

Chairman Batchelder, Ranking Member Koziura, and distinguished members of the committee, thank you for the opportunity to discuss the challenges that lay ahead and the many improvements currently underway at the Ohio Bureau of Workers' Compensation. With your continued guidance, the talented engagement of the new board of directors, and the support of Governor Ted Strickland, the agency can and will improve its services to Ohio's businesses and injured workers.

Today, I would like to provide you with a brief status report on several key initiatives set forth in House Bill 100. I'll also discuss top policy priorities. And I'll share with you crucial internal initiatives aimed at creating greater efficiency and effectiveness in our operations. With me are several members of the BWC Senior Leadership Team: Laura Abu-Absi, Deputy Legislative Liaison; James Barnes, General Counsel; Joe Bell, Chief of Internal Audit; Bob Coury, Chief of Medical Services and Compliance; Bruce Dunn, Chief Investment Officer; Tina Kielmeyer, Chief of Customer Services; Keary McCarthy, Chief Communications Officer; John Pedrick, Chief Actuarial Officer; Tracy Valentino, Interim Chief Financial Officer; David Hollingsworth, who is a former insurance executive providing consulting service to enhance BWC's operations and performance.

Much has been discussed over the last few years about investment portfolios, policy problems, and political troubles. Many changes have occurred and many more will come. But, as we look at ways to improve the system, we must focus on our core purpose – to protect employers and employees from financial loss as a result of workplace injury. For injured workers, this protection comes in the form of medical coverage or restoring lost wages. For employers, BWC provides insurance coverage, cost control and litigation protection.

Given the numerous changes that our economy has seen over the last decade, it is challenging enough for businesses to be successful in today's global economy. Ohio's employers shouldn't be burdened with unstable premiums or complex workers' comp rules. Equally challenging for many Ohioans is the prospect of finding a decent paying job. These challenges shouldn't include concern about workplace safety or confusion about the process when an accident-related injury occurs.

BWC must focus on its core responsibility of protecting businesses and injured workers from loss. We must make the system more stable and predictable for Ohio's businesses

because sudden premium increases can hinder economic growth. This point was illustrated to me a few weeks ago when I was speaking with a local deck builder. He explained that when his premiums suddenly increased, the capital he had set aside to hire another crew was instead reallocated to cover these unexpected workers' comp costs. The builder lost an opportunity to grow his business and to create new jobs.

In addition to providing greater stability, BWC must also simplify its services and clearly communicate outcomes to its customers. An injured worker once told me that understanding the workers' comp system is like trying to understand the federal tax code.

For businesses, this complexity is made apparent by the success of the market for claims management, which advertises its services by saying, "let us help you navigate the maze of Ohio's workers' compensation system."

An effective system can't be as complex as the federal tax code nor a Byzantine maze that one dare not navigate without paid experts. The process must be stable, easier to understand and more efficient for both employers and injured workers. Creating such a system will provide peace of mind for Ohio's workforce. And it will allow businesses to focus on building and growing our economy.

Many of the provisions in House Bill 100, in fact, will help us to establish such a system. Since the bill went into effect on September 10, one of our top priorities has been to transparently and effectively implement its various provisions. Let me provide you with a brief status report of this progress.

First, the newly-formed Board of Directors was officially created when Governor Strickland appointed all 11 members on July 31. Just three weeks later, on August 23, the board held its first meeting. Last week during the second meeting, progress on substantial policy and rule-related decisions began. Further, in an effort to have a professionalized board, the Directors have completed several training sessions to date, and have agreed to training sessions before committee meetings for the next several

months. With these sessions, they will not only meet, but exceed the training requirements set forth in House Bill 100. I look forward to the many and challenging strategic initiatives and decisions the Board will oversee in the coming months and years.

