Governor John R. Kasich
BWC Administrator/CEO Stephen Buehrer

Ohio Bureau of Workers' Compensation

Fiscal Year 2012 Report

Ohio Bureau of Workers' Compensation
Investment Report
Health Partnership Program
Safety & Hygiene
Industrial Commission of Ohio

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Administrator's letter

Dear Governor Kasich:

I am pleased to present the annual report of the Ohio Bureau of Workers' Compensation for Fiscal Year 2012 (FY12).

In FY12, we continued to be guided by the principles of service, simplicity and savings — better service to Ohio's businesses and workers, simplicity to all those navigating our system, and savings to Ohio's businesses so they can concentrate on growing Ohio's economy.

The purpose of those efforts is reflected in the mission statement we recently adopted: To protect Ohio's workers and employers through the prevention, care and management of workplace injuries and illnesses at fair rates. This mission speaks of our commitment to keeping Ohio workers safer on the job, helping injured workers quickly return to their lives at work and home, and keeping costs down for Ohio businesses.

I'm proud to say our employees continue to make tremendous progress delivering on these goals. Highlights of our FY12 efforts include:

- Holding private employer rates steady, repeating the $65 million estimated savings from the 4-percent average rate reduction announced in FY11;
- Saving public employers an estimated $22 million through a 5-percent average rate reduction;
- Creating the Grow Ohio program to promote business development in Ohio by giving money-saving options to new businesses. Nearly 19,500 new businesses saved 25 percent on their premiums and another 1,400 chose to save by joining the Group-Retrospective-Rating Program early;
- Helping all Ohio businesses through Destination: Excellence, a newly created 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' compensation costs;
- Achieving positive outcomes for injured workers by better managing their prescription medicines, and more effectively managing their claims and treatment process.

You will also see that during FY12, our administrative cost fund expenses were approximately $9.4 million less than appropriated and 1.1 percent less than last fiscal year to date. This ongoing commitment to more efficient operation has allowed us to reduce our FY12-13 budget by more than 12 percent over the last biennium, saving $83 million.

Looking forward, we will continue our commitment to Ohio's workers and businesses, and expand the prevention and care efforts embedded in our new mission. You can expect to see a strong focus on working with businesses to prevent workplace incidents, coupled with efforts to partner with our providers, managed care organizations, businesses and injured workers to improve the quality of care we provide.

Working together, prevention and care provide the foundation for strong, safe workplaces that protect Ohio's workers and contain costs for its employers.

Sincerely,

Stephen Buehrer, Administrator/CEO
Ohio Bureau of Workers' Compensation

Since 1912, Ohio's workers' compensation system has helped employers and employees cope with workplace injuries.

At BWC, we believe the more money we can save employers, the more capital they'll have to grow their businesses, helping spur economic growth in Ohio. During FY12, we continued to find ways to operate more efficiently. As of June 30, 2012, our administrative cost fund expenses were approximately $9.4 million less than apppropriated by the Ohio General Assembly and 1.1 percent less than last fiscal year to date. This ongoing commitment to more efficient operation has allowed us to reduce our FY12-13 budget by 12 percent over the last biennium, saving $83 million.

Now the largest state-fund insurance system in the nation, BWC provides insurance to 254,000 Ohio employers, not including self-insured employers. In FY12, we have approximately 1 million open claims, funded by assets totaling approximately $28 billion. Medical and indemnity compensation paid to injured workers totaled nearly $2 billion, and we received 112,613 new claims.

At BWC, we continue to look toward the future while meeting the needs and challenges of today's employers and Ohio's workforce. Always conscious of our responsibility to operate in the best interest of those who support and rely upon the State Insurance Fund and other specialty funds, we focus on three principles: **Service**, **Simplicity** and **Savings**.

Introduction

Adhering to the principles of service, simplicity and savings, BWC made great strides in achieving our goals in fiscal year 2012 (FY12). These include improving customer service, reducing bureaucracy and growing jobs.

For us, improving customer service means helping employers create safe workplaces to prevent on-the-job injuries. In addition, we seek better outcomes for injured workers, so they can quickly return to leading healthy, productive lives. Thus, during FY12, we concentrated on improving processes to help get the right treatment and prescription for the right injury at the right time. And we created new programs that help our stakeholders be part of the solution.

The quicker injured workers heal and get back to work, the more likely they will have a full recovery. Thanks to better claims management and programs like our new Destination: Excellence, Ohio's return-to-work rate climbed for the first time in 15 years.

Prevention and Care

Everything we do everyday ties back to two simple goals.

- Preventing injuries and occupational illnesses on the job
- Caring for injured workers so they can return to work and life as quickly as possible

Prevention

The best workers' compensation claim, of course, is the one that never happens. At BWC, we're deeply committed to keeping Ohio's workplaces safe and preventing on-the-job accidents, injuries and deaths. From training to on-site consulting services and from safety programs to grants, our Division of Safety & Hygiene (DSH) is here to help employers prevent workplace accidents and injuries. Safe workplaces are good for workers, employers and Ohio's economy. In the end, companies can save money and more importantly, save lives.

Care

It's also true that despite everyone's best efforts, injuries and illnesses can happen in any workplace, at any time. That's why we also focus on injured worker care to ensure the best outcomes and return-to-work success. Everybody wins when an injured worker returns to work from a workplace injury. Getting injured workers back to a productive life, at home and at work, requires a partnership between BWC, employers, managed care organizations (MCOs) and health-care providers.

Providing care and assistance in returning injured workers back to the workplace reduces costs and lowers premiums for employers, and helps businesses succeed. Most importantly, it returns structure and stability to the lives of those injured on the job. Quality care is good for workers, employers and Ohio's economy.

Accomplishments

Throughout FY12, we worked diligently to improve service to our customers — injured workers and employers. We improved our pharmacy management, and we reduced bureaucracy. In addition, we helped grow Ohio's economy by pursuing a strong investment policy, reduced base rates and kept premiums in check, and created a number of new programs to help grow jobs in Ohio.

Better pharmacy management

In FY12, we continued our efforts to ensure injured workers receive prescribed drugs that help, not hinder, their recovery. We followed up our introduction of a first ever drug formulary in FY11 by centralizing drug-utilization reviews and introducing a pharmacy-management program.

In addition, we undertook measures to improve the safety of medication prescribed to Ohioans recovering from workplace injuries. We also took steps to limit the practice of doctor and pharmacy shopping. Our lock-in program limits the dangers that can arise when multiple physicians prescribe medications, and different pharmacies process the prescriptions.

The program allows us, under certain circumstances, to restrict an injured worker to the use of a single pharmacy for non-emergency prescriptions. The injured worker selects the pharmacy from a list of eligible pharmacies. We also can restrict an injured worker convicted of a drug offense to the use of a single prescribing physician. The injured worker selects the physician from our list of BWC-certified physicians to receive reimbursement for non-emergency prescriptions.

The lock-in program is among several recent improvements made to our pharmacy benefits program. We also now require, with physician approval, generic medications when available. In addition, we established a Pharmacy and Therapeutics Committee. Comprised of practicing pharmacists and physicians, the committee advises BWC leadership on issues related to the use of medications prescribed to treat injured workers.

Among other improvements, we have:

- Initiated measures to ensure BWC only covers drugs related to the specific injury;
- Changed rules to prohibit decertified providers from prescribing drugs to injured workers;
- Made outpatient prescription formulary accessible via a mobile application available on any wireless communication device and Internet connected computers. The online reference system gives health-care professionals immediate access to the formulary at the point of care and helps to ensure prescription safety and accuracy. The application also is available to injured workers, employers and the general public.

Results have proved positive since introducing the formulary on Sept. 1, 2011. For example, we have seen:

- Current savings of $3.3 million since introducing the formulary, including $2.3 in FY12;
- A 12-percent reduction in narcotic prescriptions and a 58-percent reduction in skeletal muscle relaxants from February through April 2012.

Reducing bureaucracy

Bureaucracy can be frustrating and costly to businesses, providers and injured workers. That's why we've actively sought ways to reduce bureaucracy, speed processes and make life easier for our stakeholders.

It's settled

Sometimes settling a claim is in the best interest of both the injured worker and BWC. However, the process can be cumbersome and lengthy for both parties. During the past year, we've better defined good candidates for settlement, improved processes, given employees better tools for settling and erased the sizable backlog of pending settlements.

Online and on time

Employers who conduct business online and who pay their premium on time save BWC time and money. We think they should share those benefits too, so we created the Go-green and Lapse-free discounts in FY2012. Part of the new Destination: Excellence plan, each provides businesses with a 1-percent discount (up to $1,000 per discount) every six-month premium cycle for choosing to do their BWC business online and on time.

Growing jobs

Our philosophy is simple. The less Ohio employers have to spend on workers' comp premiums, the more money they have to invest in creating new jobs. Strong investment policies, innovative programs, cutting administrative costs and rooting out fraud have helped us reduce base rates and keep premiums in check.

Investments are up/premiums are down

Careful, conservative management of BWC investments resulted in an annual rate of return of 9.8 percent, as compared to 12.4 percent for FY11. These returns are above the assumed rate of 4 percent that we use to establish the discount for rating.

Also, during FY12, we:

- Reduced our administrative cost fund expenses by approximately $9.4 million than appropriated and 1.1 percent less than last fiscal year to date;

- Decreased our FY12-13 budget by more than 12 percent over the last biennium, saving $83 million;
- Lowered public employer base rates by 5 percent, saving governments an estimated $22 million over 2011 rates;
- Held policy year 2013 rates steady for private employers. This action replicates the $65 million annual savings from last year's 4-percent average rate reduction over 2011 rates;
- Reduced the amount of private employer premiums going toward expenses by 3 percent;
- Decreased Marine Industry Fund rates by 20 percent and kept the Coal Workers' Pneumoconiosis Fund rates stable. Rates became effective July 1, 2012.

Partnering with Business

We created a number of new programs to help grow jobs in Ohio and create safer and healthier workplaces.

- Grow Ohio lets new employers save as much as half off their first two years of premiums. New businesses can choose a flat 25-percent discount, or seek early entry into the Group-Rating Program, which can save them up to 53 percent.
- Destination: Excellence is a program package that rewards employers for keeping their workplaces safe and getting injured workers healthy and back to work sooner. Compatible with existing rating programs such as group-experience rating, Destination: Excellence is a cafeteria-style plan that lets employers choose from seven different options to help protect the health and well-being of workers while saving money on workers' comp costs. From discounts for paying premiums online and on time to focusing on safety hazards specific to their industry, Destination: Excellence has something for everyone.
- Businesses play a critical role in protecting workers and getting the injured back on the job. Destination: Excellence rewards employer efforts to transition injured workers back into their jobs and, since the best injury is the one that never happens, creating safer workplaces. Nearly 5,000 employers signed up for at least one aspect of this cafeteria-style plan.
- Transitional Work Grants offers 3-to-1 matching grants that employers can use to develop and implement a transitional work program to help return injured workers back to the workplace;
- The Transitional Work Bonus Program provides a back-end bonus of up to 10 percent of the employer's pure premium based on the use of an approved transitional work plan to help injured workers return to work in a safe, timely manner. It's available to eligible state-fund private employers and public employer taxing districts.
- The Workplace Wellness Grant Program provides $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 such as obesity and chronic disease, as well as an aging workforce — all factors that contribute to workplace injuries and slow the recovery of injured workers.

Other actions to help grow jobs

We initiated pilots to improve the claims-management process by helping us understand which claims are most likely to become complex and identifying exactly the right point at which to introduce vocational rehabilitation and/or transitional work plans.

In addition, we established the first annual Safety Innovations Award competition recognizing Ohio companies that excel in introducing safety innovations to increase awareness and encourage employers to make keeping their workers safe and healthy on the job a top priority. We also increased funding that supports Ohio's 80 safety councils by 10 percent. Safety councils work to increase safety awareness in the workplace and educate businesses on occupational safety and health issues.

Fraud Efforts Pay Off

Our special investigations department (SID) made significant gains in the fight against workers' comp fraud and abuse during FY12. The department identified more than $59 million in savings and closed 2,046 cases of which it proved the original allegation in 976 (47.7 percent) of the cases. Of these 976 cases, SID referred 251 (25.7) percent for prosecution. It obtained 152 indictments, a 9-percent increase over FY11 and 123 convictions. The average founded closed case in FY12 identified $60,833 in savings for the Ohio workers' compensation system.

During FY12, our SID continued to focus on prescription drug fraud and abuse, and remained active members of the Governor's Cabinet Opiate Action Team. Of the complaints the department investigated, 26.9 percent related to drug complaints. We made several administrative changes to attack the issue.

SID also continued to identify areas of potential abuse and worked with various BWC business units to close the gap and reduce risk. As SID worked to identify trends within the system, drug cases, working while receiving benefits and employer complaints continued to be the three top investigated complaints.

We also broadened the focus of our investigations to all types of fraud.

- We made our first-ever attempt to close a non-compliant business through an injunction.
- We decertified one of the state's most prolific providers for inappropriately prescribing narcotics.

The department also kept pace with technology during FY12. SID increased staffing in its digital forensics unit, pursued social media for both investigations and promoting fraud awareness, and launched its Facebook and Twitter accounts.

Infrastructure Improvements

In FY 12, BWC officially kicked off a major project to assess our core business systems. These are the primary computer applications our employees use every day to deliver workers' comp services to our customers.

We took this action because our current claims, policy and billing systems needed work.

- Parts of the systems are not easy to use.
- The systems don't support some work processes.
- The systems don't share enough information with one another.
- Some people need additional reports that aren't available.
- Some systems have occasional speed and downtime problems.
- Some systems are expensive to run.

The project kicked off in March 2011 and included:

- An assessment of our core claims, policy and billing systems and processes;
- Identification of our desired future state (i.e., how we want our core systems and processes to work so we can better support our customers);
- A gap analysis to identify what systems and/or processes we need to change to get to that future state.

These steps resulted in business case recommendations and a roadmap to achieve the desired future state. The recommendations called for us to purchase a commercial off-the-shelf software package to replace our outdated core systems applications.

BWC Leadership

Board of Directors

To keep us on track to ensure we meet our goals, the BWC Board of Directors oversees our operations. The 11-member board provides professional expertise, accountability and transparency, and a broad representation of BWC's customers. The board also includes members with expertise in financial accounting, investments and securities, and actuarial management.

Administrator/CEO

Steve Buehrer has served as Administrator/CEO of the Ohio Bureau of Workers' Compensation since January 2011. Buehrer has extensive experience with workers' compensation, previously serving as BWC's chief of human resources, and as chairman of the State Senate Insurance, Commerce and Labor Committee, which oversaw all workers' compensation legislation. He's an attorney who represented the citizens of northwest Ohio for a dozen years, first as a state representative, and most recently, as a state senator. His focus has been listening to employees and stakeholders, and looking for ways to improve efficiency, particularly as it relates to containing rising medical costs and getting injured workers healthy and back to work sooner.

BWC Year-End Statistics

	FY 2012	FY 2011	FY 2010
State-fund claims filed			
Lost time	12,130	13,404	13,296
Medical only	87,943	90,132	89,505
Occupational disease	920	1,130	1,112
Death	172	169	238
Disallowed or dismissed	11,448	11,543	11,891
Total	112,613	116,378	116,042
Net allowed injuries	101,165	104,835	104,151

NOTE: 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.

	FY 2012	FY 2011	FY 2010
Open claims (per statute)			
Lost time	374,482	366,142	386,503
Medical only	695,574	763,731	834,799
Total	1,070,056	1,129,873	1,221,302

	FY 2012	FY 2011	FY 2010
Benefits paid			
Medical benefits paid	$748,851,329	$778,853,015	$800,805,344
Compensation paid			
Wage loss	$20,027,409	$21,397,029	$21,352,353
Temporary total	268,918,187	273,321,156	267,470,408
Temporary partial	17,049	29,326	56,996
Permanent partial	20,990,997	21,033,715	20,353,634
% Permanent partial	68,938,435	70,258,487	79,543,300
Lump sum settlement	149,216,151	115,918,814	151,257,527
Lump sum advancement	29,282,177	30,191,113	21,772,977
Permanent total and DWRF	389,656,231	383,895,419	386,973,795
Death	83,307,500	82,884,488	82,894,164
Rehabilitation	41,644,211	46,989,884	47,821,615
Other	6,700,579	7,851,564	6,084,179
Total compensation paid	$1,078,698,926	$1,053,770,995	$1,085,580,948
Total benefits paid	$1,827,550,255	$1,832,624,010	$1,886,386,292

BWC Year-End Statistics

	FY 2012	FY 2011	FY 2010
Fraud statistics			
Fraud dollars identified	$59,373,483	$58,155,950	$66,184,460
$$$ saved to $$$ spent ratio	5.61 to 1	5.41 to 1	6.30 to 1
Prosecution referrals	251	245	240
Active employers by type			
Private	249,668	250,432	251,009
Public (local)	3,801	3,802	3,790
Public (state)	122	125	124
Self-insured	1,196	1,203	1,202
Black Lung	35	39	37
Marine fund	132	120	106
Total	254,954 -	255,721 -	256,268
BWC personnel	1,939	2,064	2,262
MCO fees paid	$168,403,331	$166,960,072	$165,187,219

	FY 2012	FY 2011	FY 2010
Operating revenues			
Premium and assessment Income, net of provision for uncollectibles and ceded premiums	$1,944,478	$1,935,180	$2,118,421
Other income	14,115	14,989	15,018
Total operating revenues	$1,958,593	$1,950,169	$2,133,439
Non-operating revenues			
Net investment earnings	$720,210	$764,746	$715,387
Increase (decrease) in fair value	1,323,434	1,599,613	1,334,234
Net investment income (loss)	$2,043,644	$2,364,359	$2,049,621
Total BWC assets	$28,016,507	$26,100,706	$24,095,908
Total Net assets	$7,817,739	$5,772,002	$3,825,079

Investment Class Annual Report Comments

Background

The U.S. economy continued to strengthen in fiscal year 2012 ended June 30, 2012, sustaining a third year of recovery following the financial shocks and recessionary period of fiscal year 2009. However, real Gross Domestic Product growth being barely in excess of 2% annualized growth for fiscal year 2012 was disappointing and reflected the continuation from fiscal year 2011 of high unemployment, weak job growth, poor wage growth, a choppy housing market and the continued fiscal drag of federal, state and local government budget cuts. The continuing struggles of the Eurozone, bordering on periodic crises in keeping the Eurozone intact, created tremendous investor uncertainty and anxiety and was a constant headwind to sustainable higher global economic growth. With fiscal policy gridlock being prevalent in the U.S. with the presidential and congressional elections looming, the Federal Reserve Bank had no choice but to continue its aggressive monetary accommodation policy through large purchases of U.S. Treasury debt and maintaining short-term interest rates near zero to prevent the U.S. economy from sliding back into recession. Inflation remained very subdued in fiscal year 2012 with the annualized year-over-year growth in the Consumer Price Index being only +1.7%. The financial condition and balance sheets of many U.S. companies and large multinational companies nevertheless have continued to get ever stronger due to skillful management practices, high worker productivity and low cost of capital with historically low borrowing rates.

The investment portfolio of the Bureau had its third consecutive strong year of performance in fiscal year 2012 with a total return of 9.8% (net of investment management fees). This performance follows double-digit net portfolio returns of 12.4% in fiscal year 2011 and 12.0% in fiscal year 2010. BWC total bond returns and particularly total equity returns fluctuated widely over the course of fiscal year 2012, with events in Europe involving the continuing fiscal and economic challenges facing European nations as well as in the U.S. (especially in the aftermath of the U.S. credit rating downgrade by Standard & Poor's in August 2011) having a significant impact on investor attitudes. Although monthly returns of portfolio equities versus portfolio bonds of the Bureau moved in opposite directions (one positive and one negative) for seven of the 12 months of fiscal year 2012, all important portfolio asset classes had positive returns for the full fiscal year except for non-US equities. The BWC bond portfolio provided an exceptional annual net return of 15.6% and the equity portfolio had a modest negative return of 2.0%. Most of the bond portfolio return was comprised of net realized/unrealized gains as investment grade bond interest rate levels declined materially as a result of the very accommodative monetary policy of the U.S. Federal Reserve.

The BWC investment staff in fiscal year 2012 carefully planned and supervised the implementation and transition of the first two active asset management initiatives for the State Insurance Fund (SIF) previously recommended by the BWC Chief Investment Officer (CIO) and approved by the BWC Board of Directors in fiscal year 2011. The first of these initiatives was $200 million or approximately 1% of SIF investment assets directed towards minority-owned and/or women-owned (MWBE) investment management firms. Two Manager-of-Manager (MoM) MWBE firms were selected from a thorough competitive Request for Proposals (RFP) process to oversee this investment program. These two MWBE MoM firms were provided $100 million each to be allocated among individual MWBE investment managers chosen by each MoM firm. The two MWBE MoM firms chose an initial combined 15 different MWBE managers, approved by the CIO and BWC director of investments, to invest SIF assets in specified approved U.S. equity classes with the goal of achieving above benchmark returns. These specified assigned U.S. equity mandates given to each MWBE manager are each part of the broad All Cap Russell 3000 U.S. equity benchmark index approved by the Board for this program. The initial funding of each of the 15 MWBE investment managers in the final chosen manager line-up for each of the MoM firms occurred at the end of March 2012. The proceeds for this initial active management U.S. equity mandate were funded from a $200 million redemption of the passive managed All Cap Russell 3000 indexed U.S. equity mandate.

