

Enterprise Report

November 2008



Printed within BWC

Ohio | Bureau of Workers'
Compensation

Enterprise Report

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

Statement of Operations

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

Statement of Investment Income

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

Administrative Cost Fund Budget Summary

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

State Insurance Fund Administrative Expense Summary

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

Statement of Cash Flows

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

Statement of Net Assets

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

Financial Performance Metrics

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

Operational Performance Metrics

Measures reflecting BWC's operational performance are presented here. *Pages 15 through 17.*

Performance Metrics Glossary

Glossary provides definitions and information on calculations for each performance metric. *Page 18.*

October Financial Analysis

BWC's net assets decreased by \$1.4 billion in October 2008 resulting in net assets of \$224 million at October 31, 2008 compared to \$1.6 billion at September 30, 2008.

| <i>(\$ in millions)</i> | Fiscal YTD Sept. 30, 2008 | Month Ended Oct. 31, 2008 | Fiscal YTD Oct. 31, 2008 |
|-----------------------------------|-------------------------------------|-------------------------------------|------------------------------------|
| Operating Revenues | \$546 | \$164 | \$710 |
| Operating Expenses | 723 | 52 | 775 |
| Operating Transfer Out to ODNR | (2) | – | (2) |
| Net Operating Gain (Loss) | (179) | 112 | (67) |
| Net Investment Income (Loss) | (744) | (1,468) | (2,212) |
| Increase (Decrease) in Net Assets | (923) | (1,356) | (2,279) |
| Net Assets End of Period | \$1,580 | \$224 | \$224 |

- o Premium and assessment income of \$180 million net of a \$15 million provision for uncollectible accounts receivable and a \$1 million reduction in other income resulted in operating revenues of \$164 million in October. The reduction to other income is primarily due to penalties that have been voided for the late filing and payment of premiums.
- o Premium and assessment income in October included reductions of \$11 million to accruals for unbilled premiums receivable resulting from lower than expected losses for state agencies and the Disabled Workers' Relief Fund (DWRF).
- o Benefits and compensation adjustment expenses of \$43 million along with other expenses of \$9 million resulted in operating expenses of \$52 million in October 2008. Benefits and compensation adjustment expenses were lowered by \$160 million in October to reflect the latest reserve projections from BWC's actuarial consultants using payment data through September 30, 2008.
- o The \$1.52 billion decrease in portfolio market value in October exceeded interest and dividend income of \$51 million for the month, resulting in a net investment loss of \$1.5 billion for the month after investment expenses. The \$1.5 billion decrease in portfolio market value is comprised of \$18 million in net realized losses and \$1,499 million in net unrealized losses.
- o Premium and assessment collections were \$148 million in October or approximately \$10 million less than projected. This unfavorable variance is timing related as employers participating in the 50/50 program waited until November to make their second payment.
- o Claim payments issued in October were \$208 million, including \$22 million in claim settlements and \$16 million in Ohio Hospital Association (OHA) lawsuit settlements. October included three bi-weekly scheduled payment cycles increasing October payments by over \$24 million compared to months with two bi-weekly payment cycles.

Fiscal Year-to-Year Comparisons

BWC's total net assets have decreased by \$2.3 billion during the four months ended October 31, 2008 resulting in net assets of \$224 million compared to \$2.9 billion at October 31, 2007.

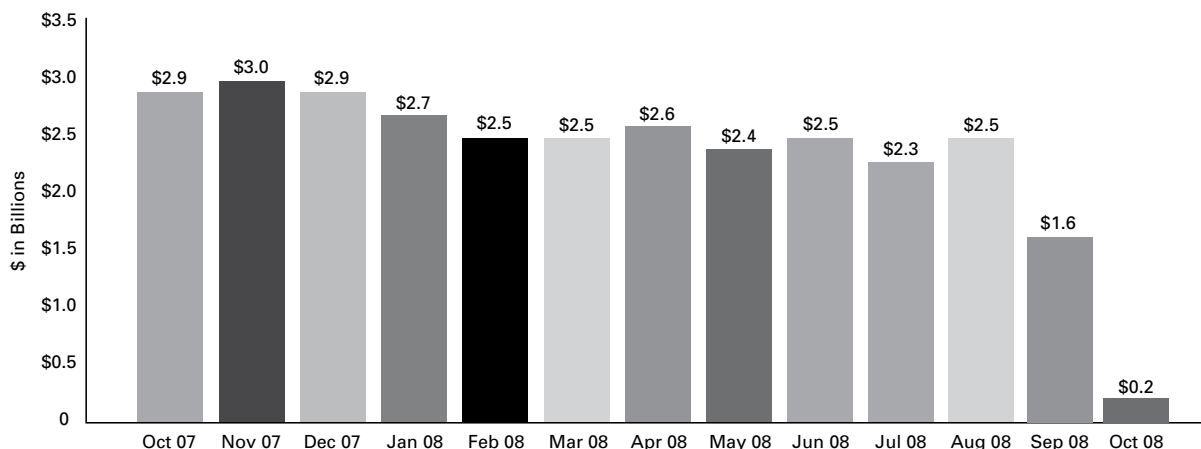
| <i>(\$ in millions)</i> | Fiscal YTD Oct. 31, 2008 | Projected FYTD Oct. 31, 2008 | Fiscal YTD Oct. 31, 2007 |
|-----------------------------------|------------------------------------|--|------------------------------------|
| Operating Revenues | \$710 | \$722 | \$785 |
| Operating Expenses | 775 | 878 | 1,045 |
| Operating Transfer Out to ODNR | (2) | (3) | – |
| Net Operating Gain (Loss) | (67) | (159) | (260) |
| Net Investment Income (Loss) | (2,212) | 349 | 857 |
| Increase (Decrease) in Net Assets | (2,279) | 190 | 597 |
| Net Assets End of Period | \$224 | \$2,693 | \$2,902 |

- o BWC's operating revenues for fiscal year-to-date 2009 were \$710 million, a decrease of \$75 million compared to fiscal year-to-date 2008. This is primarily due to lower accruals for unbilled premiums receivable because of lower than expected losses for state agencies and DWRP. Changes in the safety council discount program resulted in premium reductions of almost \$13 million less than the prior fiscal year. This year employers were eligible to earn a 2% premium discount for participation and a 2% performance bonus for reducing either frequency or severity of claims by 10% or more below the previous year, or maintaining both frequency and severity at the previous year's level. The participation discounts were posted in September and the performance bonuses are expected to be posted in December. Last fiscal year, the employers were eligible to earn a 4% premium discount for participation in the safety council discount program.
- o Premium and assessment income is almost 2% or \$14 million less than projected.
- o Benefit and compensation adjustment expenses have decreased by \$270 million in fiscal year 2009 due to a decrease in the change in reserves for compensation and compensation adjustment expenses. Reserves for compensation and compensation adjustment expenses have decreased by almost \$25 million in fiscal year 2009 compared to a \$254 million increase in fiscal year 2008. The fiscal year 2009 reserve projections are based on payment trends through September 30, 2008 and include a short-term medical inflation assumption of 6%.
- o Claim payments have increased by \$29 million for fiscal year-to-date 2009 compared to the same period in fiscal year 2008. Temporary total, permanent total, percent permanent partial disability and survivor benefits are almost \$30 million higher than last year due to the extra bi-weekly payment cycle in October 2008. Last fiscal year, the extra bi-weekly payment cycle occurred in November 2007. Also included in fiscal year-to-date 2009 are \$19 million in OHA lawsuit settlement payments. These increases were partially off-set by a \$20 million decrease in lump sum settlements.
- o Benefit and compensation adjustment expenses are \$104 million or almost 12% less than projected due to lower than projected disbursements for claims and claims adjustment expenses.
- o BWC's net investment loss for fiscal year-to-date 2009 totaled \$2.2 billion, comprised of a \$119 million in realized losses and \$2,418 million in unrealized losses, partially off-set by \$327 million of interest and dividend income net of \$1.6 million in investment expenses.
- o Cash provided by operating activities is trending lower than the prior fiscal year primarily due to the extra bi-weekly payment cycle and OHA lawsuit settlement payments. Fiscal year-to-date premium collections that are 3% higher than projected are contributing the \$22 million favorable variance in cash provided by operating activities.

