current instability in premium rates.

- First, inaccurate claims reserves can unfairly increase premiums.
- Second, the current experience-rating system inappropriately emphasizes the *cost* of claims over the *frequency* of accidents.

This causes one claim to have a significant impact on premiums.

- And third, losing a significant group-rating discount causes extraordinary premium increases.

We are addressing each of these problems head on.

- Currently, we are implementing a new claims reserving system to improve the accuracy of individual claim reserves, while also providing customer access to the reserving process. For more information, see *Transitioning to a new claims reserving system (MIRA II)* on page 35.
- We are also analyzing the possibility of transitioning to a new experience-rating system to calculate premiums. This would provide more accurate pricing for each employer and limit the impact of one expensive claim. For more information, see *Implementing a new rating system for premiums* on page 34.
- Finally, we are in the process of addressing the challenges of the Ohio group-rating program. For more information, see *Stabilizing group rating, strengthening Ohio's economy* on page 36.

Fundamentally improving Ohio's workers' compensation system requires that we thoroughly address the areas that create premium instability. We must have accurate rates that reflect a commitment to safe workplaces, a competitively priced system, and premium stability to protect employers from the financial impact that workplace accidents can cause.

Managing loss and operating costs

Operating costs

Approximately 10 percent of an employer's premium pays for our operating costs. With this in mind, we are committed to providing quality customer service that is efficient and economically sound. We, like other state agencies, must make the most of our resources. Moving forward, we will review current staffing levels and make proactive adjustments to ensure we are meeting the evolving needs of all of our customers.

We have begun this process, and in 2007 we consolidated customer service offices and relocated staff in downtown Cincinnati and Bridgeport. These changes will bring about a total **cost savings of \$836,000** for the remainder of the biennium budget cycle, which ends June 30, 2009. Early retirement incentives have also led to work force reduction and, in turn, additional savings. Last year, there were approximately 200 retirements and only approximately 20 percent of those positions have been filled.

We have also **saved nearly \$1 million** by converting to direct deposit payments or payments by electronic funds transfer to eligible injured workers. This initiative eliminated the costly printing and mailing of checks to injured workers, allowed quicker delivery of payments, and significantly improved processing and internal efficiencies.

Loss costs

Our Medical Services Division has made great strides in loss management and cost reduction through a number of recent accomplishments. This includes the development of a system to control the escalating costs of inpatient hospital services. This new system reviews all bills received (approximately 500 a month) prior to payment to ensure accuracy and timeliness of reimbursement. By using a new reimbursement methodology, the process has become more predictable and inpatient care costs have seen a significant reduction.

Also, the 2007 MCO contract reduced the reimbursement rate to MCOs, resulting in **\$14 million in savings**. The 2008 contract maintained these savings and significantly increased performance requirements for MCOs. It also included a revised fee structure to stabilize costs for employers.

Overall, our indemnity costs in fiscal year 2007 increased more than 6 percent compared to the previous fiscal year. However, temporary wage replacements and short-term disability costs have decreased by almost \$6 million. Settlement costs, which increased 49 percent to approximately \$242 million, drove this boost. And the number of settlements also increased nearly 32 percent to 23,821 in fiscal year 2007. These activities will lead to significant long-term savings by reducing the amount of future payouts we have to make on existing claims.

We are also committed to ensuring **employers remain compliant** and pay their premiums in accordance with Ohio law. This includes committing greater resources to aggressively policing compliance, collecting overdue premiums and, in some cases, working with the attorney general's office when legal action is necessary.

Better services

Enhancing our medical services
Communicating better with our customers
Mapping our processes
Providing more responsive customer service

Strengthening investment returns and controls

To meet the needs of injured workers and to control premium costs for employers, we invest our assets in the financial markets. Currently, we have targeted a goal to allocate 79 percent of our more than \$17 billion portfolio in bonds, 20 percent in equities and 1 percent in cash. This investment strategy attempts to balance risk and return objectives, while matching the term of these investments to the long lifespan of our liabilities.

Before June 2005, our investment strategy focused on maximizing returns at the expense of limiting risk. At that time, we invested close to 50 percent of our portfolio in bonds and just under 50 percent in equities. Additionally, our Investment Division had used approximately 75 outside money managers to actively manage our bond and stock assets and an additional 68 general partners to manage our private equity funds.

In 2006, we returned to a more prudent investment strategy that emphasizes sufficient returns, while reducing market risks. We have also decreased the number of outside money managers to ensure greater oversight of our investment funds and reduce fees. This investment strategy **increased annual interest and dividend income for the total investment portfolio by approximately \$118 million in fiscal year 2007 versus the previous fiscal year**. In addition, it also **reduced annual management fees by more than \$24 million**.

In 2007, Gov. Ted Strickland appointed the BWC Board of Directors. Soon after, the board established a committee to provide direction for investment decisions. The Investment Committee has five members, two of which are institutional investment experts.

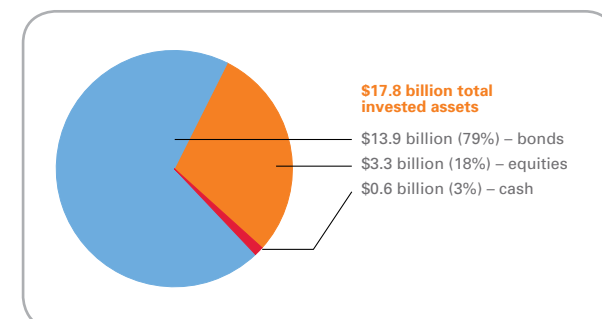
We also have a more professionalized investment staff thanks to a complete changeover since 2005. This includes five staff members who have achieved the Chartered Financial Analyst (CFA) designation, the highest accreditation an investment professional can earn.

In December 2007, we also began implementing an investment accounting system that allows our investment staff to properly manage and monitor various funds. One aspect of this system is that it automatically alerts staff if a fund's portfolio is not in compliance with either its benchmark or imposed guidelines. This fosters a much **stronger control environment and compliance measures for our invested assets**.

In January 2008, we hired Mercer Investment Consulting Inc. as our new full-service investment consultant. Mercer will help develop a long-term investment strategy, assist in investment manager selection, conduct performance measures on all portfolios, advise on investment best practices and further improve administrative processes and controls.

Going forward, our investment staff and the board's Investment Committee will work together to ensure prudent management of our assets to achieve the proper balance of sufficiently high returns with defined risk, while also being sensitive to the long-term nature of our liabilities.