The second active investment management strategy completed in fiscal year 2012 involved a targeted 20%

of SIF portfolio assets allocated to active management of long duration credit fixed income assets. The Investment Division oversaw a large transition management program involving $4.6 billion in market value of SIF assets transferred from both legacy manager passive long credit fixed income accounts to a long credit transition account in April 2012. A total of $4.605 billion market value of bonds and a small cash balance were subsequently transferred to six new Board approved active manager long credit fixed income separate accounts in late May 2012 after all requisite purchases/sales of assets by the BWC assigned transition manager were completed. These assets transferred represented virtually all bond assets identified for purchase by the six new managers. These six approved long credit investment managers selected were the result of a rigorous RFP search process conducted by the CIO and director of investments with assistance from BWC investment consultant firm R.V. Kuhns & Associates (RVK). A total of $60 million in cash raised from the subsequent sale of most of the residual bond assets not wanted by the new managers was transferred out of the long credit transition account and reinvested in late June 2012 in the non-U.S. equity commingled account portfolio. A remaining $16.8 million raised from the final completion of the sale of all remaining residual bond assets in the SIF long credit transition account was also reinvested in the non-U.S. equity commingled account portfolio in early August 2012.

After discussions and education involving both the CIO and investment consultant RVK and its Real Estate Consulting group of experienced real estate consulting professionals, the Investment Committee and Board of Directors approved a 6% allocation towards real estate for the SIF portfolio at their respective August 2011 meetings. This allocation is directed towards U.S. concentrated private real estate funds divided between a targeted 4.5% allocation to private open-end core commingled funds and a targeted 1.5% allocation to private closed-end value-added commingled funds. The CIO received approval by the Investment Committee and Board at their September 2011 meetings to issue an RFP for a core private real estate funds search. This extensive RFP search and evaluation was completed in August 2012 and eight different core real estate funds were recommended and approved by the Investment Committee and Board of Directors at their September 2012 meetings. An initial allocation totaling $950 million or approximately 4.5% of SIF assets to be divided among these eight funds is expected to be largely funded between December 2012 and July 2013. The total SIF 6% allocation towards real estate commingled funds will be funded sequentially, with the first 3% real estate allocation to be funded from indexed long duration U.S. government bonds and the remaining 3% real estate allocation to be funded from indexed U.S. Treasury inflation-protected securities (TIPS).

After discussion and education, the Investment Committee and Board of Directors approved in January 2012 a targeted 7.0% SIF asset allocation towards actively managed U.S. mid-cap and U.S. small-cap equities segmented into five separate concentrated U.S. equity mandates as follows: 2.0% mid-cap value; 2.0% mid-cap growth; 1.5% mid-cap core; 0.75% small-cap value; 0.75% small-cap growth. The Investment Division received approval by the Investment Committee and Board at their respective February 2012 meetings to issue an RFP involving each of these five separate actively managed mandates. This RFP was subsequently issued and bid proposals were received in June 2012. These bid proposals are being evaluated and according to the internal timeline set by the Investment Division, finalist candidates for each of these five mandates are scheduled to be identified and subsequently recommended for approval at the April-June 2013 meetings of the Investment Committee and Board.

There are scheduled education sessions at upcoming Investment Committee meetings in fiscal year 2013 on active management of both U.S. Aggregate index fixed income assets and non-U.S. equity assets for the SIF portfolio. These education sessions will be led by the RVK investment consulting team servicing BWC with appropriate involvement by the CIO and director of investments. These two asset classes have previously been recommended for active management in part for the SIF portfolio by the CIO.

Compliance

The investment portfolios were in compliance with the BWC Investment Policy at the end of each of the months of fiscal year 2012. All asset class allocations for each of the six trust fund portfolios ended each quarter of fiscal year 2012 within their respective target ranges.

Valuation and Performance

As reflected in column A and B of the table provided at the end of this Annual Report, total investment assets at fair value held by the Bureau were $22,874 million on June 30, 2012 which represented an increase of $1,818 million when compared to $21,056 million on June 30, 2011. SIF invested assets were $21,020 million at fair value on June 30, 2012, which represented 91.9% of total Bureau invested assets at fiscal year-end 2012. As stated earlier, the total rate of return on invested assets of the Bureau for fiscal year 2012, which ended June 30, 2012, was 9.8% net of management fees. Net investment income reported for fiscal year 2012 was $2,044 million, comprised of $729 million in interest and dividend income ($637 million interest income; $92 million dividend income) plus $1,324 million appreciation in fair value of investments less $8.7 million in investment expenses, including $7.1 million in investment manager fees. The investment manager fees for fiscal year 2012 represented an annual fee of less than 4 basis points (4/100 of 1%) of total average month-end market value of bond and equity assets.

The asset allocation mix of the Bureau investment portfolio at fair value on June 30, 2012 was 68.9% bonds, 29.2% equities and 1.9% cash and equivalents. This asset mix compares to 66.2% bonds, 32.1% equities and 1.7% cash and cash equivalents on June 30, 2011. The increase in allocation to bonds and decrease to equities at the end of fiscal year 2012 compared to fiscal year 2011 was attributable to the strong performance in bonds compared to equities. Despite the asset class volatility that occurred in the Bureau portfolio over fiscal year 2012, there were no quarterly rebalancing events required in the fiscal year prompted by one or more specific bond or equity asset classes falling outside their specific defined asset allocation ownership target ranges per the investment policy statement.

Portfolio asset redemptions for cash required to fund Bureau operations totaled $271 million in fiscal year 2012, involving $250 million for SIF, $18 million for the Disabled Workers' Relief Fund (DWRF) and $3 million for the Coal Workers' Pneumoconiosis Fund (CWPF). As shown in Column E of the attached table, all $271 million of cash redemptions to fund operational needs came from the respective TIPS portfolios of each of the three funds. These asset class redemption decisions were made by the CIO based on the high valuation of TIPS securities and their associated low interest income earned.

Columns D, E, and F of the table provided at the end of this Annual Report summarize the asset class transfer activity occurring over fiscal year 2012. These activities are important to highlight because they had a material impact on the respective fair value levels of both bond and equity portfolios over the course of fiscal year 2012. In addition to the asset class redemption activity drawing down the TIPS portfolios by $271 million to fund operations, the large SIF long credit transition activity over the April-June, 2012 quarter that funded the six active long credit investment managers resulted in $60 million of sale proceeds of residual long duration bonds being reinvested in the SIF non-U.S. equity commingled portfolio. The SIF non-U.S. equity portfolio was targeted for reinvesting these residual asset bond sale proceeds by the Investment Division because that asset class was the most under-allocated asset class to its target asset allocation of all SIF asset classes.

The total fair value of the bond portfolio of the Bureau was $15,752 million on June 30, 2012 compared to $13,947 million on June 30, 2011, representing an increase of $1,805 million. The bond portfolio had net outflows totaling $331 million during fiscal year 2012 resulting from a combination of $271 million of TIPS sales to fund operations, with $250 million involving the SIF portfolio and $21 million involving specialty funds, and $60 million from SIF transition activity redirected to non-U.S. equities. Adjusted for these net bond sale outflows, the fair value change of the bond portfolio of the Bureau in fiscal year 2012 was a $2,136 million increase, which represented a total rate of return of 15.6% for the fiscal year. The non-TIPS bond portfolio had a total return of 17.0% and the U.S. TIPS portfolio had a total return of 11.8% in fiscal year 2012.

The bond portfolio of the Bureau in fiscal year 2012 earned $637 million in interest income and had $1,549 million in net realized/unrealized capital gains that resulted from interest rate levels moving materially lower over this fiscal year period. The weighted average yield-to-maturity on the Barclays long duration U.S. government bond benchmark index and Barclays long duration U.S. credit benchmark index declined from 4.15% and 5.76%, respectively, on June 30, 2011 to 2.55% (yield down 1.60%) and 4.69% (yield down 1.07%), respectively, on June 30, 2012. These two Barclays indexes serve as the two benchmark indexes for the SIF long duration bond portfolios, which comprised 40% of total SIF invested assets at market value at fiscal year-end 2012. The yield of the broad all-maturity Barclays U.S. Aggregate bond index serving as an important benchmark index for SIF, DWRF and CWPF bond portfolios declined from 2.83% on June 30, 2011 to 1.98% (down 0.85%) on June 30, 2012. These significant yield declines of the BWC bond portfolios powered net realized/unrealized gains of $1.55 billion reported for fiscal year 2012.

The bond portfolio of the Bureau maintained a high average quality of "AA" over the fiscal year 2012 with slightly over 50% of the fair value of the bonds held on June 30, 2012 being U.S. government issues of "AAA" or "AA" (by Standard & Poor's notable downgrade in August 2011) quality. The weighted average effective duration of the bond portfolio of the Bureau on June 30, 2012 was 10.0 years, based on individual asset class duration calculations of the Bureau's investment accounting vendor as represented in the fiscal year 2012 audited financial statement of the Bureau.

The total fair value of the equities portfolio of the Bureau was $6,681 million on June 30, 2012, a slight decline of $81 million from $6,762 million on June 30, 2011. Since there was an inflow of $60 million to the non-U.S. equities portfolio from a previously described bond transition discretionary action, the adjusted fair value decline in the total equities portfolio was $141 million for fiscal year 2012. The total return of the equities portfolio of the Bureau was a negative 2.0% for fiscal year 2012. The total fair value of the U.S. equities portfolio was $4,802 million on June 30, 2012, an increase of $168 million compared to fair value of $4,634 million on June 30, 2011. The U.S. equities portfolio had a positive total return of 3.7% for fiscal year 2012.

The total fair value of the non-U.S. equities portfolio was $1,879 million on June 30, 2012, a decrease of $249 million in fair value compared to $2,128 million on June 30, 2011. Since there was as inflow of $60 million to this portfolio in late June 2012 from a discretionary action involving reinvesting proceeds from transition activity related residual bond sales, the adjusted fair value decline in the non-U.S. equities portfolio was $309 million for fiscal year 2012. The non-U.S. equities portfolio of the Bureau had a total rate of return of -14.6% for fiscal year 2012.

Total cash and cash equivalents of the Bureau had a fair value of $441 million on June 30, 2012 compared to $346 million on June 30, 2011. The Bureau utilized an institutional U.S. government money market fund offered by its custodian bank (JPMorgan Chase Bank) throughout fiscal year 2012 to earn interest income on its short-term invested assets. Short-term yields on money market investments remained extremely low throughout the fiscal year as the Federal Reserve Bank kept the targeted federal funds rate between 0% and 0.25% and had a very accommodative monetary policy with low interest rates to encourage and support U.S. economic growth. The total rate of return earned by the Bureau on its cash and cash-equivalent assets was a very low 0.01% for fiscal year 2012.

Portfolio Interest Rate Sensitivity

The BWC investment consulting firm R.V. Kuhns recently completed an updated State Insurance Fund fixed income portfolio sensitivity analysis based on the market value levels of the SIF portfolio as of July 31, 2012. This sensitivity analysis examined estimated changes in the aggregate market values of the SIF fixed income portfolio for given hypothetical increases in interest rate levels.

Since the SIF portfolio had an estimated effective duration overall of about 11 years (actual weighted average 10.9 years) on July 31, 2012, as consistent with the estimated duration of SIF total liabilities and the SIF stated investment policy, its portfolio market value is quite sensitive to movements in interest rate levels in both directions. It is also a mathematical fact that as interest rate levels or yields decline on long duration bonds, the duration of these bonds is extended or increased making such bonds even more sensitive to further relative price movement changes.

The following are some observations made from the RVK fixed income sensitivity analysis on the July 31, 2012, SIF fixed income portfolio. These observations are based on defined interest rate movements over a one-year (12 month) time frame across the entire yield curve from 0 year to 30+ year maturities.

If interest rate levels remain unchanged, the total SIF fixed income portfolio could earn a return of +3.6%, resulting in an increase in market value of approximately $550 million.

If interest rate levels increase by +0.50%, the total SIF fixed income portfolio could decline in value by -1.6%, resulting in a decrease in market value of approximately $250 million.

If interest rate levels increase by +1.00%, the total SIF fixed income portfolio could decline in value by -6.4%, resulting in a decrease in market value of approximately $975 million.

If interest rate levels increase by +2.00%, the total SIF fixed income portfolio could decline in value by -14.5%, resulting in a decrease in market value of approximately $2.2 billion.

Summary Table

As referenced throughout this Annual Report, the table that follows provides a summary of asset class valuation, asset class sales to fund operations, fund transfers from SIF asset class transition activity, and performance returns for fiscal year 2012.

	(A)	(B)	(C)	(D)	(E)	(F)	(G)	
($millions) **Asset Class**	Fair Value 6/30/12	Fair Value 6/30/11	Actual Fair Value Change	Net From Portfolio Transitions	Net For Operations Fundings	Total Inflow/ (Outflow)	Adjusted Fair Value Change	**FY 2012 Annual Return**
Bonds ex U.S. TIPS	$ 11,725	$ 10,093	$ 1,632	$ (60)	$ 0	$ (60)	$ 1,692	+ 17.0%
U.S. TIPS	4,027	3,854	173		(271)	(271)	444	+ 11.8%
Total Bonds	15,752	13,947	1,805	(60)	(271)	(331)	2,136	**+ 15.6%**
U.S. Equities	4,802	4,634	168				168	+ 3.7%
Non-U.S. Equities	1,879	2,128	(249)	60		60	(309)	- 14.6%
Total Public Equities	6,681	6,762	(81)	60		60	(141)	**- 2.0%**
Miscellaneous	0	1	(1)				(1)	
Cash & Equivalents	441	346	95	0	271	271	(176)	0.0%
Net Change				0	0	0	1,818	**+9.8%**
Total Invested Assets	$22,874	$21,056	$ 1,818					**+9.8%**

Outcomes and Savings of the Health Partnership Program

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The Health Partnership Program

The Health Partnership Program (HPP) has been BWC's system for providing managed care services since its implementation in March 1997. Per Ohio Revised Code (ORC) 4121.44 (H)(3), BWC is required to publish a report on the measures of outcomes and savings of the HPP. It must submit the report to the president of the Senate, the speaker of the House of Representatives, the governor and the Workers' Compensation Council with the Annual Report prepared under division (F)(3) of section 4121.12 of the ORC. BWC's chief of medical services and compliance directs the program. The Medical Services Division coordinates BWC's health-care services through a network of providers and managed care organizations (MCOs).

How HPP works

BWC determines compensability and pays indemnity benefits. It contracts with MCOs to provide total management of the medical component of workers' compensation claims. MCOs provide effective case management of claims, which includes educating employers and injured workers on HPP. They also process *First Report of an Injury, Occupational Disease or Death* (FROI) reports. In addition, MCOs help employers establish transitional/early return-to-work programs. Finally, MCOs process medical bills and make provider payments.

BWC monitors MCOs' managed care performance. For example, it measures the effectiveness of the MCOs' return-to-work efforts using the Measurement of Disability (MoD) metric. BWC also measures MCOs' FROI timing, FROI data accuracy, bill timing and bill data accuracy. In addition, it publishes most of these measures in an annual MCO Report Card, which is available on ohiobwc.com. BWC encourages employers to view this report before selecting an MCO. There are currently 17 certified MCOs.

BWC Medical Services objectives

BWC strives to ensure prompt, quality, cost-effective health care for injured workers to facilitate their early, safe, and sustained return to work and quality of life. Its Medical Services and Compliance Division coordinates health-care delivery through BWC's network of certified providers and MCOs. It does this by using management, pricing and payment strategies that benefit injured workers and employers. At the same time, it makes sure these benefits are related to the workers' compensation injury(ies).

The division's specific responsibilities are to:

- Develop, maintain and execute quality and cost-effective medical, vocational rehabilitation and pharmaceutical benefits plans and associated fee schedules;
- Develop and support the appropriate managed-care processes, including contract management and training;
- Establish and maintain a quality pool of medical and vocational service providers to make certain injured workers have access to quality, cost-effective and timely care;
- Appropriately execute on and support the development of medical and vocational policies, rules and training to direct handling of medical-related issues of claims from inception to resolution;
- Evaluate and process medical bills, guaranteeing proper and timely payment consistent with benefits plan criteria.

The division has made progress on many of the initiatives it has undertaken to support existing divisional and BWC enterprise goals. This report includes updates on the status of the initiatives.

- Update BWC's fee schedule every one to two years.
- Replace the MCO outcome measure, Degree of Disability Management (DoDM).
- Analyze claims cost drivers and improve management to address these issues.
- Implement initiatives to reduce processing delays.

Benefits plan design

Prompt, effective medical care makes a big difference for those injured on the job. It is often the key to a quicker recovery, timely return-to-work and quality of life for injured workers. Maintaining the right benefit plan design and service level reimbursement also ensures access to quality, cost-effective service. Access for injured workers means the availability of appropriate treatment, which facilitates faster recovery and a prompt, safe return to work. For employers, it also means the availability of appropriate, cost-effective treatment provided on the basis of medical necessity.

Implementing a sound and effective provider fee schedule is a critical component of the Medical Services and Compliance Division's goals. Pursuant to required rules and law, and to ensure injured workers have access to quality care, BWC must establish discounted yet competitive fee schedules. BWC annually reimburses more than 28,000 providers for medical and vocational services rendered to Ohio's injured workers. An equitable and competitive fee for the right medical service is essential to maintain a quality provider network across the wide range of necessary provider disciplines.

BWC has continued to improve its medical, vocational rehabilitation and pharmaceutical services offerings Currently, BWC reviews all fee schedules annually. Below is a summary of the fee schedule updates in place or planned for calendar years 2012 and 2013.

Fee schedule	Effective date	Update summary for current fee schedule
Medical providers and services: Covers all medical providers and medical services not covered by any of the other schedules	Effective: Jan. 1, 2012 Next Update: Jan. 1, 2013	Update to Medicare's 2011 Relative Value Units (RVUs) and adjust the conversion factors used to determine the final fees to maintain BWC's current percent of Medicare reimbursement levels (OAC 4123-6-8)
Hospital inpatient: Covers facilities for inpatient services	Effective: Feb. 1, 2012 Next Update: Feb. 1, 2013	Update to the Medicare Severity-Diagnosis Related Grouping to the 2011 federal fiscal year values and change the payment for Medicare exempt providers to use Medicare cost-to-charge ratios instead of those reported to ODJFS (OAC 4123-6-37.1)
Hospital outpatient: Covers facilities for outpatient services	Effective: April 1, 2012 Next Update: April 1, 2013	Update to implement the 2012 Medicare annual OPPS updates (OAC 4123-6-37.2)
Ambulatory surgical centers (ASC): Covers surgical procedures not requiring inpatient hospitalization	Effective: April 1, 2012 Next Update: April 1, 2013	Update ASC payment rates to the 2012 ASC PPS Medicare rates and include a 110 percent adjustment factor for designated pain management procedures. (OAC 4123-6-37.3)
Vocational rehabilitation services: Covers all vocational rehabilitation services	Effective: Oct.1, 2012 Next Update: Oct. 1, 2013	Update rates (an overall 1.53 percent increase) and delete/add custom service codes as needed (OAC 4123-18-09)

Additionally, to address services and supplies never covered by the above fee schedules, the division introduced, and the BWC Board of Directors passed, the new rule: OAC 4123-6-07 *Services and supplies never covered*. A limited number of services and supplies have been determined to not be a part of the workers' compensation benefit plan, and thus, not reimbursable. This rule, at the time of publication of this report, was with the Joint Committee on Agency Rules Review (JCARR).

BWC's pharmacy department via OAC 4123-6-21.3 implemented a formulary for prescription drugs that became effective Sept. 1, 2011. In the ensuing 12 months the agency has experienced:

- A 58-percent reduction in prescriptions for skeletal muscle relaxants;
- A 12-percent decline in prescriptions for narcotics;
- A 6.5 percent reduction in prescriptions per injured worker;
- A projected $12 million reduction in calendar year 2012 total prescription costs.

The management of BWC's drug utilization review (DUR) program was centralized under the pharmacy department in January 2012. Although centralized, the program does operate in concert with each of the MCOs as they execute their service utilization and review charge. Under the revised DUR program, MCOs now choose claims for review using clinically based selection criteria. This change brought agency wide standardization to the process as well as a consistent response to appeals and motions from injured workers. This new process has been another driver of the reduction in narcotics usage noted above.

OAC 4123-6-21.4 created a pharmacy coordinated services program (pharmacy lock-in program). Under this new rule, effective June 1, 2012, BWC addresses issues of potential prescription shopping and misuse. It does this through the creation of a single home pharmacy for an injured worker's prescription services. When fully implemented, this program should improve medication utilization for 250 to 300 injured workers.

In addition, the pharmacy department is working with the University of Toledo to develop and initiate a project for a pharmacy-based medication therapy management (MTM) program directed at treatment of acute and chronic pain. The intent of this project is to demonstrate the effectiveness of a pharmacy-based MTM program in improving outcomes in both the fiscal and clinical dimensions of BWC's pharmacy program. The pilot phase of the project will begin in early calendar year 2013.

Managed-care processes

BWC fully implemented a new MCO outcome metric, MoD, on Jan. 1, 2012. MoD replaces the DoDM measure that had been in place since early 1999. BWC included MoD in the 2011-12 MCO Agreement. The agreement designated 2011 as a beta year in which MoD ran parallel with DoDM. During that period, BWC and the MCOs identified and implemented needed changes/enhancements to MoD. The measurement is being used as the basis for the MCOs' 2012 outcome payments. BWC bases 45 percent of each MCO's 2012 compensation on the MoD metric.