Another independent body formed in House Bill 100 is the Worker's Compensation Council. This 11-member group will provide an additional, independent review of proposed statutory changes that would impact BWC. It will provide legislators with a report of probable costs, actuarial implications, and the desirability of public policy legislation as it is introduced. The council will provide additional oversight by completing an independent actuarial review every decade and submitting it to the governor and general assembly. It also has the option to review any completed audit. We welcome the additional insight and feedback this council will provide. As you know, the six legislative appointments are to be made by October 10th and the five non-legislator appointments are to follow in December. I look forward to starting a new calendar year with the council up and running.

Another welcome addition stemming from House Bill 100 is that of the deputy inspector general. Joe Montgomery, the first deputy inspector general for BWC and the Industrial Commission, began his duties on September 17. His specific roles include the investigation of wrongful acts or omissions committed by BWC and IC officers and employees. Mr. Montgomery will not only provide the proper oversight and enforcement at BWC, but his presence demonstrates to our customers that we are serious about ethics and accountability, especially at the management level.

The last two items I would like to update you on from HB 100 come from its uncodified language. As you know, BWC was directed to transition from the Micro Insurance Reserve Analysis System, or MIRA, to a different claim reserving system or a different version of that system. In accordance with the bill's language, we are beginning the transition to a new version, known as MIRA II. This state-of-the-practice system has a proven track record with many state insurance funds and insurers. It has significant new

capabilities and meets our transparency requirements. We currently are on target to meet the legislative deadline for this transition.

Another significant long-term strategic initiative outlined in HB 100 is the call for the BWC to hire an outside consultant to conduct a comprehensive study of the system. Everything is on the table as we strive to create a more efficient, accountable, and transparent BWC. This study will examine everything from base rates and the rating programs that determine an employer's premiums, to the effects our current programs have on cost-saving and workplace safety, and perhaps most importantly, how we compare and compete with other states.

Now, I'd like to take a few moments to address several important internal initiatives.

First, we are working to simplify and improve communications with BWC's customers. This includes a complete overhaul of the business correspondence that informs employers of rates and injured workers of claims activity. Chief Communications Officer Keary McCarthy, who joined BWC earlier this year, is leading these efforts. Expect to see dramatic improvements this policy year including easily understood rate letters for employers. We are also developing an e-communications strategy that will provide more effective communications while also saving a considerable amount in printing costs. Clearer, simplified communications to employers and injured workers will provide better customer service and will foster a better understanding of the claims process.

Second, income management is a critical initiative that will reduce costs for employers and help to stabilize the operation for the long-term. Chief Actuary John Pedrick is establishing policies that set the right rate for the right risk. His efforts will create equity among employers and will establish long-term stability in the system.

Interim CFO Tracy Valentino is aggressively seeking to collect premiums from non-compliant employers. Currently, the effects of losses from non-compliance are born by the responsible employers. Targeting non-compliant employers will also help bring

equity to the system. BWC General Counsel James Barnes also will be working to manage loss cost by pursuing subrogation opportunities.

And, Chief Investment Officer Bruce Dunn is working with the Investment Committee of the new BWC Board to establish strategic goals that yield the strongest return on investment, while also matching the long-term nature of BWC liabilities. These efforts will lead to improved income management, which will have a positive effect on BWC's bottom line.

Third, we will create effective operational workflows and process documentation in order to identify and eliminate inefficiencies, reduce administrative costs, and to insure the creation of effective performance measures and internal controls. Joe Bell, BWC Chief Internal Auditor, is reviewing the core processes of the agency. Once the evaluation is complete, new, more effective and efficient workflows will be established. This will also allow the public to better see and understand how policies and processes are implemented at the BWC.

It's also important to note that BWC's Internal Audit Division regularly tests internal controls and assesses compliance. The external audit committee of the new board of directors, which is chaired by a CPA, ensures that BWC's Internal Audit Division continues to operate independent of management. This reporting structure increases transparency and accountability because audit recommendations are publicly presented to the committee.

