Fiscal Year 2013 Report

Ohio Bureau of Workers' Compensation

Governor John R. Kasich
BWC Administrator/CEO Stephen Buehrer

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Letter from the Administrator

Dear Governor Kasich:

I am pleased to present the annual report of the Ohio Bureau of Workers' Compensation for Fiscal Year 2013 (FY13).

Our mission to protect Ohio's workers and employers through the prevention, care and management of workplace injuries and illnesses at fair rates was the driving force behind several of our biggest efforts in FY13. Helping grow jobs and bolster Ohio's economic development also inspired several exciting initiatives in FY13. Below are some of the highlights.

- In conjunction with your office, we provided a $1 billion rebate for employers who pay into the State Insurance Fund. We sent rebate checks equaling 56 percent of annual premiums to approximately 200,000 businesses, local governments and school districts at the end of FY13.
- We tripled the funding of our Safety Intervention Grant Program from $5 million to $15 million to promote workplace safety and encourage further investment in protecting Ohio's workers.
- The BWC Board of Directors approved a private employer base-rate reduction of 2.1 percent. Effective for the July 1, 2013 to June 30, 2014, policy year, the rate reduction represents an aggregate savings of $29 million over 2013 premiums.
- In addition, the Board followed a recommendation to reduce average rates for public employer taxing districts by 5 percent. Average rates, based on an employers' payroll, have not been this low since at least 1983.
- We expanded statewide our claims triage model of handling claims based on their levels of complexities. This focused collaboration between BWC specialists and managed care organizations streamlines the claims process and ensures obstacles to an injured worker's safe and effective return to work are quickly addressed.
- We maintained our focus on pharmacy management to improve the efficiency and effectiveness of treatment and to limit inappropriate uses of medications. Additionally, our drug formulary helped lead to a savings of $22.2 million in FY13.

Looking forward, we are excited for further improvements to come in FY14. These initiatives include replacing our outdated core systems applications with a new integrated claims, policy and employer billing system; prepping for the nationwide medical claim code conversion for medical providers; and modernizing how we collect premium by moving to a prospective-payment system. I'm confident the best is yet to come.

Sincerely,

Stephen Buehrer

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

Introduction

With a focus on Service, Simplicity and Savings, BWC cares for injured workers while assisting employers and their employees with the challenges associated with preventing and caring for workplace injuries.

We constantly work to improve the quality of life for Ohio's workers and to ensure we're a positive influence on economic growth in Ohio.

Prevention and Care

It's simple. We have two goals at BWC:

- Prevent on-the-job injuries and occupational illnesses;
- Care for injured workers, so they can return to their jobs and lives as quickly as possible.

We feel the best claim is the one that never happens. Unfortunately despite everyone's best efforts, illnesses and injuries may still occur in workplaces anytime, anywhere.

Prevention

We focus on prevention by offering safety education, training and consultations.

Care

We focus on caring for injured workers to ensure the best possible outcomes and to successfully return them to their jobs.

Why do we make it our mission to emphasize these two goals? Because providing quality care and making Ohio's workplaces safer makes sense. It's good for workers, employers and the state's economy. Together, prevention and care help reduce costs and lower premiums for employers. This allows businesses to thrive. Most importantly, it keeps Ohio's workers healthy and safe in the workplace.

By the numbers

Focusing on service, simplicity and savings guided us to operate more efficiently during fiscal year 2013 (FY13), helping to support economic growth in Ohio. Our administrative cost budget for FY13 was $7.9 million less than appropriated by the Ohio General Assembly and 1 percent less than in FY12. This fiscal prudence continues with a FY14-15 budget that is almost 5 percent less than the previous biennium's budget.

With assets totaling approximately $28 billion, BWC is the largest state-fund insurance system in the U.S. BWC provides insurance to 254,000 Ohio employers. In FY13, we approved 97,041 new claims, bringing our total to 958,625 open claims. Medical and indemnity compensation paid to injured workers totaled nearly $2 billion.

BWC history

Ohio's workers' compensation system has cared for injured workers since 1912. BWC will continue to seek ways to operate more efficiently and provide high-quality service to our customers: injured workers, employers and providers. We remain committed to protecting the State Insurance Fund and other specialty funds, so that those who rely on it receive the best possible care.

Accomplishments

With service, simplicity and savings at the forefront of every employee's mind, BWC made sizeable strides in meeting its goals during FY13. These include fiscal responsibility, improving customer service and upgrading technology and processes.

Returning $1 billion to employers

Garnering praise throughout the state, we offered a one-time, $1 billion rebate to employers who pay into the State Insurance Fund. The rebate was part of the three-part proposal, A Billion Back.

We designed the proposal to help stimulate Ohio's economy, improve worker safety and modernize our operations.

At the time of the rebate, we had generated a three-year annual return of 11.4 percent. This return far exceeded the expected 4-percent return. Net assets surpassed $8 billion and the funding ratio far exceeded the guidelines set by the BWC Board of Directors. We proposed A Billion Back to move our net position to within its funding ratio guidelines.

Governor John R. Kasich and Administrator/CEO Stephen Buehrer announced the Billion Back plan in May 2013. That same month, the BWC Board of Directors authorized the one-time dividend of $1 billion for private employers and public employer taxing districts.

We issued rebates equaling 56 percent of annual premiums to more than 200,000 businesses, local governments and school districts in FY13.

Approximately 2,000 of those employers, all of whom participated in group-retrospective rating, received their checks in fall 2013.

The Billion Back plan included the rebate as well as two other components:

- Expand statewide efforts to promote workplace safety and encourage further investment in protecting Ohio's workers with the tripling of the Safety Grant Program funding from $5 million to $15 million. Under this program expansion, BWC was set to begin matching every employer dollar with three dollars starting July 1, 2013. A new policy allows businesses to receive additional awards over their lifetime.
- Move toward a prospective-payment system. The Ohio General Assembly passed legislation to authorize BWC to do so. BWC plans to ask the BWC Board of Directors to issue $900 million in credits to mitigate transaction costs for employers. The switch, we expect to occur in 2015, will also result in a 2-percent rate reduction for private employers and 4-percent reduction for public employers.

Once we implement this nearly $2 billion plan, our net position will still be in the high upper range of the asset guidelines established by the board. This means BWC remains financially sound and can meet its obligations to care for Ohio's injured workers.

Our healthy financial standing made the Billion Back work. BWC is in a strong position due to prudent management and a careful, conservative investment strategy.

Fraud efforts continue to pay off

Our special investigations department (SID) made significant gains in the battle against workers' comp fraud and abuse during FY13.

In total, the department identified more than $55 million in savings. It closed 2,028 cases; 915 (45.1 percent) of these were classified as closed founded, meaning that the original allegation was proven. Of those 915 founded cases, 236 (25.8-percent) were referred for prosecution. SID obtained 134 indictments and 140 convictions, a 14 percent increase in convictions compared to the prior year. The average closed founded case in FY13 identified $60,173 in savings to the Ohio workers' compensation system.

During FY13, the SID and BWC continued to focus on prescription drug fraud and abuse, and remained active members of the Governor's Cabinet Opiate Action Team. Drug cases, claimants working while receiving benefits and employer complaints continued to be the top three complaint types investigated. In fact, 22.8-percent of complaints investigated were drug-related.

SID is constantly evolving and strategizing about ways to increase the investigation and prosecution of all subject types. During FY13, SID promoted and/or hired 15 professionals to focus on SID performance in critical need areas (e.g., health care provider team, digital forensics unit and the employer team). SID is comprised of 125 staff members.