Major improvements in MoD over DoDM are:

- The MoD Days Absent measure includes a much larger population of claims than DoDM as MoD includes claims outside the employers' experience. It also has benchmarks for three times the number of diagnosis codes;
- MoD uses updated benchmarks that feature Ohio specific workers' compensation claims data;
- The MoD Days Absent measure is based on actual return-to-work dates instead of released-to-work dates;
- MoD includes a Recent Medical measure, which takes into account recent medical payments made in a claim after the injured worker has returned to work to measure the outcomes of the MCOs' utilization review;
- MoD includes severity weights, which adjust for the fact that not all claims are equal. For example, a herniated disk is more severe than a lumbar sprain/strain, which is more severe than an abrasion.

Every two years, employers can select a new MCO to manage their employees' workers' compensation needs. The most recent MCO open enrollment ran from April 30, 2012, through May 25, 2012. The effective date of employer changes was July 2, 2012. Approximately 20,000 employers with 40,500 active claims changed MCOs — a 27.5-percent decrease in the number of employers, but a 27-percent increase in the number of active claims over the prior open enrollment in 2010.

Medical providers

The Medical Services Division's disability evaluators panel (DEP) unit began recurring training of DEP members during FY12. The unit held the first training session on Nov. 3, 2011. Staff from BWC's Legal Division conducted the training. The training covered topics addressing various issues and legal principles designed to improve the quality of panel members' reports. The presenters performed an actual mock Industrial Commission of Ohio hearing of a DUR appeal. Members attending the meeting expressed appreciation for the training, and complimented the quality of the material and information received. The DEP unit has scheduled ongoing quarterly training for DEP members. The unit is taping these sessions for members who cannot attend the training to view at a later time on our BWC Learning Center.

The Medical Services Division has proposed one new and one updated rule, both of which focus on the agency's ongoing efforts to create and maintain a strong, effective network of certified providers. Both rules are in the JCARR process.

- Ohio Administrative Code (OAC) 4123-6-02.7 *Provider decertification procedures*
    - This rule sets forth a progressive compliance path for violations of a workers' compensation statute or rule, or a term of the provider agreement. The path provides for written notice and submission of a correction plan by the provider prior to BWC initiating decertification proceedings. BWC would exclude certain violations due to their nature from this progressive compliance path, which may lead to BWC immediately starting the decertification process.
- OAC 4123-6-02.2 *HPP Credentialing Criteria Rule*
    - The update to the rule adds criteria that if a provider's license is under revocation or suspension in any state, or is subject to disciplinary restrictions in any state that affect the provider's ability to treat patients or compromise patient care, the provider shall be ineligible for HPP certification. Further, it adds specific criteria for HPP certification of adult day care facilities, anesthesiologist assistants, independent diagnostic testing facilities and sleep laboratories. Additionally, it makes changes to clarify certification definitions, which brings them more in line with nationally recognized certification requirements.

Beginning July 2012, the Medical Services Division started releasing *Provider e-News,* a monthly provider newsletter. The division sends this newsletter to provider organizations and individual providers registered on its distribution list, as well as posts the newsletter on ohiobwc.com. The newsletter gives providers timely information on workers' compensation issues that affect them. Topics have ranged from fee schedule updates to pharmacy updates to how providers can support BWC's return-to-work initiatives.

Medical and vocational service administration support

Medical Services has supported BWC's initiatives to find creative solutions for improving return-to-work efforts. This support includes working to update BWC forms and on pilot projects executed to determine if changes in policy and/or procedures will have a positive effect on claims outcomes.

The *Physician's Report of Work Ability* (MEDCO-14) and the *Request for Temporary Total Compensation* (C-84) are two forms the division updated in 2012. Both forms are critical to managing lost-time claims. We took an important step in our efforts to increase effective management of these claims with the revision of these forms. The changes better align the information collected with the purpose of each form.

The MEDCO-14 captures medical information that helps us understand injured workers' ability to return to their current jobs; medical restrictions and capabilities; and medical and vocational issues that may hinder or assist an injured worker in returning to work. Therefore, we modified the MEDCO-14 to better capture medical information reflective of injured workers' capabilities and disabilities.

When injured workers request temporary total benefits, they use a C-84. The primary objective of this form is to capture basic information in support of their request for temporary benefits. Given the enhancements to the MEDCO-14, we streamlined the C-84 to capture the right information and eliminate the need for doctors to submit redundant medical data. This balanced approach allows a more efficient consideration of all claims information to help us identify return-to-work opportunities that meet the medical needs of injured workers. We can also use the information to evaluate their request for indemnity benefits (i.e., temporary total or wage loss).

- o Medical Services is also leading several pilot projects to determine areas of opportunities for changes in policy and/or procedures to increase positive impacts on lost-time claims. The focus is to deploy innovative out-of-the box thinking to current business processes with the goal to increase safe and effective return-to-work outcomes. These pilots include:
  - Early vocational rehabilitation: This pilot kicked off in April 2012. Its objective is to evaluate the effectiveness of the immediate deployment of vocational field case management services in lost-time claims where there is a high probability that an injured worker would not return to his or her job or to work without vocational services assistance. The six-month period for referring claims to the pilot ends in October 2012. Division staff will track the pilot claims to their conclusion by being evaluated along the vocational services continuum;
  - Catastrophic claims: This pilot will identify vendors, through a Request For Proposal process, that specialize in managing catastrophic injuries. Vendors must have a proven track record of successful outcomes and must serve injured clients nationwide. BWC expects vendors to use specialty-filled national networks of experts and services to address our most serious injuries. These services will complement the services and processes deployed by our MCOs and the Medical Services Division. A key objective of this pilot is to determine and evaluate innovative ways for workers with catastrophic injures to obtain better quality and return-to-work outcomes and quality lives for themselves and their family members. There are approximately 80 to 100 catastrophic claims per year.

A key responsibility of the MCOs is the management of the medical part of an allowed workers' compensation claim. The key for MCOs to execute on that charge is the *Physician's Request for Medical Service or Recommendation for Additional Conditions for Industrial Injury or Occupational Disease* (C-9) or equivalent form. Under OAC 4123-6-16.2, for reimbursement for services to occur, the physician of record or eligible treating provider must submit medical treatment reimbursement requests via a C-9 or equivalent form to the MCO responsible for the management of the medical part of the claim prior to initiating any non-emergency treatment.

When a provider submits a C-9 or medical treatment request to the MCO after he or she has rendered service, BWC refers to it as a retroactive C-9 or medical treatment request. The act of submitting a retro C-9 negatively impacts the MCOs' and BWC's ability to effectively and proactively execute on medical and utilization management responsibilities. Thus, BWC recommended, and the BWC Board of Directors approved a new rule, OAC 4123-6-16.3 *Reimbursement of retroactive medical treatment reimbursement requests*. Under this rule, if the physician of record of an eligible treating provider submits medical treatment reimbursement requests retroactively without just cause, BWC will reimburse covered services at 75 percent of the applicable fee schedule amount. This rule protects the injured worker as it explicitly states a provider may not balance bill him or her for the difference when impacted by the execution of this rule.

Medical bill processing

The International Classification of Diseases (ICD) provides codes to classify diseases and injuries. Effective Oct. 1, 2014, the ICD-9 coding system becomes obsolete as the general health industry adopts ICD-10. The U.S. Department of Health and Human Services mandated ICD-10 code sets replace the ICD-9 code sets used by the medical community. While BWC is exempt from this mandate, it decided it must adopt ICD-10 to ensure adequate access to medical care for injured workers and efficient billing processes with providers.

The Medical Services Division is leading BWC's cross-enterprise project team's activity on this conversion project. The team successfully completed the first major step in this project in April 2012 by upgrading the transaction set used to communicate claims data between BWC, the MCOs and our pharmacy benefits manager to a version of the transaction that supports ICD-10. The team is working on the plan to complete a similar upgrade of the transaction set used to communicate medical bill data between BWC, the MCOs and the providers.

Another project the division is working on to support the conversion to ICD-10 is the retirement of a legacy bill processing system, which has been in place since 1990. BWC will retire this system and transition remaining functions to other systems. A main consideration for this decision was the high cost to enhance this system for ICD-10. Another reason was the need to have one single bill processing system to support the agency's transition to a new claims/employer management system in 2013. BWC currently processes all pharmacy bills and bills associated with independent medical examinations in the legacy system. This system also stores information on BWC's network of certified providers. BWC plans to move bill processing functionality by May 2013 and the provider interface functionality no later than Dec. 31, 2013.

Selected HPP measurements

All dollar amounts are shown in 1,000s.
The figures below are limited to the HPP.

Measurement	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Active employers (1)	248,282	238,482	233,105	229,765	228,144	227,619
Active claims (2)	326,039	301,128	275,579	245,634	311,315	326,264
FROI timing (3)	16.50	16.55	17.28	17.40	15.47	15.61
% of FROIs filed within seven days of date of injury (4)	73.50%	74.33%	73.83%	74.47%	74.39%	74.40%
% of claims determined within 14 days of filing date (5)	69.36%	69.72%	73.10%	73.41%	66.82%	61.52%
Bill timing (6)	81.26	84.01	82.88	79.21	78.10	79.92
LDOS–MCO	65.86	68.17	68.03	64.31	62.37	64.48
MCO–BWC	6.29	6.60	5.60	5.76	6.59	6.24
BWC–MCO	7.16	7.29	7.30	7.20	7.19	7.25
MCO–Provider	1.95	1.95	1.95	1.95	1.95	1.95
Total regular medical payments (7)	762,190	812,730	805,856	774,939	755,797	724.395
Payments for file reviews and IMEs (8)	23,372	23,102	23,285	22,275	20,507	19,687
MCO fees (9)	173,139	168,327	161,317	165,187	166,960	168,403
Total medical payments plus MCO fees	958,700	1,004,159	990,458	962,401	943,265	912,485
Total indemnity payments (10)	1,142,542	1,208,793	1,115,083	1,071,508	1,039,299	1,065,739
Grand total (11) Benefits paid (Total regular medical payments plus MCO fees plus total indemnity payments)	2,077,871	2,189,850	2,082,256	2,011,634	1,962,056	1,958,537

(1) Average number of employers in an active, reinstated or debtor in possession status assigned to an MCO during the time frames noted.

(2) Average number of active claims (claims with a payment or application submitted to us within a specified length of time) assigned to an MCO during the periods noted. The specified length of time changed from 13 months to 24 months in November 2010. This change in the definition of active claims accounts for the increase in the number of active claims in FY2011 versus FY2010.

(3) Average time, in calendar days, from date of injury to date BWC received a FROI for all FROIs received during the time frames noted for claims assigned to an MCO.

(4) Percent of claims assigned to an MCO where BWC receipt of the FROI is within seven calendar days from the date of injury where BWC received the FROI during the periods noted.

(5) Percent of claims assigned to an MCO determined within 14 days of the filing date where the determination was during the time frames indicated regardless of date of injury or filing date. BWC considers a claim determined when we place it in Allow/Appeal or Disallow/Appeal status.

During FY 2011, BWC re-emphasized with our claims staff the importance of making a quality initial determination with the most available information within the statute guidelines of 28 days. This emphasis on quality versus speed decreased the percent of claims determined within 14 days. However, it also resulted in a reduction of re-issued orders and less confusion to injured workers, employers and providers regarding the compensability of a claim.

(6) Average time, in calendar days, between the last date of service being billed (LDOS) to a check being issued to the provider for bills processed by the MCOs. This does not include bills for prescription drugs processed through BWC's pharmacy benefits manager. It is further broken down into the component steps of the process:

- LDOS–MCO: LDOS to MCO receipt;
- MCO-BWC: MCO receipt (for review and payment determination) to BWC receipt;
- BWC-MCO: BWC receipt (for review and final payment determination) to date monies are deposited into the MCO's provider account;
- MCO-Provider: MCO receipt of the final payment information and monies to the MCO issuing the check to the provider.

BWC bases the MCO-Provider information on a desk audit of the MCOs' check issuance timing finalized in late CY2009.

(7) Payments for medical services made on claims assigned to an MCO during the time frames noted. Amounts include payments on claims associated with bankrupt self-insured claims assigned to the MCOs and payments for prescription drugs processed through BWC's pharmacy benefits manager. "Regular" denotes this category includes payments for physicians, hospitals, therapies, diagnostic testing, etc. It excludes payments made for file reviews and independent medical examinations (IMEs) requested to facilitate administrative decisions in the claim.

(8) Payments made during the time frames noted for file reviews and IMEs requested to facilitate administrative decisions in the claim.

(9) Payments issued to the MCOs during the time frames noted per the MCO Agreement for their services. BWC bases MCO contracts on calendar years. Fluctuations in the amounts paid to the MCOs between fiscal years are attributable to several factors, including:

- Changes in the overall amount available to the MCOs from year to year;
- Timing of different types of payments (administrative payments are monthly, outcome payments are quarterly, and in the past, we made exceptional performance payments annually);
- Change in CY2008 where BWC pre-paid MCOs a portion of their outcome payment throughout the quarter.
- BWC made some payments after the end of the contract. For example, the agency made the balance of the CY2009 exceptional performance payment in February 2010.

(10) Payments for salary compensation made on claims assigned to an MCO during the time frames noted. This includes payments for temporary total, living maintenance, wage loss, lump sum settlements, etc. Amounts include payments on claims associated with bankrupt self-insured claims assigned to the MCOs.

(11) Excludes payments for file reviews and IMEs as these are not benefits paid to or on behalf of an injured worker but are conducted to facilitate administrative decisions in the claim.

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Division of Safety & Hygiene Financials

BWC's Division of Safety & Hygiene (DSH) budget appropriation for fiscal year 2012 (FY12) was approximately $20,382,567. This excludes safety grants, the Long Term Care Loan Program and Occupational Safety and Health Administration (OSHA) On-Site Consultation Program's federal grant. Additionally, DSH appropriated $4 million for grants (safety intervention and drug-free workplace training) and $2 million for the Long Term Care Loan Program. The total premium assessment for FY12 was $17,356,275. A federal OSHA On-Site grant provided an additional source of funding of approximately $1,731,000.

Table A: Fiscal Year 2012 Division of Safety & Hygiene Premium Assessments

Employer type	Assessments ($)
Private	13,241,499
Public taxing districts	2,393,483
Public state	749,504
Self insured	971,789
Total	**17,356,275**

As of June 30, 2012, DSH disbursements for safety services amounted to about $17.7 million. Grants and loan disbursements amounted to approximately $3.4 million. Table B provides a general description of the DSH disbursements.

Table B: Division of Safety & Hygiene disbursements ($)

	Safety Admin	Field Consultations	Outreach Program & Services	Education Services	Meetings & Conventions Safety Council & Congress	Resource Center	Customer Contact Center (closed)	Technical Advisors	OSHA State Fund Match	PERRP	Training Overhead	Totals	Safety Grants	Long Term Care Loan	OSHA Federal Grant
Payroll	317,132	10,627,116	496,878	366,242	294,981	329,215	52,179	729,142	160,623	1,051,181	0	14,424,689	0	0	1,445,514
Overtime	333	0	0	2,001	0	0	405	0	0	312	0	3,051	0	0	0
Purchased services	1,626	0	0	373,167	20,809	0	0	7,649	158	0	0	403,409	0	0	1,418
Other Pers Service	10,530	2,555	175	20,200	175	61,241	0	8,389	1,633	0	10,774	115,672	0	0	14,693
Total	$329,621	10,629,671	$497,053	$761,610	$315,965	$390,456	$52,584	$745,180	$162,414	$1,051,493	$10,774	14,946,821	$0	$0	$1,461,625
Edible products	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Supplies	34,310	6,006	279	9,676	633	69,650	0	186,555	402	1,554	0	309,065	0	0	3,544
Vehicle maintenance	3,851	118,124	0	0	2,096	0	0	10,343	2,269	10,452	0	147,135	0	0	19,784
Travel	1,586	47,682	530	4,141	17,440	484	0	8,869	1,831	7,075	0	89,638	0	0	16,417
Communications	25,652	62,861	0	982	1,385	62,438	0	6,724	935	5,428	0	166,405	0	0	8,554
Fuel/Utilities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Maintenance/Repairs	21,538	632	0	136	0	896	0	14,467	933	100	0	38,702	0	0	8,393
Rentals	498,711	125	0	45,255	188,637	12,480	0	608	45	0	0	745,861	0	0	405
Printing/Advertising	0	354	0	0	18,530	29,590	0	0	0	0	0	48,474	0	0	0
General/Other/ Subsidies	84,260	30,679	12	55,934	948,495	9,729	22	2,361	4,260	3,363	0	1,139,115	3,437,824	6,448	23,148
Total	$669,908	266,463	$821	$116,124	$1,177,216	$185,267	$22	$229,927	$10,675	$27,972	$0	2,684,395	$3,437,824	$6,448	$80,245
Office Equipment	494	0	0	0	0	2,182	0	0	0	0	0	2,676	0	0	0
Motor Vehicles	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Communication Equipment	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Med/Lab/Therapeutic	0	0	0	0	0	0	0	38,689	4,382	0	0	43,071	0	0	39,436
Educt'/Recrt'l	0	0	0	0	0	480	0	1,440	0	0	0	1,920	0	0	0
Data Proc Equipment	15,526	0	0	1,398	0	808	0	4,470	0	0	0	22,202	0	0	0
Copy/Print Equip	0	0	0	0	0	5,805	0	0	0	0	0	5,805	0	0	0
Total	$16,020	0	$ -	$ 1,398	$ -	$ 9,275	$ -	$ 44,599	$ 4,382	$ -	$ -	$ 75,674	$ -	$ -	$ 39,436
Grand Total *	$1,015,549	$10,896,134	$497,874	$879,132	$1,493,181	$584,998	$52,606	$1,019,706	$177,471	$1,079,465	$10,774	$17,706,890	$3,437,824	$6,448	$1,581,306
	Safety Admin	Field Consultations	Outreach Program & Services	Education Services	Meetings & Conventions Safety Council & Congress	Resource Center	Customer Contact Center	Technical Advisors	OSHA State Fund Match	PERRP	Training Overhead	Totals	Safety Grants	Long Term Care Loan	OSHA Federal Grant

Occupational Safety and Health Services

DSH provides a wide variety of occupational safety and health services to Ohio employers and employees. Primarily, DSH's services include safety education and training, safety councils, safety congress, safety grants and loan programs, on-site and field consulting safety services and library services. Table C provides general statistics about the number of employers who benefited from these services.

Table C: Fiscal Year 2012 Occupational Safety and Health Services Statistics by Policy Type

Service type	Private employers	Public employers	State agencies	Self-insured	Marine fund	Not defined	Total
Training and education^	6,704	301	26	209	0	6	7,246
Safety congress	1,339	164	29	246	2	9	1,789
Safety council	8,485	941	16	477	1	0	9,920
Safety intervention grants*	245	39	0	0	0	0	284
Video library	901	112	12	86	0	0	1,111
Specialized field consulting - visit only	3,913	392	39	292	1	60	4,697
OSHA On-site	776	0	0	0	0	0	776
PERRP field consulting – visit only	6	280	10	6	0	0	302

^ = 11,501 students completed 15,455 safety-training events through this service.

* = A total number of 295 grants were awarded to 284 employers.

Training and education services

BWC's safety education and training services include classroom and Web-based safety courses in industrial and construction safety, industrial hygiene, ergonomics and risk management. BWC offered 72 courses through 313 class offerings at 11 locations and 10 Web-based courses. Additionally, 88 classes were held at employers' businesses. Furthermore, 7,900 students completed Web-based courses. There were 2,472 new employers who participated in training and education classes during FY12. A total of 11,501 students successfully completed a training class, of whom 62 percent were first-time students.

Safety Council Program

The Safety Council Program provides a forum for promoting occupational safety and health, loss prevention, workers' compensation cost control and management, and networking to more than 9,000 Ohio employers through monthly meetings. BWC co-sponsors 80 safety councils throughout the state; organized through chambers of commerce, trade and manufacturing associations, American Red Cross Chapters and other local community organizations.

BWC provided $935,000 in subsidies toward the direct costs of these councils and paid $10.2 million in premium rebates to employers who met the prior year's enrollment, active participation and performance requirements. Beyond subsidies and rebates, BWC recognized more than 5,300 employers through a structured-awards program for their efforts in injury and accident prevention. Safety councils held 1,138 meetings during FY12.

Ohio Safety Congress & Expo

The annual Ohio Safety Congress & Expo originated in 1927. The three-day event is the largest state conference of its kind. This year's safety congress hosted 5,218 participants from 1,789 businesses. The event showcased the latest advances in safety and health education and training, equipment and technology.

The revenue collected from 213 vendors and exhibitors who participated in the congress expo covered 95 percent of operational costs. The event also provided BWC employees a platform for professional development and training, reducing the funding needed to provide for such purposes through external sources.

Approximately 33 percent of participants attended the event for the first time, and 42 percent represented employers with fewer than 100 employees. More than 93 percent of participants indicated they would implement what they learned at safety congress, and 98 percent of them were "satisfied" or "completely satisfied" with the event.