Investment asset allocation (as of March 2008)



Developing better services

We recognize everyone is vulnerable to accidents at work that can lead to injury and even death. Workplace injuries affect the well-being of our customers every day. An injury jeopardizes a worker's health and ability to earn a living. It also impacts an employer's bottom line, and has a ripple effect on Ohio's economy.

Our job is to allay losses suffered by injured workers and employers. We strive to return injured workers to work as safely and quickly as possible to lessen their loss of income, employment and quality of life. We also strive to alleviate loss of productivity for Ohio employers while also strengthening their work force.

As BWC seeks to restore operational excellence, we've refocused our internal priorities to emphasize customer service, communications, strong internal controls, income management and cost control. With these internal priorities in mind, we have developed concrete steps to improve the way we do business externally. This includes:

- Enhancing our medical services;
- Communicating better with our customers;
- Mapping our processes;
- Providing more responsive customer service.

Completing these four steps will allow us to provide better services for our customers.

Enhancing our medical services

Prompt, effective medical care makes a big difference for those injured on the job. It is often the key to a quicker recovery and timely return to work and quality of life for injured workers. Therefore, we have focused on improving services in our core business functions. Our goals are to enhance our medical provider network; establish a better benefits plan; institute an updated and more competitive provider fee schedule; improve our managed care processes; and establish excellent medical bill payment services.

In short, we want to ensure injured workers can access the best doctors, treatments, drug benefits and rehabilitation services available. Therefore, we are focused on making our business processes more attractive to quality medical providers while also keeping an eye on costs for Ohio's employers.

Enhancing our medical provider network

Maintaining a network of dependable medical and vocational rehabilitation service providers ensures injured workers get the prompt care they need. It also ensures they have access to quality, cost-effective service.

By December 2008, we will accomplish these goals.

- Examine better ways to analyze the effectiveness of specialty services, such as vocational rehabilitation.
- Develop communications strategies to eliminate barriers to good service.
- Benchmark processes that we and our providers have identified as barriers to delivering good service.
- Develop outreach strategies for recruiting non-participating providers.

We are also developing measures to track each provider's performance. This will ensure accountability and allow us to maintain a reliable pool of providers to serve our customers.

By October 2008, we will accomplish these tasks.

- Complete steps needed to monitor provider services and enforce compliance with our administrative requirements.
- Develop methods to pinpoint treatment trends and other patterns, and to identify practices that deviate from the norm.

Designing better benefits plans

A quality, cost-effective benefits plan is essential to meet our customers' needs for a full scope of medical care and services. It means injured workers will have ready access to treatments so they can recover faster and return to work promptly and safely. For employers, it means we're monitoring and controlling medical costs on the basis of medical necessity to make the most of their premium dollars.

We have already begun to improve the structure of medical, vocational rehabilitation and pharmaceutical benefits plans by reviewing and setting appropriate provider fee and reimbursement schedules.

By August 2008, we will achieve these goals.

- Complete work to determine the appropriateness of each service our plans cover.
- Develop guidelines to ensure our MCOs, providers and our staff use the same parameters to administer medical, vocational rehabilitation and pharmaceutical policies and procedures.

Establishing better managed care processes

We contract with MCOs to manage the medical component of claims. Injured workers depend on MCOs — and our managed care services, in general — to connect them to critical medical and vocational rehabilitation services. Our customers rely on us to manage this critical business process. Therefore, we aim to develop processes and performance standards that deliver quality, effective managed care services to our customers.

By December 2008, we will accomplish these tasks.

- Create measurements to assess our managed care performance and outcomes, including that of MCOs.
- Strengthen our disability management oversight by expanding evaluation measures and defining desired outcomes, including expanding and validating Ohio-specific disability duration guidelines.
- Develop strategies to integrate claims and medical services to improve disability management.
- Review our processes for authorizing treatment reimbursements to identify opportunities for improvements in efficiency and effectiveness.

Enhancing our medical bill payment services

Paying the bills on time and using consistent payment procedures ensures providers receive appropriate reimbursement for their services. This, in turn, ensures injured workers receive uninterrupted care.

By December 2008, we will achieve these goals.

- Improve processes for documenting diagnoses according to clinical standards to ensure more accurate claims coding. This will help us better determine the appropriate allowed conditions of each claim.
- Study the appropriateness, efficiency and accuracy of bill payment processes for medical, vocational rehabilitation, pharmaceutical and third-party providers.
- Complete a cost and feasibility study to evaluate the best reimbursement methodology for outpatient hospital services.

What are MCOs?

Managed care organizations (MCOs) serve as a primary link between injured workers, medical providers, employers and BWC. They help to manage the medical portion of workers' compensation claims for state-fund employers. This includes reporting claims, making treatment reimbursement decisions and informing injured workers and employers about return-to-work initiatives. A strong MCO-employer partnership ensures injured workers receive the treatment they need to get back to work as safely and quickly as possible. To date, there are 25 MCOs throughout the state.

The 2008 contract with MCOs Restructured with our customers in mind

In December 2007, we delivered a newly restructured one-year contract to all MCOs. This new contract significantly increases their performance requirements and includes a revised fee structure to stabilize costs. The contract went into effect on Jan. 1, 2008.

Performance-based contract

Of the \$162.6 million in contract, 45 percent is tied directly to how well the MCOs perform. They must meet preset performance benchmarks to earn these fees. We allocate the remaining 55 percent for operational expenses. Even here, the MCOs must complete specific reporting deadlines and meet data accuracy measures to earn their fees.

New pricing structure

The contract also calls for fixed payments for services rather than the previous percent-of-premium payments. Having a predictable pricing structure will help stabilize costs for Ohio's employers. It also removes an inherent system bias against lowering costs since we no longer pay the MCOs based on the amount of premium employers pay.

Communicating better with our customers

Using bureaucratic legalese to explain complex insurance policies and processes is a dangerous combination that often leads to confusion. To avoid this, we must improve how we communicate to our customers.

Currently, we are undergoing a **complete overhaul of all operational correspondence**, including all claim and premium information sent to injured workers and employers. We have started by cataloging and reviewing every piece of correspondence to better understand how effectively or ineffectively we are currently communicating.

In addition to clarifying the tone and purpose of the operational correspondence, we will also evaluate the volume of correspondence with an eye toward reducing inefficiencies and providing effective communications that are clearer and less burdensome on the customer.

In 2007, we completed an audit of all operational correspondence, which has already yielded a better understanding of how we communicate to customers. For

example, we determined that through multiple points, an injured worker receives eight different pieces of correspondence during one period in the claims process. While this may be useful information, too many different pieces of correspondence can inundate and further confuse the customer. We must address these problems if we are to improve the process for our customers.