The department continued to increase its presence and fan base on social media to promote fraud awareness and deterrence. The department features surveillance video footage, descriptions of common fraud schemes, prosecutions and anti-fraud efforts on its blog, BWC Special Investigations page on Facebook and @OhioBWCFraud account on Twitter. Blog readers, Facebook fans and Twitter followers learn how to recognize fraud and may report it via links to an online fraud referral form.

Improving pharmacy management

During FY13, we fine-tuned our efforts to ensure injured workers receive prescribed drugs that help – and not hinder – their recovery.

Point of service edits, drug utilization review standardization and a pharmacy lock-in program are among the changes made during FY13.

Results continue to prove positive since introducing our first-ever formulary on Sept. 1, 2011. We've seen the following:

- A savings of $22.2 million as a result of our formulary. We accomplished this savings despite a 4.3 percent annual inflation rate for drug costs during this time;
- An 18.1-percent reduction in narcotic prescriptions and a 36.4-percent reduction in skeletal muscle relaxants from January through June 2013 compared to the same time period in 2012;
- A reduction of total drug costs per claim by 4.7-percent from January through June 2013 compared to the same time period in 2012, even while experiencing more than 4 percent inflation in drug costs.

We worked during FY13 to raise awareness of the dangers associated with over-prescribing opioid analgesics for injured workers. We provided approximately 3,000 copies of a clinician's guide about responsible opioid prescribing to our most active prescribing physicians. As a result, the physicians could earn free continuing medical education hours in return.

Also in FY13, a new rule allowed BWC's pharmacy program to only pay for chronic controlled substance prescriptions from Ohio physicians registered in the Ohio Automated RX Reporting System.

Through the formulary and these efforts, we are working to improve the efficiency and effectiveness of treatment, limit inappropriate uses of medications and lower prescription costs.

Better outcomes for injured workers and employers

A new claims-management process called claims triage transformed BWC's claims teams from generalists to specialists. Claims teams now focus on each unique phase of a claim – intake and initial claims determination, return to work and remain at work.

Claims triage initially began as a BWC pilot program, which we implemented statewide during FY13. We realigned 2.3 million claims during implementation of claims triage.

This model helps BWC achieve its top claims goal: to create positive outcomes by ensuring injured workers receive the proper care in a timely manner so they can return to work and get on with their lives.

With the claims triage process, BWC's team of specialists partner with an employer's managed care organization (MCO) to streamline the claims process. This focused collaboration between BWC specialists and MCOs ensures we quickly address obstacles to an injured worker's safe and effective return to work.

The field staff members continue to identify suggestions and new strategies on how we can improve our service delivery.

New catastrophic claims pilot

To secure positive outcomes for workers with catastrophic injuries, we initiated a new catastrophic-claims case management pilot program. After an extensive Request for Proposal process, we contracted with Paradigm Outcomes Management, a catastrophic claim focused medical management company. Their responsibility is to help workers with catastrophic trauma such as spinal or brain injuries, severe burns and amputation return to a high quality of life. This includes a successful return to work when possible.

Under Paradigm's model, an injury-management team led by a physician specialist supportively drives and directs the injured worker's medical care. A key objective of this new pilot program is to determine and evaluate innovative ways for workers with catastrophic injures to obtain better:

- Quality outcomes;
- RTW outcomes;
- Quality lives for the injured workers and their family members.

As this is a pilot, we are reviewing the claims and determining which ones we will refer to the vendor. We anticipate this pilot to run from two to three years.

Working with employers

Administrator Buehrer appointed four regional business development managers, who serve as his ambassadors across the state and work directly with employers. These regional business development managers help employers create safer work environments and effectively assist workers when they're injured; both are key to lowering workers' compensation premiums.

Each regional business development manager covers a multi-county region across southeast, northeast, southwest and northwest Ohio.

The regional business development managers coordinate outreach to stakeholders throughout Ohio. They act as intermediaries to help employers with program participation, safety training and more. They also help connect employers with appropriate BWC staff members to meet their workers' compensation needs.

Preparing for ICD-10 Claim Code Conversion

BWC is getting ready for the nationwide medical-claim code conversion for medical providers. The implementation date is Oct. 1, 2014. This code conversion is from the International Classification of Diseases and Related Health Problems, Ninth Revision, Clinical Modification (ICD-9-CM) to the new ICD-10-CM. As part of this conversion, we're creating a strategy to convert 2.8 million claim entries of ICD-9 codes to ICD-10.

The Department of Health and Human Services does not require us to make this change. However, making the conversion enables us to stay current with our providers, health-care facilities and employer partners. In addition, we avoid increased administrative costs for providers and the workers' compensation system, and help to maintain our quality of care. Also, it does reduce for the provider community the need to have two sets of billing and claims-determination codes.

Unlike other impacted businesses that only need to use ICD-10 on claims filed after October 2013, we must update our older claims, so we can continue to effectively manage them.

Even though we have a lot to do, we are still at the forefront of the workers' compensation industry. Our efforts were among the highlights of a WorkCompCentral article this year, titled, "Ohio's 1st Out of Box in ICD-10 Conversion for Comp Providers." The article stated that BWC is getting ahead of the rest of the U.S. in converting its system, and that medical billing experts say that eventually, providers in all of the state's workers' compensation systems will need to make the switch.

Updating Our Infrastructure

In FY13, we continued to prepare for a new, integrated claims, policy and employer billing system.

Parts of the current systems aren't easy to use and have occasional speed and downtime problems. The systems also don't share enough information with each other.

Thus, we are replacing the outdated core systems applications with a commercial, off-the-shelf software package. We are modifying this package to meet our and our customers' needs. We spent much time identifying and correcting a number of gaps between our needs and the software's offerings. Staff members are also preparing for the upcoming change, which is set to go live in late 2014.

We're doing all of these preparations to update our infrastructure and improve service to our customers.

BWC Leadership

Board of Directors

The 11-member BWC Board of Directors represents a broad representation of BWC's customers. Members provide professional expertise and foster accountability and transparency. The board oversees our operations and ensures that we meet our goals. Their areas of expertise include actuarial management, financial accounting and investments and securities.

Administrator/CEO

Stephen Buehrer has served as the BWC's Administrator/CEO since January 2011. His experience with workers' compensation precedes that, however. He previously served as the BWC's chief of human resources and oversaw all workers' compensation legislation while chairman of the State Senate Insurance, Commerce and Labor Committee. An attorney, he represented the citizens of northwest Ohio for 12 years as a state representative and as a state senator. During his time as Administrator/CEO, he has focused on connecting with employers and stakeholders to realize and respond to their needs, while looking for ways to improve efficiency at BWC.