Grant and loan programs

The primary focus of BWC's safety grant and loan programs is to assist employers in managing the financial costs associated with implementing safety measures to prevent accidents and injuries in the workplace. Another major goal is to establish safety best practices in the field of occupational safety and health. The grant and loan programs include the Safety Intervention Grants (SIG) Program, the Drug-Free Safety Program (DFSP) grants and the Long Term Care Loan (LTCL) Program.

Safety intervention grants

The SIG Program, now in its 13th year, provides financial assistance to employers to purchase equipment to make their workplaces safer. The program provides 2-to-1 matching funds, up to a maximum of $40,000. Grant recipients can only direct funds toward the purchase or improvement of equipment to significantly reduce or eliminate the risk of injury. BWC awarded 150 SIG grants totaling $3,253,932 to 145 employers, compared to 146 SIG grants totaling $3,461,406 to 140 employers in FY11.

Of the 150 SIG grants awarded in FY12, BWC awarded nine totaling $164,450 to employers participating in the Wholesale Retail Trade/Material Handling Safety Grant Intervention Program. BWC and the National Institute for Occupational Safety and Health (NIOSH) have partnered to research ways to create a safer work environment for employees working in the wholesale/retail trade and other sectors that have delivery, installation, receiving or material handling tasks. The study will analyze the effects of using various equipment in material handling processes and determine the effectiveness of the intervention in reducing back, knee and shoulder injuries. The program provides 2-to-1 matching funds, up to a maximum of $40,000 for employers

This year, 84 percent of the awards went to employers with 200 or fewer employees. The majority of employers who participated in the program were manufacturing industry (42), followed by commercial industry (21).

To establish industry best practices in occupational safety and health, employers receiving grant funds through the SIG program must provide two year-end case studies and quarterly reports to document their experience with the equipment purchased through the grant. BWC and NIOSH will use the collected data to establish baseline best practices to advance knowledge in the area of occupational safety and health. This research will benefit other employers with similar hazards at their workplaces.

Last year, 102 employers fulfilled their participation requirements in the grant program. Showing a reduction in claims from the baseline 202 claims to 43 claims in the follow-up period, BWC estimates the return-on-investment for this group of qualified participants at 2.2 years.

Workplace Wellness Grant Program

In March 2012, BWC introduced the Workplace Wellness Grant Program (WWGP) to assist Ohio employers with the development and implementation of a workplace wellness program. The goal is to control the escalating cost of workers' compensation claims through addressing health-risk factors. The WWGP's secondary goals are to reduce health-care costs for employers, and improve the health of the workforce. Participating employers may receive $300 per participating employee over a four-year period, up to a maximum amount of $15,000. Employers participating in WWGP must use wellness grant funds to compensate an external wellness program vendor for providing health-risk assessments (HRA)/biometric screenings and subsequent activities designed to address the results of the screening and assessment. BWC disburses grant funds upon the employers' completion and submission of aggregate HRA, biometric and employee data. During FY12, we approved 116 applications with forecasted fund expenditures of $246,100 for these grants.

Drug-free workplace safety grants

The redesign of the Drug-Free Workplace Program to the Drug-Free Safety Program (DFSP) initiated a change to the grant program to improve support for Ohio's employers in their efforts to maintain safe, drug-free workplaces. In FY12, there were 145 grants amounting to $124,191 awarded to 141 employers. Construction and manufacturing accounted for 52 percent of the participating employers. Seven public taxing districts and schools benefited from these grants as well. In comparison to last year, there were 585 grants amounting to $406,023 awarded to 527 employers.

Long Term Care Loan Program

The LTCL Program provides Ohio's nursing homes and hospitals interest reimbursement for loans. Recipients use the loans to purchase lifting equipment to reduce the frequency and severity of workplace injuries for employees who manually handle residents or patients. Participating employers may purchase sit-to-stand floor lifts, ceiling lifts, other lifts and fast electric beds. BWC provided $6,448 in interest reimbursements to three employers.

On-site and field consulting services

BWC's on-site and field consulting safety services includes the OSHA On-Site Consultation Program, Public Employment Risk Reduction Program (PERRP) and specialized field consulting safety services through 12 service offices. BWC's on-site and field safety specialists work directly with employers on hazard and risk assessment and mitigation, as well as the introduction of safety interventions in the workplace.

OSHA On-Site Consultation Program

The OSHA On-Site Consultation Program is 90-percent funded by a federal OSHA grant of $1,731,000, with BWC funding the remaining 10 percent. The program provides highly specialized services to relatively small employers (fewer than 250 employees) in high hazard/risk industries.

Program field consultants conducted 962 visits to workplaces throughout Ohio and improved workplace safety for 776 employers with 64,788 employees. Also, the program provided on-site safety training for 1,814 employees.

Public Employment Risk Reduction Program

Legislation created in 1994 requires the adoption and application of federal occupational safety and health rules for general industry and construction to public employers and employees. PERRP enforces these adopted OSHA rules. It also assists the public sector workforce in creating safe and healthy workplaces. In addition, PERRP staff provides:

- Free safety and health inspections;
- Consultations;
- Site-specific evaluations;
- Written program reviews;
- Safety training;
- Hazard recognition.

PERRP safety and health consultants identified 8,373 serious hazards at 1,152 public employer workplaces that affected 20,692 employees. On average, PERRP processed written reports of findings within 16 days. Expeditious reporting allows employers to begin the abatement process to address these serious hazards. Additionally, PERRP consultants provided 57 on-site safety trainings and presentations to 1,759 employees.

Specialized field consulting safety services

Specialized consulting services provided through the BWC customer service offices help employers implement safety programs, identify hazards and apply remediation techniques. These field activities include thousands of noise measurements, air quality sampling, ergonomic surveys and safety audits in workplaces throughout Ohio. Field consultants made 14,325 visits to Ohio workplaces belonging to 4,697 employers, to provide consulting services in industrial hygiene, industrial and construction safety, and ergonomics.

Library and resource center

The BWC libraries offer access to information, training materials and experienced staff members to help employers with their workplace safety and health activities. BWC's library is the only one of its kind in Ohio and among a few in the nation with such specialized services. The library provides free information services on state-of-the-art developments in occupational safety and health, workers' compensation and rehabilitation. Employers, local and state government, attorneys, health-care professionals, researchers, union members and others use the library's services. The library is part of the statewide OHIOLINK library network.

The video library houses a video collection, which includes more than 800 workplace safety and health DVDs and videotape training aids. It is a convenient and popular source for Ohio employers to obtain quality workplace safety and health training aids for their employees. This year, the video library served 1,111 Ohio employers with 10,365 circulations of hundreds of DVD and videotape training aids.

BWC's technical advisors unit

The technical advisors unit provides statewide-specialized technical support to BWC on-site and field consulting specialists. The advisors provide support in ergonomics and industrial hygiene, as well as industrial and construction safety.

The unit maintains and updates the Ohio Administrative Code Specific Safety Requirements (OAC SSRs) and monitors new advancements in safety literature, standards and technology. The advisors provide technical support for the training courses and modules, and teach several occupational safety, ergonomics and industrial hygiene courses. This unit also provides technical pre-approval evaluation and post-approval monitoring of the safety intervention grants.

Industrial hygiene laboratory

The industrial hygiene laboratory provides a variety of support services to BWC consultants. The laboratory handles the inventory, repairs, maintenance and calibration of more than 2,000 measurement devices and tools used by DSH staff. Last year, the laboratory performed certified calibration of 842 devices, with estimated savings of approximately $144,000.

Furthermore, by working with an external specialized laboratory, BWC's laboratory coordinated elaborate testing of 4,748 air quality samples to measure workers' exposure to a variety of chemicals at 503 Ohio workplaces.

Research Activities and Initiatives

In FY12, in collaboration with researchers from NIOSH and the Ohio State University (OSU), we continued to explore and analyze claims of injury data in our system for trends in the frequency and severity/cost of injuries. Our work resulted in publishing six papers with co-authors from NIOSH and OSU. The papers were presented at a workshop on the "Use of Workers' Compensation Data for Occupational Injury & Illness Prevention." The workshop was held in Washington, D.C., and was sponsored by NIOSH, the Bureau of Labor Statistics and the State of Washington Department of Labor and Industries. The titles of the six papers are:

1. Injury and claim trends in the Ohio workers' compensation system, authored by BWC staff;
2. The effectiveness of the Safety and Health Achievement Recognition Program (SHARP) in reducing the frequency and cost of workers' compensation claims, authored by BWC staff;
3. Describing agricultural occupational injury in Ohio using Bureau of Workers' Compensation claims, authored by BWC and OSU staff;

4. Development and evaluation of an auto-coding model for coding unstructured text data among workers' compensation claims, authored by BWC and NIOSH staff;

5. Using workers' compensation data for surveillance of occupational injuries and illnesses — Ohio, 2005–2009, authored by BWC and NIOSH staff;

6. Comparison of cost valuation methods for workers' compensation data authored by BWC and NIOSH staff.

BWC also continued to track and report on Ohio occupational fatalities for calendar year 2011. In addition, DSH made some minor changes to the DFSP. Those changes include:

- Aligning the program with BWC's Destination: Excellence;
- Allowing the program advanced level discount for employers participating in the group rating program;
- Enhancing the "Safety Review" element of the program.

The Safety Review was further enhanced, made available online and renamed to the Safety Management Self-Assessment. With these changes, the Safety Management Self-Assessment became part of the participation requirements in the Industry Specific Safety Program (ISSP) and the WWGP. Enrollment in the DFSP is up to more than 6,500 employers.

As part of Destination: Excellence, we introduced a new safety program, the ISSP. The program was designed to reward employers for using BWC safety education and training and consulting services, as well as participating in the Ohio Safety Congress & Expo. The program offering started in July 1, 2012, and has more than 2,500 participating employers.

Finally, BWC and OSHA On-Site continue an alliance with OSHA and the Council of Smaller Enterprises providing small businesses with information, guidance and access to training resources to protect the safety and health of workers in northeast Ohio.

Ohio occupational fatalities for calendar years 2008 through 2011

DSH performed a thorough analysis of work-related accidents that resulted in fatalities in Ohio for the period from 2008 through 2011. The analysis placed emphasis on 2011 data. DSH did not include in the analysis claims that resulted from occupational disease. Also, claims where no relationship was established between the injury and death were excluded from the analysis.

In 2011, BWC's claims data system reported 103 work-related fatalities resulting from accidents and 43 fatalities related to occupational disease. In the previous three years, BWC recorded, respectively, 116, 87 and 96 fatalities in 2008, 2009 and 2010. Of the 103 fatalities in 2011:

- Seventy-five workers were injured and died on the day of injury (immediate);
- Seventeen workers were injured in 2011 and died on later dates in 2011;
- Eleven workers were injured in previous years and died in 2011 (non-immediate).

Figure 1 provides a general overview of work-related fatalities in Ohio for 2008 through 2011. The majority of the fatalities were immediate with injury date and death date being the same. The number of immediate fatalities decreased slightly in 2011 after an increase in 2010. However, non-immediate fatalities increased for the first time in the last four years, climbing from 19 fatalities in 2010 to 28 fatalities in 2011. The analysis of the 2011 fatalities includes comparisons, where applicable, to 2010, 2009 and 2008 fatalities according to injury causation and industry sector.

Compared to calendar year 2010, "caught in machine" type accidents decreased by four, and "driver or passenger motor vehicle accidents" decreased by three. Increases in "workplace violence" (four more), "electrocutions" (six more) and "slip/fall" (nine more) fatalities offset these decreases.

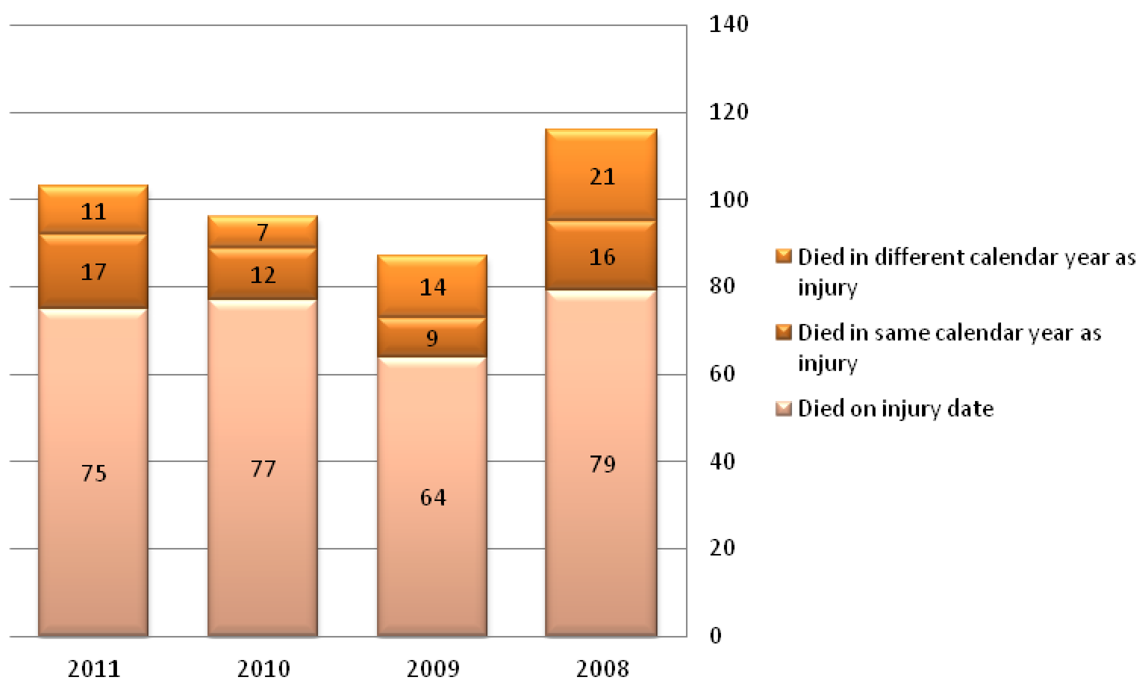

Figure 1: Ohio occupational fatalities, 2008-2011

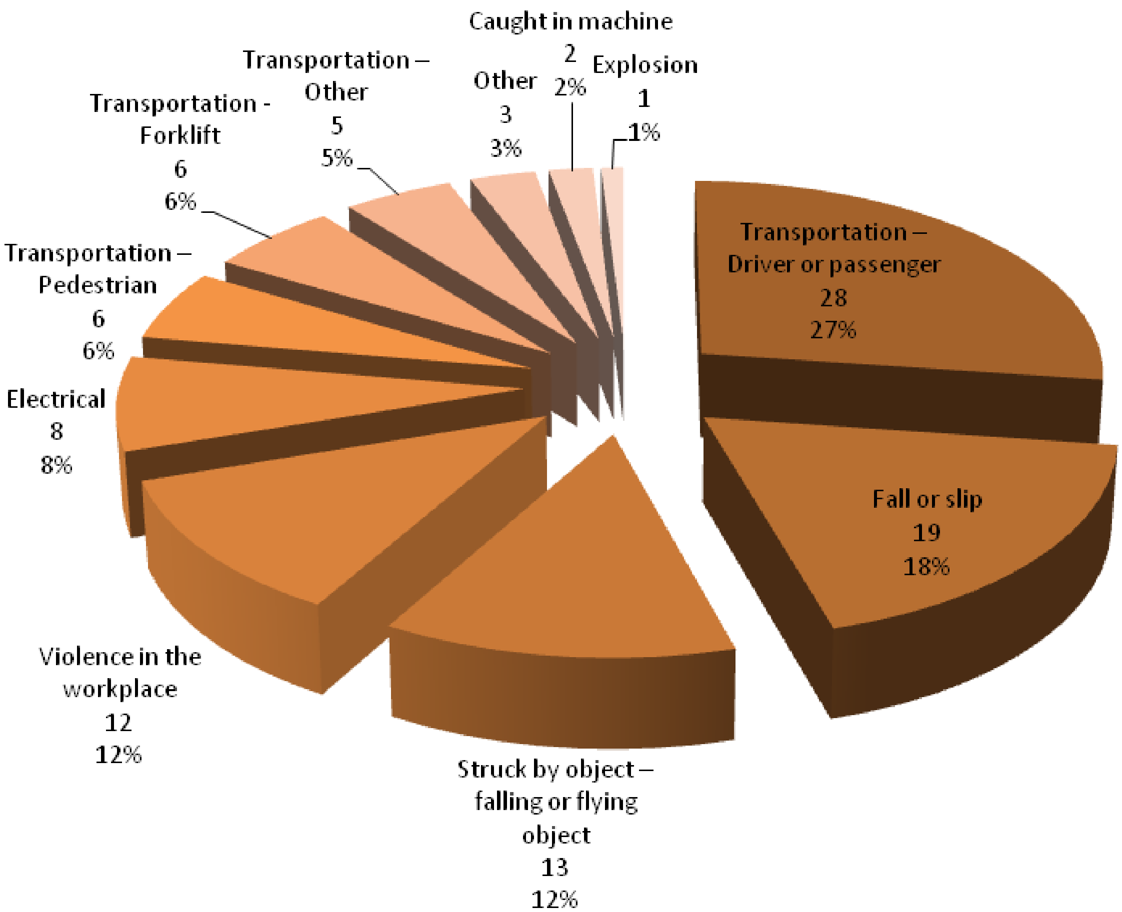

Figure 2: Calendar year 2011 fatalities by causation

Fatalities according to source of injury/illness (causation)

Transportation-related accidents, were the leading cause of fatal accidents in 2011, with 45 deaths. Twenty-eight workers died in motor vehicle accidents as drivers or passengers. Six workers were pedestrians struck by moving vehicles, six workers were struck by forklifts or construction equipment, and two workers were struck by vehicular traffic while walking or working by the roadway. Three workers died in an airplane crash.

Fatalities caused by slips and/or falls increased significantly from 10 in 2010 to 19 in 2011, becoming the second leading cause of work-related fatalities. The third leading cause was "struck by flying or falling objects," resulting in 13 fatalities. The fourth leading cause was workplace violence, resulting in 12 fatalities.

The remaining coded causations for the 2011 fatalities include:

- Eight workers who came in contact with electrical current;
- Two workers who were caught in, on or between objects involving machine or machine parts;
- One worker who died as a result of an explosion/flareback;
- Three workers who died because of miscellaneous causes.

Figure 2 shows the fatality counts, along with their percentages, according to causation.

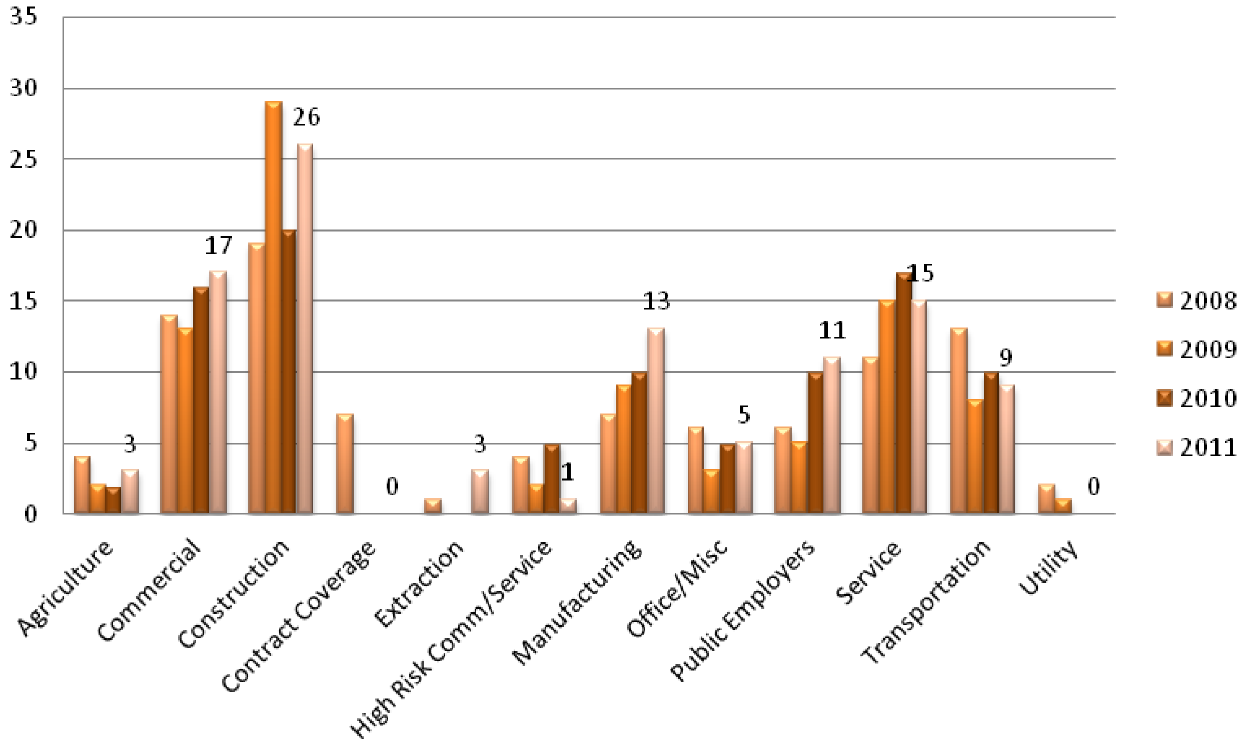

Figure 3: Fatalities by employer industry sector

* Public Employers include state, cities, counties, townships, schools and villages.