We have also improved the rate letters sent to employers to attempt to explain the process of calculating premium rates. This new rate letter was sent to public employers in December 2007. We will be sending this improved explanation of rate calculations to private employers in July 2008.

It is our responsibility to ensure customers understand how to file a claim, apply for financial assistance, request workers' compensation coverage, etc. The workers' compensation system runs more efficiently whenever we take the time to **ensure our customers fully understand our business processes**.

Mapping our processes

In January 2008, we began mapping our internal processes and workflows. This aligns with Gov. Strickland's statewide Efficiency and Continuous Improvement Initiative launched in April 2008. During the development of this initiative, we worked closely with our fellow state agencies to share resources and experiences thus far in thoroughly mapping all internal business processes.

Our aim is to create a central repository that documents our core business and support processes. This will help us to eliminate inefficiencies and reduce administrative costs. The result will be improved customer service. It will help us become **more efficient**.

Mapping our processes will also provide **greater transparency** for our customers. It will help them see and understand how we do business.

Finally, mapping our business processes will prepare us to effectively **monitor and measure our performance**. It will allow us to establish **better internal controls**. A positive control environment allows us to develop better systems for accountability. In turn, this allows us to increase our collective competency as administrators of Ohio's workers' compensation system while lessening the chances of corruption or error.

In March 2008, we mapped three core processes at the heart of our business. They are the essence of what we do for our customers.

- **Claims filing, determination and payment process** — Mapping this process will allow us to identify areas for improvement. It will help to ensure injured workers receive their benefits more expeditiously.
- **Policy application, processing and premium collection process** — Mapping this process will allow us to improve the experience new and existing employers/policyholders have with us. We will be able to create a more consistent and user-friendly application and premium collection process.
- **Rate-making process** — Documenting this process will allow us to ensure rates are fair, accurate and actuarially sound. Employers will have more confidence knowing that we are collecting the proper premiums. This will make Ohio more competitive with other states.

The next step will be to map and document the remaining core business processes. Understanding all of our internal processes will yield significant long-term benefits to the system. It will reveal greater efficiencies, strengthen internal controls, and provide consistent and transparent internal processes and procedures.

April 18, 2008

Governor announces efficiency and continuous improvement initiative

To improve efficiency and enhance accountability in state government, Gov. Strickland launched his Efficiency and Continuous Improvement Initiative.

State employees at all levels will be prime contributors to this program. As a result, the governor is seeking their suggestions to improve the way the state conducts business. This key component of the initiative, called the Employee and Stakeholder Feedback Program, has the backing of all five state labor unions.

"We want to know how you think we can refine our processes, improve customer service and streamline government operations. Together, our goal is to better serve our citizens and save money, time, energy and resources." — Gov. Strickland

Accurate rates

Implementing a new rating system for premiums
Transitioning to a new claims reserving system (MIRA II)
Stabilizing group rating, strengthening Ohio's economy
Conducting a comprehensive study of all rating programs

Providing more responsive customer service

Listening to our customers and improving our services

In addition to providing clear communications, we are also introducing a new contact-tracking application that will significantly enhance our customer service and responsiveness. This application will track and quantify all customer contacts, allowing us to use that data to identify service improvement opportunities throughout our operations.

Customer contact tracking system

Previously, we had no comprehensive mechanism to understand customer concerns. This new system allows us to proactively capture customer feedback in real time from phone calls, e-mails, faxes and Web chats. We will use that feedback to improve our programs, policies, procedures and customer service.

There are two components to this comprehensive system. Both help to **bring science to the art of customer service**.

1. **Gathering customer feedback using ePower Center** — We use this electronic system to gather, document and maintain customer feedback at the point of each contact.
2. **Analyzing this data to ensure the voice of customers drives our business decisions** — Listening to our customers means using what we know to proactively improve our services. We will use the real-time customer feedback data gathered through ePower Center to make positive changes to our programs, policies and procedures. That way we can make operational improvements based on data gathered from customer concerns and inquiries.

Analyzing feedback from our customers helps us to identify processes, programs, policies and procedures that need improvement. As we pinpoint those areas needing improvement, we can better protect injured workers and employers from losses they may suffer as a result of workplace accidents.



Ensuring accurate rates

We will achieve fairness and equity in rates when we charge employers rates that accurately reflect the anticipated costs each of them brings to the system. That is, we must charge the right rate for the right risk.

Employers with safe workplaces and low incidences of workplace injuries should expect to pay less than their competitors with less safety efforts and more workplace incidents. This is what we mean by the risk an employer presents to the system. Rates should reflect the anticipated costs of each employer's risk.

Over time, inequity, inaccuracy and volatility have crept into the rates many Ohio employers pay. This has led to an unstable system and an unpredictable rating situation for many employers, including wild fluctuations in premium costs from one year to the next. We have

begun to fix the problem by implementing thoughtful solutions. The top four priorities for bringing accuracy back to our rate making and fairness to Ohio's employers include:

- Implementing a new rating system for premiums (split-plan experience rating);
- Transitioning to a new claims reserving system (MIRA II);
- Stabilizing Ohio's group-rating program;
- Conducting a comprehensive study of all rating programs.

These initiatives are not quick fixes. They are fundamental changes that will ultimately bring fairness, as well as the equity and accuracy that a healthy workers' compensation system requires.

Implementing a new rating system for premiums

Split-plan experience rating

One of the keys to setting accurate premium rates is a reliable experience rating system. We are committed to achieving better rate accuracy and stability for Ohio's employers by transitioning to a new, more accurate experience rating system in the coming years.

The system used today — which emphasizes claims severity more than claims frequency — brings too much volatility to premium rates. For example, the current system can view an employer with one major claim as having the same risk level as another employer with 10 lower-cost claims. This creates an inaccurate reflection of future accident exposure, and it can lead to distorted premiums for certain employers. Additionally, one claim can cause major rate fluctuations from one year to the next.

To address these issues, we are analyzing the possibility of transitioning to an experience-rating plan that emphasizes the frequency of claims more than their cost. Known as a split experience-rating plan, it is modeled after a nationally utilized plan. Transitioning to an entirely new rating system is a monumental undertaking, which will take several years to complete. We expect to bring a transition plan before the BWC Board of Directors in June 2008.

Moving to a split experience-rating plan will allow those employers who are truly safer than their peers to achieve lower rates. Under the new plan, a company with an occasional accident would not face such excessive changes in premium, including elimination from group rating.

Transitioning to a new claims reserving system (MIRA II)

A claim reserve is the total estimated future cost of an individual claim. This estimate is factored into the overall premium rate for an employer. Accurate claim reserves are used to estimate the full cost of workplace injuries and are essential for setting accurate premium rates.