BWC Year-End Statistics

	FY 2013	FY 2012	FY 2011
State-fund claims filed			
Lost time	11,539	12,130	13,404
Medical only	84,632	87,943	90,132
Occupational disease	714	920	1,130
Death	156	172	169
Disallowed or dismissed	11,049	11,448	11,543
Total	108,090	112,613	116,378
Net allowed injuries	97,041	101,165	104,835

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 2013	FY 2012	FY 2011
Open claims (per statute)			
Lost time	346,039	374,482	366,142
Medical only	612,586	695,574	763,731
Total	958,625	1,070,056	1,129,873
Benefits paid			
Medical benefits paid	$705,758,248	$748,851,329	$778,853,015
Compensation paid			
Wage loss	$16,960,502	$20,027,409	$21,397,029
Temporary total	250,848,502	268,918,187	273,321,156
Temporary partial	22,422	17,049	29,326
Permanent partial	14,877,252	20,990,997	21,033,715
% Permanent partial	69,588,261	68,938,435	70,258,487
Lump sum settlement	181,163,702	149,216,151	115,918,814
Lump sum advancement	21,581,813	29,282,177	30,191,113
Permanent total and DWRF	392,040,670	389,656,231	383,895,419
Death	84,093,415	83,307,500	82,884,488
Rehabilitation	38,977,535	41,644,211	46,989,884
Other	5,919,080	6,700,579	7,851,564
Total compensation paid	$1,076,073,152	$1,078,698,926	$1,053,770,995
Total benefits paid	$1,781,831,400	$1,827,550,255	$1,832,624,010

	FY 2013	FY 2012	FY 2011
Fraud statistics			
Fraud dollars identified	$55,058,157	$59,373,483	$58,155,950
$$$ saved to $$$ spent ratio	4.83 to 1	5.61 to 1	5.41 to 1
Prosecution referrals	236	251	245
Active employers by type			
Private	249,085	249,668	250,432
Public (local)	3,794	3,801	3,802
Public (state)	129	122	125
Self-insured	1,205	1,196	1,203
Black lung	36	35	39
Marine fund	139	132	120
Total	254,388	254,954	255,721
BWC personnel	1,920	1,939	2,064
Managed care organization fees paid	$169,814,894	$168,403,331	$166,960,072
BWC combined funds financial data (000s omitted)			
Operating revenues			
"Premium and assessment income, net of provision for uncollectibles and ceded premiums"	$1,492,389	$1,944,478	$1,935,180
Other income	11,723	14,115	14,989
Total operating revenues	$1,504,112	$1,958,593	$1,950,169
Non-operating revenues			
Net investment earnings	$670,654	$720,210	$764,746
Increase (decrease) in fair value	230,200	1,323,434	1,599,613
Net investment income (loss)	$900,854	$2,043,644	$2,364,359
Total BWC assets	$28,242,089	$28,016,507	$26,100,706
Total net position	$6,779,077	$7,817,739	$5,772,002

Investment Class Annual Report Comments

Background

The U.S. economy continued to exhibit moderate strength in fiscal year 2013 (FY13) despite concerns about weakness and high unemployment in Europe, as well as slowing economic growth in China and its negative repercussions especially impacting many emerging market countries in Asia and Latin America. Geopolitical concerns that surfaced in North Korea, Egypt and elsewhere in the Middle East also kept investors on edge at times during this period. Real gross domestic product in the U.S. actually slowed to an annualized growth of only 1.6 percent for fiscal year 2013 from slightly more than 2 percent in fiscal year 2012.

The national unemployment rate in the U.S. fell from 8.2 percent at the start of FY13 to 7.6 percent in June 2013, and consumer confidence improved along with strengthening of the housing markets in most regions of the country. In a step to further support the improving housing market and to further stimulate a still relative weak economy, the Federal Reserve Bank announced in September 2012 a new round of bond purchases termed QE3 (QE meaning Quantitative Easing). Under QE3, the Fed would purchase $40 billion per month of agency mortgage-backed securities in addition to its earlier QE2 action strategy of $45 billion of monthly purchases of U.S. Treasury securities.

Both Fed bond-buying programs remained in effect for the remainder of FY13 and into FY14 as the Fed continues its aggressive accommodative monetary policy to prevent the U.S. economy from sliding back into recession. Inflation continued to remain very subdued in FY13 with the annualized year-over-year growth in the consumer price index being 1.8 percent. The financial condition and balance sheets of many U.S. companies and large multinational corporations nevertheless continued the trend over the past several years of becoming even stronger through skillful management practices, high worker productivity and taking advantage of the low cost of capital with low borrowing rates.

The investment portfolio of BWC provided a total return of 3.8 percent (net of investment management fees) in FY13. The investment portfolio was on a pace through April 2013 to post a portfolio return for FY13 comparable to the strong net portfolio returns of the past three fiscal years (9.8 percent in FY12; 12.4 percent in FY11; 12 percent in FY10). This pace slowed when Federal Reserve Chairman Ben Bernanke indicated in mid-May that the Fed may begin tapering or reducing its monthly open-market $85 billion bond buying program later in 2013.

This pronouncement caused a subsequent violent reaction in the U.S. bond market whereby intermediate and long duration bonds lost significant value and their yields increased between 0.5 percent and 1 percent between mid-May and the end of June 2013. The U.S. equity markets also reacted negatively to this Fed announcement, but its reaction was much more tempered compared to the bond markets. Investors feared that a less accommodative monetary policy could result in higher bond yields in the future, despite the positive implication that a less accommodative policy would only occur if the U.S. economy was exhibiting stronger economic momentum.

The BWC investment portfolio showed a positive total net return of 9.7 percent during the first 10 months of FY13 through April 2013. But, it then posted negative returns of -2.4 percent in May, 2013 and -3.1 percent in June 2013 to end with a total net return of +3.8 percent for the FY13. The BWC equity portfolio showed impressive consistent strong returns throughout FY13 and posted positive monthly portfolio returns of +1.0 percent or higher in nine of the 12 months of the fiscal year with only two months having negative equity returns. The BWC equity portfolio posted an exceptional annual net return of +19.1 percent in FY13, whereas the BWC bond portfolio ended with a negative return of -2.9 percent for the fiscal year due to the significant jump in bond yields during the last two months of FY13.

The BWC Investment Division in FY13 carefully planned and implemented the initial real estate investment program for the State Insurance Fund (SIF) previously recommended by the BWC Chief Investment Officer (CIO) and approved by the Investment Committee and Board of Directors in August 2011.

This approval was provided after extensive discussions and education with the Investment Committee and remaining Board members involving the CIO and the Real Estate Consulting Group of experienced real estate consulting professionals of BWC investment consultant R. V. Kuhns & Associates (RVK).

Real estate is an appealing investment class and offers further diversification for the SIF portfolio. High quality commercial real estate property values have historically offered low correlation of annual performance over long-term periods when compared to U.S. fixed income and equity classes since this asset class operates on a different market cycle than stocks and bonds. In addition, commercial real estate, especially core real estate properties, offers an excellent balance and combination of sufficient quarterly income, plus attractive market value appreciation potential correlated with inflation and economic growth.

A 6 percent allocation toward real estate was approved for the SIF portfolio and directed toward U.S. concentrated private real estate funds divided between a targeted 4.5-percent allocation to private open-end core funds and a targeted 1.5 percent-allocation to private closed-end value-added funds. An extensive RFP search for core real estate funds was conducted between December 2011 (RFP issuance date) and September 2012 when the RFP Evaluation Committee presented its recommendation to invest in eight core real estate funds in respective initial amounts totaling $950 million (based on 4.5 percent of $21 billion of SIF invested assets) with the provision to invest up to an additional $75 million in two of the approved core real estate funds identified to maintain a targeted 4.5 percent-portfolio allocation towards core real estate.

These eight recommended core real estate funds were approved by the Investment Committee and Board of Directors in September 2012. This resulted from a thorough RFP evaluation process of all 20-bid proposals and subsequent due diligence on-site visits and extensive interviews conducted by the RFP Evaluation Committee with the senior management team of each core real estate fund identified as finalist candidates. The committee consisted of the BWC CIO, BWC Director of Investments and the RVK Real Estate Consulting team.