Fatalities according to industry sector

Companies in the construction sector had 26 fatalities in 2011 compared to 20 fatalities in 2010, 29 fatalities in 2009 and 19 fatalities in 2008. The leading fatality causes were:

- Falls, nine, an increase of six from 2010;
- Motor vehicle accidents, eight;
- Electrocutions, four, an increase of three from 2010.

The commercial industry sector had 17 fatalities in 2011 compared to 16 fatalities in 2010, 13 fatalities in 2009 and 14 fatalities in 2008. Motor-vehicle accidents contributed to eight fatalities. Three worker deaths resulted from workplace violence and three other deaths resulted from falls.

Companies in the service industry sector had 15 fatalities in 2011 compared to 11 fatalities in 2008, 15 fatalities in 2009 and 17 fatalities in 2010. These service-sector fatalities included eight motor vehicle accidents, four fatalities from workplace violence and two fatalities associated with falls. Figure 3 shows the fatality counts for 2008 through 2011, according to the industry sector.

Market Value of BWC's Safety Programs and Services

Table D provides the estimated market value in dollars of BWC's occupational safety and health services and programs based on number of service hours and type of services provided according to private-market fee schedules.

Employer Type	Field consulting	Video library	Training	Safety congress	Safety councils	Safety grants	Library/ other	PERRP	OSHA On-site	Total
Private (PA)	8,815,714	308,920	1,738,700	1,263,500	1,306,650	2,658,531	0	13,244	2,068,415	18,173,674
Public Taxing District	1,074,422	39,561	213,090	196,500	163,500	719,593	0	694,328	0	3,100,994
Public State	379,439	16,658	175,610	398,500	4,350	0	0	240,859	0	1,215,416
Self Insured	1,637,155	37,989	309,690	510,000	125,400	0	0	110,283	0	2,730,517
Not Defined	75,699	0	22,915	239,000	0	0	666,315	0	0	1,003,929
Marine Fund	1,898	0	0	1,500	150	0	0	0	0	3,548
Total	11,984,327	403,128	2,460,005	2,609,000	1,600,050	3,378,124	666,315	1,058,714	2,068,415	26,228,078

Table D: Estimated Market Value of BWC's Occupational Safety and Health Programs and Services ($)

Industrial Commission of Ohio Annual Report

Letter from the Chairman and CEO

Governor John Kasich is dedicated to moving Ohio's agencies forward in a manner where economic challenges do not sacrifice service and accountability. When I became Chairman and CEO of the Industrial Commission of Ohio (IC) last year, I knew that I would play a key role in helping our agency keep promises made long ago.

In the second decade of the 1900s, 45 states enacted general laws governing the conduct of workers' compensation. These states made a promise that a no-fault system of compensating a worker or his family for his injury, occupational disease or death causally related to his job would be paid by his industry. In exchange, employees would forgo their right to sue their employers for work-related injuries by pursuing statutorily prescribed compensation as an exclusive remedy. The resulting workers' compensation system provides the workers with a faster and less expensive procedure for receiving benefits while the employer receives immunity from a full-liability tort action in court.

Ohio was one of only seven states to opt for a fully public system of workers' compensation. Today it is one of only four public state systems, although by far the largest. We can report that after 101 years, the workers' compensation system is keeping the promise in an impartial and timely way.

The IC, founded in 1913, adjudicates workers' compensation disputes in a fair and impartial manner. Our 94 hearing officers, licensed attorneys all, adjudicated nearly 150,000 claims in Calendar Year (CY) 2011. Of these, only 122 were pursued in mandamus to court. The courts upheld 77 percent of the IC's CY 2011 IC decisions. Appeals to court are at an all-time low. Legislated timelines measuring the speed with which the IC holds hearings and sends resulting orders to the parties are on track thanks to increased efficiencies from a new claims processing method and sweeping IT innovations.

Over time, the IC has reduced staff through attrition from 643 employees in 1997 to 400 by the end of Fiscal Year (FY) 2012. More recently, the IC's budget was reduced from a 10-year high of $62.6 million in FY 2011 to $59.5 million in FY 2012. Looking ahead, we project the annual budgets will decrease to $55.3 million in FY 2015.

Administrative rates for three of four Ohio employer groups declined for FY 2013. The fourth group, while not realizing a reduction, remains stable with no rate increase.

In the 1990s, then–Governor George V. Voinovich called Ohio's workers' compensation system "the silent killer of jobs" because of its costs, slow response in adjudicating complaints and moribund hearing process. But in April 2012, Mark Kvamme, president and interim chief investment officer of Jobs Ohio, opined that "when we are attracting new business to Ohio, workers' compensation never comes up. It's not mentioned. It's not a problem."

As we face the challenges in the next fiscal year and beyond, our mission will remain the same: Provide superb customer service in an environment of professionalism and fairness while adhering to a philosophy of fiscal accountability with unwavering conviction.

Sincerely,

Karen L. Gillmor

Karen L. Gillmor Ph.D.
Chairman and CEO

About the IC

The IC conducted nearly 150,000 hearings in FY 2012. The majority of these hearings took place within 45 days of the original claim appeal. That means you may expect first-class customer service as the IC provides a forum for appealing BWC and self-insured employer decisions. Since 1913, the IC has resolved issues between parties who have a dispute in a workers' compensation claim. With each claim, the agency offers information and resources to help customers navigate through the appeals process.

The IC conducts hearings on disputed claims at three levels: the District level, the Staff level and the Commission level. The governor appoints the three-member Commission, and the Ohio Senate confirms these appointments. By previous vocation, employment or affiliation, one member must represent employees, one must represent employers and one must represent the public.

During this fiscal year, Karen L. Gillmor represented the public; Jodie M. Taylor represented employers; and Gary M. DiCeglio represented the interests of injured workers.

Karen L. Gillmor is the chairman and chief executive officer of the agency.

Fiscal Year Highlights

In addition to the Commissioners, there are 94 hearing officers — all attorneys — in five regional and seven district offices throughout the state.

In FY 2012, district hearing officers heard 103,194 claims. Staff hearing officers heard 43,928 claims and the Commission heard 327 claims.

The IC consistently achieved a high success rate in adjudicating claims well within the periods mandated by law throughout this fiscal year. From filing date to hearing date, district level (first level) hearings averaged 39 days. Staff level (second level) hearing appeals averaged 35 days. Both averages are well below the 45 days mandated by law.

The statistics of filing date to mailing date were just as positive. For the district level, filing date to mailing date was 41 days on average. For the staff level, it averaged 38 days.

The Industrial Commission Online Network (ICON) is the primary reason for our continued success because it has simplified filing appeals online. There were 65,050 first-level motions and appeals filed on ICON this fiscal year. There were also 63,722 second-level (or above) appeals filed on ICON during the fiscal year.

Ask IC is another tool that has helped accelerate our response to customer inquiries. Ask IC is an email feature of our website, www.ohioic.com. The feature gives injured workers, employers and their representatives the opportunity to submit questions to our customer service department.

Customer service received and responded to 908 Ask IC submissions during this fiscal year. The department also scheduled 1,366 interpreters for injured worker hearings. In addition, our toll-free customer service line received 6,261 calls, and our staff personally assisted 6,572 people at our Columbus office.

Customer Service Initiatives

Workers' compensation rates reduced

In June 2012, the IC proposed new, lower administrative rates for three of four Ohio employer groups. Administrative rates for the fourth employer group remained stable.

Ohio employers pay assessments, which the IC uses to fund its administrative operations. The four distinct employer groups are: private, state insurance fund participating employers, state government agencies, other public taxing districts and self-insuring employers. Periodically, the Commission examines rates for each of these groups and related operational costs.

The current Administrative Cost Fund Rates for CY 2012 and proposed rates for CY 2013 are below.

Employer group	2012	2013 (proposed)
Private:	2.10%	2.03%
Public state:	3.31%	3.26%
Public taxing districts:	1.81%	1.81%
Self-insuring:	7.50%	7.25%

Facebook page improves communication

In an effort to reach out to our customers and open the lines of communication in an efficient and cost-effective manner, the IC launched our own Facebook page on Oct. 18, 2011.

On the IC's Facebook page, injured workers and employers now have quick access to vast amounts of information about the agency. Followers of the IC Facebook page are the first to receive:

- o IC news releases;
- o Office closure announcements;
- o IC job postings;
- o IC rules and resolution changes;
- *o Hearing Officer Manual* updates;
- o New publication announcements;
- o ICON-related announcements.

A link to the IC Facebook page is available on the IC website at www.ohioic.com. Customers may also search for the IC's page on Facebook. If an injured worker or employer does not have a Facebook account, then they still can receive agency news via traditional means such as press releases and website announcements.

Commissioners sign orders electronically

The IC announced on Dec. 16, 2011, that IC Commissioners can sign hearing orders electronically.

With the implementation of electronic signatures for discretionary appeals, Commissioners now have the option to sign the orders remotely, which will lead to faster orders. The Industrial Commission Online Network (ICON) allows Commissioners to access and sign orders from a personal computer, MacBook, iPad or Android Tablet.

Each electronic signature is password protected to ensure maximum security. Electronic signatures were not the only improvement that the IC has developed for its customers.

In November 2011, we added discretionary appeals at the Commission-level to Workflow. Workflow creates orders and promptly routes them to the appropriate staff members for review. In addition to this advancement, we added a new search feature to Workflow that allows Commissioners to search for orders by claim number, party last name or party first name.

Video evidence available on ICON

The IC started adding video evidence into our document management system on February 27, 2012. Customers can view video evidence on ICON and during hearings.

Some offices can upload submitted video evidence now. All offices will soon have this capability.

Submitted video evidence will show in your list of claim documents. A document type of "HCE" identifies video evidence, and a document description contains "Video."

If you do not see submitted video evidence in your list of claim documents, be prepared to bring the video and the necessary equipment to play the video to the hearing.

More convenient mail pickup for representatives

Picking up flat mail in the William Green Building became more convenient for workers' compensation representatives in March 2012.

Workers' compensation attorneys and representatives began retrieving their flat mail from the customer service department on the first floor earlier this year.

The previous mail pickup location did not offer the same convenience as the new location. In the past, attorneys and representatives had to obtain a visitor badge at the security desk before going to Level B-2 to retrieve their flat mail.

BWC Audited Financial Statements

OHIO BUREAU OF WORKERS' COMPENSATION
AND INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)
Columbus, Ohio

Financial Statements
and
Supplementary Financial Information
For the years ended June 30, 2012 and 2011

And Independent Auditors' Report Thereon

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C O N T E N T S

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's discussion and analysis of the Ohio Bureau of Workers' Compensation's (BWC's) and the Industrial Commission of Ohio's (IC's) financial performance for fiscal years ended June 30, 2012, 2011, and 2010. BWC and IC are collectively referred to as BWC/IC. This information is based on BWC/IC's financial statements, which begin on Page 9.

Financial highlights

- BWC/IC's total assets at June 30, 2012 were $28.0 billion, an increase of $1.9 billion or 7.3 percent compared to June 30, 2011.
- BWC/IC's total liabilities at June 30, 2012 were $20.2 billion, a decrease of $130 million or 0.6 percent compared to June 30, 2011.
- BWC/IC's operating revenues for fiscal year 2012 were $2.0 billion, an increase of $8 million or 0.4 percent compared to fiscal year 2011.
- BWC/IC's operating expenses for fiscal year 2012 were $2.0 billion, a decrease of $409 million or 17.3 percent from fiscal year 2011.
- BWC's non-operating revenues for fiscal year 2012 were $2.0 billion, compared to $2.4 billion for fiscal year 2011.
- BWC/IC's total net assets increased by $2.0 billion in fiscal year 2012, compared to a $1.9 billion increase in fiscal year 2011.

Financial statement overview

BWC/IC's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. Management's discussion and analysis is intended to serve as an introduction to BWC/IC's financial statements, which are prepared using the accrual basis of accounting and the economic resources measurement focus.

- Statement of Net Assets - This statement presents information reflecting BWC/IC's assets, liabilities and net assets. Net assets represent the amount of total assets less total liabilities. The statement is categorized by current and noncurrent assets and liabilities. For the purpose of the accompanying financial statements, current assets and liabilities are generally defined as those assets and liabilities with immediate liquidity or those that are collectible or will be due within 12 months of the statement date.
- Statement of Revenues, Expenses and Changes in Net Assets - This statement reflects the operating revenues and expenses, as well as non-operating revenues and expenses, for the fiscal year. Major sources of operating revenues are premium and assessment income. Major sources of operating expenses are workers' compensation benefits and compensation adjustment expenses. Revenues and expenses related to capital and investing activities are reflected in the non-operating component of this statement.
- Statement of Cash Flows - The statement of cash flows is presented using the direct method of reporting, which reflects cash flows from operating, noncapital financing, capital and related financing, 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 for the fiscal year.
- Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of BWC/IC's financial position and results of operations presented in the financial statements.
- Supplemental Information - This section includes supplemental schedules presenting the statement of net assets and the statement of revenues, expenses and changes in net assets for the individual accounts administered by BWC/IC. This section also includes required supplemental information that presents 10 years of revenue and reserve development information.

Continued

Financial analysis

Components of BWC/IC's Statements of Net Assets and Statements of Revenues, Expenses and Changes in Net Assets as of June 30, 2012, June 30, 2011, and June 30, 2010, and for the years then ended were as follows (000's omitted):

	2012	2011	2010
Current assets	$ 1,813,133	$ 1,571,167	$ 1,752,331
Noncurrent assets	26,203,374	24,529,539	22,343,577
Total assets	$ 28,016,507	$ 26,100,706	$ 24,095,908
Current liabilities	$ 2,779,729	$ 2,533,248	$ 2,664,100
Noncurrent liabilities	17,419,039	17,795,456	17,606,729
Total liabilities	$ 20,198,768	$ 20,328,704	$ 20,270,829
Net assets invested in capital assets, net of related debt	$ 57,105	$ 43,051	$ 35,275
Unrestricted net assets	7,760,634	5,728,951	3,789,804
Total net assets	$ 7,817,739	$ 5,772,002	$ 3,825,079
Net premium and assessment income, including provision for uncollectibles	$ 1,944,478	$ 1,935,180	$ 2,118,421
Other income	14,115	14,989	15,018
Total operating revenues	$ 1,958,593	$ 1,950,169	$ 2,133,439
Workers' compensation benefits and compensation adjustment expenses	$ 1,832,992	$ 2,238,942	$ 2,736,984
Other expenses	120,228	123,153	131,634
Total operating expenses	$ 1,953,220	$ 2,362,095	$ 2,868,618
Operating transfers out	$ (3,390)	$ (5,545)	$ (4,527)
Net investment income	2,043,644	2,364,359	2,049,621
Gain (loss) on disposal of capital assets	110	35	(178)
Increase in net assets	$ 2,045,737	$ 1,946,923	$ 1,309,737

BWC/IC's total net assets increased by $2.0 billion during fiscal year 2012, compared to a $1.9 billion increase during fiscal year 2011.

- In fiscal year 2012, BWC/IC recorded net investment income of $2.0 billion, compared to $2.4 billion in fiscal year 2011. The investment portfolio earned an unaudited net return of 9.8 percent, after management fees, during fiscal year 2012 compared to 12.4 percent in fiscal year 2011 and a return of 12.0 percent in fiscal year 2010.

Continued

- The Board of Directors approved the engagement of active management for a portion of State Insurance Fund (SIF) investment portfolio to achieve a proper balance between low-cost external passive indexed portfolio management and external active portfolio management targeted towards specific assets classes that are expected to achieve sufficiently higher investment returns after management fees compared to passive index management. In March 2012, $200 million representing approximately 1 percent of the SIF investment portfolio was allocated for management by Minority-Owned and/or Women-Owned Business Enterprise (MWBE) investment managers. The MWBE investment managers are actively managing SIF assets in specified approved U.S. equity asset classes with the goal of achieving above benchmark returns. During the last quarter of fiscal year 2012, $4.66 billion representing a targeted 20 percent of SIF assets was allocated to active management of long duration credit fixed income assets.
- Premium and assessment income exceeded workers' compensation benefits and compensation adjustment expenses by $111 million in fiscal year 2012. However in fiscal year 2011, workers' compensation benefits and compensation adjustment expenses exceeded net premium and assessment income by $304 million.
- Premium and assessment income for fiscal year 2012 reflects a 4.0 percent overall premium reduction for the majority of Ohio's private employers and a 5.5 percent reduction for public employer taxing districts (PECs). PECs include cities, counties, townships, villages, schools, libraries, and special taxing districts.
- Employers new to Ohio since July 1, 2011 are eligible for at least a 25 percent discount on their workers' compensation premiums under the Grow Ohio program.
- Effective April 1, 2010 and renewed April 1, 2011 and 2012, BWC/IC secured reinsurance as a risk management strategy to protect its assets in the event of a catastrophic event. Premium and assessment income has been reduced by $6.0 million in fiscal years 2012 and 2011 and $1.1 million in fiscal year 2010 for the accrual of the ceded reinsurance premiums.
- Workers' compensation benefits and compensation adjustment expenses were $1.8 billion in fiscal year 2012, compared to $2.2 billion in fiscal year 2011 and $2.7 billion in fiscal year 2010.

($ in millions)	2012	2011	2010
Change in reserves for compensation and compensation adjustment expenses	$ (245)	$ 146	$ (376)
Provision for decrease in discount rate	-	-	934
Net benefit payments	1,715	1,733	1,803
Payments for compensation adjustment expenses	195	194	211
Managed Care Organization administrative payments	168	166	165
	$ 1,833	$ 2,239	$ 2,737

Continued

- The discounted liabilities for workers' compensation benefits and compensation adjustment expenses as of June 30, 2012 are $245 million lower than the June 30, 2011 discounted liabilities. Benefit payments for all accident years emerged $219 million or 12 percent lower than expected during fiscal year 2012. Incurred losses for accident years 1977 and subsequent emerged 34 percent lower than expected. This lower than expected development is primarily associated with medical costs and lump sum settlements. BWC/IC's average medical costs have moderated considerably and are significantly lower than expectations from past workers' compensation average medical costs and the overall medical consumer price index.

- The financial effect of lowering the discount rate on the reserves for compensation and compensation adjustment expenses in fiscal year 2010 from 4.5 percent to 4.0 percent was lessened due to lower estimates for future medical expenses. The decrease in these estimates in fiscal year 2010 was primarily attributable to lower claims frequencies and a decrease in the medical inflation rate. Currently, if medical inflation were projected to be 1 percent higher than historical medical inflation for all future years combined, future medical payments discounted to June 30, 2012 would be approximately $951 million higher.

- During fiscal year 2011, the first ever formulary of medication for the treatment of injured workers was established. This outpatient formulary is designed to improve the efficiency and effectiveness of treatment, limit the inappropriate use of medications and lower BWC/IC's prescription costs. The formulary allows for a thorough clinical review of each medication, better monitoring and control of inappropriate use, and assures access to medications that aid in the recovery of injured workers and support their return to work. The outpatient formulary, which was effective September 1, 2011 is projected to save $15 million by the end of calendar year 2012.

- In addition to the formulary, other improvements to BWC/IC's pharmacy program include requiring generic medications when available, point-of-service edits to screen out prescriptions that are not related to an injured worker's condition, and standardized drug utilization reviews. A pharmacy lock-in program was established in January 2012, to improve the safety of medications prescribed to workers recovering from workplace injuries and to limit the practice of doctor and pharmacy shopping. This program is designed to limit the dangers that can arise when medications are prescribed by multiple physicians and are processed at different pharmacies. This will assist in return-to-work efforts by addressing an issue that keeps claims lingering in the workers' compensation system longer than they should.

- As of June 30, 2012 and June 30, 2011, BWC/IC had debt in special obligation bonds of $31.6 million and $47.9 million, respectively. These bonds were issued in 2003, through the Ohio Building Authority (OBA) to refund the 1993 William Green Building Series A bonds. The bonds are collateralized by lease rental payments pledged by BWC/IC to OBA. These bonds were rated Aa3 by Moody's Investors Service, Inc.

Continued

Conditions expected to affect financial position or results of operations

BWC/IC, always conscious of its responsibility to operate in the best interests of Ohio's employers and workforce, is focusing on three performance objectives: Service, Simplicity, and Savings.