This year, we will be implementing a new, more accurate claims reserving system known as MIRA II. This system will not only provide more accurate individual claim reserves, it will also allow employers to see and understand the cost drivers that impact the overall reserve amount.

The previous system caused frustration for employers because it provided little information about how an individual claim reserve was set. The previous system prioritized accuracy of the total for all claims reserves over individual claim reserves. It was also developed using older data that did not keep pace with the ongoing changes of Ohio's system over the last decade. The new MIRA II system currently being implemented includes several significant improvements that address these deficiencies. Here are a few key highlights.

Data accuracy — MIRA II will use recent Ohio-specific workers' compensation claims data that will be updated weekly to reflect the changing nature of injuries. The

new system also will use significantly more data than the current system, and it will focus on the accuracy of individual claim reserves rather than the overall accuracy of all reserves.

System-specific logic — MIRA II also uses common-sense, Ohio-specific logic to estimate the future cost of individual claims. For example, the new system has set conditions to stop reserving some claims more quickly. So, it uses BWC claims, rules and statutory limitations to stop and start the reserves as appropriate.

Customer access — The new system will be easily accessible to customers so they can better understand the cost drivers associated with an individual claim reserve. Our Web site, ohiobwc.com, will have six new service offerings directly related to claims reserves.

Without accurate claims reserves, employers are exposed to unexpected costs and fluctuating premium rates. Implementing MIRA II will significantly improve our ability to set an accurate claim reserve and it will allow employers to see and understand the underlying costs drivers. Improved accuracy of claims reserves will also allow employers to plan and budget for future costs, and it will ensure that the right premium is set for every employer.

What is a claim reserve?

It is an estimate of the future costs of a claim at a specific point in time. During the life of the claim, the reserve may change based on the activity within the claim.

Why is a reserve needed?

Reserves are needed to ensure that the future costs of a claim are accurate. Claim reserves factor into premium rates for individual employers.

How is a claim reserve determined?

MIRA II uses specific claim data elements to set the initial reserve. Then the system constantly looks for any changes in the data elements to revise the reserve for more accuracy.

MIRA II will predict the total incurred claim cost, which is the estimated value of all claim payments through the life of the claim. The reserve for rate making is the total incurred claim cost minus the total claim payments (to date).

Stabilizing group rating, strengthening Ohio's economy

Current challenges

Ohio's group-rating program began in 1991 to provide smaller employers savings on their workers' compensation costs. The program allows businesses to group their claims history and receive premium discounts similar to large employers. Typically, larger companies have a more consistent claims history, which allows for a better prediction of future costs and often results in lower pricing.

From the outset, the program had two unsound features as noted by multiple actuaries since 1991. The program allowed group-rated employers to receive overly generous discounts that are unique to Ohio's workers' compensation system. Today, participating employers receive up to a 90-percent discount while similar employers who are not group rated must pay full price.

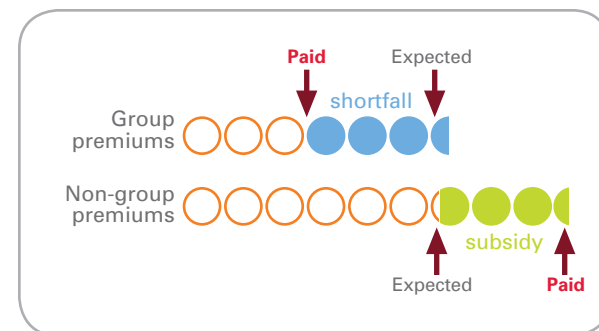
In addition to large discounts, groups are permitted to change their member employers each year. This undermines the notion that a group of smaller employers joining together to look like larger employers should be afforded discounts. Groups, unlike large employers, are permitted to kick out employers with claims to avoid higher pricing for the whole group.

As participation in groups increased over time, the generous discounts and changing composition of employers in groups exposed several critical problems.

First, group rating causes **pricing inequity** between group employers and non-group employers.

- Group employers overall do not pay enough premiums to cover their total claims costs, forcing non-group employers to pay the difference because BWC is revenue neutral.
- Non-group employers, as a result, subsidize group employers by approximately \$200 million annually.

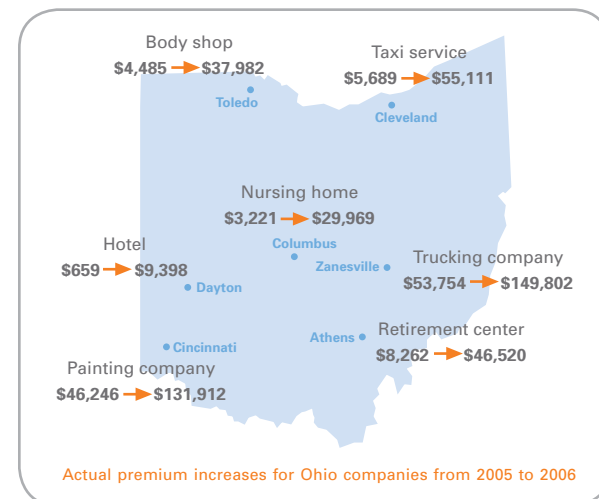
Pricing inequity



Second, deep discounts cause **premium instability** for Ohio employers.

- Group sponsors and administrators can remove an employer from a group as a result of one expensive claim. Losing a group discount can result in sudden and expensive premium increases from one year to the next.
- One in three employers that lost their group discount in 2006 either canceled coverage or filed for bankruptcy.

Premium instability



Third, Ohio's base rate is artificially higher making **Ohio uncompetitive and unattractive**.

- The \$200 million subsidy paid by non-group employers inflates Ohio's workers' compensation base rate.
- Ohio's base rates appear to be the 12th highest in the country (\$3 per \$100 of payroll) and one of the highest in the Midwest.

sidy paid by non-group employers. It will also ultimately help to lower Ohio's base rates.

This improvement is an incremental step in a long-term process to improve the program. The BWC Board of Directors, which approved this reduction in November 2007, also mandated that a plan for stabilizing group-rating be provided by June 2008.

Strengthening group-rating rules to protect Ohio businesses

We are also identifying opportunities to protect Ohio businesses by ensuring greater accountability from those organizations that sponsor and administer groups. More information about sponsors and third-party administrators will allow BWC customers to make informed decisions before enrolling in a group.

