



Bureau of Workers'
Compensation



Fiscal Year 2012 Report

July 27, 2012

Dear Governor Kasich:

I am pleased to present to you the Ohio Bureau of Workers' Compensation's 2012 fiscal year annual report.

As you read this report, you will see that during FY12, our administrative cost fund expenses were approximately \$9.4 million less than budgeted and 1.1 percent less than last fiscal year to date. This ongoing commitment to more efficient operation has allowed us to reduce our FY13-14 budget by more than 12 percent over the last biennium, saving \$83 million.

In addition to the financial achievements mentioned above, we took a number of steps, which included launching a number of new programs, to help grow jobs and create safer and healthier workplaces.

- The BWC Board of Directors recently voted to hold policy year 2013 rates steady for private employers. This action will replicate the \$65 million annual savings from last year's 4 percent average rate reduction over 2011 rates.
- We launched the Grow Ohio Incentive Program to encourage job creation in Ohio by offering new employers at least a 25-percent discount on their premiums at a critical time — while they are getting started.
- We created Destination: Excellence, a customizable plan that lets employers choose from seven program options to help protect the health and well-being of workers while saving money on workers' comp costs.
- Our improved pharmacy management ensures workers are prescribed drugs that help, not hinder, their recovery. For example, early data show the number of narcotics prescribed to injured workers decreased by 12 percent, or 1.1 million doses, in the first three months following the full implementation of our first-ever formulary earlier this year.
- We began offering Transitional Work Grants, 3-to-1 matching grants that employers can use to develop and implement a transitional work program to help them return injured workers back to the workplace.
- The Workplace Wellness Grant Program will provide \$4 million to financially assist eligible employers in the creation and implementation of a wellness program. Employers receiving funds will provide information on their programs and outcomes each year of the program, up to four years. BWC will develop best practices from the data collected and information shared. The goal is to limit and control the escalating cost of workers' compensation claims by addressing health risk factors.
- Finally, we continued to investigate and prosecute cases of workers' comp fraud. For example, from January 2011 to present, BWC's special investigations department obtained 191 convictions, identifying a total of \$85.9 million in savings for the Ohio State Insurance Fund.

Sincerely,



Stephen Buehrer
BWC Administrator/CEO

Employer Appeals

One responsibility of BWC is to adjudicate complaints filed by state-fund employers regarding a range of BWC program eligibility requirements and audit issues. Employers who disagree with a BWC decision can appeal to one of four adjudicating committees throughout the state. In FY12, these adjudicating committees heard a total of 322 cases, ruling in favor of the employers 33 percent of the time. Those employers who continue to disagree with the decision can appeal to a designee of the BWC administrator. In FY12, the administrator's designee conducted 112 hearings, siding with the employer 27 percent of the time. The most common appeals involved group rating, audits, retroactive coverage and penalty abatement.

Financial Statements

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

Fiscal Year-to-Year Comparisons

BWC's total net assets have increased by \$1.9 billion for fiscal year 2012 resulting in net assets of \$7.6 billion at June 30, 2012 compared to \$5.8 billion at June 30, 2011.

(\$ in millions)	Unaudited FY 2012	Projected FYTD FY 2012	Audited FY 2011
Operating Revenues	\$1,951	\$1,851	\$1,950
Operating Expenses	(2,119)	(2,590)	(2,361)
Operating Transfers	(3)	(5)	(6)
Net Operating Gain (Loss)	(171)	(744)	(417)
Net Investment Income (Loss)	2,044	1,048	2,364
Increase (Decrease) in Net Assets	1,873	304	1,947
Net Assets End of Period	\$7,645	\$6,076	\$5,772

- o BWC's premium and assessment income for fiscal year 2012 has increased slightly when compared to fiscal year 2011. Decreased premium rates for private employers effective July 1, 2011, and Jan. 1, 2011, and 2012 for public employer taxing districts and decreases in unbilled assessments for state agencies and self-insured employers are being off-set by growth in the private employer payroll base and a July 1, 2011, increase in the rates charged to state agencies and universities.
- o Benefit and compensation adjustment expenses decreased by \$239 million compared to prior fiscal year expenses.