- Private employer statewide average base rates will be maintained at current levels for the 2013 policy year. Stable rates allow employers to better predict workers' compensation costs so they can focus on injury prevention and return–to-work. BWC/IC decreased public employer taxing district premiums by an average of 5.0 percent for the January 1, 2012 policy year, producing estimated cost savings of $22 million for these employers.
- Destination: Excellence, a new rating plan that aims to improve return-to-work rates by rewarding employers for building a risk management plan that focuses on safety, prevention, and returning those who are injured to their jobs more quickly. Employers can choose from seven program options to customize a risk-management plan that suits their business needs. These programs address workplace safety and stress transitional work and vocational rehabilitation programs while providing opportunities to reduce premiums through the adoption of best practices and meeting certain performance requirements. Additional savings are also available for effective policy maintenance such as reporting payroll and paying premiums online and keeping current on premiums.
- Over the coming year, BWC will continue to focus on cost control and returning injured workers back to work in a timely manner. The average medical and indemnity costs per claim are rising much faster for BWC/IC than for other states across the country. An important factor in reducing claims costs is our ability to get injured workers back to leading productive lives. The sooner an injured worker gets healthy and back on the job, the more likely it is that there will be positive outcomes and the less expensive they will be to the workers' compensation system. BWC/IC is attacking return-to-work trends by focusing on triaging of claims, vocational rehabilitation, pharmacy programs, settlements, and Destination: Excellence.
- Routing out, investigating, and prosecuting cases of workers' compensation fraud is another way the BWC/IC works to control costs on behalf of our customers. Efforts in the pursuit to deter, detect, and investigate all types of workers' compensation fraud including employer and provider fraud have increased. Since January 2011, over 4,000 cases have been investigated and 191 convictions have been obtained.
- The Board of Directors has taken action to allow for further diversification of the investment portfolio with the addition of real estate as an asset class of the SIF investment portfolio. Six percent of the total SIF investment portfolio will be targeted towards investments in professionally managed private real estate funds that own commercial real estate concentrated in the United States. The Investment Policy Statement (IPS) has also been amended to provide for a targeted 7 percent of the SIF investment portfolio to actively managed mid-cap and small-cap U.S. equities.
- BWC's net asset policy contains the business rationale, methodology, and guiding principles with respect to maintaining a prudent level of net assets to protect SIF against financial and operational risks that may threaten the ability to meet future obligations. The Administrator, with the approval of the Board, established guidelines for a Funding Ratio (funded assets divided by funded liabilities) and a Net Leverage Ratio (premium income plus reserves for compensation and compensation adjustment expenses divided by net assets). Over the past year the net asset balance has increased to the point these

Continued

ratios are no longer within the guidelines established in the net asset policy. Management, in conjunction with the Board of Directors, is reviewing several options that would bring the net asset balance into compliance with the policy. These options are being carefully considered while being mindful of several factors that have the potential to negatively impact the net asset balance.

- It is reasonably probable that an adverse decision will be rendered in the class action case alleging that non-group-rated employers subsidized group-rated employers, and that this bias in premiums violates various provisions of the Ohio Constitution. Plaintiffs have asked the court to declare the group rating plan unconstitutional and require BWC/IC to repay to the class members all excessive premiums collected by BWC/IC, with interest and attorney fees. A bench trial in the case commenced on August 20, 2012 and concluded on August 31st. Post-trial briefs are due by October 5, 2012 with a written ruling anticipated 30 to 60 days thereafter. The financial statement exposure can only be estimated to be within a range of \$0 to \$1.3 billion. Accordingly, no provision for any liability has been reported in the financial statements for this matter. If an adverse decision is received, it is BWC/IC's intent to vigorously defend our position.

From time to time, BWC/IC is involved in other judicial proceedings arising in the ordinary course of its business. BWC/IC will vigorously defend these suits and expects to prevail; however, there can be no assurance that BWC/IC will be successful in its defense.

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INDEPENDENT AUDITORS' REPORT

Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio
(A Department of the State of Ohio)
Columbus, Ohio

We have audited the accompanying financial statements of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio (BWC/IC), a department of the State of Ohio (State), for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the BWC/IC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the financial position of BWC/IC and do not purport to, and do not, present fairly the financial position of the State as of June 30, 2012 and 2011, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material aspects, the financial position of the BWC/IC as of June 30, 2012 and 2011 and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2012 on our consideration of the BWC/IC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and supplemental revenue and reserve development information on Pages 1 through 6 and 36 through 37, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statement, and other knowledge we obtained during our audit of the basic financial statements, as well as about the methods of measurement and presentation of the required supplementary information. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the BWC/IC's financial statements as a whole. The supplemental schedule of net assets and schedule of revenues, expenses and changes in net assets included in Pages 38 through 40 are presented for purposes of additional analysis and are not a required part of the financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

Schneider Downs & Co., Inc.

Columbus, Ohio
October 1, 2012

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)

STATEMENTS OF NET ASSETS

June 30, 2012 and 2011

(000's omitted)

	2012	2011
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$442,182	$345,487
Collateral on loaned securities (Note 2)	849	1,323
Premiums in course of collection	713,343	676,069
Assessments in course of collection	171,146	169,799
Accounts receivable, net of allowance for uncollectibles of $1,091,672 in 2012; $1,047,878 in 2011	130,388	129,872
Investment trade receivables	194,429	87,889
Accrued investment income	151,512	151,306
Other current assets	9,284	9,422
Total current assets	1,813,133	1,571,167
Noncurrent assets:		
Fixed maturities, at fair value (Note 2)	15,751,396	13,946,998
Domestic equity securities:		
Common stocks, at fair value (Note 2)	4,801,935	4,633,603
International securities, at fair value (Note 2)	1,879,572	2,128,352
Unbilled premiums receivable	3,381,859	3,420,036
Retrospective premiums receivable	299,873	309,610
Capital assets (Notes 3 and 5)	88,650	90,916
Restricted cash (Note 2)	89	24
Total noncurrent assets	26,203,374	24,529,539
Total assets	$ 28,016,507	$ 26,100,706

	2012	2011
LIABILITIES		
Current liabilities:		
Reserve for compensation (Note 4)	$ 2,024,705	$ 1,915,283
Reserve for compensation adjustment expenses (Note 4)	386,954	384,441
Warrants payable	24,660	19,495
Bonds payable (Notes 5 and 6)	15,914	15,890
Investment trade payables	302,143	174,122
Accounts payable	11,767	7,719
Obligations under securities lending (Note 2)	849	1,323
Other current liabilities (Note 6)	12,737	14,975
Total current liabilities	2,779,729	2,533,248
Noncurrent liabilities:		
Reserve for compensation (Note 4)	15,790,395	16,097,317
Reserve for compensation adjustment expenses (Note 4)	1,502,648	1,552,859
Premium payment security deposits (Note 6)	86,285	87,664
Bonds payable (Notes 5 and 6)	15,719	31,999
Other noncurrent liabilities (Note 6)	23,992	25,617
Total noncurrent liabilities	17,419,039	17,795,456
Total liabilities	20,198,768	20,328,704
Commitments and contingencies (Note 10)		
NET ASSETS		
Invested in capital assets, net of related debt	57,105	43,051
Unrestricted net assets	7,760,634	5,728,951
Total net assets (Note 11)	$ 7,817,739	$ 5,772,002

The accompanying notes are an integral part of the financial statements.

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

For the years ended June 30, 2012 and 2011

(000's omitted)

	2012	2011
Operating revenues:		
Premium income net of ceded premium (Note 7)	$1,600,965	$ 1,572,603
Assessment income	391,053	410,652
Provision for uncollectibles	(47,540)	(48,075)
Other income	14,115	14,989
Total operating revenues	1,958,593	1,950,169
Operating expenses:		
Workers' compensation benefits (Note 4)	1,516,800	1,864,545
Compensation adjustment expenses (Note 4)	316,192	374,397
Personal services	66,081	68,663
Other administrative expenses	54,147	54,490
Total operating expenses	1,953,220	2,362,095
Net operating income (loss)	5,373	(411,926)
Non-operating revenues:		
Net investment income (Note 2)	2,043,644	2,364,359
Gain on disposal of capital assets	110	35
Total non-operating revenues	2,043,754	2,364,394
Net transfers out	(3,390)	(5,545)
Increase in net assets	2,045,737	1,946,923
Net assets, beginning of year	5,772,002	3,825,079
Net assets, end of year	$ 7,817,739	$ 5,772,002

The accompanying notes are an integral part of the financial statements.

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2012 and 2011

(000's omitted)

	2012	2011
Cash flows from operating activities:		
Cash receipts from premiums and assessments net of reinsurance	$ 2,074,006	$ 2,084,481
Cash receipts - other	43,183	41,471
Cash disbursements for claims	(1,988,923)	(2,001,437)
Cash disbursements to employees for services	(214,655)	(225,822)
Cash disbursements for other operating expenses	(68,863)	(68,234)
Cash disbursements for employer refunds	(59,620)	(72,257)
Net cash used for operating activities	(214,872)	(241,798)
Cash flows from noncapital financing activities:		
Operating transfers in	95	-
Operating transfers out	(3,485)	(5,545)
Net cash used by noncapital financing activities	(3,390)	(5,545)
Cash flows from capital and related financing activities:		
Purchase of capital assets, net of retirements	(8,400)	(2,712)
Principal and interest payments on bonds	(18,216)	(18,975)
Net cash used in capital and related financing activities	(26,616)	(21,687)
Cash flows from investing activities:		
Investments sold	14,969,317	9,031,300
Investments purchased	(15,348,352)	(9,626,672)
Interest and dividends received	728,660	782,313
Investment expenses	(7,987)	(8,385)
Net cash provided by investing activities	341,638	178,556
Net increase (decrease) in cash, cash equivalents and restricted cash	96,760	(90,474)
Cash, cash equivalents and restricted cash, beginning of year	345,511	435,985
Cash, cash equivalents and restricted cash, end of year	$ 442,271	$ 345,511

The accompanying notes are an integral part of the financial statements.

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)

STATEMENTS OF CASH FLOWS, Continued

For the years ended June 30, 2012 and 2011

(000's omitted)

	2012	2011
Reconciliation of net operating income (loss) to net cash used for operating activities:		
Net operating income (loss)	$ 5,373	$ (411,926)
Adjustments to reconcile net operating income (loss) to net cash used for operating activities:		
Provision for uncollectible accounts	47,540	48,075
Depreciation	10,776	11,214
Amortization of discount and issuance costs on bonds payable	1,960	2,664
(Increases) decreases in assets and increases (decreases) in liabilities:		
Premiums and assessments in course of collection	(38,621)	26,782
Unbilled premiums receivable	38,177	3,111
Accounts receivable	(48,056)	(34,195)
Retrospective premiums receivable	9,737	(19,143)
Other assets	138	(1,867)
Reserves for compensation and compensation adjustment expenses	(245,198)	145,300
Premium payment security deposits	(1,379)	(310)
Warrants payable	5,165	(5,842)
Accounts payable	4,048	2,530
Other liabilities	(4,532)	(8,191)
Net cash used for operating activities	$ (214,872)	$ (241,798)
Noncash investing, capital, and financing activities		
Change in fair values of investments	$ 1,323,434	$ 1,599,613

1. Background and Summary of Significant Accounting Policies

Organization

The Ohio Bureau of Workers' Compensation (BWC) and the Industrial Commission of Ohio (IC) were created in 1912 and 1925, respectively, and are the exclusive providers of workers' compensation insurance to private and public employers in Ohio that have not been granted the privilege of paying compensation and medical benefits directly (self-insured employers). BWC and IC are collectively referred to herein as BWC/IC. BWC/IC was created and is operated pursuant to Chapters 4121, 4123, 4127, and 4131 of the Ohio Revised Code (the Code).

The Governor of the State of Ohio (the State) appoints the BWC Administrator and the three members of the IC. In June 2007, House Bill 100 created a new 11-member BWC Board of Directors (Board), which replaced the Workers' Compensation Oversight Commission. All members have full voting rights. On July 31, 2007, the Governor named the members to the Board, effectively abolishing the Workers' Compensation Oversight Commission. The BWC Administrator, with the advice and consent of the Board, is responsible for the operations of the workers' compensation system, while the IC is responsible for administering claim appeals.

BWC/IC is a department of the primary government of the State and is a proprietary operation for purposes of financial reporting. The accompanying financial statements include all accounts, activities, and functions of BWC/IC and are not intended to present the financial position, results of operations, or cash flows of the State taken as a whole. The financial information presented herein for BWC/IC will be incorporated within the State's financial statements.

Basis of Presentation

BWC/IC has prepared its financial statements in accordance with accounting principles generally accepted in the United States of America. Accordingly, these financial statements were prepared using the accrual basis of accounting and the economic resources measurement focus. For internal reporting purposes, BWC/IC maintains separate internal accounts as required by the Code. For external financial reporting purposes, BWC/IC has elected to report as a single column business-type activity, since the individual accounts do not have external financial reporting accountability requirements. All significant interaccount balances and transactions have been eliminated.

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," BWC/IC follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. As permitted by Generally Accepted Accounting Standards, BWC/IC has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989.

Continued

BWC/IC administers the following accounts:

State Insurance Fund (SIF)
Disabled Workers' Relief Fund (DWRF)
Coal-Workers Pneumoconiosis Fund (CWPF)
Public Work-Relief Employees' Fund (PWREF)
Marine Industry Fund (MIF)
Self-Insuring Employers' Guaranty Fund (SIEGF)
Administrative Cost Fund (ACF)

<u>Description of the Accounts</u>

SIF, CWPF, PWREF, and MIF provide workers' compensation benefits to qualifying employees sustaining work-related injuries or diseases.

DWRF provides supplemental cost-of-living benefits to persons who are permanently and totally disabled and are receiving benefits from SIF or PWREF. The maximum benefit levels are changed annually based on the United States Department of Labor National Consumer Price Index.

SIEGF provides for the payment of compensation and medical benefits to employees of self-insured employers that are bankrupt or in default.

ACF provides for the payment of administrative and operating costs of all accounts except DWRF, CWPF, and MIF, which pay such costs directly. ACF also includes the portion of premiums paid by employers earmarked for the safety and loss prevention activities performed by the Safety & Hygiene Division.

Operating revenues and expenses generally result from providing services in connection with ongoing operations. Operating revenues are primarily derived from premiums and assessments. Operating expenses include the costs of claims and related administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The GASB has recently issued the following new accounting pronouncements that will be effective in future years and may be relevant to BWC/IC:

- GASB No. 61, "The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34"
- GASB No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position"
- GASB No. 65, "Items Previously Reported as Assets and Liabilities"
- GASB No. 66, "Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62"
- GASB No. 68, "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27"

Continued

Management has not yet determined the impact that these new GASB Pronouncements will have on BWC/IC's financial statements.

Cash and Cash Equivalents

Cash and cash equivalents in the accompanying statements of net assets and for the purposes of the statements of cash flows include cash and all highly liquid debt instruments purchased with a maturity of three months or less. Cash equivalents are stated at amortized cost, which approximates fair value.

Investments

BWC/IC's investments consist of fixed maturities, domestic equity securities, commingled international equity securities, collateral on securities lending, investments in commingled bond index funds, and investments in commingled equity index funds.

Investments in fixed maturities, domestic equity securities, commingled international securities, commingled equity funds, and commingled bond index funds are stated at fair value. Fair values of fixed maturities are based on quotations from national security exchanges. Fair values of domestic securities are based on quotations from national exchanges and are valued at the last reported sales price. The fair value of the commingled bond index funds, commingled domestic equity funds, and commingled international equity funds are based on the value of the underlying net assets of the fund. Dividends, interest earnings, the net increase (decrease) in the fair value of investments (which includes both the change in fair value and realized gains and losses), and investment expenses are aggregated and reported as net investment income in the statements of revenues, expenses and changes in net assets. The cost of securities sold is determined using the average cost method. Purchases and sales of investments are recorded as of the trade date.

Restricted Cash

Restricted cash balances are maintained in accordance with the 2003 bond agreement for special obligation bonds issued through the Ohio Building Authority.

Premium Income

SIF, CWPF, PWREF, and MIF premium income is recognized over the coverage period and is collected in subsequent periods for all accounts except MIF, which collects premiums in advance of the coverage period. Premiums earned but not yet invoiced are reflected as premiums in course of collection in the statement of net assets. Premiums are based on rates that are approved by the Board and on the employers' payroll, except self-insured employer assessments, which are based on paid compensation. SIF rates for private and public taxing district employers meeting certain size criteria are adjusted automatically based on their own claims experience.

Continued

Retrospective rating plans and group retrospective rating plans are offered to qualified employers. SIF recognizes estimated ultimate premium income on retrospectively rated businesses during the coverage period. Retrospective rating adjustments related to the coverage period are collected in subsequent periods, as experience develops related to injuries incurred during the coverage period. The estimated future retrospective rating adjustments are reflected in the statement of net assets as retrospective premiums receivable.

Deductible plans and group experience rating plans are offered to qualified employers. The deductible plan is similar to that of other insurance deductible plans where an employer agrees to pay the portion of a workers' compensation injury claim that falls below their selected deductible level. For taking on this degree of risk, the employer will receive a premium discount. The group experience rating plan allows employers who operate similar businesses to group together to potentially achieve lower premium rates than they could individually.

The Code permits State employers to pay into SIF on a terminal funding (pay-as-you-go) basis. Additionally, certain benefits are paid from the SIF Surplus Fund (see Note 11) for self-insured employers. Since BWC/IC has the statutory authority to assess premiums against the State and self-insured employers in future periods, an unbilled premiums receivable equal to their share of the discounted reserve for compensation and compensation adjustment expenses, less BWC/IC's portion of the discounted reserve, is reflected in the statement of net assets.

Assessment Income

DWRF I (DWRF benefits awarded for injuries incurred prior to January 1, 1987) and ACF assessment income is recognized over the period for which the assessment applies and is collected in subsequent periods. These amounts are reflected as assessments in course of collection in the statements of net assets. DWRF II (DWRF benefits awarded for injuries incurred on or after January 1, 1987) and SIEGF assessments received or in the course of collection, but not yet recognized, are reflected as a reduction to unbilled premiums receivable.

The Code permits employers to pay into DWRF and SIEGF on a terminal funding (pay-as-you-go) basis. As BWC has the statutory authority to assess employers in future periods, an unbilled premiums receivable equal to the discounted reserve for compensation and compensation adjustment expenses for DWRF and SIEGF, less BWC/IC's portion of the discounted reserve, is reflected in the statements of net assets (see Note 4).

DWRF I assessments are based on employers' payroll and a statutorily determined rate. DWRF II and ACF assessments are based on rates that are approved by the Board and on employers' payroll, except for ACF assessments of self-insured employers, which are based on paid workers' compensation benefits. SIEGF assessments are based on the financial strength of self-insured employers and paid workers' compensation benefits with the exception of new self-insured employers, which are based on a percentage of base-rated premium.

Continued

Premium Payment Security Deposits

Premium payment security deposits are collected in advance from private employers to reduce credit risk for premiums collected in subsequent periods. A deposit is submitted upon application for coverage and generally represents 30% of an estimated eight-month premium, with a maximum deposit of $1 thousand. The deposit is applied to outstanding premiums or refunded to the employer upon cancellation of coverage.

Allowance for Uncollectible Accounts

BWC/IC provides an allowance for uncollectible accounts by charging operations for estimated receivables that will not be collected. The adequacy of the allowance is determined by management based on a review of aged receivable balances and historical loss experience.

Capital Assets

Capital assets are carried at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Description	Estimated Useful Lives (Years)
Buildings	30
Furniture and fixtures	10
Vehicles and equipment	5

When assets are disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in the statements of revenues, expenses, and changes in net assets. The cost of maintenance and repairs is charged to operations as incurred; significant renewals and betterments are capitalized.

In accordance with GASB Statement No. 51, a new capital asset category of “Intangible assets – definite useful lives” for internally generated software has been added to the capital asset roll-forward (see Note 3).

Reserves for Compensation and Compensation Adjustment Expenses

The reserve for compensation includes actuarial estimates for both reported claims and claims incurred but not reported (IBNR). The reserve for compensation adjustment expenses is determined by estimating future expenses to be incurred in settlement of the claims. The reserve for compensation is based on the estimated ultimate cost of settling the claims, including the effects of inflation and other societal and economic factors and projections as to future events, including claims frequency, severity, persistency, and inflationary trends for medical claim reserves. The reserve for compensation adjustment expenses is based on projected claim-related expenses, estimated costs of the managed care Health Partnership Program, and the reserve for compensation. The methods of making such estimates and for establishing the resulting liabilities are reviewed quarterly and updated based on current circumstances. Any adjustments resulting from changes in estimates are recognized in the

current period. The reserves for compensation and compensation adjustment expenses are discounted at 4.0% at June 30, 2012 and 2011 to reflect the present value of future benefit payments. The selected discount rate approximates an average yield on United States government securities with a duration similar to the expected claims underlying BWC/IC's reserves.
Management believes that the recorded reserves for compensation and compensation adjustment expenses make for a reasonable and appropriate provision for expected future losses. While management uses available information to estimate the reserves for compensation and compensation adjustment expenses, future changes to the reserves for compensation and compensation adjustment expenses may be necessary based on claims experience and changing claims frequency and severity conditions.

Reinsurance

Effective April 1, 2010, BWC/IC purchased workers' compensation excess of loss reinsurance to include coverage for catastrophic events and terrorism. Ceded reinsurance transactions are accounted for based on estimates of their ultimate cost. Reserves for compensation and compensation adjustment expenses are reported gross of reinsured amounts. Reinsurance premiums are reflected as a reduction of premium income (see note 7).

Income Taxes

As a department of the State, the income of BWC/IC is not subject to federal or state income tax.

Use of Estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates.

Reclassification

Certain 2011 financial statement amounts have been reclassified in order to conform to their 2012 presentation.

Continued

2. Cash and Investments

BWC/IC is authorized by Section 4123.44 of the Code to invest using an investment policy established by the Board, which uses the prudent person standard. The prudent person standard requires investments be made with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, and by diversifying the investments of the assets so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.

Custodial Credit Risk – Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, BWC/IC's deposits might not be recovered. Banks must provide security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in addition to amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. At June 30, 2012 and 2011, the carrying amount of BWC/IC's cash deposits were $11.287 million and $5.872 million, respectively, and the bank balances were $8.265 million and $1.221 million, respectively. At June 30, 2012 and 2011, the entire bank balances were insured by the FDIC. The remaining cash balance on deposit with the bank was collateralized by individual accounts of either a surety bond or securities with a market value of at least 100 percent to 102 percent of the total value of the public monies that are on deposit at the financial institution and was not exposed to custodial credit risk. Any pledged securities are held by the Federal Reserve, the Federal Home Loan Bank, or an insured financial institution serving as agent of the Treasurer of the State of Ohio.