Enhancing pricing equity for employers

The long-term plan for pricing equity must include sound practices based on nationally recognized actuarial standards to reduce the subsidy between group employers and non-group employers. It must also make sure that premium pricing is an accurate reflection of the risk for each employer. We can accomplish this by transitioning to a split experience-rating plan and reducing the maximum allowable discount to an actuarially sound level, which multiple independent reports indicate to be approximately 50 to 60 percent.

Improving Ohio's workers' compensation system

If successful, we will strengthen the group-rating program, stabilize our experience-rating system and fundamentally improve Ohio's workers' compensation system overall. These improvements will: 1) ensure that **every Ohio employer pays its fair share**; 2) provide **stability and predictability** by limiting volatility, particularly when an employer loses a group discount; and 3) **reduce base rates** to make **Ohio more attractive for new business and new jobs**.

Regional cost comparison Before group-rating improvements

Indiana	○○○	\$1.24
Michigan	○○○○○	\$2.05
West Virginia	○○○○○	\$2.20
Pennsylvania	○○○○○○	\$2.80
Ohio	○○○○○○○	\$3.00
Kentucky	○○○○○○○○	\$3.78

After group-rating improvements

Indiana	○○○	\$1.24
Michigan	○○○○○	\$2.05
Ohio	○○○○○	\$2.19
West Virginia	○○○○○	\$2.20
Pennsylvania	○○○○○○	\$2.80
Kentucky	○○○○○○○○	\$3.78

Source: Ohio's rate per \$100 of payroll per the Oregon workers' compensation premium rate-ranking study of 2006, applied to actuarial analysis recommending a 53-percent maximum credibility resulting in a reduced base rate of 27 percent (Base rate impacts, BWC actuarial June 27, 2007)

Long-term plan to stabilize group rating

In 2007, we began addressing the challenges of group rating by reducing the maximum allowable discount from 90 percent to 85 percent. This reduction, effective July 1, 2008, will help to reduce the \$200 million sub-

Conducting a comprehensive study of all rating programs

In addition to addressing immediate concerns such as claims reserving and group rating, we are also comprehensively studying all of our rating programs. This includes the components used to calculate rates and our multiple discount and safety incentive programs.

The importance of this study and its findings cannot be overstated. For far too long, our rate-setting process lacked the rigor associated with any sound, private-sector insurance operation. This analysis will build the foundation to improve our services and the stability of the entire system for Ohio's employers and injured workers.

This study was made possible by HB 100 passed in June 2007. By February 2008, we had completed a thorough search process, worked with the new BWC Board of Directors, and selected the actuarial firm of Deloitte Consulting, LLP to conduct this study. The study will provide analysis on the following aspects of our current rating system.

- The appropriateness of our current experience rating system and potential improvements to it, such as the use of credibility, the experience period, and the method used to calculate credits and debits based on an employer's experience
- The impact of the group-rating program and methods of improving it

Deloitte Consulting, LLP

Dating back to 1845, Deloitte Consulting, LLP is an international firm known for its financial advisory, tax, consulting and auditing services. Its private-sector insurance clients include companies such as Allstate, MetLife and Norwich Union. It also provides services to other public-sector entities such as the State of Texas and the U.S. Departments of Defense, Justice, Homeland Security and Intelligence.

- A comparison of Ohio methods and those used in other states, both private insurance systems and state compensation funds
- The cost effectiveness of BWC discount programs

Other areas for review include:

- The appropriate use of dividends;
- Subrogation standards;
- Policies, procedures and selection criteria governing self-insurance;
- The level of surplus/net assets BWC needs to be financially strong;
- Effectiveness of MCOs in the workers' compensation system;
- Evaluation of the use of reinsurance and other methods of mitigating the costs of a catastrophic event.

We look forward to working with Deloitte to determine the areas of strengths and weaknesses in our rating programs. This independent study will help us target areas for improvement in determining employer premium rates and future public policy decisions.

The time line for this project is aggressive. HB 100 set a deadline for completion of this study by September 2009. However, we are ahead of schedule and expect Deloitte to present its **final report to our board of directors by December 2008**. In the meantime, portions of the **findings will be presented to the board as they are completed — most likely in June, August and October 2008**.



Maintaining safe workplaces

The best workers' compensation claims are ones that never occur. Sure, we always strive to lessen losses for injured workers and their employers. But, above all, **we strongly believe in preventing workplace accidents from happening in the first place**. We offer many **value added services** to our customers at **no extra charge**.

Our Safety & Hygiene experts provide year-round training and consultation to Ohio employers and their employees. This helps us to protect the safety and well-being of Ohio's workers while also boosting employers' bottom lines.

Our business consultants and employer services specialists also work one-on-one with customers to expand their bottom lines. And our community relations representatives provide outreach to trade associations and labor and employer groups.

Education and outreach

We show our commitment to promoting safe workplaces for all Ohioans through education and outreach. Strengthening these efforts is a priority as we seek to restore operational excellence. By educating our customers, we help to enhance their health and well-being — and that of Ohio's economy.

WCU On-Demand — This year we began a pilot program to bring Workers' Compensation University (WCU) classes to employers and their employees at the grassroots level. We call it WCU On-Demand. The goal is to increase our education and outreach services by partnering with trade associations and local chambers of commerce. This will allow us to expand our training to more customers while reducing class sizes. It will also allow us to respond to local issues and concerns. WCU On-Demand is a true public/private partnership. The local associations or chambers plan the logistics and venue for each class, and BWC provides the training.

Workers' Compensation University — WCU is a series of one-day educational symposiums offered each fall. Our staff and experts travel from city to city to bring workers' compensation education to employers and stakeholders. More than 6,000 people attended WCU sessions last year. Classes focus on teaching employers business strategies and best practices for better managing their workers' compensation programs. Proactive

management of claims is a central theme of many of the classes. However, service providers, MCOs, legal representatives and other interested parties also benefit from the sessions. Participants can earn continuing education units and/or credit for BWC programs.

Safety & Hygiene — Our safety staff offers training classes, publications, library and research services, technical support and on-site consultation to Ohio employers with active BWC policies. Safety & Hygiene also supports grassroots efforts by sponsoring more than 70 safety councils statewide. The ultimate goal of this department is to achieve zero workplace injuries and illnesses in Ohio. This is because we recognize that the less money employers spend on injuries, the more they'll have to expand jobs and invest in their employees.

Ohio Safety Congress & Expo — Our safety department also puts on this annual convention/trade show. This three-day event provides Ohio employers and their employees with the chance to take safety and workers' compensation management classes and earn continuing education credits. It also features an expo marketplace where participants can speak directly with vendors and view the latest safety gear and devices. Attendees can also participate in live safety demonstrations to get hands-on experience and training.

Preferred markets

Safety & Hygiene has identified four industries with high incidences of workplace injuries.