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

- o The second installment for private employers participating in the 50/50 program was due November 4, 2008. Of the 17,237 employers participating in the 50/50 program, 2,296 employers failed to make the second payment on a timely basis resulting in their coverage lapsing. The percentage of employers failing to pay the second installment on a timely basis has remained fairly steady over the last seven reporting periods.
- o Cash disbursements will increase as payments are made to settle the remaining \$21 million liability resulting from the Ohio Hospital Association lawsuit disputing fee schedules that were not adopted through the Ohio Revised Code Chapter 119 rules process.

Net Assets



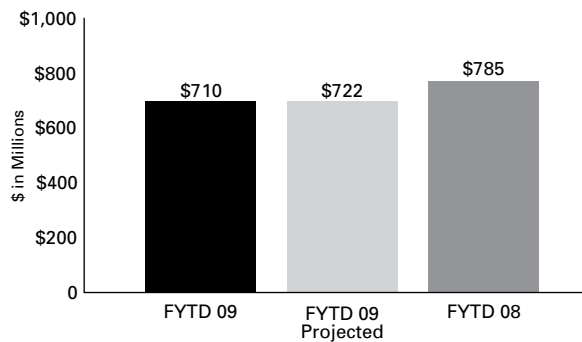
Statement of Operations

Fiscal year to date October 31, 2008

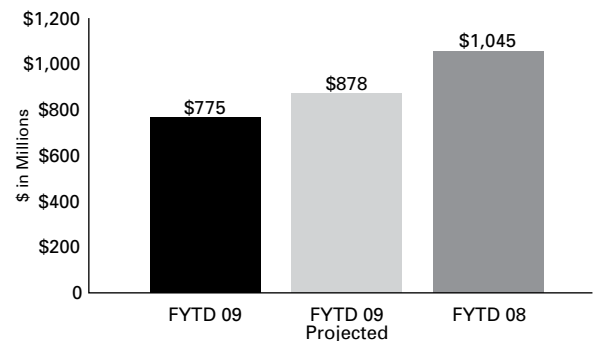
(in millions)

| | Actual | Projected | Variance to Projected | Prior Yr. Actual | Year to Year Increase (Decrease) |
|--|------------------|--------------|-----------------------|------------------|----------------------------------|
| Operating Revenues | | | | | |
| Premium & Assessment Income | \$731 | \$745 | \$(14) | \$798 | \$(67) |
| Provision for Uncollectibles | (28) | (30) | 2 | (20) | (8) |
| Other Income | 7 | 7 | - | 7 | - |
| Total Operating Revenue | 710 | 722 | (12) | 785 | (75) |
| Operating Expenses | | | | | |
| Benefits & Compensation Adj. Expense | 743 | 847 | 104 | 1,013 | (270) |
| Other Expenses | 32 | 31 | (1) | 32 | - |
| Total Operating Expenses | 775 | 878 | 103 | 1,045 | (270) |
| Operating Transfers | (2) | (3) | 1 | - | (2) |
| Net Operating Gain (Loss) | (67) | (159) | 92 | (260) | 193 |
| Net Investment Income (Loss) | (2,212) | 349 | (2,561) | 857 | (3,069) |
| Increase (Decrease) in Net Assets | \$(2,279) | \$190 | \$(2,469) | \$597 | \$(2,876) |

Operating Revenues



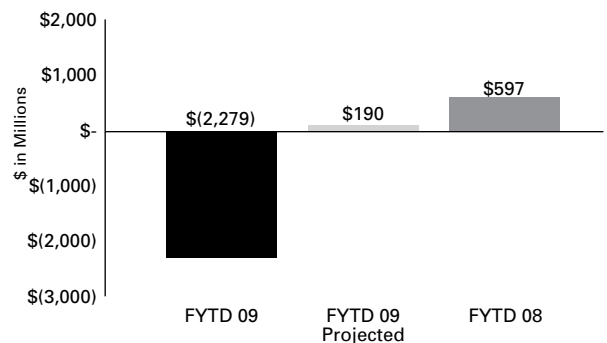
Operating Expenses



Net Investment Income (Loss)



Change in Net Assets



Statement of Operations – Combining Schedule

Fiscal year to date October 31, 2008

(in thousands)

| | State Insurance Fund Account | Disabled Workers' Relief Fund Account | Coal-Workers Pneumoconiosis Fund Account | Public Work Relief Employees' Fund Account | Marine Industry Fund Account | Self-Insuring Employers' Guaranty Fund Account | Administrative Cost Fund Account | Totals |
|---|---------------------------------|---|--|--|------------------------------------|--|--|--------------------|
| Operating Revenues: | | | | | | | | |
| Premium & Assessment Income | \$572,673 | \$29,548 | \$773 | \$77 | \$282 | \$6,285 | \$122,062 | \$731,700 |
| Provision for Uncollectibles | (28,164) | (906) | - | - | - | 394 | 308 | (28,368) |
| Other Income | 5,439 | - | - | - | - | - | 1,475 | 6,914 |
| Total Operating Revenues | 549,948 | 28,642 | 773 | 77 | 282 | 6,679 | 123,845 | 710,246 |
| Operating Expenses: | | | | | | | | |
| Benefits & Compensation Adj Expenses | 617,588 | 31,369 | 338 | (29) | 171 | 9,732 | 84,179 | 743,348 |
| Other Expenses | 9,055 | 83 | 20 | 1 | 50 | 1 | 22,579 | 31,789 |
| Total Operating Expenses | 626,643 | 31,452 | 358 | (28) | 221 | 9,733 | 106,758 | 775,137 |
| Net Operating Income (Loss) before Operating Transfers Out | (76,695) | (2,810) | 415 | 105 | 61 | (3,054) | 17,087 | (64,891) |
| Operating Transfers Out | (798) | - | (1,745) | - | - | - | 798 | (1,745) |
| Net Operating Income (Loss) | (77,493) | (2,810) | (1,330) | 105 | 61 | (3,054) | 17,885 | (66,636) |
| Investment Income: | | | | | | | | |
| Investment Income | 299,089 | 21,463 | 4,545 | 163 | 122 | 401 | 1,609 | 327,392 |
| Bonds – Realized & Unrealized Gains (Losses) | (1,620,942) | (117,421) | (24,679) | - | - | - | - | (1,763,042) |
| Equities – Realized & Unrealized Gains (Losses) | (714,753) | (48,958) | (11,177) | - | - | - | - | (774,888) |
| Total Realized & Unrealized Capital Gains (Losses) | (2,335,695) | (166,379) | (35,856) | - | - | - | - | (2,537,930) |
| Investment Manager & Operational Fees | (1,402) | (92) | (59) | - | - | - | - | (1,553) |
| Gain (Loss) on Disposal of Fixed Assets | - | - | - | - | - | - | (28) | (28) |
| Total Non-Operating Revenues, Net | (2,038,008) | (145,008) | (31,370) | 163 | 122 | 401 | 1,581 | (2,212,119) |
| Increase (Decrease) in Net Assets (Deficit) | (2,115,501) | (147,818) | (32,700) | 268 | 183 | (2,653) | 19,466 | (2,278,755) |
| Net Assets (Deficit), Beginning of Period | 2,206,922 | 848,727 | 179,339 | 19,350 | 13,431 | 8,919 | (773,399) | 2,503,289 |
| Net Assets (Deficit), End of Period | \$91,421 | \$700,909 | \$146,639 | \$19,618 | \$13,614 | \$6,266 | \$(753,933) | \$224,534 |