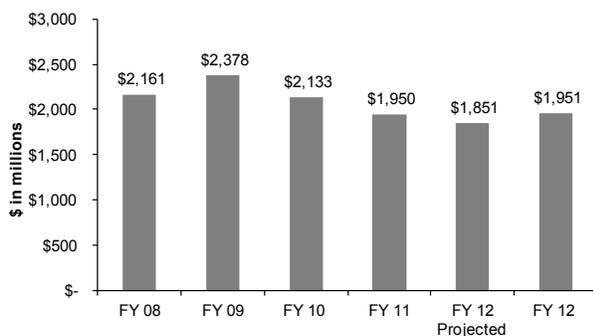
(\$ in millions)	Unaudited FY 2012	Audited FY 2011	Increase (Decrease)
Change in Reserves	\$(82)	\$145	\$(227)
Net Benefit Payments	1,718	1,730	(12)
Payments for Comp Adjust Expenses	195	196	(1)
MCO Admin Payments	168	167	1
	\$1,999	\$2,238	\$(239)

- o The decrease in reserve changes is a result of lower than expected development primarily driven by lower medical and lump-sum settlements. The reduction for medical is predominately in accident years 2009 through 2012, which is driven by fewer than expected new lost time claims with medical payments and lower than expected changes in the average costs per claim.
- o The fair value of the investment portfolio value has increased by \$1.3 billion for fiscal year 2012 compared to a \$1.6 billion increase for fiscal year 2011.

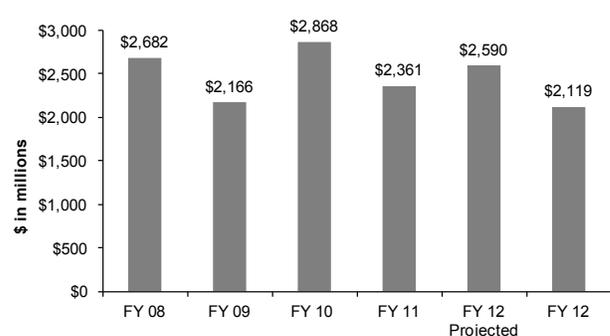
Conditions expected to affect financial position or results of operations include:

- o Coverage was lapsed March 1, 2012, for 41,247 private employers that failed to report payroll timely and pay premiums by the February 29th due date. As of July 10th, the number of employers remaining lapsed for this policy period has been reduced by 85% to approximately 6,200 policies that owe an estimated \$3 million in premiums;
- o Approximately 249,000 private employers will report payroll for the Jan. 1, 2012, through June 30, 2012, policy period by Aug. 31, 2012. BWC mailed payroll reporting forms to 152,000 employers, 13,000 employers opted to receive electronic alerts, and 84,000 employers that filed electronically the last reporting period received post card reminders.

Operating Revenues



Operating Expenses



Statement of Operations – Combining Schedule

Fiscal Year Ended June 30, 2012 (unaudited)

This combining schedule for the statement of operations presents the current fiscal year to date revenue and expenses by fund.

(in thousands)

	State Insurance Fund Account	Disabled Workers' Relief Fund Account	Coal-Workers Pneumoconiosis Fund Account	Public Work Relief Employees' Fund Account	Marine Industry Fund Account	Self-Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Totals
Operating Revenues:								
Premium & Assessment Income	\$1,588,605	\$85,139	\$1,472	\$792	\$456	\$24,738	\$289,703	\$1,990,905
Ceded Premiums	(6,076)	-	-	-	-	-	-	(6,076)
Provision for Uncollectibles	(45,639)	(626)	-	-	-	382	(1,657)	(47,540)
Other Income	7,381	-	-	-	-	-	6,735	14,116
Total Operating Revenues	1,544,271	84,513	1,472	792	456	25,120	294,781	1,951,405
Operating Expenses:								
Benefits & Compensation Adj Expenses	1,655,059	73,104	75,993	36	237	24,738	169,707	1,998,874
Other Expenses	20,980	48	51	1	60	1	99,058	120,199
Total Operating Expenses	1,676,039	73,152	76,044	37	297	24,739	268,765	2,119,073
Net Operating Income (Loss) before Operating Transfers Out	(131,768)	11,361	(74,572)	755	159	381	26,016	(167,668)
Operating Transfers Out	-	-	(3,060)	-	-	-	(331)	(3,391)
Net Operating Income (Loss)	(131,768)	11,361	(77,632)	755	159	381	25,685	(171,059)
Investment Income:								
Investment Income	702,958	16,074	3,611	316	238	6	5,665	728,868
Net Realized Gains (Losses)	944,223	1,413	274	1	-	-	-	945,911
Net Unrealized Gains (Losses)	299,230	60,829	15,916	1,068	806	-	-	377,849
Total Realized & Unrealized Capital Gains (Losses)	1,243,453	62,242	16,190	1,069	806	-	-	1,323,760
Investment Manager & Operational Fees	(8,267)	(310)	(62)	(10)	(8)	(1)	-	(8,658)
Gain (Loss) on Disposal of Fixed Assets	-	-	-	-	-	-	110	110
Total Non-Operating Revenues, Net	1,938,144	78,006	19,739	1,375	1,036	5	5,775	2,044,080
Increase (Decrease) in Net Assets (Deficit)	1,806,376	89,367	(57,893)	2,130	1,195	386	31,460	1,873,021
Net Assets (Deficit), Beginning of Period	5,053,807	1,199,936	214,074	23,839	17,726	7,507	(744,887)	5,772,002
Net Assets (Deficit), End of Period	\$6,860,183	\$1,289,303	\$156,181	\$25,969	\$18,921	\$7,893	\$(713,427)	\$7,645,023