Initial capital investments totaling $352.5 million in five core real estate commingled funds were made between the end of December 2012 and mid-January 2013. Furthermore, an additional $121.5 million was invested in the secondary market purchase of partnership units of an approved core real estate fund in February and March 2013 from two corporate pension funds at a slight premium (101 percent and 102 percent, respectively) of the fund's net asset value as of Dec. 31, 2012. These secondary market purchases were made to bypass the long investor waiting list (queue) outstanding and get capital invested in this specific fund more than 12 months ahead of any likely drawdown of new invested capital estimated to occur around mid-2014. An additional $334 million was invested in core real estate funds by the close of the fiscal year such that a total of $808 million at cost was invested in all eight approved core real estate funds on June 30, 2013.

With respect to searching for value-added private real estate funds, which have a 1.5 percent-target allocation for SIF (approximately $325 million), the BWC Investment Division will rely on investment consultant RVK to screen and filter these types of investment opportunities before presenting for consideration to the BWC investment staff only the most attractive value-added real estate fund investment opportunities in its judgment. The Investment Committee and Board of Directors approved recommendations by the investment staff and RVK for its first two value-added real estate fund investments in January and February 2013. These two recommendations were for $50 million commitments in each respective fund, which will be invested in stages over the next three and one-half years. Initial capital investments totaling $20.75 million were made to each fund during May and June 2013.

After discussion and education, the Investment Committee and Board of Directors approved in January 2012 a targeted 7.0 percent-SIF asset allocation (approximately $1.5 billion) toward 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 percent-mid-cap value; 2.0 percent-mid-cap growth; 1.5 percent-mid-cap core; 0.75 percent-small-cap value; and 0.75 percent-small-cap growth. An RFP was issued for investment managers of these five separate actively managed mandates and 95 eligible bid proposals were received. These proposals were subsequently evaluated by the RFP Evaluation Committee consisting of the CIO, Director of Investments and a representative of RVK. Finalist active managers for each of these five U.S. equity mandates were recommended by the RFP Evaluation Committee and approved by the Board of Directors after hearing presentations from each recommended manager during their respective scheduled meetings between April and October 2013.

In conjunction with the search for active mid-cap and small-cap U.S. Equity managers, an RFP was issued in July 2013 for a passive investment manager for the SIF large cap U.S. equities portfolio benchmarked to the Russell Top 200 Large Cap U. S. Equity index that has a 12.0 percent-SIF portfolio asset allocation target (approximately $2.6 billion). These RFP responses were evaluated and the Investment Committee and Board of Directors approved the finalist passive U.S. large cap manager recommended by the RFP Evaluation Committee at their respective August 2013 meetings.

After a number of scheduled education and review meetings held in fiscal year 2013 and the first quarter of fiscal year 2014 (July-September 2013 period), the Investment Committee and Board of Directors approved the recommendation of the CIO and as supported by RVK to both (a) eliminate the remaining 8 percent-allocation of SIF invested assets (currently $1.5 billion invested) targeted to passive management of long duration credit fixed income assets and transfer this allocation to active management so that the entire 28 percent-SIF target allocation toward long duration credit fixed income is actively managed by its six existing investment managers and (b) convert the 15 percent-allocation of SIF invested assets (approximately $3 billion) benchmarked to the broad intermediate-duration Barclays U.S. Aggregate index from 100-percent passive management to 100-percent active management. Both of these fixed income strategy recommendations were made and approved to enhance investment performance and improve risk management of credit and interest rate movements through the selection of best-in-class investment managers that have historically delivered superior risk-adjusted returns for institutional clients.

Compliance

The investment portfolios were in compliance with the BWC Investment Policy at the end of each of the months of FY13 but for two exceptions related to asset class allocation ownership target ranges. Both at the end of March 2013 and at the end of June 2013, the U.S. equity class market value of the Disabled Workers' Relief Fund (DWRF) portfolio exceeded its 23 percent- ownership allocation upper range by 0.12 percent of total assets (less than $1.9 million) at month-end March 2013 and by 1.5 percent of total assets ($23 million) at month-end June 2013. No corrective rebalancing action was necessary for the month-end March 2013 excess U.S. equity allocation because this excess allocation self-corrected itself in April 2013 with the decline in the market value of the DWRF U.S. equity portfolio.

The BWC Senior Officer Rebalancing Committee met in mid-April 2013 and decided no rebalancing action was necessary. The DWRF U.S. equity portfolio subsequently appreciated in market value over the remaining April-June 2013 quarter and resulted in the U.S. equity asset class being at 24.6 percent of DWRF total assets or 1.56 percent above its upper ownership permitted level of 23 percent. The BWC Senior Officer Rebalancing Committee subsequently met in mid-July 2013 and the decision was made to accept the CIO recommendation to rebalance the DWRF portfolio by redeeming $54 million from U.S. equities and directing $27 million each to the U.S. Aggregate and U.S. TIPS fixed income classes. This action resulted in the DWRF portfolio asset allocation to U.S. equities dropping to near 21.5 percent of total portfolio market value or halfway between its 20 percent target asset allocation and 23 percent upper limit allocation as consistent with the rebalancing strategy specified in the investment policy statement.

It was understood by the Investment Division staff and the Board of Directors throughout FY13 that the SIF Real Estate asset class was in a transition accumulation stage over the fiscal year and, therefore, exempt from any violations of not being within the respective investment policy ranges for both Core Real Estate and Value-Added Real Estate assets.

Valuation and performance

As reflected in columns A and B of the table provided at the end of this Annual Report, total investment assets at fair value held by BWC were $22,877 million on June 30, 2013. This was virtually identical to $22,876 million of invested assets on June 30, 2012. SIF invested assets were $20,995 million at fair value on June 30, 2013. This represented 91.8 percent of total BWC invested assets at fiscal year-end 2013. As stated earlier, the total rate of return on invested assets of BWC for fiscal year 2013 ended June 30, 2013, was 3.8 percent-net of management fees.

Net investment income for fiscal year 2013 was $901 million, comprised of $690 million in interest and dividend income ($566 million interest income; $112 million dividend income, including $12 million of real estate fund dividends), plus $230 million appreciation in fair value of investments less $19.1 million in investment expenses, including $17.9 million in investment manager fees. The investment manager fees for fiscal year 2013 represented an annual fee of between 7-8 basis points (less than 8/100 of 1 percent) of total average month-end market value of fixed income, equity and real estate assets.

Total investment expenses of $19.1 million for fiscal year 2013, including $17.9 million in investment management fees, compares to $8.7 million of total investment expenses for fiscal year 2012, including $7.1 million in investment management fees. The increase in investment management fees of $10.8 million in fiscal year 2013 was largely attributable to (a) a full year of active management of long duration credit bonds totaling approximately $4.7 billion on June 30, 2013, that began in late May, 2012, and (b) the commencement of real estate core fund investments at the end of December 2012.

The incremental increase in active long credit bond management fees in FY2013 over FY2012 was $7.6 million and real estate fund management fees in FY13 totaled $3.65 million versus nil in FY12. The six SIF active long credit managers in the aggregate delivered excellent performance for their respective SIF actively managed portfolio in FY2013. These six managers provided a combined total return on SIF assets managed that exceeded the benchmark index return by +1.27 percent (-0.72 percent vs. -1.99 percent) before management fees and by +1.13 percent (-0.86 percent vs. -1.99 percent) after management fees. This provided incremental net investment income to SIF of $54.5 million for FY2013 after deducting active long credit management fees totaling $8.4 million.

The asset allocation mix of the BWC investment portfolio at fair value on June 30, 2013, was 60.8-percent bonds, 31.7-percent equities, 3.7-percent real estate and 3.8-percent cash and equivalents. This asset mix compares to 68.9-percent bonds, 29.2-percent equities and 1.9-percent cash and cash equivalents on June 30, 2012.

