



Bureau of Workers' Compensation

2006 Oversight Commission **Annual Report**

Pursuant to O.R.C. 4121.12 (F)(2), the Workers' Compensation Oversight Commission (WCOC) shall issue an annual report on the cost and quality objectives of the Ohio Bureau of Workers' Compensation (BWC). This document details the voting actions of the WCOC during calendar year 2006.

Overview

The WCOC is comprised of 11 members: seven voting members representing employers; injured workers; labor; self-insured employers; the public; and investments; and four non-voting members, representing ranking majority and minority members of the Ohio House Commerce and Labor Committee and Ohio Senate Insurance, Commerce and Labor Committee. The WCOC met 11 times throughout 2005.

In September 2005, the WCOC received a series of recommendations from Governor Taft's Management Review Team (MRT), which was created to address a myriad of investment and financial issues at BWC. They also worked with staff to take ownership of recommendations made by the Governor's Management Review Team and worked with BWC's new Administrator Bill Mabe to incorporate the overwhelming majority of these suggestions into the agency's "Agenda '06" strategic plan.

Specifically, Agenda '06 outlined strategies for increasing revenue, reducing expenses, and improving service with an overall focus on operational performance. Overall, the plan was successful. Agenda '06 improved the investment strategy; reduced the trade combined ratio from 129 percent on July 1, 2005 to 74 percent on December 31, 2006; reduced expenses, particularly medical costs; and partnered with managed care organizations on increasing utilization and efficiency. Based on trends thus far, BWC should expect a steady increase in revenues through appropriate rate adjustments and strengthened collection efforts.

Throughout the year, the WCOC provided assertive oversight and thoughtful consent during the restructuring of the BWC while maintaining a keen focus on stabilizing BWC's financials following the investment irregularities identified in 2005. In 2006, the WCOC considered and acted upon 50 resolutions. These resolutions consisted of rules changes/updates, rates changes/updates, and other issues pertinent to the operation of the BWC. The WCOC also reviewed and accepted BWC's audited financial statements for the 2005 and 2006 fiscal years as presented by the external audit firm of Schneider Downs.

Meeting Schedule

The WCOC, the Audit Committee, and the Investment Committee each met separately ten times in 2006. Additionally, the Investment Committee held one special meeting.

The meetings were conducted on the following dates:

Meeting Dates
January 19, 2006
March 30, 2006
April 27, 2006
May 25, 2006
June 16, 2006
July, 20, 2006
August 24, 2006
September 28, 2006
November 16, 2006
December 14, 2006

Among the highlights:

- The WCOC continued to provide oversight and consent on the organizational restructuring of the BWC.
- The WCOC welcomed Bruce Dunn, Chief Investment Officer, and Joe Bell, Chief Internal Audit, in May 2006.
- WCOC members completed ethics training in August 2006.

Premium Rates

The WCOC reviewed and approved aggregate premium rate levels for private and public employers and state agencies, as recommended by the Administrator. The WCOC approved the subsequent rules necessary for filing the rates. Private employer rates on average are 26.5 percent lower than the average collectible rate in policy year 2004.

Listed on the next page are the percentages of rate changes compared to the prior year's rates for each sector of employers:

Type of Employer	Rate Change	Effective Date
Private Employer Rates	3.9 percent increase	July 1, 2006
Public Employer Taxing Districts	3.2 percent increase.	January 1, 2007
Public Employer State Agencies	No rate change in average collectible rate.	July 1, 2006
Marine Industry Fund	No rate change	July 1, 2006
Coal Workers' Pneumoconiosis Fund	No rate change, and a continued moratorium on premium payments for subscribers to the fund prior to May 15, 1999.	July 1, 2006

Audit Committee

The Audit Committee, comprised of three voting members, assisted the WCOC to fulfill its fiduciary oversight responsibilities through the following:

- Providing oversight of the integrity of financial reporting process.
- Complying with legal and regulatory requirements.
- Monitoring the design and effectiveness of internal controls throughout the system.
- Confirming external auditors' qualifications and independence.
Reviewing performance of the internal audit function and independent auditors.

The committee advises and supports BWC's Internal Audit Division and has responsibility for the following:

1. Overseeing the integrity of the financial information reporting process:
 - a. Reviewing with management and the external auditor significant financial reporting issues and judgments made in connection with the preparation of the financial statements.
 - b. Reviewing the results of the external audit in conjunction with BWC management.
2. Developing an oversight process to assess the adequacy and effectiveness of internal controls while providing the mechanisms for assessment of systemic internal controls on an ongoing basis.
3. Overseeing the assessment of internal administrative and accounting controls by both the independent external auditor as well as the internal auditor
4. Consulting on the appointment of the Internal Audit Director and maintaining oversight of work performed by the Internal Audit Division.

5. Serving as the primary liaison for the WCOC and providing a forum for handling all matters related to audits, examinations, investigations or inquiries of the Ohio Auditor of State and other appropriate state or federal agencies.
6. Ensuring the independence of the external auditor and approving all audit, pre-approved non-audit, and other attestation services performed by the external auditor.
7. Reporting to the WCOC on all activities, findings and recommendations of the committee.
8. Establishing policies and procedures to function effectively.

Investments

The Investment Committee, comprised of four voting members, assisted the WCOC regarding the investment of the assets of the State Insurance Fund (SIF) and other ancillary funds. The Investment Committee's core objective is to advise and assist the WCOC in maximizing investment returns within acceptable risk parameters. The Investment Committee is responsible for providing oversight and consent on investment matters presented to the WCOC.

The committee recommended the following to the WCOC during calendar year 2006:

1. Hiring a Chief Investment Officer.
2. Approving an investment policy (and requested subsequent changes throughout 06 to the Investment Policy), which included:
 - a. Proposing a revised asset allocation.
 - b. Establishing a fixed-income benchmark duration.
 - c. Providing analysis regarding a dividend policy for the SIF.
 - d. Recommending termination of securities lending.
 - e. Establishing a campaign contribution policy.
3. Approving the Investment Committee Charter.
4. Retaining an independent actuary.
5. Approving Wilshire's Private Equity Asset Report.
6. Selecting transition managers.
7. Renewing Wilshire's contract.



Portfolio Market Value and Asset Allocation

As of December 31, 2006, the total BWC portfolio market value was \$16.8 billion, allocated among fixed-income securities (96.2 percent), equities (2.6 percent) and cash (1.2 percent).

Portfolio Performance Results

The overall rate of return of BWC-invested assets was 6.20 percent for calendar year 2006.