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

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

Statement of Investment Income

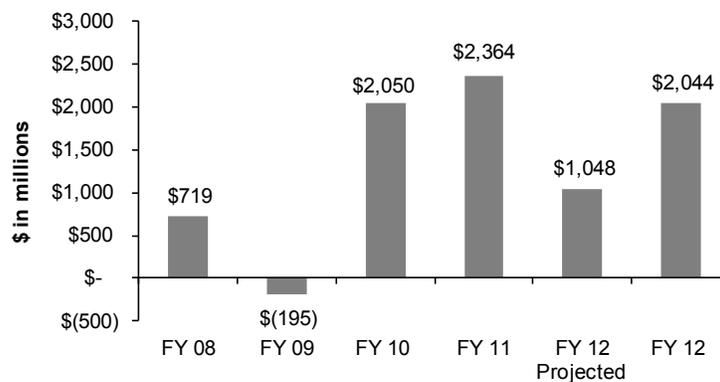
Fiscal Year Ended June 30, 2012 (unaudited)

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

(in thousands)

	Unaudited Actual	Projected	Variance to Projected	Audited Prior Yr. Actual	Year to Year Increase (Decrease)
Investment Income					
Bond Interest	\$636,431	\$725,000	\$(88,569)	\$686,076	\$(49,645)
Dividend Income—Domestic & International	91,850	73,480	18,370	85,390	6,460
Money Market/Commercial Paper Income	41	649	(608)	219	(178)
Misc. Income (Corp Actions, Settlements)	546	—	546	762	(216)
Total Investment Income	728,868	799,129	(70,261)	772,447	(43,579)
Realized & Unrealized Capital Gains and (Losses)					
Bonds – Net Realized Gains (Losses)	861,953	—	861,953	182,103	679,850
Stocks – Net Realized Gains (Losses)	83,902	—	83,902	78,523	5,379
Private Equity – Net Realized Gains (Losses)	—	—	—	(35)	35
Non –U.S. Equities – Net Realized Gains (Losses)	56	—	56	(6,365)	6,421
Subtotal – Net Realized Gains (Losses)	945,911	—	945,911	254,226	691,685
Bonds – Net Unrealized Gains (Losses)	687,489	—	687,489	(131,374)	818,863
Stocks – Net Unrealized Gains (Losses)	(1,749)	259,140	(260,889)	997,848	(999,597)
Non –U.S. Equities – Net Unrealized Gains (Losses)	(307,891)	—	(307,891)	478,914	(786,805)
Subtotal – Net Unrealized Gains (Losses)	377,849	259,140	118,709	1,345,388	(967,539)
Change in Portfolio Value	1,323,760	259,140	1,064,620	1,599,614	(275,854)
Investment Manager & Operational Fees	(8,658)	(10,599)	1,941	(7,702)	956
Net Investment Income (Loss)	\$2,043,970	\$1,047,670	\$996,300	\$2,364,359	\$(320,389)

Net Investment Income (Loss)