The significant decline in allocation to bonds from 68.9 percent to 60.8 percent in fiscal year 2013 was attributable to a combination of significant underperformance of bonds (-2.9 percent-return) versus equities (+19.0 percent) in fiscal year 2013 and significant bond redemptions totaling $1,518 million made to fund all of the new real estate asset class as well as to fund operations (see columns D, E, F of table). The cash allocation increase to 3.8 percent at FY13 from 1.7 percent at prior fiscal year-end 2012 was the result of the significant amount of cash raised from stock and bond redemptions near the end of fiscal year 2013 positioned to fund the Billion Back premium rebate program to Ohio employers.

Portfolio asset redemptions for cash required to fund BWC operations in FY13 totaled a significant $1,228 million. This includes $1,000 million ($1 billion) of redemptions made in late June 2013 to fund the significant $1 billion premium rebate program. The $1 billion in cash proceeds were raised from the passive U.S. equity portfolio ($600 million of proceeds) and the passive long credit fixed income portfolio ($400 million of proceeds). This U.S. equity selling activity generated a very large net realized capital gain of $193.1 million on the stocks sold. This represents an exceptional cumulative aggregate return on cost of 44.7 percent because of strong U.S. equity stock market returns over the past several years. The bond selling activity raising $400 million in net proceeds provided net realized capital gains of $28.3 million.

Beside the $1 billion of bond and stock redemptions to fund the premium rebates, additional portfolio asset redemptions for cash required to fund BWC operations totaled $228 million in FY13. These redemptions were needed to fund operations and involved $202 million for SIF, $20 million for DWRF and $6 million for the Coal Workers' Pneumoconiosis Fund (CWPF). This $228 million to fund normal operations came from redemptions of $ 51 million in long duration U.S. government bonds, $64 million in TIPS and $113 million in U.S. equities.

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 2013 previously mentioned. These activities are important to highlight because they had a material influence on the respective fair value levels of both bond and equity portfolios over the course of fiscal year 2013. Column E reflects the operational funding redemptions covered in the preceding two paragraphs. The asset transfer activity from portfolio transitions are reflected in Column D. These portfolio transactions were largely devoted to funding all new real estate investments. This was a new asset class for SIF portfolio that was initiated in December 2012. All but $17 million of total bond redemptions of $1,003 million shown in Column D were directed to both the funding of new real estate investments totaling $829 million during fiscal year-end 2013 ending June 30, 2013, as well as $157 million in cash held on June 30, 2013, shown in Column D that was positioned to fund additional real estate investments made in early July, 2013.

The $17 million directed toward non-U.S. equities shown in Column D represented the sale of all remaining residual bond assets of the $4.6 billion market value of SIF long credit fixed income assets transitioned in May, 2012, from the legacy passive manager of this asset class to six new active long credit fixed income managers. These funds were directed to non-U.S. equities because it was the asset class most under its target portfolio asset allocation for SIF in July 2012 when this asset transfer was made.

The investment program in real estate for SIF that commenced in FY13 had a specific funding strategy previously presented by the CIO and approved by the Board of Directors. This strategy was a two-phase approach whereby the funding of the first 3 percent-phase of the targeted 6 percent-SIF asset allocation to real estate assets would be from the low-yielding long duration U.S. government bond portfolio and the second 3 percent-phase for funding would be from asset sales of the low-yielding U.S. TIPS fixed income portfolio. The first phase selling strategy occurred between December 2012 and March 2013 when $660 million of proceeds from long duration U.S. government bonds were invested in new real estate assets. This provided net realized capital gains on sale of $60.9 million. The second phase sales strategy involving the sale of U.S. TIPS assets began in April 2013 and was continuing at the end of FY13 with a total of $326 million redeemed to fund new real estate investments. This provided net realized capital gains on sale of $11.6 million.

The total fair value of the bond portfolio of BWC was $13,918 million on June 30, 2013, compared to $15,751 million on June 30, 2012, representing a decrease of $1,833 million. The bond portfolio had net outflows totaling $1,518 million during fiscal year 2013 (see column F of table) resulting from a combination of $515 million to fund operations. This included $400 million for the Billion Back program, with the remaining $1,003 million directed toward portfolio asset class transitions ($986 million for real estate; $17 million for non-U.S. equity). Adjusted for the significant net bond sale outflows, the fair value change of the bond portfolio of BWC was a $315 million decrease.

This represented a total return of negative 2.9 percent for FY13. The non-TIPS bond portfolio had a total return of negative 2.1 percent and the U.S. TIPS bond portfolio has a total return of negative 5.0 percent in FY12.

The bond portfolio of BWC in FY13 earned $566 million in interest income and had $(953) million of net realized/unrealized losses that resulted from interest rate levels being higher at the end of the fiscal year compared to the start of the fiscal year. The weighted average yield-to-maturity on the Barclays long duration U.S. government bond benchmark index and the Barclays long duration U.S. credit bond benchmark index increased from 2.56 percent and 4.72 percent, respectively, on June 30, 2012, to 3.35 percent (yield up 0.79 percent) and 5.19 percent (yield up 0.47 percent), respectively, on June 30, 2013. In fact, the weighted average yield-to-maturity of these two indexes significantly increased by 0.68 percent for the long government index and by 0.87 percent for the long credit index over the last two months of FY13 from April 30, 2013, to June 30, 2013. This was due to the Federal Reserve Chairman's announcement in May that the Fed may start to reduce its very accommodative open market bond-purchasing program later in 2013.

These two Barclays indexes serve as the two benchmark indexes for the SIF long duration bond portfolio. They represented an average of 38 percent of total SIF invested assets at market value during FY13. The average weighted yield-to-maturity of the broad all-maturity Barclays U.S. Aggregate bond index serving as an important benchmark for each of the SIF, DWRF and CWPF bond portfolios increased from 1.99 percent on June 30, 2012, to 2.36 percent (up 0.37 percent) on June 30, 2013. The average weighted yield-to-maturity for the benchmark also increased significantly by 0.63 percent between April 30, 2013, and June 30, 2013, because of the Federal Reserve announcement. These significant yield increases influencing BWC's entire bond portfolio were clearly the primary reason for the $(953) million of net realized/unrealized losses reported for fiscal year 2013.

The bond portfolio of BWC maintained a high average quality of "AA" during FY13 with 47 percent of the fair value of the bonds held on June 30, 2013, being U.S. government issues of "AAA" quality (by credit rating agencies Moody's and Fitch) or "AA" rated (by Standards & Poor's notable downgrade in August 2011). The weighted average effective duration of the bond portfolio of BWC on June 30, 2013, was 9.85 years, based on individual asset class duration calculations of BWC's investment accounting vendor as represented in the fiscal year 2013 audited financial statements.

The total fair value of the equities portfolio of BWC was $7,243 million on June 30, 2013, an increase of $561 million compared to $6,682 million on June 30, 2012. There were net outflows totaling $696 million (see Column F of table) of BWC equities portfolio representing net outflows of $713 million from U.S. equities. This includes $600 million to fund the Billion Back program) and an inflow of $17 million toward non-U.S. equities. Adjusted for these net fund outflows, the adjusted fair value increase in the total equities portfolio of BWC was $1,257 million for fiscal year 2013. The total return of the equities portfolio of BWC was a strong 19.0 percent for fiscal year 2013.

The total fair market value of the U.S. equities portfolio was $5,090 million on June 30, 2013, an increase of $288 million compared to the fair value of $4,802 million in June 30, 2012. Adjusted for net fund outflows of $713 million during FY13, the adjusted fair value increase of the U.S. equities was $1,001 million during FY13, which represented a total return of 21.2 percent for fiscal year 2013.