- Construction companies
- Temporary staffing companies
- Nursing homes
- Public employers (cities, counties and school districts)

Starting July 1, 2008, we will focus outreach efforts in each of these preferred customer markets. The project will last two years, ending on June 30, 2010. Our goal is to help these employers increase their safety processes and better manage their workers' compensation programs.

- We aim to reduce the frequency and claims costs in each market by 5 percent by the end of this project.
- We also aim to develop best practices for each industry, which will also benefit companies seeking to start businesses of these kinds in Ohio.

We will focus on preventing workplace accidents. Our safety experts and business representatives will work one-on-one with select employers and their employees in these industries. This will help protect Ohio's workforce by reducing the frequency and severity of claims in these industries. It will also help these employers become more productive and profitable. They will reduce lost work days, improve employee morale and decrease turnover. All employers in these industries will benefit by us developing best practices using this select group.

Why are we targeting these industries?

Construction companies — These jobs involve a high degree of risk.

Temporary staffing companies — Temporary workers often do not get proper safety training.

Nursing homes — Employees do a lot of patient lifting and are susceptible to costly back injuries.

Public employers — Police, firefighters, trash collectors and road-crew workers, for example, have high-risk jobs that produce costly injuries.

Our key customer initiative for public employer state agencies

Public employer state agencies and universities make up about 27 percent of the active claims handled by our Columbus Customer Service Office. This office manages the claims for all state agencies. Furthermore, these agencies comprise seven of the office's top 10 employers having the highest frequency and severity of claims, as well as the greatest overall workers' compensation costs.

Similar to our preferred market strategy, we have targeted eight of these employers to help them improve their workers' compensation programs. We began this initiative in February 2008. As key customers, they will receive sustained one-on-one attention from our employer services staff. We will work with them to create their own customized workers' compensation strategic plans. This includes proactive efforts such as a rate-making consultation, safety services and claims management education.



Shop Foreman Henry Fasone has worked at Wilson's Auto Service in Columbus for 40 years.

Performance measures

Developing an enterprise reporting package

As we implement the initiatives listed within this document, we must also have a clear, analytical way to measure and monitor our performance. To do this, we are developing an **enterprise reporting package** to continuously track our financial and operational performance.

The enterprise reporting package currently under development will measure our key performance and risk indicators. We will report these measures in continuous 12-month cycles and analyze the trends over the next 60 months. The measures will include comparisons to similar workers' compensation systems, basic financial and operating measures, as well as internal measures to determine workplace satisfaction.

Operational soundness

Measuring operational soundness will provide critical information about the economic health of Ohio's workers' compensation system through payroll trends, business/industry shifts and payroll code changes. It will improve long-term policy and financial decision making, help us properly plan for future risks or significant catastrophes. Operational soundness also includes measuring business drivers such as claims per workers, claims per medical costs, claims per lost-time costs, MCO effectiveness and lost-time severity drivers.

Financial soundness

Measuring financial performance will include current financial performance and consideration of risk for long-term liabilities. Analyzing both performance and risk will provide a better understanding of our liabilities and assets. This will also measure our financial results compared to prior-year periods, projected results and industry-recognized financial metrics. This will include comparisons to established targets and benchmarks against the financial performance of similar organizations.

Benchmarks

- **State of Washington Workers' Compensation Fund:** This is a mono-line public fund similar in size to Ohio's. It uses generally accepted accounting principles rather than statutory accounting, and its reserves are discounted similar to BWC.
- **State Insurance Fund of California:** This is a competitive state fund, similar in size to BWC. Its reserves are not discounted, and it uses statutory accounting.
- **A.M. Best Workers' Compensation Composite:** This is a composite of 96 groups and companies for which more than 50 percent of their business is in the workers' compensation market. The workers' compensation line represents over 91 percent of the premium volume for this composite group.

Key measures

Loss ratio: Measures a company's underlying profitability or loss experience on its total book of business. This measure also provides information about adequacy of premiums and assessments.

Expense ratio: Measures a company's efficiency in underwriting its book of business and provides information regarding the cost of administrative operations.

Combined ratio: Measures a company's overall underwriting profitability. Results of less than 100 percent indicate a company is generating a profit from underwriting operations.

Operating ratio: Measures a company's overall profitability from underwriting and investing activities. Results of less than 100 percent indicate a company is generating a profit from entire operations.

Employee satisfaction

We will measure employee satisfaction through surveys to our staff and publish the results quarterly. We will also track objective indicators of workplace satisfaction such as turnover rate, as well as compensation and benefits compared to other public and private entities.



Yolanda Sanchez folds laundry as part of her duties at Reino Linen Service Inc. in Gibsonburg.

Improving service for the self-insuring community

Our reform initiatives and renewed efforts to provide customer-focused service also apply to our partnership with Ohio's self-insuring employers.

Self-insuring companies employ one-third of the state's work force. So a strong partnership and ongoing cooperation with the self-insuring community is critically important to fulfilling our mission.

Our self-insurance department is working on a number of initiatives to ensure security and stability for Ohio's self-insuring employers and the workers they employ. To achieve these goals our self-insurance department is focusing on the following priorities.

We are thoroughly reviewing the assessments these employers pay into the Self-Insured Employers Guaranty Fund. This will ensure costs to these employers are stable and the fund meets its requirements.

We are evaluating the selection criteria used to grant self-insuring status to an employer. This ensures we are following the best practices and standards of the industry in terms of underwriting applications for self-insurance.

We are also evaluating the rules, policies and procedures for rating a self-insuring employer that wishes to return to coverage under the State Insurance Fund. Doing so guarantees we are charging these employers a fair and equitable rate when they return to the State Insurance Fund.

Additionally, the self-insuring community is well represented on the BWC Board of Directors by William Lhota. He speaks on behalf of the self-insuring community and serves as the board's chairman.

We are committed to working with the self-insuring community to candidly and productively address challenges as they arise. Cooperation and an ongoing dialog will help bring sound solutions to difficult business dilemmas while meeting the needs of self-insuring employers.

What is self insurance?

Self insurance is a privilege BWC grants to certain employers. Self-insuring employers directly pay compensation and medical costs for work-related injuries instead of paying premiums to the State Insurance Fund. In other words, employers pay their claims, assume all liability and administer their workers' compensation programs.

Self-insuring employers must have a minimum of 500 employees working in Ohio, and demonstrate the financial and administrative capability for maintaining a self-insured program.

What is the Self-Insured Employers Guaranty Fund?