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 to date October 31, 2008

(in thousands)

| | Actual | Projected | Variance to Projected | Prior Yr. Actual | Year to Year Increase (Decrease) |
|---|----------------------|------------------|-----------------------|------------------|----------------------------------|
| Investment Income | | | | | |
| Bond Interest | \$301,389 | \$253,964 | \$47,425 | \$228,242 | \$73,147 |
| Dividend Income—Domestic & International | 22,029 | 23,000 | (971) | 15,269 | 6,760 |
| Money Market/Commercial Paper Income | 3,274 | 3,252 | 22 | 8,265 | (4,991) |
| Misc. Income (Corp Actions, Settlements) | 700 | 1,200 | (500) | 1,657 | (957) |
| Private Equity | — | — | — | 4,523 | (4,523) |
| Securities Lending Income, Net of Fees | — | — | — | — | — |
| Total Investment Income | <u>327,392</u> | <u>281,416</u> | <u>45,976</u> | <u>257,956</u> | <u>69,436</u> |
| Realized & Unrealized Capital Gains and (Losses) | | | | | |
| Bonds – Net Realized Gains (Losses) | (66,702) | — | (66,702) | (77,902) | 11,200 |
| Bonds – Net Unrealized Gains (Losses) | (1,696,340) | — | (1,696,340) | 560,940 | (2,257,280) |
| Subtotal – Bonds | <u>(1,763,042)</u> | <u>—</u> | <u>(1,763,042)</u> | <u>483,038</u> | <u>(2,246,080)</u> |
| Stocks – Net Realized Gains (Losses) | (52,741) | — | (52,741) | 46,913 | (99,654) |
| Stocks – Net Unrealized Gains (Losses) | (721,395) | 69,000 | (790,395) | 55,821 | (777,216) |
| Subtotal – Stocks | <u>(774,136)</u> | <u>69,000</u> | <u>(843,136)</u> | <u>102,734</u> | <u>(876,870)</u> |
| Net Gain (Loss) – PE | <u>(752)</u> | <u>—</u> | <u>(752)</u> | <u>15,204</u> | <u>(15,956)</u> |
| Change in Portfolio Value | <u>(2,537,930)</u> | <u>69,000</u> | <u>(2,606,930)</u> | <u>600,976</u> | <u>(3,138,906)</u> |
| Investment Manager & Operational Fees | <u>(1,553)</u> | <u>(1,540)</u> | <u>(13)</u> | <u>(2,067)</u> | <u>(514)</u> |
| Net Investment Income (Loss) | <u>\$(2,212,091)</u> | <u>\$348,876</u> | <u>\$(2,560,967)</u> | <u>\$856,865</u> | <u>\$(3,068,956)</u> |

Administrative Cost Fund Expense Analysis

October 2008

- o BWC Administrative Cost Fund expenses are approximately \$14.7 million (14%) less than budgeted and approximately 3% more than last fiscal year.
- o Changes in payroll within divisions varied due to vacant management positions that were filled in fiscal year 2009, vacancies resulting from the fiscal year 2008 Early Retirement Incentive, hiring controls implemented by OBM and positions moving due to reorganization.
- o The timing of the receipt of invoices for payment in fiscal year 2009 caused actual expenditures to be less than the amount budgeted through September and more than fiscal year 2008.
- o Restrictions implemented for all state agencies concerning the purchase of equipment led to BWC more closely evaluating equipment needs and the reduction of equipment purchases.
- o Positions not yet filled led to a reduction in the fiscal year 2009 budget as of September. The payroll budget will be increased as employees are hired.
- o BWC's current fiscal year 2009 budget is approximately \$23.6 million (7%) less than appropriated by the General Assembly.