The total fair value of the non-U.S. equities portfolio was $2,153 million on June 30, 2013, an increase of $273 million in fair value compared to $1,880 million on June 30, 2012. Adjusted for a net inflow of $17 million to this portfolio in July 2012 from a discretionary action involving reinvesting proceeds from transition activity related to residual bond sales, the adjusted fair value increase in the non-U.S. equities portfolio was $256 million for FY13. The non-U.S. equities portfolio of BWC had a total rate of return of 13.5 percent for FY13.

As referenced earlier in this Annual Report, the investment strategy for the SIF portfolio targeting a 6 percent-portfolio allocation weighting for real estate was initiated in FY13 with investments made in all eight approved commingled core real estate funds and two approved commingled value-added real estate funds during the course of the fiscal year commencing in December 2012. A total of $829 million at cost were invested in these 10 real estate funds during FY13, divided between $808 million in core real estate funds and $21 million in value-added funds. At June 30, 2013, SIF had unfunded capital commitments of $395 million for approved real estate funds. The fair value of real estate assets on June 30, 2013, was $854 million versus original cost of $829 million. This represents an increase in fair value of $25 million occurring during fiscal year 2013 derived from both dividend income received and reinvested, as well as capital value appreciation.

Total cash and cash equivalents of BWC had a fair value of $861 million on June 30, 2013, compared to $442 million on June 30, 2012. The increase in cash balances year-over-year was the result of a significant amount of proceeds raised from bond and stock asset sales in late June 2013 to fund the Billion Back rebate program. Additional cash was raised at that time to also fund $157 million of real estate fund capital calls taking place in early July, 2013 (see Column D of table). BWC used an institutional U.S. government money market fund offered by its custodian bank (JPMorgan Chase Bank) throughout fiscal year 2013 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 percent and 0.25 percent 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 BWC on its cash and cash-equivalent assets was a very low 0.01 percent for FY13.

Portfolio interest rate sensitivity

R.V. Kuhns prepared an updated SIF fixed income portfolio sensitivity analysis based on the market value of the SIF portfolio as of June 30, 2013. 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.

The SIF portfolio had an estimated effective duration 10.1 years as consistent with the estimated duration of SIF total liability payments of around 9.5 to 10 years in a recent analysis provided to the CIO by the BWC Actuarial Division. This close matching of the duration of SIF fixed income assets with its duration of liability payments is intentional and consistent with the stated investment policy. Because of the long-term nature of its liability payment and its supporting long duration portfolio, the SIF bond portfolio market value is quite sensitive to movements in interest rate levels in both directions.

The following are observations made from the RVK fixed income sensitivity analysis on the June 30, 2013 SIF fixed income portfolio. These observations are based on defined interest rate movements during a one-year 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 +3.9 percent, resulting in an increase in market value of +$498 million.

If interest rate levels increase by +0.50 percent, the total SIF fixed income portfolio could decline in value by -1.0 percent, resulting in a decrease in market value of -$129 million.

If interest rate levels increase by +1 percent, the total SIF fixed income portfolio could decline in value by -5.5 percent, resulting in a decrease in market value of - $704 million.

If interest rate levels increase by +2 percent, the total SIF fixed income portfolio could decline in value by -13.2 percent, resulting in a decrease in market value of - $1,698 million.

Asset Class Fair Value/Performance Summary

Fiscal Year 2013 Ending June 30, 2013

($millions) Asset class	(A) Fair value 6/30/13	(B) Fair value 6/30/12	(C) Actual fair value change	(D) Net from portfolio transitions	(E) Net for operations fundings	(F) Total Inflow/ (Outflow)	(G) Adjusted fair value change	**FY 2013 annual return**
Bonds ex U.S. TIPS	$ 10,457	$ 11,724	$ (1,267)	$ (677)	$ (451)	$ (1,128)	$ (139)	- 2.1 %
U.S. TIPS	3,461	4,027	(566)	(326)	(64)	(390)	(176)	- 5.0 %
Total bonds	13,918	15,751	(1,833)	(1,003)	(515)	(1,518)	(315)	**- 2.9 %**
U.S. equities	5,090	4,802	288		(713)	(713)	1,001	+ 21.2 %
Non-U.S. equities	2,153	1,880	273	17	0	17	256	+ 13.5 %
Total public equities	7,243	6,682	561	17	(713)	(696)	1,257	**+ 19.0 %**
Real estate	854	0	854	829		829	25	**NA**
Miscellaneous	1	1	0					
Cash and cash equivalents	861	442	419	157	1,228	1,385	(966)	0.0 %
Net change				0	0	0	1	
Total invested assets	$22,877	$22,876	$ 1				*967*	**+ 3.8%**

Column Definitions

C = A minus B

F = D plus E

G = C minus F

*represents all fair value asset class changes except cash and equivalents

Asset class fair values shown exclude accrued investment income and trade payables/receivables

Amounts rounded to nearest $1 million

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 must publish a report on the measures of outcomes and savings of the HPP. It submits the report to the president of the senate, the speaker of the House of Representatives and the governor. BWC prepares the annual report 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 manage the medical component of workers' compensation claims. MCOs educate 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 MCO managed care performance. For example, it measures the effectiveness of the MCOs' return-to-work efforts using the Measurement of Disability metric. BWC also measures MCO 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, available on ohiobwc.com. BWC encourages employers to view this report before selecting an MCO. Seventeen MCOs serve Ohio's employers and injured workers.

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. It's 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. Simultaneously, it makes sure these benefits relate to the workers' compensation injury(ies).

The Medical Services Division's specific responsibilities are to:

- Develop, maintain and execute quality and cost-effective medical and vocational rehabilitation 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 ensure 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.

In addition to the above business objectives, we have introduced the following five strategic focuses. These additional objectives support the care component of the BWC's Prevention and Care brand. They are:

- Benefits management alignment;
- Setting/clarifying service expectations of providers/MCOs;
- Fee reimbursement alignment;
- Medical community communication;
- More active medical management environment.

The pharmacy program's specific responsibilities are to:

- Develop, maintain and execute a quality and cost-effective pharmaceutical benefit plan and associated formulary;
- Ensure the safety of the injured workers receiving pharmaceuticals to treat their injury(ies).

Both areas have made progress on the initiatives they have undertaken to support existing divisional and BWC enterprise goals. Included in this report are updates on the status of these initiatives.

- Update BWC's fee schedule every one to two years
- Pharmacy program enhancements
- Initiative to analyze claims cost drivers and improve management to address these issues
- Initiatives implemented 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. This 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 maintaining an effective benefit plan. Pursuant to required rules and law, and to ensure injured workers 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 continuously improves its medical, vocational rehabilitation and pharmaceutical services offerings. This results from BWC executing quality methodologies and protocols for revising benefits plans and their corresponding fee schedules. BWC strives to review all fee schedules annually.

BWC projects updates to our fee schedule in 2013 will reduce reimbursement for services rendered by $11.3 million. Additionally, BWC projects the 2013 updates will continue to:

- Ensure injured workers access to quality care;
- Promote efficiency in the provision of quality services;
- Maintain a competitive environment in which providers can render safe and effective care.

On the next page is a summary of the fee schedule updates in place or planned for calendar years 2013 and 2014.

Additionally, to clarify services not covered by the above fee schedules, the division introduced, and the BWC Board of Directors passed, Ohio Administrative Code (OAC) 4123-6-07 Services and supplies never covered. This new rule addresses services and supplies that BWC never covers. BWC or MCOs shall not authorize or reimburse these services and supplies. This rule was effective Dec. 11, 2012.