It's a BWC-administered fund that self-insuring employers pay into on a semiannual basis. Its purpose is to protect workers and businesses in the event that a self-insuring company becomes insolvent and can't cover its workers' compensation costs.

Appendix A

BWC Board of Directors' biographical information

BWC Board of Directors

William Lhota , chair of the board, represents self-insuring employers

Lhota, of Worthington, has been president and CEO of the Central Ohio Transit Authority (COTA) since 2004. Lhota previously spent 37 years at American Electric Power, where he served in various management positions. His term expires June 12, 2010.

James Harris, vice chair of the board, represents employee organizations

Harris, of Gahanna, works part-time for the United Auto Workers (UAW) on workers' compensation legislation. He retired in 2003 after more than 20 years of experience on the UAW international staff. Harris also served as the director of the Ohio Department of Industrial Relations from 1983 to 1991. His term expires June 12, 2010.

Charles Bryan, chair of the Actuarial Committee, actuary

Bryan, of Columbus, has 35 years of experience as a casualty actuary. His actuarial career spans several companies, including Nationwide Insurance, Ernst and Young, United Services Automobile Association (USAA) and Allstate Insurance. He is the founder and current president of CAB Consulting, a property-casualty insurance consulting company. His term expires June 12, 2010.

David Caldwell, represents employee organizations

Caldwell, of Pataskala, is a 37-year member of the United Steelworkers of America. He has held several positions in the United Steelworkers State of Ohio District 1, and presently serves as legislative coordinator and assistant director. Caldwell is currently the president of the Central Ohio AFL-CIO and a member of the Ohio AFL-CIO Executive Committee. His term expires June 12, 2009.

Alison Falls, chair of the Governance Committee, investment and securities expert

Falls, of Port Clinton, operates a local practice in Port Clinton that serves financial services institutions, mid-cap

corporations and non-profits. She previously served as a managing director for Banc of America Securities Inc. on Wall Street from 1994 to 2002. Her term expires June 12, 2010.

Philip Fulton, represents employees

Fulton, of Columbus, is the owner of Philip J. Fulton Law Office, a firm that represents injured workers in workers' compensation and Social Security disability cases. Fulton has received recognition for his legal work, including the Workers' Compensation Outstanding Service Award from the Ohio Academy of Trial Lawyers in 2005. His term expires June 12, 2008.

Kenneth Haffey, chair of the Audit Committee, certified public accountant

Haffey, of Chester Township, has been a licensed CPA in Ohio since 1986. He is a partner in the firm of Skoda, Minotti and Co. in Mayfield Village. Haffey has served as a managing partner and vice president for Century Business Services, Inc., a Cleveland CPA firm. His term expires June 12, 2009.

James Hummel, represents state-fund employers with more than 100 employees

Hummel, of Dover, is the vice president of human resources for Lauren International, a manufacturer with more than 500 Ohio employees. Since 1993, Hummel's responsibilities have been to protect the company's assets and employees through safety and workers' compensation duties. His term expires June 12, 2008.

Jim Matesich, represents state-fund employers with fewer than 100 employees

Matesich, of Granville, has worked for Matesich Distributing Company, a family-owned wholesale beverage distribution business in Newark, for more than 30 years. He currently serves as president and CEO, and oversees the company's administration, accounting procedures, investment account and operations. His term expires June 12, 2009.

Larry Price, represents the public

Price, of Columbus, was a state representative for the 26th House District from 2003 to 2004. Price is currently the president and chief consultant for L. Price and Associates Consulting in Columbus. He previously served as an assistant to Columbus Mayor Michael Coleman and worked in the Ohio Senate for nearly 20 years. His term expires June 12, 2008.

Robert Smith, chair of the investment Committee, investment and securities expert

Smith, of Beachwood, has nearly 30 years of experience in investing, finance, accounting, management and marketing. He currently serves as president and CEO of Spero-Smith Investment Advisers, Inc., in Cleveland. Smith is a member of several boards of directors, including the Cleveland-Cuyahoga Port Authority, Motorists Insurance Group and Ohio Gratings, Inc. He formerly served on the board of trustees for the Ohio Public Employees Retirement System. His term expires June 12, 2009.

For more information, visit ohiobwc.com and click on the **BWC Board of Directors link** from the home page.

Appendix B

BWC executive leadership biographical information

Divisional responsibilities

BWC executive leadership biographical information

Administrator Marsha Ryan

Ryan has served as BWC's administrator since May 1, 2007, when Gov. Strickland appointed her to the post.

During her tenure, Ryan has led a comprehensive reform effort to improve BWC services, stabilize costs, ensure accuracy and encourage safe workplaces.

In her first year, Ryan, along with the BWC Board of Directors, contributed to making Ohio's workers' compensation product more competitive by reducing premium rates for private employers and state agencies. Other efforts include ensuring all Ohio employers pay their fair share for workers' compensation insurance by reducing the maximum group-rating discount by 5 percent. It also includes the roll out of a new state-of-the-art system (MIRA II) on July 1, 2008, to more accurately calculate claims reserves and increase transparency for BWC customers.

Ryan's previous executive expertise is apparent in her leadership at BWC. She was formerly the vice president for customer operations for American Electric Power (AEP), where she led strategic efforts and made infrastructural improvements to provide high quality care to customers. She also served as president and chief operating officer for Indiana Michigan Power, AEP's operating company, and has held positions in government affairs, marketing, customer care and field operations.

Before joining AEP in 1990, Ryan served more than 18 years in the public sector, focusing on consumer protection, customer service, public policy and regulation at the Ohio Department of Commerce, the Ohio Office of the Attorney General, the Consumers' Counsel and the Public Utilities Commission of Ohio.

Ryan is a trustee of Franklin University in Columbus, most recently serving as vice chair of the board. She has also served as an advisory board member for U.S. Bank in central Ohio and on multiple not-for-profit and civic boards in Ohio and Indiana, with a special interest in regional vitality.

Chief Operating Officer Raymond Mazzotta

Mazzotta joined BWC as chief operating officer in February 2008. He has more than 30 years experience in the property and casualty insurance industry and has demonstrated leadership, innovation and performance as he has managed companies and operations with over 250 employees and underwriting volumes in excess of \$300 million. At BWC, he oversees the agency's Fiscal and Planning, Customer Services, Medical Services and Compliance, and Infrastructure and Technology divisions.

Mazzotta served as the president and CEO of OHIC Insurance Company, Columbus, from 2000 to January 2007. He was responsible for the creation and implementation of a strategic plan that resulted in the dramatic turnaround of the company's precarious financial condition. Ray's leadership held the management team together and forged strong stakeholder relationships that enabled OHIC to reverse its negative financial position, stabilize its loss reserves and nearly double its net worth.