Administrative Cost Fund Budget Summary

As of June 30, 2012

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

Expense Description	FTE's	Actual FY12	Budgeted FYTD12	FYTD12 Variance	FYTD12 Percentage Variance	FY12 Budget	FYTD11 Expenses	Increase (Decrease) in FY12	FYTD12 Percentage Increase (Decrease)
Payroll									
BWC Board of Directors	12	874,159	874,159	0	0.00%	874,159	850,863	23,296	2.74%
BWC Administration	13	1,494,420	1,494,420	0	0.00%	1,494,420	1,439,564	54,856	3.81%
Field Operations	982	80,716,002	80,203,827	(512,175)	-0.64%	80,203,827	88,795,767	(8,079,765)	-9.10%
Employer Mgmt Services	137	11,197,923	11,197,344	(579)	-0.01%	11,197,344	10,811,728	386,195	3.57%
Safety & Hygiene	60	5,246,137	5,322,051	75,914	1.43%	5,322,051	5,035,388	210,749	4.19%
Medical	108	9,123,833	9,108,118	(15,715)	-0.17%	9,108,118	9,941,145	(817,312)	-8.22%
Special Investigations	124	10,431,752	10,427,333	(4,419)	-0.04%	10,427,333	10,457,681	(25,929)	-0.25%
Fiscal and Planning	99	7,474,300	7,358,957	(115,343)	-1.57%	7,358,957	7,550,704	(76,404)	-1.01%
Actuarial	22	1,779,697	1,781,272	1,575	0.09%	1,781,272	1,978,980	(199,283)	-10.07%
Investments	7	1,030,513	1,030,513	0	0.00%	1,030,513	1,202,536	(172,023)	-14.31%
Information Technology	201	23,515,148	23,471,879	(43,269)	-0.18%	23,471,879	25,310,503	(1,795,355)	-7.09%
Legal	82	7,013,372	7,012,078	(1,294)	-0.02%	7,012,078	6,922,841	90,531	1.31%
Communications	18	1,488,101	1,488,101	0	0.00%	1,488,101	1,443,829	44,272	3.07%
Human Resources	56	4,821,762	4,821,277	(485)	-0.01%	4,821,277	5,228,042	(406,280)	-7.77%
Internal Audit	13	1,182,770	1,183,641	871	0.07%	1,183,641	1,239,472	(56,702)	-4.57%
Ombuds Office	7	557,379	557,379	0	0.00%	557,379	533,401	23,978	4.50%
Total Payroll	1,941	167,947,268	167,332,349	(614,919)	-0.37%	167,332,349	178,742,444	(10,795,176)	-6.04%
Personal Services									
Information Technology		5,947,070	6,873,365	926,295	13.48%	6,873,365	6,103,995	(156,925)	-2.57%
Legal - Special Counsel		1,458,105	3,201,608	1,743,503	54.46%	3,201,608	1,285,579	172,526	13.42%
Legal - Attorney General		4,338,826	4,621,850	283,024	6.12%	4,621,850	4,285,942	52,884	1.23%
Other Personal Services		5,293,316	7,953,365	2,660,049	33.45%	7,953,365	5,530,978	(237,662)	-4.30%
Total Personal Services		17,037,317	22,650,188	5,612,871	24.78%	22,650,188	17,206,494	(169,177)	-0.98%
Maintenance									
William Green Rent		18,262,614	18,291,365	28,751	0.16%	18,291,365	18,984,377	(721,763)	-3.80%
Other Rent and Leases		8,017,536	8,153,798	136,262	1.67%	8,153,798	9,472,528	(1,454,992)	-15.36%
Software and Equipment Maintenance and Repairs		17,117,119	19,564,723	2,447,604	12.51%	19,564,723	13,179,257	3,937,862	29.88%
Inter Agency Payments		6,200,382	6,326,359	125,977	1.99%	6,326,359	5,398,843	801,539	14.85%
Communications		3,266,386	3,753,956	487,570	12.99%	3,753,956	2,731,735	534,651	19.57%
Safety Grants and Long Term Care Loan		3,349,164	4,020,000	670,836	16.69%	4,020,000	3,727,469	(378,305)	-10.15%
Supplies and Printing		1,300,540	1,586,980	286,440	18.05%	1,586,980	1,025,152	275,388	26.86%
Other Maintenance		2,899,135	2,992,781	93,646	3.13%	2,992,781	2,611,124	288,011	11.03%
Total Maintenance		60,412,876	64,689,962	4,277,086	6.61%	64,689,962	57,130,485	3,282,391	5.75%
Equipment		8,547,709	24,976,379	16,428,670	65.78%	24,976,379	3,709,939	4,837,770	130.40%
Total Administrative Cost Fund Expenses		253,945,170	279,648,878	25,703,708	9.19%	279,648,878	256,789,362	(2,844,192)	-1.11%

Total Agency Appropriation 289,000,000
 Budget to Appropriation Variance 9,351,122
 Percentage Variance 3.24%

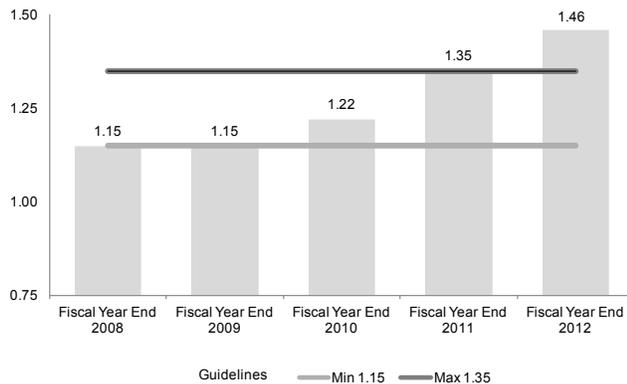
Financial Performance Metrics

Financial ratios reflecting BWC's performance are presented here. These financial ratios are insurance industry recognized financial metrics.