Administrative Cost Fund Budget Summary

As of October 31, 2008

| Expense Description | FTE's | Actual FY09 | Budgeted FYTD09 | FYTD09 Variance | FYTD09 Percentage Variance | FY09 Budget | FYTD08 Expenses | Increase (Decrease) in FY09 | FYTD09 Percentage Variance |
|--|--------------|-------------------|--------------------|--------------------|----------------------------------|--------------------|--------------------|-----------------------------------|----------------------------------|
| Payroll | | | | | | | | | |
| BWC Board of Directors | 14 | 320,383 | 320,795 | 412 | 0.13% | 860,332 | 179,811 | 140,572 | 78.18% |
| Workers' Comp Council | 1 | 33,203 | 33,203 | 0 | 0.00% | 55,915 | 0 | 33,203 | |
| BWC Administration | 6 | 261,188 | 261,188 | 0 | 0.00% | 796,824 | 161,612 | 99,576 | 61.61% |
| Customer Service | 1,485 | 38,518,765 | 38,559,182 | 40,417 | 0.10% | 111,941,164 | 40,051,506 | (1,532,741) | -3.83% |
| Medical | 150 | 4,045,107 | 4,049,345 | 4,238 | 0.10% | 12,013,384 | 3,631,508 | 413,599 | 11.39% |
| Special Investigations | 134 | 3,887,068 | 3,888,050 | 982 | 0.03% | 11,407,174 | 3,833,801 | 53,267 | 1.39% |
| Fiscal and Planning | 67 | 1,673,886 | 1,690,860 | 16,974 | 1.00% | 4,993,557 | 1,515,722 | 158,164 | 10.43% |
| Actuarial | 19 | 568,836 | 567,689 | (1,147) | -0.20% | 1,720,092 | 521,700 | 47,136 | 9.04% |
| Investments | 10 | 397,079 | 397,703 | 624 | 0.16% | 1,301,813 | 339,766 | 57,313 | 16.87% |
| Infrastructure & Technology | 310 | 10,362,331 | 10,425,607 | 63,276 | 0.61% | 30,555,531 | 9,681,473 | 680,858 | 7.03% |
| Legal | 78 | 2,273,842 | 2,273,841 | (1) | 0.00% | 6,795,354 | 2,495,201 | (221,359) | -8.87% |
| Communications | 30 | 969,567 | 967,695 | (1,872) | -0.19% | 2,606,797 | 942,533 | 27,034 | 2.87% |
| Human Resources | 67 | 1,905,888 | 1,906,579 | 691 | 0.04% | 5,559,142 | 1,215,345 | 690,543 | 56.82% |
| Internal Audit | 14 | 443,131 | 443,658 | 527 | 0.12% | 1,358,131 | 537,656 | (94,525) | -17.58% |
| Ombuds Office | 10 | 184,144 | 184,457 | 313 | 0.17% | 628,658 | 110,414 | 73,730 | 66.78% |
| Early Retirement Expenses | | | | 0 | 0.00% | | 51,656 | (51,656) | -100.00% |
| Total Payroll | 2,395 | 65,844,418 | 65,969,852 | 125,434 | 0.19% | 192,593,868 | 65,269,704 | 574,714 | 0.88% |
| Personal Services | | | | | | | | | |
| Information Technology | | 3,118,205 | 4,444,571 | 1,326,366 | 29.84% | 13,502,331 | 2,602,727 | 515,478 | 19.81% |
| Legal – Special Counsel | | 93,042 | 523,396 | 430,354 | 82.22% | 1,564,843 | 0 | 93,042 | |
| Legal – Attorney General | | 1,003,658 | 2,222,043 | 1,218,385 | 54.83% | 4,444,085 | 923,654 | 80,004 | 8.66% |
| Other Personal Services | | 1,661,574 | 3,390,148 | 1,728,574 | 50.99% | 7,985,906 | 836,168 | 825,406 | 98.71% |
| Total Personal Services | | 5,876,479 | 10,580,158 | 4,703,679 | 44.46% | 27,497,165 | 4,362,549 | 1,513,930 | 34.70% |
| Maintenance | | | | | | | | | |
| William Green Rent | | 504,537 | 521,437 | 16,900 | 3.24% | 18,904,714 | 579,422 | (74,885) | -12.92% |
| Other Rent and Leases | | 5,059,901 | 7,025,794 | 1,965,893 | 27.98% | 12,996,444 | 6,617,653 | (1,557,752) | -23.54% |
| Software and Equipment Maintenance and Repairs | | 6,796,944 | 7,080,715 | 283,771 | 4.01% | 20,321,331 | 4,333,133 | 2,463,811 | 56.86% |
| Inter Agency Payments | | 679,783 | 1,345,332 | 665,549 | 49.47% | 3,636,452 | 1,040,655 | (360,872) | -34.68% |
| Communications | | 1,308,243 | 2,390,626 | 1,082,383 | 45.28% | 6,977,919 | 1,145,962 | 162,281 | 14.16% |
| Safety Grants and Long Term Care Loan | | 1,139,197 | 1,500,000 | 360,803 | 24.05% | 6,000,000 | 697,903 | 441,294 | 63.23% |
| Supplies and Printing | | 516,508 | 957,273 | 440,765 | 46.04% | 3,187,164 | 365,374 | 151,134 | 41.36% |
| Other Maintenance | | 1,280,785 | 1,287,621 | 6,836 | 0.53% | 3,756,483 | 1,145,502 | 135,283 | 11.81% |
| Total Maintenance | | 17,285,898 | 22,108,798 | 4,822,900 | 21.81% | 75,780,507 | 15,925,604 | 1,360,294 | 8.54% |
| Equipment | | 26,878 | 5,146,697 | 5,119,819 | 99.48% | 9,720,856 | 331,895 | (305,017) | -91.90% |
| Total Administrative Cost Fund Expenses | | 89,033,673 | 103,805,505 | 14,771,832 | 14.23% | 305,592,396 | 85,889,752 | 3,143,921 | 3.66% |

Total Agency Appropriation 329,210,479
 Budget to Appropriation Variance 23,618,083
 Percentage Variance 7.17%

State Insurance Fund

Administrative Expense Summary

As of October 31, 2008

| | Actual FYTD 2009 | Encumbrance Balance | FYTD Actual & Encumbrance | Encumbrance Closing Date | Actual FYTD 2008 |
|---|---------------------|------------------------|------------------------------|-----------------------------|---------------------|
| Investment Administrative Expenses | | | | | |
| UBS Securities LLC | \$275,191 | \$0 | \$275,191 | 6/30/08 | \$773,161 |
| Wilshire Associates Inc. | 0 | 0 | 0 | 2/24/08 | 217,667 |
| JP Morgan Chase – Performance Reporting | 32,416 | 51,318 | 83,734 | 6/30/08 | 0 |
| Mercer Investment Consulting | 158,332 | 363,161 | 521,493 | 6/30/09 | 0 |
| Other Investment Expenses | 56,925 | 396,085 | 453,010 | 6/30/08 | 36,895 |
| | 522,864 | 810,564 | 1,333,428 | | 1,027,723 |
| Actuarial Expenses | | | | | |
| Oliver Wyman | 426,258 | 1,081,199 | 1,507,457 | 12/31/09 | 258,837 |
| Deloitte Consulting LLP | 1,416,755 | 133,339 | 1,550,094 | 12/31/08 | 0 |
| AON Risk Consultants | 0 | 0 | 0 | | 263,599 |
| | 1,843,013 | 1,214,538 | 3,057,551 | | 522,436 |
| Ohio Rehabilitation Services | 605,407 | 0 | 605,407 | 6/30/09 | 0 |
| TOTAL | \$2,971,284 | \$2,025,102 | \$4,996,386 | | \$1,550,159 |

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

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

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

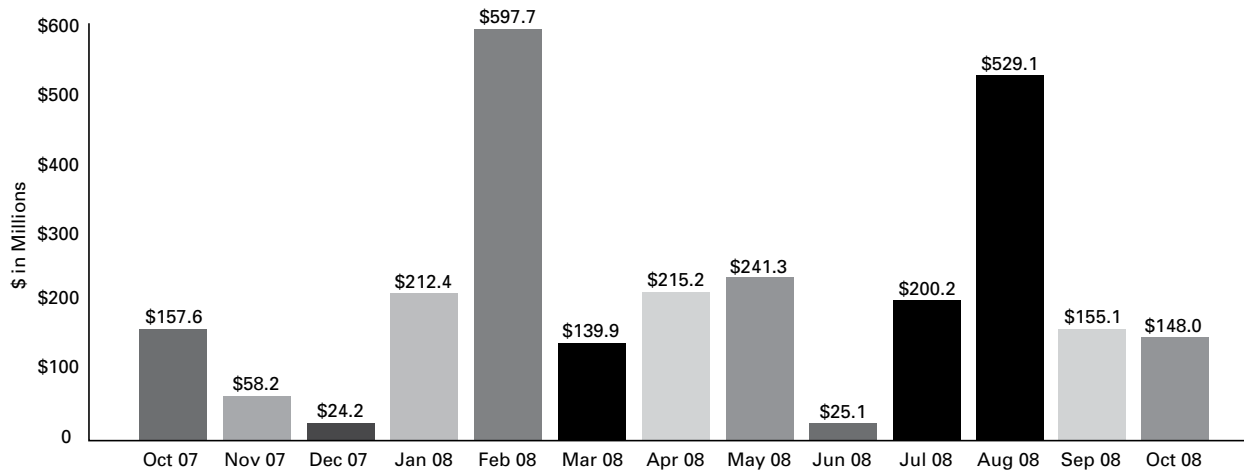
Statement of Cash Flows

Fiscal year to date October 31, 2008

(in millions)