Before joining OHIC, Ray had a successful 22-year career at Fireman's Fund Insurance Company, where he held a number of senior management positions, most notably senior vice president of health-care and senior vice president of the Northeast Region with responsibilities across all property and casualty lines of business in that territory.

Mazzotta holds a Chartered Property Casualty Underwriter designation and an Ohio Property & Casualty Agent's license. In keeping with his strong interest in the health-care field, he serves on the Board of Trustees of the Ohio Physicians Health Program and the Board of Trustees of the Central Ohio Lion's Eye Bank.

Divisional responsibilities

Medical Services and Compliance

Under the leadership of the Chief of Medical Services and Compliance Robert Coury, this division facilitates the interface between the injured worker, the employer, the provider and BWC to provide cost-effective medical and rehabilitation services and claims administration.

Special investigations department

BWC's special investigations department aggressively pursues cases of claims, provider and premium fraud.

Customer Services

Led by Chief of Customer Services Tina Kielmeyer, this division houses BWC's customer contact center and administers 15 customer service offices throughout Ohio. These facilities — located in Cambridge, Canton, Columbus, Cleveland, Dayton, Garfield Heights, Governor's Hill, Hamilton, Lima, Logan, Mansfield, Portsmouth, Springfield, Toledo and Youngstown — serve as the primary points of contact for injured workers and employers in Ohio's 88 counties. Customer Services also includes Safety & Hygiene, a department dedicated to preventing accidents and injuries on the job.

Fiscal and Planning

This division, led by Chief Fiscal and Planning Officer Tracy Valentino, is responsible for the receipt and distribution of agency funds, including benefits payable to injured workers, MCOs and medical providers. The division also prepares budgets, handles purchasing and maintains general ledgers and financial reporting for seven funds administered by the agency.

Infrastructure and Technology (IT)

Reliable, up-to-date and convenient online services are crucial in our day-to-day operations. Chief Information Officer Leo Genders leads our IT strategy and initiatives to enable, support and achieve our operational, financial and customer service goals.

Actuarial

Under the leadership of Chief Actuarial Officer John Pedrick, FCAS, MAAA, this division plays a key role in our initiatives to bring stability, predictability and transparency to Ohio's premium rates, and to ensure the long-term financial health of Ohio's workers' compensation system. The division is responsible for developing and implementing a new, more accurate claims reserving system and for ensuring fair and equitable rates for all employers. The division also manages rate and financial reserve studies, recommends rates for employers and recommends the amount of claims reserves to include in BWC's financial statement.

Investment

Under the leadership of Chief Investment Officer Bruce Dunn, CFA, and Director of Investments Lee Damsel, CFA, CPA, this division manages the invested assets of each of our separate trust funds to ensure we can pay all workers' compensation benefits and expense obligations when due. Using a prudent investment strategy, the division strives to earn sufficient returns to grow the surplus over time and keep premium payments reasonable and predictable.

Internal Audit

Led by Chief of Internal Audit Joseph Bell, this division operates independently to supply objective evaluations, appraisals and recommendations on risk management, controls and governance activities to our management team and the Audit Committee of the BWC Board of Directors. The division also provides an independent assessment of the performance of our programs, activities and functions.

Legal

Under the leadership of Chief Legal Officer and General Counsel James Barnes, this division provides legal advice and assistance to our agency and administrator. The division ensures we adhere to claims procedures and policies, files appeals on behalf of the State Insurance Fund, represents the agency/state fund in administrative appeals, and asserts and protects

BWC's subrogation rights for monies due from third-party insurance carriers. The division also works with Ohio employers and injured workers to settle claims and works with Ohio's attorney general in court appeals and efforts to recover debts owed to BWC.

Communications and Public Policy

Chief of Communications and Public Policy Keary McCarthy leads this division, which works to accurately communicate our service and performance. This includes communicating important claim and premium information to customers, while also keeping stakeholders, media outlets and the public apprised of various initiatives, programs and achievements. Communications also oversees legislative affairs. Chief Legislative Liaison Gregg Paul maintains a direct line of communication with Ohio lawmakers, and responds to all BWC-related inquiries and referrals from the Ohio General Assembly.

Human Resources

As Chief of Human Resources, Toni Brokaw directs and oversees personnel, training and safety services for more than 2,400 employees. The division also handles labor relations issues and maintains equal employment opportunity regulations throughout the agency. The Human Resources Division works to ensure consistency of policies and procedures in accordance with the Ohio Revised Code, the Ohio Administrative Code and collective bargaining agreements.

Appendix C

Board and administrative reports

Part of our effort to maintain operational transparency includes publishing a variety of reports for audiences ranging from the governor's office and the statehouse, to stakeholders and the general public. The following is a brief summary of these reports and their purpose.

BWC annual report

Ohio law mandates that BWC, our Safety & Hygiene department, and the BWC Board of Directors as well as its committees all publish operational and financial data on a yearly basis. We then distribute this information to the governor, legislative leaders, the Workers' Compensation Council and the general public.

We will roll all of this information into one comprehensive report to make it easier to access the mandated information. Highlights of the report will include:

- Financial and operational information for BWC and the Industrial Commission of Ohio for the past six fiscal years;
- A review of the agency's net assets;
- A report on the performance and value of each investment class;
- Analysis of the operations of our Safety & Hygiene department;
- And more information.

Annual actuarial report

The BWC Board of Directors will use an external actuarial consultant to create this report due each year no later than September 1. The board submits this report to legislative committees that hear BWC-related legislation, the Workers' Compensation Council and the Legislative Service Commission. This report reviews BWC assets, liabilities and funding requirements, and makes recommendations to ensure actuarial soundness from year to year.

Actuarial investigation

The BWC Board of Directors will use an external actuarial consultant to create this report due every five years. The board submits this report to legislative committees that hear BWC-related legislation and the Workers' Compensation Council. Like the annual actuarial report, this report reviews BWC assets, liabilities and funding requirements, and makes recommendations to ensure actuarial soundness for Ohio's workers' compensation system.

Fiduciary performance audit

The BWC Board of Directors will use an independent auditor to review BWC investment policies and procedures. The board would commission this audit at least once every 10 years; a copy goes to the auditor of state.

Actuarial analysis of legislation

The BWC Board of Directors will use an external actuarial consultant to create these reports. They are due no later than 60 days after introduction of legislation that would have a measurable financial impact on BWC, including potential increases in employer premiums. The board submits these reports, as needed, to legislative committees that hear BWC-related legislation, the Workers' Compensation Council and the Legislative Service Commission.

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