Medical Services continues to partner with our providers and provider associations to improve on services available to address Ohio's injured workers' needs. In 2012-2013, we evaluated expanding the types of services performed in the ambulatory surgical centers (ASC) facilities. BWC currently follows Medicare's rule relative to what services health-care professionals can perform at an ASC facility.

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, 2013 Next Update: Jan. 1, 2014	Update to Medicare's 2012 Relative Value Units (RVUs) and maintain the conversion factors used to determine the final fees (OAC 4123-6-8)
Hospital inpatient: Covers facilities for inpatient services	Effective: Feb. 1, 2013 Next Update: Feb. 1, 2014	Update the Medicare Severity-Diagnosis Related Grouping to the 2012 federal fiscal year values and incorporate Medicare's Hospital-Acquired Conditions payment reduction (OAC 4123-6-37.1)
Hospital outpatient: Covers facilities for outpatient services	Effective: April 1, 2013 Next Update: April 1, 2014	Update to implement the 2013 Medicare annual OPPS updates and changed the payment for Medicare exempt providers to use a default cost-to-charge ratio instead of a percent of charges (OAC 4123-6-37.2)
ASC: Covers surgical procedures not requiring inpatient hospitalization	Effective: April 1, 2013 Next Update: April 1, 2014	Update ASC payment rates to the 2013 ASC PPS Medicare rates and include a 104-percent BWC payment adjustment factor for designated orthopedic procedures. (OAC 4123-6-37.3)
Vocational rehabilitation services: Covers all vocational rehabilitation services	Effective: Oct. 1, 2012 Next Update: April 1, 2014	Update rates (an overall 1.53-percent increase) and delete/add custom service codes as needed (OAC 4123-18-09)

The ASC group requested BWC consider a number of additional services. The group believes these additional services are safe to perform in the ASC facilities.

BWC worked with the health-care quality advisory committee to determine the appropriateness of the ASC requests. In reviewing and considering the initial ASC request, BWC determined the ASC group had provided insufficient evidence based medical data to support allowing its request.

As a result of that evaluation, BWC did identify the procedure of lumbar discectomy, currently an inpatient/outpatient only procedure, as a procedure that may be appropriate for the ASC setting.

To move us closer to consideration, a specialist in this procedure, Dr. Daryl Sybert provided a presentation to the BWC's Health Care Advisory Committee. Additionally, BWC conducted research to gather data and evaluate how other states' workers' comp systems approach this procedure. We collected data from 12 states, eight of which allow this procedure in the ASC setting. As a result of those efforts, the Medical Advisory Committee determined this procedure as safe and efficacious for medical professionals to perform in ASC facilities. The division will propose this new service offering to the BWC Board of Directors for adoption in the 2014 ASC fee schedule updates.

BWC's pharmacy program implemented a formulary for prescription drugs that became effective Sept. 1, 2011. When comparing January through June 2011 to January through June 2013, the agency experienced:

- A 72-percent reduction in prescriptions for skeletal muscle relaxants;
- A 23-percent decline in prescriptions for narcotics;
- A 76-percent reduction in prescriptions for anti-ulcer agents;
- A 23-percent reduction in prescriptions per injured worker.

BWC projects a $22 million (16-percent) reduction in total prescription drug costs for calendar year 2013 compared to calendar year 2011.

To ensure the safety of injured workers, the pharmacy program proposed the following changes to its outpatient medication rules (OAC 4123-6-21 and OAC 4123-6-21.1):

- Restrict reimbursement of controlled substance prescriptions when treating chronic pain to those written by only prescribers enrolled in the Ohio Automated Rx Reporting System;
- Restrict reimbursement for topical compounded prescriptions to those preparations that meet specified criteria. For example: The compound contains not less than one or more than three FDA approved medications.

Due to extended review by CSI, target effective date is Dec. 1, 2013.

In addition, the pharmacy program is proposing a new rule (OAC 4123-6-21.5) that would adopt standard dose tapering (weaning) schedules for opiates and anti-anxiety drugs. The division developed these weaning schedules with the recommendation of BWC's Pharmacy and Therapeutics Committee. They implement safely denials for payment of the indicated medications when a drug utilization review determined the drug is not related to the allowed conditions in the claim. The rule applies to all denials for payment of the indicated medications by the BWC, self-insuring employers, MCOs, Qualified Health Plans, and the Industrial Commission of Ohio. Target effective date for this new rule is Dec. 1, 2013.

Managed-care processes

Per OAC 4121.44, BWC certifies MCOs to participate in the HPP for two-year periods. The prior certification period expired Dec. 31, 2012. BWC issued and reviewed recertification applications from the MCOs. BWC re-certified all current MCOs for the period Jan, 1, 2013, through Dec. 31, 2014.

The MCO contract also expired Dec. 31, 2012. BWC worked with the MCOs to finalize a new, one-year MCO contract effective Jan. 1, 2103. This contract contained minimal changes.

In October 2012, the administrator introduced a series of BWC/MCO workgroups. The workgroups focus on resolving barriers to optimal medical management. They also aim to improve the overall outcomes of injured workers. The objective of this process is to arrive at recommendations and actions that would enable BWC to undertake opportunities to improve the Ohio worker's comp claim and medical case-management process.

The administrator charged the workgroups to focus on the most problematic issues, and develop and prioritize appropriate recommendations. The recommendations created and adopted would provide administrative improvements to the system. More importantly, they would create a framework for the next MCO contract that begins on Jan. 1, 2014.

The expected impacts of the workgroups' activities and underlying principles to be reflected in the 2014 contract are:

- Greater focus on outcomes;
- Increase clarity on the MCO being responsible for medical management activities;
- Increase clarity on the MCOs being primarily responsible for return to and remain at work;
- Facilitation of the seamless handoff and collaboration between MCO staff and BWC claims staff;
- Improvement in the coordination and reduce redundancy in the solicitation/capture of claims data;
- Increase clarity on BWC being responsible for claims/indemnity management activities.

Below are the workgroups and areas they are focusing on.

Clarifying roles and responsibilities

- Resolve areas of duplication and identify service gaps among BWC and MCOs. Pay particular effort on making sure MCOs can without distraction or interference focus primarily on executing.
- Medical management
- Cost containment

Increasing competition among MCOs

- Remove red tape and bureaucracy imposed by BWC that constrains attempts to effectively and creatively manage care.

Strengthening accountability to achieve successful outcomes for injured workers

- Focus: How best to measure and share MCO outcomes.

Leveraging technology to optimize service and reduce costs

  - Focus: Assess the impact of BWC's new claims, billing and policy system, specifically identifying how the new capabilities can be used to improve the speed, coordination and accuracy of data between BWC and the MCOs.
- Employer MCO selection
  - Focus: Identify improvement opportunities which will facilitate and ensure employers can select the best MCO for their needs.

Medical providers

To support Medical Services' ongoing efforts to create and maintain a strong, effective network of certified providers, BWC put one new and one updated rule in place.

- OAC 4123-6-02.7 Provider decertification procedures: 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. It would exclude certain violations, due to their nature, and may lead to BWC immediately starting the decertification process. This new rule was effective Jan. 1, 2013.
- OAC 4123-6-02.2 HPP Credentialing Criteria 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. The rule further adds specific criteria for HPP certification of adult day care facilities, anesthesiologist assistants, independent diagnostic testing facilities and sleep laboratories. Additionally, clarified certification definitions to bring them more in line with nationally recognized certification requirements. This rule change was effective Dec. 10, 2012.