| | Actual | Projected | Variance to Projected | Prior Yr. Actual | Year to Year Increase (Decrease) |
|---|---------|-----------|-----------------------|------------------|----------------------------------|
| Cash Flows from Operating Activities: | | | | | |
| Cash Receipts from Premiums | \$1,032 | \$998 | \$34 | \$1,024 | \$8 |
| Cash Receipts – Other | 9 | 10 | (1) | 11 | (2) |
| Cash Disbursements for Claims | (753) | (757) | 4 | (719) | (34) |
| Cash Disbursements for Other | (164) | (149) | (15) | (167) | 3 |
| Net Cash Provided (Used) by Operating Activities | 124 | 102 | 22 | 149 | (25) |
| Net Cash Flows from Noncapital Financing Activities | (2) | (3) | 1 | – | (2) |
| Net Cash Flows from Capital and Related Financing Activities | (3) | (2) | (1) | (4) | 1 |
| Net Cash Provided (Used) by Investing Activities | (45) | 6 | (51) | 61 | (106) |
| Net Increase (Decrease) in Cash and Cash Equivalents | 74 | 103 | (29) | 206 | (132) |
| Cash and Cash Equivalents, Beginning of Period | 378 | 378 | – | 328 | 50 |
| Cash and Cash Equivalents, End of Period | \$452 | \$481 | \$(29) | \$534 | \$(82) |

Premium and Assessment Receipts



Statement of Net Assets

As of October 31, 2008

(in millions)

| | Actual | Prior Yr. Actual | Year to Year Increase (Decrease) |
|---|---------------|---------------------|--|
| Assets | | | |
| Bonds | \$12,281 | \$13,654 | \$(1,373) |
| Stocks | 2,428 | 3,302 | (874) |
| Private Equities | – | 203 | (203) |
| Cash & Cash Equivalents | 452 | 534 | (82) |
| Total Cash and Investments | 15,161 | 17,693 | (2,532) |
| Accrued Premiums | 4,256 | 4,549 | (293) |
| Other Accounts Receivable | 207 | 194 | 13 |
| Investment Receivables | 319 | 405 | (86) |
| Other Assets | 116 | 119 | (3) |
| Total Assets | <u>20,059</u> | <u>22,960</u> | <u>(2,901)</u> |
| Liabilities | | | |
| Reserve for Compensation and Compensation Adj. Expense | \$19,411 | \$19,525 | \$(114) |
| Accounts Payable | 53 | 67 | (14) |
| Investment Payable | 140 | 232 | (92) |
| Other Liabilities | 231 | 234 | (3) |
| Total Liabilities | <u>19,835</u> | <u>20,058</u> | <u>(223)</u> |
| Net Assets | \$224 | \$2,902 | \$(2,678) |

Statement of Net Assets – Combining Schedule

As of October 31, 2008

(in thousands)

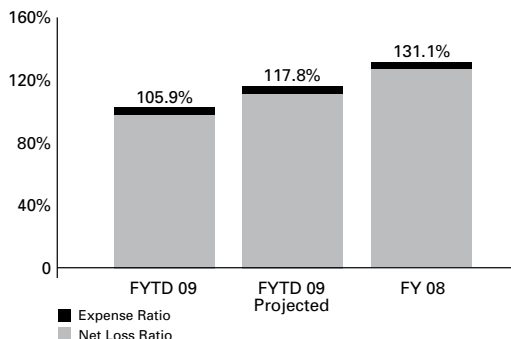
| | State Insurance Fund Account | Disabled Workers' Relief Fund Account | Coal-Workers Pneumoconiosis Fund Account | Public Work Relief Employees' Fund Account | Marine Industry Fund Account | Self-Insuring Employers' Guaranty Fund Account | Administrative Cost Fund Account | Eliminations | Totals |
|---|---------------------------------|---|--|--|------------------------------------|--|--|---------------------|---------------------|
| Assets | | | | | | | | | |
| Bonds | \$ 11,295,710 | \$ 814,697 | \$ 170,355 | \$ – | \$ – | \$ – | \$ – | \$ – | \$12,280,762 |
| Stocks | 2,240,011 | 153,038 | 34,891 | – | – | – | – | – | 2,427,940 |
| Private Equities | 311 | – | – | – | – | – | – | – | 311 |
| Cash & Cash Equivalents | <u>342,153</u> | <u>6,264</u> | <u>2,826</u> | <u>22,775</u> | <u>17,050</u> | <u>57,259</u> | <u>3,740</u> | <u>–</u> | <u>452,067</u> |
| Total Cash & Investments | \$ 13,878,185 | \$ 973,999 | \$ 208,072 | \$ 22,775 | \$ 17,050 | \$ 57,259 | \$ 3,740 | \$ – | \$15,161,080 |
| Accrued Premiums | 1,823,385 | 1,532,230 | – | 254 | – | 670,825 | 229,585 | – | 4,256,279 |
| Other Accounts Receivable | 181,700 | 17,143 | 25 | – | – | (2,373) | 10,703 | – | 207,198 |
| Interfund Receivables | 17,344 | 70,540 | – | – | 30 | 1,537 | 126,361 | (215,812) | – |
| Investment Receivables | 296,970 | 17,878 | 4,359 | 37 | 28 | 92 | – | – | 319,364 |
| Other Assets | <u>25,806</u> | <u>22</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>89,796</u> | <u>–</u> | <u>115,624</u> |
| Total Assets | \$ 16,223,390 | \$ 2,611,812 | \$ 212,456 | \$ 23,066 | \$ 17,108 | \$ 727,340 | \$ 460,185 | \$ (215,812) | \$20,059,545 |
| Liabilities | | | | | | | | | |
| Reserve for Compensation and Compensation Adj. Expense | \$ 15,640,513 | \$ 1,888,044 | \$ 62,800 | \$ 3,416 | \$ 3,198 | \$ 718,257 | \$ 1,094,472 | \$ – | \$19,410,700 |
| Accounts Payable | 53,539 | – | – | – | – | – | 123 | – | 53,662 |
| Investment Payable | 130,676 | 7,259 | 2,150 | – | – | – | – | – | 140,085 |
| Interfund Payables | 197,316 | 15,511 | 106 | 32 | 30 | 2,817 | – | (215,812) | – |
| Other Liabilities | <u>109,925</u> | <u>89</u> | <u>761</u> | <u>–</u> | <u>266</u> | <u>–</u> | <u>119,523</u> | <u>–</u> | <u>230,564</u> |
| Total Liabilities | 16,131,969 | 1,910,903 | 65,817 | 3,448 | 3,494 | 721,074 | 1,214,118 | (215,812) | 19,835,011 |
| Net Assets | \$ 91,421 | \$ 700,909 | \$ 146,639 | \$ 19,618 | \$ 13,614 | \$ 6,266 | \$ (753,933) | \$ – | \$ 224,534 |