	Actual FY12 As of 6/30/12	Projected FY12 As of 6/30/12	Actual FY11 As of 6/30/11	Guidelines
Funding Ratio (State Insurance Fund)	1.46	1.35	1.35	1.15 to 1.35
Net Leverage Ratio (SIF)	2.52	3.31	3.45	3.0 to 7.0
Loss Ratio	83.6%	108.6%	94.0%	
LAE Ratio - MCO	8.5%	9.6%	9.2%	
LAE Ratio - BWC	8.6%	12.0%	9.7%	
Net Loss Ratio	100.7%	130.2%	112.9%	130.0%
Expense Ratio	6.1%	6.2%	6.2%	7.5%
Combined Ratio	106.8%	136.4%	119.1%	136.0%
Net Investment Income Ratio	36.3%	41.5%	38.6%	40.0%
Operating Ratio (Trade Ratio)	70.5%	94.9%	80.5%	96.0%

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

Funding Ratio



Funding Ratio

Provides an indication of financial strength and security – Funded assets divided by funded liabilities.

Net Leverage Ratio

Measures the combination of BWC's exposure to pricing errors and errors in estimating its liabilities in relation to net assets. Premium income plus reserves for compensation and compensation adjustment expense divided by net assets.

Loss Ratio

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

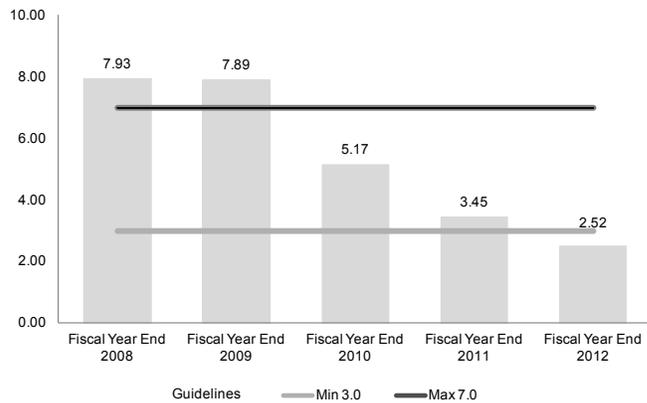
LAE Ratio

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

Net Loss Ratio

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

Net Leverage Ratio



Expense Ratio

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

Combined Ratio

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

Net Investment Income Ratio

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

Operating Ratio

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

BWC Year-end Statistics

	FY 2011*	FY 2010	FY 2009
State-fund claims filed**			
Lost time	13,404	13,296	15,428
Medical only	90,132	89,505	101,791
Occupational disease	1,130	1,112	1,439
Death	169	238	197
Disallowed or dismissed	<u>11,543</u>	<u>11,891</u>	<u>13,694</u>
Total	<u>116,378</u>	<u>116,042</u>	<u>132,549</u>
Net allowed injuries	104,835	104,151	118,855
Open claims (per statute)			
Lost time	366,142	386,503	407,841
Medical only	<u>763,731</u>	<u>834,799</u>	<u>913,373</u>
Total	<u>1,129,873</u>	<u>1,221,302</u>	<u>1,321,214</u>
Benefits paid			
Medical benefits paid	\$778,853,015	\$800,805,344	\$833,508,906
Compensation paid			
Wage loss	\$21,397,029	\$21,352,353	\$19,123,153
Temporary total	273,321,156	267,470,408	258,845,993
Temporary partial	29,326	56,996	48,179
Permanent partial	21,033,715	20,353,634	23,361,375
% permanent partial	70,258,487	79,543,300	84,406,058
Lump sum settlement	115,918,814	151,257,527	206,137,108
Lump sum advancement	30,191,113	21,772,977	20,581,269
Permanent total and DWRP	383,895,419	386,973,795	385,463,075
Death	82,884,488	82,894,164	82,396,222
Rehabilitation	46,989,884	47,821,615	43,429,274
Other	<u>7,851,564</u>	<u>6,084,179</u>	<u>6,973,290</u>
Total compensation paid	\$1,053,770,995	\$1,085,580,948	\$1,130,764,997
Total benefits paid	<u>\$1,832,624,010</u>	<u>\$1,886,386,292</u>	<u>\$1,964,273,902</u>

*Latest data available

**Every claim is evaluated at 60 days after filing for purposes of claim type, State Fund versus self-insured, combine status and allowance status. Values exclude combined and self-insured claims.