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that, in the event of a failure of a counter party to a transaction, BWC/IC will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. BWC/IC's investments are not exposed to custodial credit risk since all BWC/IC investments are held in BWC/IC's name at either JP Morgan, BWC/IC's custodian assigned by the Treasurer of State, or in commingled account types which by definition are not exposed to custodial credit risk.

Continued

The composition of investments held at June 30, 2012 and 2011 is presented below (000's omitted):

	2012 Fair Value	2011 Fair Value
Fixed maturities		
Corporate bonds	$ 5,060,416	$ 4,141,861
U.S. treasury inflation protected securities	3,377,583	3,253,052
U.S. government obligations	2,937,821	2,273,544
Non-U.S. corporate bonds	885,140	818,381
U.S. state and local government agencies	762,126	693,668
U.S. government agency mortgages	659,736	686,313
Commingled U.S. treasury inflation protected securities	649,128	600,817
Commingled U.S. aggregate indexed fixed income	599,102	557,923
Non-U.S. government and agency bonds	381,315	462,424
U.S. government agency bonds	281,349	278,609
Commercial mortgage backed securities	55,618	62,592
Supranational issues	48,351	64,153
Commingled U.S. intermediate duration fixed income	47,912	45,501
Asset backed securities	5,799	8,160
Total fixed maturities	15,751,396	13,946,998
Domestic equity securities - common stocks	4,801,935	4,633,603
International securities	1,879,572	2,128,352
Securities lending short-term collateral	849	1,323
Cash and cash equivalents		
Cash	11,287	5,872
Repurchase Agreements	2,100	-
Short-term money market fund	428,795	339,615
Total cash and cash equivalents	442,182	345,487
	$ 22,875,934	$ 21,055,763

Net investment income for the years ended June 30, 2012 and 2011 is summarized as follows (000's omitted):

	2012	2011
Fixed maturities	$ 636,431	$ 686,077
Equity securities	92,396	86,152
Cash equivalents	41	219
	728,868	772,448
Increase in fair value of investments	1,323,434	1,599,613
Investment expenses	(8,658)	(7,702)
	$ 2,043,644	$ 2,364,359

Continued

Short-Term Money Market Fund

The underlying securities in the short-term money market fund are high-quality, short-term debt securities issued or guaranteed by the U.S. government or by U.S. government agencies or instrumentalities. and repurchase agreements fully collateralized by U.S. Treasury and U.S. government securities. This U.S. Government Money Market Fund carries a AAA credit rating. Although the Fund is generally less sensitive to interest rate changes than are funds that invest in longer-term securities, changes in short-term interest rates will cause changes to the Fund's yield resulting in some interest rate risk.

Repurchase Agreements

In fiscal year 2012, BWC began investing in overnight repurchase agreements. This type of investment is considered a cash and cash equivalent. In a repurchase agreement, the lender purchases a high quality, liquid security from another firm with an agreement in place for that firm to repurchase the security back from the lender on a specific date with specified terms. At June 30, 2012, the Ohio BWC held $2.1 million in repurchase agreements fully collateralized by U.S. Treasuries held in the custody of JP Morgan.

Interest Rate Risk – Fixed-Income Securities

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. BWC/IC manages the exposure to fair value loss arising from increasing interest rates by requiring that each fixed-income portfolio be invested with duration characteristics that are within a range consistent with Barclays Capital Fixed Income Index ranges.

Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flow, weighted for those cash flows as a percentage of the investment's full price. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows arising from such investments such as callable bonds, prepayments, and variable-rate debt. The effective duration measures the sensitivity of the market price to parallel shifts in the yield curve.

Continued

At June 30, 2012 and 2011, the effective duration of BWC's fixed-income portfolio is as follows (000's omitted):

	June 30, 2012		June 30, 2011	
Investment Type	Fair Value	Effective Duration	Fair Value	Effective Duration
U.S. state and local government agencies	$ 762,126	12.78	$ 693,668	11.37
Corporate bonds	5,060,416	11.82	4,141,861	11.00
U.S. government obligations	2,937,821	11.40	2,273,544	9.34
Non-U.S. corporate bonds	885,140	11.19	818,381	10.69
Non-U.S. government and agency bonds	381,315	10.47	462,424	9.76
Commingled U.S. treasury inflationary protected securities	649,128	8.27	600,817	7.65
U.S. treasury inflationary protected securities	3,377,583	8.18	3,253,052	7.65
U.S. government agency bonds	281,349	7.38	278,609	6.21
Supranational issues	48,351	5.82	64,153	7.00
Commingled U.S. aggregate indexed fixed income	599,102	5.05	557,923	5.16
Commingled U.S. intermediate duration fixed income	47,912	3.92	45,501	3.94
Commercial mortgage backed securities	55,618	2.99	62,592	3.39
Asset backed securities	5,799	2.59	8,160	2.86
U.S. government agency mortgages	659,736	2.28	686,313	3.51
Total fixed maturities	$ 15,751,396		$ 13,946,998	

Credit Risk – Fixed-Income Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment. On August 5, 2011, Standard and Poor's downgraded the United States Government's credit rating from AAA to AA+. Standard and Poor's has stated that the downgrade reflects their view that the effectiveness, stability, and predictability of American policymaking and political institutions have weakened at a time of ongoing fiscal and economic challenge. Moody's and Fitch, the other two credit rating agencies, have not downgraded the credit rating at this time. U.S. government obligations, U.S. government agency mortgages, U.S. treasury inflation protected securities, and Commingled U.S. treasury inflation protected securities are all rated AA+ by Standard and Poor's in fiscal year 2012, but were implied AAA in fiscal year 2011. Obligations of the U.S. government are explicitly guaranteed by the U.S. government.

BWC/IC's fixed-income securities were rated by Standard and Poor's (S&P) and/or an equivalent national rating organization and the ratings are presented below using the S&P rating scale (000's omitted). At June 30, 2012 and 2011, fixed maturities held in commingled bond funds in the custody of State Street were $1.3 billion and $1.2 billion, respectively. The remaining balance presented as of June 30, 2012 was held by the custodian on behalf of BWC/IC.

Continued

Quality Rating	2012 Fair Value	2011 Fair Value
Credit risk debt quality		
AAA	$ 273,262	$ 307,673
AA	1,581,827	1,521,753
A	2,889,831	2,548,221
BBB	2,939,980	2,373,123
BB	142,920	103,893
B	17,959	-
Total credit risk debt securities	7,845,779	6,854,663
U.S. government agency bonds		
AAA	-	278,609
AA	278,055	-
A	3,294	-
Total U.S. government agency bonds	281,349	278,609
U.S. government agency mortgages	659,736	686,313
U.S. government obligations	2,937,821	2,273,544
U.S. treasury inflation protected securities	3,377,583	3,253,052
Commingled U.S. treasury inflation protected securities	649,128	600,817
Total fixed maturities	$ 15,751,396	$ 13,946,998

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of BWC/IC’s investment in a single issuer. In 2012 and 2011, there is no single issuer that comprises 5% or more of the overall portfolio with the exception of BWC/IC’s investments in the U.S. Government.

Continued

Foreign Currency Risk – Investments

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. BWC's exposure to foreign currency risk as of June 30, 2012 and 2011 is as follows (000' omitted):

Currency	2012 Fair Value	2011 Fair Value
Australian Dollar	$ 110,689	$ 124,565
Brazilian Real	58,027	77,747
British Pound	298,378	311,330
Canadian Dollar	151,589	170,481
Chilean Peso	8,528	8,517
Chinese Renminbi	847	977
Colombian Peso	5,658	4,180
Czech Koruna	1,373	1,869
Danish Krone	14,504	15,287
Egyptian Pound	1,504	1,691
European Euro	342,565	453,250
Hong Kong Dollar	115,803	124,988
Hungarian Forint	1,277	2,112
Indian Rupee	28,510	35,130
Indonesian Rupiah	11,725	13,008
Israeli New Sheqel	7,282	10,219
Japanese Yen	276,430	288,808
Malaysian Ringgit	15,761	15,750
Mexican Peso	22,037	22,035
Moroccan Dirham	448	773
New Taiwan Dollar	48,473	55,694
New Zealand Dollar	1,552	1,694
Norwegian Krone	11,714	13,201
Peruvian Nuevo Sol	318	-
Philippine Peso	4,189	2,758
Polish Zloty	6,310	8,522
Russian Ruble	22,060	29,067
Singapore Dollar	23,674	24,710
South African Rand	35,070	36,520
South Korean Won	66,949	73,831
Swedish Krona	39,561	45,271
Swiss Franc	107,931	120,457
Thai Baht	9,612	8,381
Turkish New Lira	7,386	6,918
Exposure to foreign currency risk	1,857,734	2,109,741
United States dollar	21,838	18,611
Total international securities	$ 1,879,572	$ 2,128,352

Continued

Securities Lending

At June 30, 2012 and 2011, BWC/IC had no securities out on loan. BWC/IC has been allocated with cash collateral of $849 thousand in 2012 and $1.3 million in 2011 from the securities lending program administered through the Treasurer of State's Office based on the amount of cash equity in the State's common cash and investment account.

3. Capital Assets

Capital asset activity and balances as of and for the years ended June 30, 2012 and 2011 are summarized as follows (000's omitted):

Capital assets not being depreciated	Balance at 6/30/2010	Increases	Decreases	Balance at 6/30/2011	Increases	Decreases	Balance at 6/30/2012
Land	$ 11,994	$ -	$ -	$ 11,994	$ -	$ -	$ 11,994
Subtotal	11,994	-	-	11,994	-	-	11,994
Capital assets being depreciated							
Buildings	205,771	-	-	205,771	-	-	205,771
Building improvements	2,185	1,357	-	3,542	-	-	3,542
Furniture and equipment	35,082	1,459	(6,852)	29,689	1,201	(1,472)	29,418
Land improvements	66	-	-	66	-	-	66
Subtotal	243,104	2,816	(6,852)	239,068	1,201	(1,472)	238,797
Accumulated depreciation							
Buildings	(131,811)	(6,788)	-	(138,599)	(6,787)	-	(145,386)
Building improvements	-	(44)	-	(44)	(177)	-	(221)
Furniture and equipment	(23,849)	(4,381)	6,783	(21,447)	(3,811)	1,457	(23,801)
Land improvements	(55)	(1)	-	(56)	(1)	-	(57)
Subtotal	(155,715)	(11,214)	6,783	(160,146)	(10,776)	1,457	(169,465)
Capital assets being amortized							
Intangible assets - definite useful lives	-	-	-	-	7,324	-	7,324
Net capital assets	$ 99,383	$ (8,398)	$ (69)	$ 90,916	$ (2,251)	$ (15)	$ 88,650

BWC has not started amortizing the Intangible assets yet because the internally generated software project is not yet complete as of June 30, 2012.

4. Reserves for Compensation and Compensation Adjustment Expenses

The reserve for compensation consists of reserves for indemnity and medical claims resulting from work-related injuries or illnesses. The recorded liability for compensation and compensation adjustment expenses is based on an estimate by BWC/IC's independent consulting actuary. Management believes that the recorded liability makes for a reasonable and appropriate provision for expected future losses; however, the ultimate liability may vary from the amounts provided.

All reserves have been discounted at 4.0% at June 30, 2012 and 2011. A decrease in the discount rate to 3.0% would result in the reserves for compensation and compensation adjustment expenses increasing to $21.7 billion at June 30, 2012, while an increase in the rate to 5.0% would result in the reserves for compensation and compensation adjustment expenses decreasing to $18.2 billion. The undiscounted reserves for compensation and compensation adjustment expenses were $32.2 billion at June 30, 2012 and $32.5 billion at June 30, 2011.

Continued

The changes in the reserves for compensation and compensation adjustment expenses for the years ended June 30, 2012 and 2011 are summarized as follows (in millions):

	2012	2011
Reserves for compensation and compensation	$19,950	$19,804
Incurred:		
Provision for insured events of current period	1,800	1,863
Net increase in provision for insured events of prior periods net of discount accretion of $798 in 2012 and $792 in 2011	33	376
Total incurred	1,833	2,239
Payments:		
Compensation and compensation adjustment expenses attributable to insured events of current period	386	399
Compensation and compensation adjustment expenses attributable to insured events of prior period	1,692	1,694
Total payments	2,078	2,093
Reserves for compensation and compensation adjustment expenses, end of period	$19,705	$19,950

5. Bonds Payable

On April 22, 2003, BWC/IC issued special obligation bonds through the Ohio Building Authority (OBA) to refund the 1993 William Green Building Series A bonds. The 2003 bonds bear predetermined interest rates ranging from 1.61% to 3.95%, compared to interest rates ranging from 3.25% to 5.125% on the 1993 bonds. The reacquisition price exceeded the net carrying amount of the old debt by $5.1 million. This amount is netted against the new debt and amortized over the life of the new debt. As a result of the refunding, BWC/IC reduced its total debt service requirements by $9.8 million, which resulted in an economic gain of $8.9 million.

The bonds are collateralized by lease rental payments pledged by BWC/IC to OBA. The lease period coincides with the State's biennial budget and is renewable for successive two-year periods until the bonds are retired. Lease payments are based on the estimated debt service of the bonds, but are limited to an amount appropriated by the Ohio General Assembly in BWC/IC's biennial budget. Lease rental payments totaled $18.2 million and $19.0 million for the years ended June 30, 2012 and 2011, respectively. These payments included interest of $2.3 million and $3.1 million for the years ended June 30, 2012 and 2011, respectively.

Continued

The building continues to be reflected in capital assets and the related obligation has been reflected as bonds payable in the statements of net assets. Future principal and interest payments are as follows (000's omitted):

Fiscal Year	Principal	Interest	Total
2013	15,915	1,543	17,458
2014	15,200	751	15,951
Deferred loss on refunding	(131)	-	(131)
Unamortized Bond Discount & issuance costs	649	-	649
Total	$31,633	$2,294	$33,927

6. Long-Term Obligations

Activity for long-term obligations (excluding the reserves for compensation and compensation adjustment expenses – see Note 4) for the years ended June 30, 2012 and 2011, is summarized as follows (000's omitted):

	Balance at 6/30/2010	Increases	Decreases	Balance at 6/30/2011	Due Within One Year
Premium payment security deposits	$ 87,974	$ 1,093	$ (1,403)	$ 87,664	$ -
Bonds payable	64,200	3,302	(19,613)	47,889	15,890
Other liabilities	49,466	40,675	(49,549)	40,592	14,975
	$ 201,640	$ 45,070	$ (70,565)	$ 176,145	$ 30,865

	Balance at 6/30/2011	Increases	Decreases	Balance at 6/30/2012	Due Within One Year
Premium payment security deposits	$ 87,664	$ 2,029	$ (3,408)	$ 86,285	$ -
Bonds payable	47,889	2,491	(18,747)	31,633	15,914
Other liabilities	40,592	44,646	(48,509)	36,729	12,737
	$ 176,145	$ 49,166	$ (70,664)	$ 154,647	$ 28,651

7. Reinsurance

BWC/IC purchases catastrophic reinsurance for risks in excess of its retention limits on workers' compensation insurance policies written. Management is not aware of any catastrophes during the coverage periods listed below and BWC/IC has not recorded any reinsurance recoveries. Coverage for policies is provided under the following terms:

Continued

Policy Period: April 1, 2012 to March 31, 2013

Reinsurance Coverage:

- Section One – Other than Acts of NBCR Terrorism 100% of $250,000,000 in excess of $250,000,000 per Loss Occurrence - Maximum loss of $5,000,000 of any one person
- Section Two – Only for Acts of Terrorism including NBCR Terrorism 15% of $615,000,000 (or $92,250,000) in excess of $385,000,000 per Loss Occurrence - Maximum loss of $5,000,000 of any one person

Policy Period: April 1, 2011 to March 31, 2012

Reinsurance Coverage:

- Section One – Other than Acts of NBCR Terrorism 100% of $250,000,000 in excess of $250,000,000 per Loss Occurrence - Maximum loss of $5,000,000 of any one person
- Section Two – Only for Acts of Terrorism including NBCR Terrorism 15% of $615,000,000 (or $92,250,000) in excess of $385,000,000 per Loss Occurrence - Maximum loss of $5,000,000 of any one person

Policy Period: April 1, 2010 to March 31, 2011

Reinsurance Coverage:

- Section One – Other than Acts of Nuclear, Biological, Chemical, or Radiological (NBCR) Terrorism 100% of $250,000,000 in excess of $250,000,000 per Loss Occurrence - Maximum loss of $5,000,000 of any one person
- Section Two – Only for Acts of Terrorism including NBCR Terrorism 15% of $560,000,000 (or $84,000,000) in excess of $440,000,000 per Loss Occurrence - Maximum loss of $5,000,000 of any one person

The following reinsurance activity has been recorded in the accompanying basic financial statements for the years ended June 30, 2012 and 2011 (000's omitted):

	2012	2011
Premium Income	$ 1,607,115	$ 1,578,737
Ceded Premiums	(6,150)	(6,134)
Total Premium Income net of Ceded Premiums	$ 1,600,965	$ 1,572,603

Should the reinsurers be unable to meet their obligations under the reinsurance contracts, BWC/IC would remain liable for amounts ceded to its reinsurers. Reinsurance contracts do not relieve BWC/IC of its obligations, and a failure of the reinsurer to honor its obligations

Continued

could result in losses to BWC/IC. BWC/IC evaluates and monitors the financial condition of its reinsurers to minimize its exposure to loss from reinsurer insolvency. BWC/IC management believes its reinsurers are financially sound and will continue to meet their contractual obligations.

BWC/IC's reinsurers had the following AM Best ratings at June 30, 2012 and 2011:

Reinsurer	Rating
Allied World Assurance Company Limited	A
Aspen Insurance UK Limited	A
Axis Specialty Limited	A
Hannover Re (Bermuda) Limited	A
Odyssey Reinsurance Company	A
Tokio Millennium Re Limited	A++
Underwriters at Lloyd's	A
Alterra Zurich Branch of Alterra UK Underwriting Services Limited	A

8. Benefit Plans

Pension Plans

BWC/IC contributes to the Ohio Public Employees Retirement System of Ohio (OPERS). OPERS administers three separate pension plans:

- The Traditional Plan - a cost-sharing, multiple-employer defined benefit pension plan.
- The Member-Directed Plan – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under this plan, members accumulate retirement assets equal to the value of member and vested employer contributions plus any investment earnings thereon.
- The Combined Plan – a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Benefits are established and may be amended by State statute. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may

Continued

be obtained by visiting https://www.opers.org/investments/cafr.shtml, writing to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 1-800-222-7377. As of June 30, 2012, the most recent report issued by OPERS is as of December 31, 2011.

Chapter 145 of the Ohio Revised Code provides OPERS statutory authority for employee and employer contributions. For the year ended December 31, 2011 and 2010, the employee contribution rate was 10% and the employer contribution rate was 14% of covered payroll. BWC/IC's contributions, representing 100% of the dollar amount billed, are as follows (000's omitted):

Twelve months ended June 30, 2012	$20,617
Twelve months ended June 30, 2011	$22,264
Twelve months ended June 30, 2010	$22,784

Post-Retirement Health Care

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement, to qualifying members of both the Traditional and the Combined Plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. To qualify for post-retirement health care coverage, age and service retirees must have 10 or more years of qualifying Ohio service credit. Health care coverage for disabled recipients and primary survivor recipients is available.

The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pension." The Code provides statutory authority for employer contributions and requires public employers to fund post-retirement health care through their contributions to OPERS.

OPERS' Post Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of the employer's contribution to OPERS set aside for the funding of OPEB for members in the Traditional Plan was 4% during calendar year 2011. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2011. The portion allocated to health care for calendar year beginning January 2012 remained the same, but they are subject to change based on Board action. This is compared to 5.5% for the Traditional Plan from January 1 through February 28, 2010 and 5.0% from March 1 through December 31, 2010. In addition, the portion of employer contributions allocated to health care for members in the Combined Plan was 4.73% from January 1 through February 28, 2010, and 4.23% from March 1 through December 31, 2010. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

Continued

Based upon the portion of each employer's contribution to OPERS set aside for funding OPEB as described above, BWC/IC's contribution for the 12 months ended June 30, 2012 allocated to OPEB was approximately $10.3 million and $11.1 million for the 12 months ended June 30, 2011.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1 of each year from 2006 to 2008. This allowed additional funds to be allocated to the health care plan.

9. Risk Management

BWC/IC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To cover these risks, BWC/IC maintains commercial insurance and property insurance. There were no reductions in coverage in either fiscal year 2012 or 2011. Claims experience over the past three years indicates there were no instances of losses exceeding insurance coverage. Additionally, BWC/IC provides medical benefits for its employees on a fully insured basis with independent insurance companies or the State's self-insured benefit plan.

10. Contingent Liabilities

BWC/IC is a party in various legal proceedings, which normally occur as part of BWC/IC's operations.