Fourth, Bob Coury, Chief of Medical Services and Compliance, and Tina Kielmeyer, Chief of Customer Services, are working to implement strategies to deliver cost-effective, quality care and effective claims management for our customers. These strategies include, for example, identifying the core competencies at BWC and those of our vendors to eliminate costly duplication of efforts and other inefficiencies. Also, eliminating needless barriers to MCO consolidation will inevitably lead to cost reduction and improvement in the efficiency of managed care services and support. We must also perform a comprehensive review of our current medical coverage to determine the

appropriate delivery of quality medical services and the right payments for those services. Finally, a reinvigoration of our claim lifecycle action planning and claim resolution will provide more effective claims management and better service.

Just as important as our key internal initiatives, we are also focused on several policy priorities. In addition to improving the claims reserving system and completely reviewing BWC's rating system, we are also looking at the appropriate asset level of BWC's reserve.

Lack of a clear policy in the past has allowed for some unsound practices regarding dividends and rebates. Working with the Board of Directors, we will determine the appropriateness of dividends going forward, and develop a reserve policy that will protect the long-term stability of BWC's assets.

Finally, BWC must also address the continued inequity within Ohio's group rating program. While a comprehensive review of the program is underway, immediate reductions in the maximum allowable credibility, or the discount, are warranted for the 2008 policy year.

At the BWC Board of Directors meeting on September 27, the board unanimously approved a recommendation to consider reducing the maximum allowable discount. The matter was referred to the board's actuarial committee for a complete review of the program, which included an expression of intent to reduce the discount to no less than 80 percent for the policy year beginning July 1, 2008.

The actuarial committee and the board will determine the maximum discount for the 2008 policy year in the coming months. In the meantime, the board's action will provide some direction to those conducting marketing efforts by stating that the discount will be reduced from its current 90 percent maximum, but it won't be reduced to a level below 80 percent.

Since I became administrator in May, my team and I have spent an exhaustive amount of time examining how we could restore equity and preserve Ohio's group rating program. We formed a workgroup comprised of stakeholders and legislators to discuss opportunities for improvement. While all participants in this workgroup expressed varying opinions on how best to move forward, there was understanding around the need for greater fairness within the program.

While our planful approach toward studying this issue and partnering with stakeholders led us to conclude a reduction in credibility tables is appropriate, several factors dictate the timing. First, we are sensitive to the group marketing process and want to limit marketplace confusion while the board fully reviews this program.

Second, three independent actuarial firms, in nine separate studies have rendered opinions citing the instability and inequity of group rating over the past several years. Previous reductions in the discount from 95 to 90 percent have helped to create greater equity but have not effectively reduced the premium subsidy to an appropriate level. Today, non-group employers are still paying an additional \$200 million annually to subsidize the premium shortfalls of group employers.

Third, the August 21, 2007 Report of Investigation by Ohio Inspector General Tom Charles made several recommendations and requested that BWC respond to these recommendations by October 19, 2007. One such recommendation stated that "BWC should follow the recommendations of its actuarial consultant and the internal audit report in the establishment of premiums for group-rated employers, in order to address the inequities associated with the group-rating process."

Finally, by establishing greater premium equity among all employers, we will reduce Ohio's base rates overall. If the group discount is lowered to 80 percent, for example, BWC will be able to **reduce Ohio's base rates by approximately 4 percent**. Doing so

will create an important economic development opportunity for Ohio by making our workers' compensation system more competitive both regionally and nationally.

Much has been accomplished in the last few months, but much work remains. Working together with the Board of Directors, we are planfully addressing multiple challenges within the bureau and its programs. Our policy priorities are laid out before you: Moving to MIRA II, reducing base rates to make Ohio more competitive, bringing equity to the group rating program, and improving services for injured workers. We are taking a hard look internally: Improving our customer service and communication, managing our income for the long-term to improve stability for our premium paying employers, documenting our processes to identify and reduce inefficiencies and controlling costs across the board.

As these are implemented, you will see a more competitive and respected workers' compensation system. My goals are to create a professionalized system that will be consistent, easy to understand, and fair to both employers and employees. As we continue on the path to improvement, we will be working to establish a stable, trusted workers comp system that protects the wellbeing of working Ohioans, and unburdens business to foster economic success.

Thank you for the time and thank you for your dedicated service to the State of Ohio. We would be happy to answer any questions you have.