Financial Performance Metrics

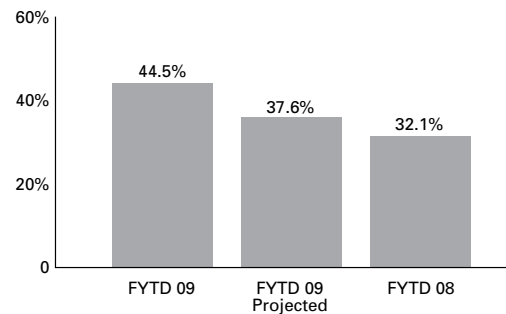
| | Actual FY09 As of 9/30/08 | Projected FY09 As of 9/30/08 | Actual FY08 As of 9/30/07 | Target |
|---|---------------------------------|------------------------------------|---------------------------------|---------------|
| Loss Ratio | 83.0% | 92.3% | 106.7% | |
| LAE Ratio – MCO | 7.1% | 7.9% | 9.0% | |
| LAE Ratio – BWC | 11.5% | 13.5% | 11.3% | |
| Net Loss Ratio | 101.6% | 113.7% | 127.0% | 120.0% |
| Expense Ratio | 4.3% | 4.1% | 4.1% | 5.0% |
| Combined Ratio | 105.9% | 117.8% | 131.1% | 125.0% |
| Net Investment Income Ratio | 44.5% | 37.6% | 32.1% | |
| Operating Ratio (Trade Ratio) | 61.4% | 80.2% | 99.0% | 100.0% |
| Operating Cashflow Ratio | 149.6% | 142.1% | 144.9% | 118.0% |
| Total Reserves to Net Assets | 86 to 1 | 7 to 1 | 7 to 1 | 7 to 1 |
| Investments to Loss Reserves | 78.1% | 90.9% | 90.6% | 110.0% |
| Equities to Net Assets | 10.82 to 1 | 1.18 to 1 | 1.14 to 1 | |
| Bonds to Net Assets | 54.7 to 1 | 5.2 to 1 | 4.7 to 1 | |
| Funding Ratio (State Insurance Fund) | 1.01 | | 1.18 | |