A class action complaint in the 8th District Court of Appeals contended that subrogation allowed under Ohio Revised Code 4123.931 was unconstitutional. The class action was filed after an earlier decision by the Ohio Supreme Court in Holeton v. Crouse Cartage, which declared the subrogation statute unconstitutional. (The subrogation statute was later amended, and in *Groch v. Gen. Motors Corp.* (2008), 117 Ohio St.3d, the Ohio Supreme Court upheld the statute as constitutional). The trial court certified the class, granted summary judgment to the plaintiffs, and awarded attorney fees. A liability of $50 million was accrued as of June 30, 2005. This case was settled in July 2006, with payments of $46.9 million being made during fiscal year 2007, $1.9 million during fiscal year 2008, $1.1 million during fiscal year 2009, $296 thousand in fiscal year 2010, $6 thousand in fiscal year 2011, and $41 thousand in fiscal year 2012. Claimants had until January 28, 2012 to file notice of repayment with BWC/IC. On August 15, 2012, the class administrator issued his final report to the court, which confirmed that all duties of the class administrator and BWC/IC have been discharged, and there are no outstanding claims, objections, or disputes.

A class action case was filed alleging that BWC/IC identifies permanent total disability (PTD) recipients not represented by counsel and encourages them to settle their PTD claims for substantially less than their actuarial present value. The plaintiffs contend that BWC/IC refuses to conduct good-faith settlement negotiations with PTD recipients represented by counsel. The trial court denied BWC/IC's motion to dismiss and/or change of venue, and granted class certification. The 8th District Court of Appeals issued a ruling affirming the trial court's rulings. BWC/IC appealed to the Ohio Supreme Court. In May 2008, the Ohio Supreme Court reversed the Court of Appeals' decision and held that, because this matter is a claim against the state for money due under a contract, and not a claim of equitable

Continued

restitution, it must be brought before the Ohio Court of Claims. Plaintiffs filed action in the Court of Claims in November 2008. On July 7, 2009, the court granted a partial dismissal of this case. The court dismissed the claims of breach of duty, fraud, unjust enrichment, and violation of constitutional and statutory rights. The remaining claim is for breach of contract and associated declaratory relief. Plaintiff's motion to reinstate class certification is still pending. In an entry dated November 18, 2010, the court denied plaintiff's motion to reconsider its dismissal of plaintiff's motion to compel discovery. The court has limited production of documents to PTD claims settled in 1999 only. On August 12, 2011 plaintiff filed his memorandum in opposition to BWC's motion, along with a motion for reconsideration of the court's dismissal of plaintiff's claim for unjust enrichment, a motion to compel discovery, and a motion to postpone the court's ruling on BWC's motion for summary judgment. On October 22, 2011, the court issued a partial grant of BWC's motion for summary judgment, by dismissing plaintiff's breach of contract claim. On November 1, 2011, BWC filed a motion for judgment on the pleadings to dispose of the plaintiff's last remaining claim, a claim for declaratory relief, on the basis that the two year statute of limitations applies to all claims. On January 9, 2012, the court granted the motion, and entered judgment in favor of BWC. Plaintiff filed notice of appeal to the 10^{th} District Court of Appeals on January 19, 2012. On July 26, 2012, the three judge panel of the 10^{th} District heard oral arguments. A ruling is anticipated in the coming months. Accordingly, no provision for any liability has been reported in the financial statements for this matter.

BWC/IC is involved in litigation challenging policies related to lump-sum advancements made to PTD recipients. This action alleges that BWC/IC has improperly recouped repayment monies from PTD recipients by continuing to deduct monies from the plaintiff's benefits in an amount greater than the advance plus interest. On April 6, 2011, the court ruled in BWC's favor, by reversing the 8^{th} District Court of Appeals, and reinstating the trial court's dismissal of plaintiff's claims on the basis of subject matter jurisdiction. The court found that plaintiff's suit should be brought in the Ohio Court of Claims. On April 21, 2011, plaintiffs-filed the complaint in the court of claims. On November 4, 2011, BWC filed motion for summary judgment based on existing case law which supports BWC's practice of reducing claimants' bi-weekly payment even after the principal and interest on lump sum advancement has been repaid in full. On December 30, 2011, the Court of Claims granted BWC's motion for summary judgment. Plaintiffs filed notice of appeal with the 10^{th} District Court of Appeals. On August 16, 2012, the 10^{th} District affirmed the trial court decision. Plaintiffs have until October 1, 2012 to file a notice of appeal to the Ohio Supreme Court. Accordingly, no provision for any liability has been reported in the financial statements for this matter.

A class action case was filed against BWC/IC alleging that non-group-rated employers subsidize group-rated employers, and that this bias in premiums violates various provisions of the Ohio Constitution. Plaintiffs have asked the court to declare the group rating plan unconstitutional and require BWC/IC to repay to the class members all excessive premiums collected by BWC/IC, with interest and attorney fees. In April 2008, plaintiffs filed a motion for a preliminary injunction enjoining BWC/IC from enforcing the group rating statutes during pendency of the action (beginning July 1, 2008). A hearing was held on the injunction request in August 2008. In December 2008 the Cuyahoga County Common Pleas Court issued the requested preliminary injunction restraining BWC from continuing its current group rating plan for the policy year beginning July 1, 2009. At the same time, the common pleas court ordered that BWC enact a group retrospective rating plan for the policy year beginning

Continued

July 1, 2009. BWC filed an appeal and a motion for stay with the common pleas court. On December 17, 2008, the General Assembly passed House Bill 79 clarifying that Ohio's group rating program was not intended to be retrospective only. On January 6, 2009 the Governor signed the bill making it effective immediately. On January 7, 2009 BWC filed a motion to dissolve the preliminary injunction and in March 2009, the common pleas court issued an order vacating the preliminary injunction. Plaintiff has filed a motion for class certification and BWC filed a response in opposition. In January 2010, the common pleas court granted class certification and BWC had appealed. Oral arguments on BWC's appeal of the class certification order were held on February 16, 2011. On April 7, 2011 the court issued its written decision affirming the trial court's decision to grant class certification, and remanding the case to the trial court. A bench trial in the case commenced on August 20, 2012 and concluded on August 31st. Post-trial briefs are due by October 5, 2012. A written ruling from the court is anticipated within 30 to 60 days after October 5th. While it is reasonably probable that an adverse decision will be rendered in this case, the financial exposure can only be estimated to be within a range of $0 to $1.3 billion. Accordingly, no provision for any liability has been reported in the financial statements for this matter. If an adverse decision is received, it is BWC/IC's intent to vigorously defend our position.

A class action case was filed against BWC alleging violations of the Ohio Revised Code and unjust enrichment. The plaintiff asserts that BWC stopped issuing the plaintiff's temporary disability payments in the form of paper checks and instead began electronically transferring his benefits into an electronic benefits transfer debit card account. The bank charges a transaction fee if he visits a bank teller to withdraw money from the account more than once per month, regardless of the fact that his benefits are credited to the account every 14 days. Plaintiff asserts that this practice of charging transaction fees for withdrawals deprives the plaintiff and other workers' compensation claimants of 100 percent of their awarded benefits. On December 23, 2010, BWC filed a motion to dismiss for lack of subject matter jurisdiction, on the basis that plaintiff's complaint is an action in law (not an action in equity), which should be brought in the Ohio Court of Claims. This motion was denied. On August 15, 2012, BWC filed a motion for summary judgment. The plaintiff filed a motion for class certification, which BWC opposed on September 14, 2012. A trial date is set for December 10, 2012. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability has been reported in the financial statements for this matter. Management is vigorously defending this case.

A class-action case was filed challenging the constitutionality of BWC's practice of reimbursing injured workers for prescriptions paid prior to the allowance of a claim or additional condition. Plaintiffs allege that BWC should repay the full cash price of prescriptions, even if such amount is in excess of the amount permissible under BWC's provider fee schedule. On February 3, 2012, BWC filed a motion to dismiss plaintiff's complaint. Motion has been fully briefed, and the parties are awaiting a decision from the court. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability has been reported in the financial statements for this matter. Management is vigorously defending this case.

Although the outcome of these cases is not quantifiable or determinable at this time, an unfavorable outcome in any one of them could have a material effect on the financial position of BWC/IC.

Continued

BWC/IC is also involved in other claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with the Attorney General, the ultimate disposition of these matters is not likely to have a material adverse effect on BWC/IC's financial position.

11. Net Assets

Individual fund net asset (deficit) balances at June 30, 2012 and 2011 were as follows (000's omitted):

	2012	2011
SIF	$ 6,817,487	$ 4,898,170
SIF Surplus Fund Account	17,150	23,263
SIF Premium Payment Security Fund	136,776	132,374
Total SIF Net Assets	6,971,413	5,053,807
DWRF	1,291,538	1,199,936
CWPF	195,181	214,074
PWREF	25,973	23,839
MIF	18,917	17,726
SIEGF	7,893	7,507
ACF	(693,176)	(744,887)
Total Net Assets	$ 7,817,739	$ 5,772,002

As mandated by the Code, SIF net assets are separated into three separate funds; the main fund, the Surplus Fund Account (Surplus Fund), and the Premium Payment Security Fund (PPSF).

The SIF Surplus Fund is established by the Code and is financed by a portion of all SIF premiums paid by private, self-insured, and public employers (excluding State employers). The Surplus Fund has been appropriated for specific charges, including compensation related to claims of handicapped persons or employees of noncomplying employers, and the expense of providing rehabilitation services, counseling, training, living maintenance payments, and other related charges to injured workers. The Surplus Fund may also be charged on a discretionary basis as ordered by BWC/IC, as permitted by the Code. Prior to the passage of House Bill 15 in 2009, contributions to the Surplus Fund were limited to 5% of premiums. The BWC administrator now has the authority to transfer money from SIF necessary to meet the needs of the Surplus Fund.

Continued

The SIF PPSF is established by the Code and is financed by a percentage of all premiums paid by private employers. Amounts are charged to the PPSF when the employer's premium due for a payroll period is determined to be uncollectible by the Attorney General of Ohio and the employer's premium payment security deposit is not sufficient to cover the premiums due for the payroll period.

The ACF fund deficit is a result of recognizing the actuarially estimated liabilities in accordance with accounting principles generally accepted in the United States of America, even though the funding for ACF is on a terminal funding basis in accordance with the Code. Consequently, the incurred expenses are not fully funded.

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO

(A DEPARTMENT OF THE STATE OF OHIO)

REQUIRED SUPPLEMENTAL REVENUE AND RESERVE DEVELOPMENT INFORMATION, UNAUDITED

(See Accompanying Independent Auditor's Report)

June 30, 2012 and 2011

GASB Statement No. 30, "Risk Financing Omnibus," requires the presentation of ten years of supplemental revenue and reserve development information, if available.

The table on the following page illustrates how BWC/IC's gross premium revenues and investment income compare to related costs of workers' compensation benefits (compensation) and other expenses incurred by BWC/IC as of the end of each of the last ten and one-half reporting periods. The rows of the table are defined as follows: (1) This line shows the total of each period's gross premium revenues and investment income. (2) This line shows each period's operating expenses, including overhead and compensation adjustment expenses not allocable to individual claims. (3) This line shows incurred compensation and allocated compensation adjustment expenses (both paid and accrued) as originally reported at the end of the first period in which the injury occurred. (4) This section of ten rows shows the cumulative amounts paid as of the end of successive periods for each period. (5) This section of ten rows shows how each period's incurred compensation increased or decreased as of the end of successive periods. (6) This line compares the latest re-estimated incurred compensation amount to the amount originally established (line 3) and shows whether this latest estimate of compensation cost is greater or less than originally estimated. As data for individual periods mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred compensation currently recognized in less mature periods. The columns of the table show data for successive periods on an undiscounted basis for the fiscal years ended June 30, 2002 through 2012.

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OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)

REQUIRED SUPPLEMENTAL REVENUE AND RESERVE
DEVELOPMENT INFORMATION, UNAUDITED, Continued
(See Accompanying Independent Auditors' Report)
(In Millions of Dollars)

	Fiscal Years Ended June 30										
	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
1. Gross premiums, assessments, and investment income	$ 4,044	$ 4,356	$ 4,206	$ 2,296	$ 2,968	$ 5,251	$ 3,015	$ 3,272	$ 3,558	$ 2,886	$ 2,032
2. Unallocated expenses	129	131	139	97	108	109	170	179	188	169	194
3. Estimated incurred compensation and compensation adjustment expense, end of period	1,800	1,863	1,870	2,139	2,219	2,327	2,270	2,392	2,335	2,405	2,233
Discount	968	974	985	1,472	1,892	2,099	2,147	2,227	2,447	2,544	2,374
Gross liability as originally estimated	2,768	2,837	2,855	3,611	4,111	4,426	4,417	4,619	4,782	4,949	4,607
4. Paid (cumulative) as of :											
End of period	386	400	384	458	415	423	417	449	449	485	456
One year later		641	639	711	755	747	743	795	843	872	853
Two years later			775	868	920	926	927	979	1,037	1,096	1,063
Three years later				979	1,056	1,048	1,066	1,121	1,181	1,248	1,230
Four years later					1,163	1,155	1,172	1,238	1,302	1,371	1,351
Five years later						1,251	1,268	1,336	1,408	1,485	1,459
Six years later							1,355	1,425	1,498	1,570	1,559
Seven years later								1,500	1,576	1,653	1,645
Eight years later									1,643	1,727	1,714
Nine years later										1,795	1,779
Ten years later											1,838
5. Re-estimated incurred compensation and compensation adjustment expenses (gross):											
One year later		2,680	2,701	2,865	3,607	3,946	4,087	4,456	4,604	4,653	4,469
Two years later			2,596	2,794	2,948	3,460	3,879	4,085	4,369	4,497	4,384
Three years later				2,730	2,909	2,909	3,410	3,929	4,138	4,297	4,228
Four years later					2,862	2,877	2,899	3,502	3,842	4,108	4,080
Five years later						2,812	2,877	2,977	3,489	3,772	3,817
Six years later							2,839	2,984	3,042	3,479	3,565
Seven years later								2,960	3,054	3,106	3,340
Eight years later									3,032	3,118	3,055
Nine years later										3,096	3,061
Ten years later											3,031
6. Decrease in gross estimated incurred compensation and compensation adjustment expenses from end of period		(157)	(259)	(881)	(1,249)	(1,614)	(1,578)	(1,659)	(1,750)	(1,853)	(1,576)

Ultimate incurred loss and LAE excludes liability associated with active working miners within the CWPF since they are not yet assignable to fiscal accident year.
The June 30, 2012 active miners nominal and discounted liability is approximately $126.5 and $35.3 million, respectively.

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)
SUPPLEMENTAL SCHEDULE OF NET ASSETS
(See Accompanying Independent Auditors' Report)
June 30, 2012
(000's omitted)

	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									
Current assets:									
Cash and cash equivalents	$ 376,109	$ 2,715	$ 1,442	$ 626	$ 503	$ 57,590	$ 3,197	$ -	$ 442,182
Collateral on loaned securities	-	-	-	-	-	-	849	-	849
Premiums in course of collection	712,921	-	-	422	-	-	-	-	713,343
Assessments in course of collection	-	43,205	-	-	-	-	127,941	-	171,146
Accounts receivable, net of allowance for uncollectibles	107,932	16,550	23	59	1	466	5,357	-	130,388
Interfund receivables	12,337	60,660	-	561	29	783	145,393	(219,763)	-
Investment trade receivables	194,429	-	-	-	-	-	-	-	194,429
Accrued investment income	151,512	-	-	-	-	-	-	-	151,512
Other current assets	5,093	-	-	-	-	-	4,191	-	9,284
Total current assets	1,560,333	123,130	1,465	1,668	533	58,839	286,928	(219,763)	1,813,133
Non-current assets:									
Fixed maturities	14,455,254	1,003,172	245,057	27,318	20,595	-	-	-	15,751,396
Domestic equity securities:									
Common stocks	4,456,554	304,473	40,908	-	-	-	-	-	4,801,935
Preferred stocks	-	-	-	-	-	-	-	-	-
International securities	1,732,171	128,020	19,381	-	-	-	-	-	1,879,572
Investments in limited partnerships	-	-	-	-	-	-	-	-	-
Unbilled premiums receivable	714,712	1,718,946	-	-	-	856,776	91,425	-	3,381,859
Retrospective premiums receivable	299,873	-	-	-	-	-	-	-	299,873
Capital assets	21,042	22	-	-	-	-	67,586	-	88,650
Restricted cash	-	-	-	-	-	-	89	-	89
Total noncurrent assets	21,679,606	3,154,633	305,346	27,318	20,595	856,776	159,100	-	26,203,374
Total assets	$ 23,239,939	$ 3,277,763	$ 306,811	$ 28,986	$ 21,128	$ 915,615	$ 446,028	$ (219,763)	$ 28,016,507

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)
SUPPLEMENTAL SCHEDULE OF NET ASSETS, Continued
(See Accompanying Independent Auditors' Report)
June 30, 2012
(000's omitted)

	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
LIABILITIES									
Current liabilities:									
Reserve for compensation	$ 1,872,506	$132,352	$ 1,062	$ 342	$ 265	$18,178	$ -	$ -	$ 2,024,705
Reserve for compensation adjustment expenses	165,743	87	94	-	30	1,108	219,892	-	386,954
Warrants payable	24,660	-	-	-	-	-	-	-	24,660
Bonds payable	-	-	-	-	-	-	15,914	-	15,914
Investment trade payables	302,143	-	-	-	-	-	-	-	302,143
Accounts payable	4,395	-	-	-	-	-	7,372	-	11,767
Interfund payables	205,560	10,543	121	9	10	3,520	-	(219,763)	-
Obligations under securities lending	-	-	-	-	-	-	849	-	849
Other current liabilities	2,472	82	20	4	101	-	10,058	-	12,737
Total current liabilities	2,577,479	143,064	1,297	355	406	22,806	254,085	(219,763)	2,779,729
Noncurrent liabilities:									
Reserve for compensation	12,972,094	1,839,348	102,338	2,658	1,735	872,222	-	-	15,790,395
Reserve for compensation adjustment expenses	633,357	3,813	7,306	-	70	12,694	845,408	-	1,502,648
Premium payment security deposits	85,596	-	689	-	-	-	-	-	86,285
Bonds payable	-	-	-	-	-	-	15,719	-	15,719
Other noncurrent liabilities	-	-	-	-	-	-	23,992	-	23,992
Total noncurrent liabilities	13,691,047	1,843,161	110,333	2,658	1,805	884,916	885,119	-	17,419,039
Total liabilities	16,268,526	1,986,225	111,630	3,013	2,211	907,722	1,139,204	(219,763)	20,198,768
NET ASSETS (DEFICIT)									
Invested in capital assets, net of related debt	21,042	22	-	-	-	-	36,041	-	57,105
Restricted for Surplus Fund	17,150	-	-	-	-	-	-	-	17,150
Restricted for Premium Payment Security Fund	136,776	-	-	-	-	-	-	-	136,776
Unrestricted net assets (deficit)	6,796,445	1,291,516	195,181	25,973	18,917	7,893	(729,217)	-	7,606,708
Total net assets (deficit)	$ 6,971,413	$ 1,291,538	$ 195,181	$ 25,973	$ 18,917	$ 7,893	$ (693,176)	$ -	$ 7,817,739

OHIO BUREAU OF WORKERS' COMPENSATION

AND

INDUSTRIAL COMMISSION OF OHIO

(A DEPARTMENT OF THE STATE OF OHIO)

SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND

CHANGES IN NET ASSETS

(See Accompanying Independent Auditors' Report)

For the year ended June 30, 2012

(000's omitted)

	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
Operating revenues:									
Premium income net of ceded premium	$1,598,244	$ -	$1,472	$793	$456	$ -	$ -	$ -	$1,600,965
Assessment income	-	86,570	-	-	-	9,538	294,945	-	391,053
Provision for uncollectibles	(45,639)	(626)	-	-	-	382	(1,657)	-	(47,540)
Other income	7,381	-	-	-	-	-	6,734	-	14,115
Total operating revenues	1,559,986	85,944	1,472	793	456	9,920	300,022	-	1,958,593
Operating expenses:									
Workers' compensation benefits	1,394,179	78,396	34,606	32	212	9,375	-	-	1,516,800
Compensation adjustment expenses	165,040	(6,097)	2,387	-	30	163	154,669	-	316,192
Personal services	-	38	50	-	14	-	65,979	-	66,081
Other administrative expenses	20,980	10	2	1	45	1	33,108	-	54,147
Total operating expenses	1,580,199	72,347	37,045	33	301	9,539	253,756	-	1,953,220
Net operating (loss) income	(20,213)	13,597	(35,573)	760	155	381	46,266	-	5,373
Non-operating revenues:									
Net investment income	1,937,819	78,005	19,740	1,374	1,036	5	5,665	-	2,043,644
Gain on disposal of capital assets	-	-	-	-	-	-	110	-	110
Total non-operating revenues	1,937,819	78,005	19,740	1,374	1,036	5	5,775	-	2,043,754
Net transfers out	-	-	(3,060)	-	-	-	(330)	-	(3,390)
Increase in net assets (deficit)	1,917,606	91,602	(18,893)	2,134	1,191	386	51,711	-	2,045,737
Net assets (deficit), beginning of year	5,053,807	1,199,936	214,074	23,839	17,726	7,507	(744,887)	-	5,772,002
Net assets (deficit), end of year	$6,971,413	$1,291,538	$195,181	$25,973	$18,917	$7,893	$(693,176)	$ -	$7,817,739