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

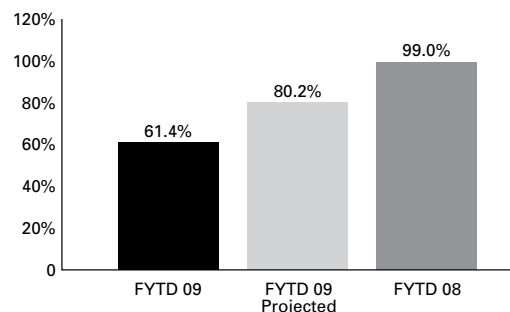
Combined Ratio



Investment Income Ratio

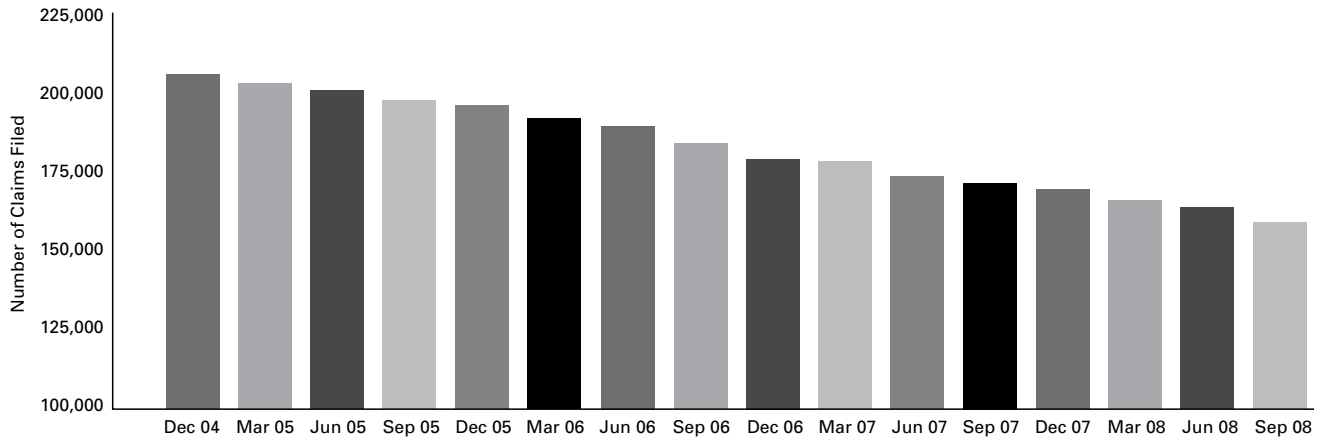


Operating Ratio

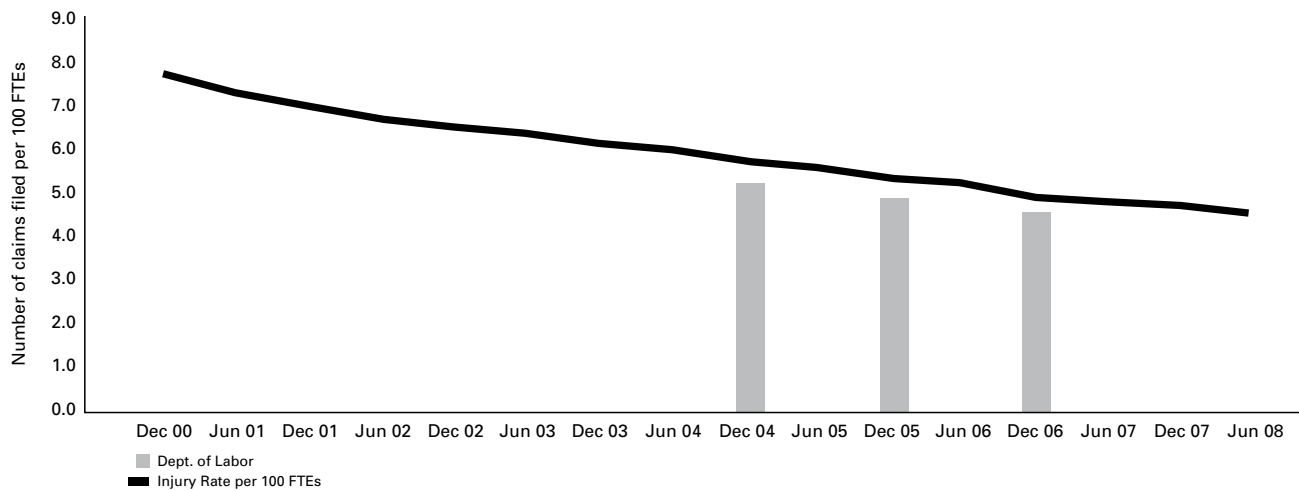


Operational Performance Metrics

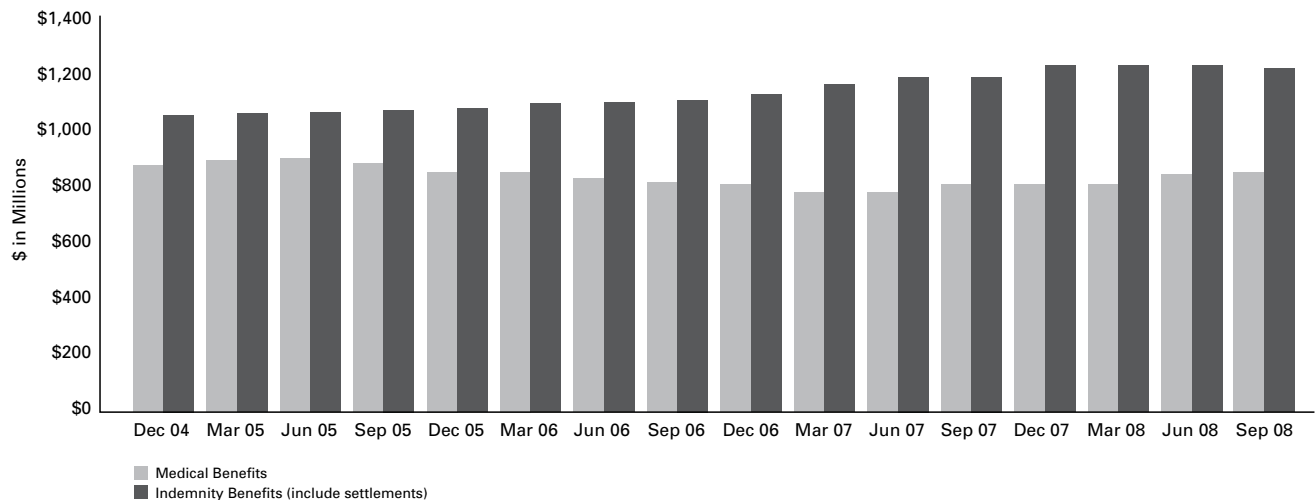
New Claims Filed - Twelve months ended



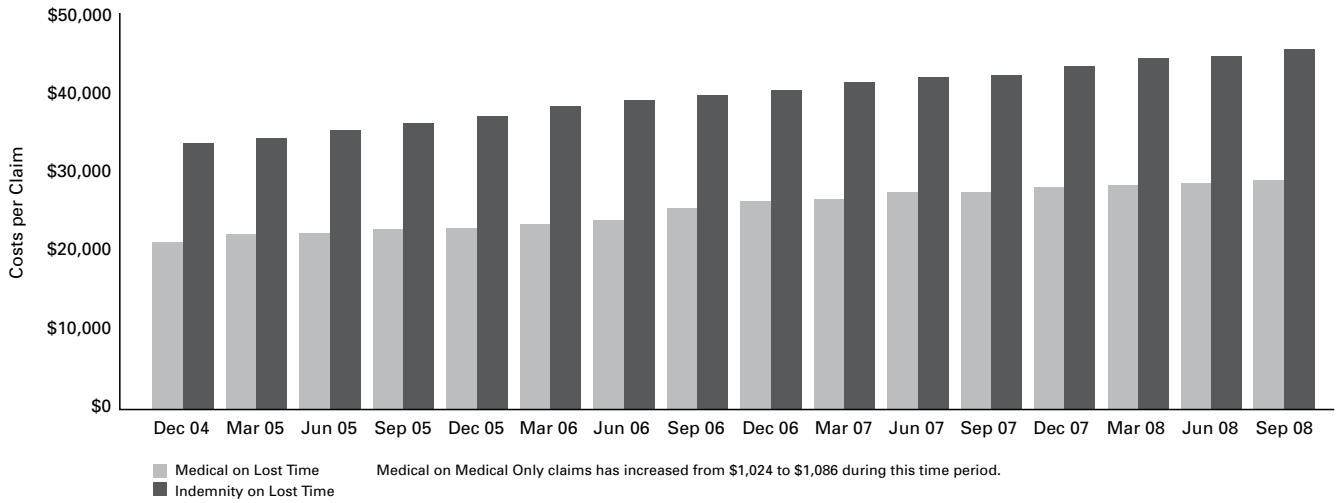
Frequency - Reported semi-annually



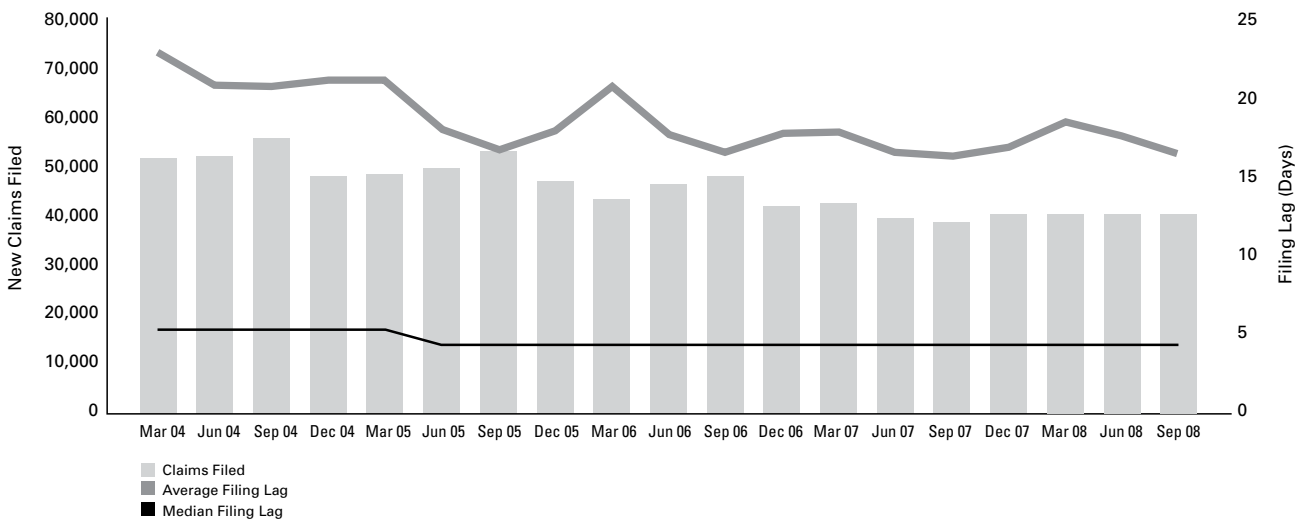
Benefit Payments - Twelve months ended



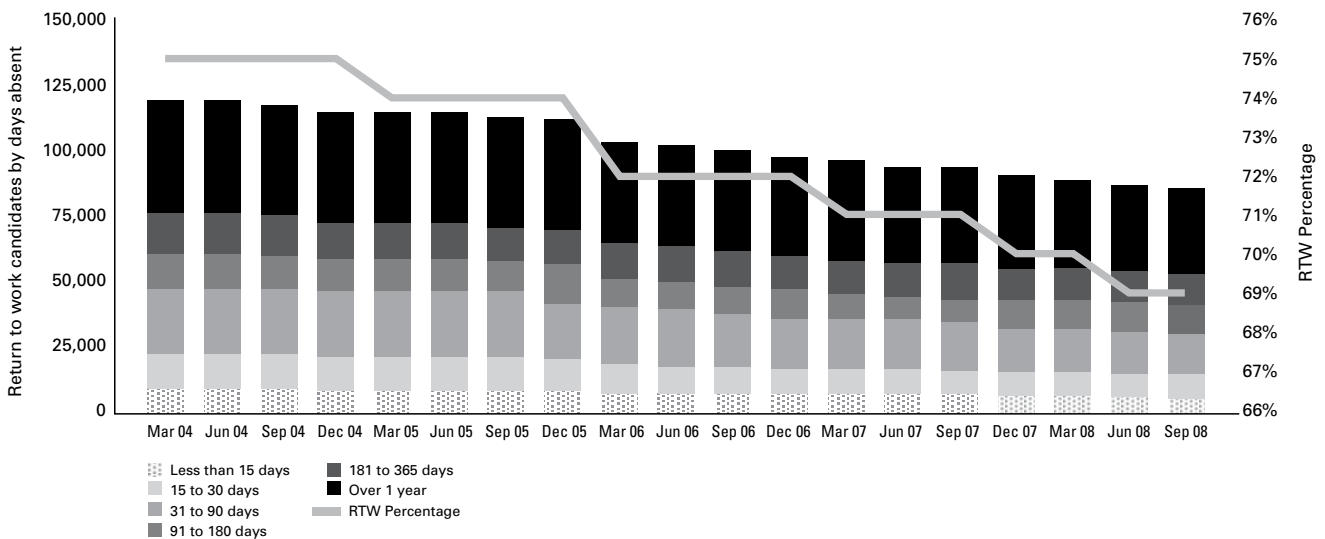
Severity



Claim Filing Lag



Return to work

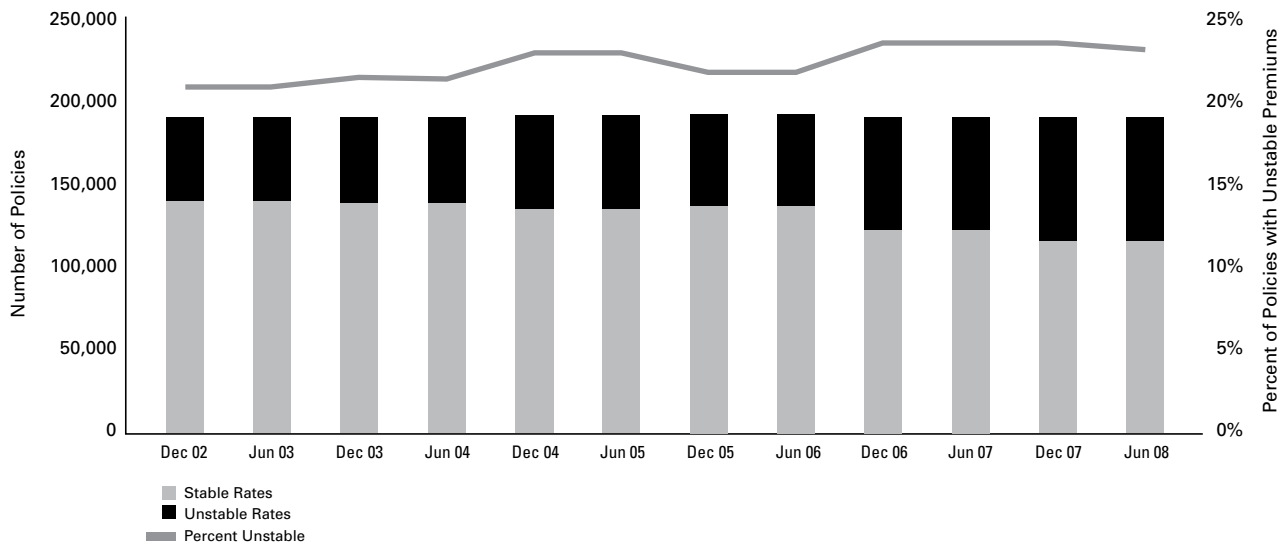


Aggregate Reported Payroll – Twelve Months Ending

| (\$ in millions) | Private | PEC | PES | Black Lung | Marine |
|------------------|----------|----------|---------|------------|--------|
| Dec 2002 | \$82,400 | \$17,611 | \$5,823 | \$64 | \$3 |
| Jun 2003 | \$83,090 | \$17,611 | \$5,924 | \$51 | \$4 |
| Dec 2003 | \$83,304 | \$18,022 | \$6,005 | \$59 | \$4 |
| Jun 2004 | \$83,741 | \$18,022 | \$6,076 | \$73 | \$3 |
| Dec 2004 | \$85,492 | \$18,545 | \$6,184 | \$84 | \$3 |
| Jun 2005 | \$86,530 | \$18,545 | \$6,266 | \$82 | \$4 |
| Dec 2005 | \$87,902 | \$18,594 | \$6,388 | \$87 | \$4 |
| Jun 2006 | \$90,414 | \$18,594 | \$6,524 | \$98 | \$5 |
| Dec 2006 | \$91,830 | \$18,946 | \$6,654 | \$98 | \$5 |
| Jun 2007 | \$93,636 | \$18,946 | \$6,788 | \$100 | \$4 |
| Dec 2007 | \$94,890 | \$19,427 | \$6,914 | \$107 | \$4 |
| Jun 2008 | \$95,027 | \$19,427 | \$7,032 | \$117 | \$5 |

PEC employers report payroll only once per year, while other employers report twice per year. Therefore, the same PEC payroll is presented twice in each fiscal year in the above table.

Premium Stability



Performance Metrics Glossary

Loss Ratio

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

LAE Ratio

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

Net Loss Ratio

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

Expense Ratio

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

Combined Ratio

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

Net Investment Income Ratio

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

Operating Ratio

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

Operating Cash Flow Ratio

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

Total Reserves to Net Assets

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

Investments to Loss Reserves

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

Equities to Net Assets

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

Bonds to Net Assets

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

Funding Ratio

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

New Claims Filed

Measures the number of new State Insurance Fund claims filed for rolling twelve month periods measured quarterly.

Frequency

Measures the number of injuries reported per 100 workers covered by the State Insurance Fund updated semi-annually.

Benefit Payments

Measures the dollar amount of medical and indemnity payments for rolling twelve month periods updated quarterly.

Severity

Measures the average cost of medical and indemnity expenses per lost time claim.

Claim Filing Lag

Measures the average and median number of days from the date of injury to the date of claim filing.

Return to Work Rates

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

Aggregate Reported Payroll

Measures reported payroll by employer type for a rolling twelve month period, updated semi-annually.

Premium Stability

Measures the number of employers whose premium rate changed more than 5 percent and total premium changed more than \$500 from the prior year.