In February 2012, BWC's pharmacy program sent a copy of Responsible Opioid Prescribing™: *A Clinician's Guide* to 3,000 physicians who had prescribed opiates to Ohio injured workers. This action was part of its ongoing effort to ensure the safety of Ohio's injured workers. The goal was to reach out to providers treating injured workers with hopes that this would continue to improve pain management for injured workers. The book reviews best practice guidelines and strategies for the safe, effective and appropriate management of pain. In addition, BWC collaborated with the Federation of State Medical Boards' Foundation in this educational effort. This allowed us to offer 7.5 hours of free CME credits to providers.

The BWC board also approved the creation of a new provider type of "employment specialist." This new provider type would consist of providers of job placement, job development, job seeking skills training, job club and job coaching services. While these providers currently assist injured workers with job seeking activities, there are no minimum criteria they must meet to be certified and participate in workers' comp. The proposed change would add certification criteria for this new provider type. The target effective date for this addition is Dec. 1, 2013.

Medical and vocational service administration support

New catastrophic claims pilot

BWC initiated a new catastrophic-claims case management pilot program to help seriously injured workers who have catastrophic injuries recover with the best outcomes possible. After an extensive RFP process, BWC contracted with a company that will provide professional, high-quality services with the goal of achieving the highest quality of life and medical stability with a return to work where possible. The vendor supporting this pilot program is Paradigm Outcomes Management. Paradigm specializes in managing medically complex cases such as:

- Spinal cord injuries and brain injuries;
- Multiple trauma injuries;
- Severe burns and major extremity amputations.

Under its model, an injury-management team led by a physician specialist supportively drives and directs the injured worker's medical care. A key objective of this new pilot program is to determine and evaluate innovative ways for workers with catastrophic injures to obtain better:

- Quality outcomes;
- Return-to-work outcomes;
- Quality lives for the injured workers and their family members.

As this is a pilot, BWC is reviewing the claims and determining the ones to refer to the vendor. We anticipate this pilot to run to two to three years.

BWC-RSC cooperative agreement

BWC provides vocational rehabilitation services to help facilitate a safe return to work. The Ohio Rehabilitation Services Commission (RSC) partners with Ohio citizens with disabilities to achieve employment, independence and Social Security disability determinations. A cooperative agreement between RSC and BWC enables both agencies to fulfill their unique missions through the use of BWC dollars and matching federal funds. Access to these services exists where the functional limitations of the consumer must result at least in part from injuries incurred while in the employ of companies insured by the state insurance fund.

To help increase availability of services and maximize state matching monies, RSC began entering into vocational rehabilitation public and private partnerships (VRP3). In January 2013, BWC and RSC entered into a new cooperative agreement based on the VRP3 model. To facilitate BWC's execution within the VRP3 model, we have subcontracted with an outside vendor. The vendor will provide case coordination, related supervision and support services to consumers eligible for RSC vocational services.

As part of this new agreement, BWC has implemented a revised referral process to RSC. The revised process provides a more robust and proactive referral screening process and protocol for persons who may be eligible for referral to RSC to receive vocational services. In addition, RSC is working with its counselors to transfer persons receiving services through our prior agreements to our contract.

Medical bill processing

The Medical Services Division is involved in two key initiatives intended to modernize BWC's technical infrastructure. These projects are:

a) The retirement of the Medical Invoice Information System (MIIS), BWC's legacy medical bill processing and provider system, in place since 1990;
b) The development of changes to the infrastructure to facilitate receipt, storing and sending of ICD-10 codes. This update to the health-care industry's diagnosis code set is mandatory for most providers effective Oct. 1, 2014.

MIIS retirement will move all medical bills processing to a single system. The move to a more modern system will allow BWC to capture more information about the pharmacy bills processed by its pharmacy benefit manager – Catamaran. This will allow more detailed data analysis as well as facilitating contract management processes. The change also affects a number of specialty bills paid directly to providers. This includes bills for file reviews and independent medical exams requested by BWC and the Industrial Commission of Ohio. It also includes bills for Federal Pneumoconiosis (Black Lung) and Marine Industry Fund claims managed directly by BWC. This initiative creates a single source of medical payment information for BWC's new core system, PowerSuite. Bill processing in September 2013 moved to BWC's main bill processing application, CAM*BWC.

MIIS, as well as selected billing information, also facilitates exchange of provider information created and maintained in BWC's provider enrollment and credentialing system, PEACH. The shutdown of MIIS will facilitate BWC's intent to make the PEACH system BWC's sole record source for provider information. By the end of calendar year 2014, PEACH will be the source of provider information for eight systems and entities.

The International Classification of Diseases (ICD) provides codes to classify diseases and a variety of signs, symptoms, abnormal findings, complaints, social circumstances and external causes of injury or disease. Every health condition can be assigned to a unique category and given a code. According to Center for Medicare and Medicaid Services, the Oct. 1, 2014, date for transition from ICD-9 to ICD-10 is final. The Medical Services staff is leading an inter-agency ICD-10 team to implement the new coding system. The new code set will add approximately 56,000 diagnosis codes to the group available in ICD-9. ICD-10 codes are much more specific. They will reflect advancement in medical knowledge and technology.

While BWC is a HIPPA exempt entity and not required to adopt ICD-10, doing so allows BWC to take advantage of health-care industry tools. These tools include prospective pricing methodologies used for hospital bills and clinical editing tools for professional bills. It will also reduce the administrative burden on health-care providers who would otherwise need to maintain a second coding system exclusively for their workers' comp patients. Providers include diagnosis codes on each of the roughly 11,000 medical bills MCOs receive daily. MCOs use the diagnosis codes to validate the billed treatment is related to the injured worker's claim.

To implement ICD-10, the health-care industry must implement system infrastructure changes. This includes the adoption of the 5010 electronic data interchange format for medical bills. 5010 is HIPAA mandated standard electronic format used between health-care entities to transmit data. The migration to the 5010 version will allow BWC to fulfill a Medicare reporting requirement relative to claims payment data ahead of schedule. The target date for full implementation of 5010 is Feb. 28, 2014.

Successful completion of these projects will ensure BWC can continue to interact with providers and Medicare using the industry-standard code sets. It will also support a smoother transition to PowerSuite.

The section below presents selected measurements of the HPP's impact during the last six fiscal years.

Selected HPP measurements

All dollar amounts are shown in thousands.

The figures below are limited to the HPP.

Measurement	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Active employers (1)	238,482	233,105	229,765	228,144	227,619	227,487
Active claims (2)	301,128	275,579	245,634	311,315	326,264	316,935
FROI timing (3)	16.55	17.28	17.40	15.47	15.61	16.28
% of FROIs filed within seven days of date of injury (4)	74.33%	73.83%	74.47%	74.39%	74.40%	74.61%
% of claims determined within 14 days of filing date (5)	69.72%	73.10%	73.41%	66.82%	61.52%	57.88%
Bill timing (6) LDOS–MCO MCO–BWC BWC–MCO MCO–Provider	84.01 68.17 6.60 7.29 1.95	82.88 68.03 5.60 7.30 1.95	79.21 64.31 5.76 7.20 1.95	78.10 62.37 6.59 7.19 1.95	79.92 64.48 6.24 7.25 1.95	86.28 71.19 6.53 7.16 1.39
Total regular medical payments (7)	$ 812,730	$ 805,856	$ 774,939	$ 778,853	$ 748,851	$ 705,758
Payments for file reviews and IMEs (8)	$ 23,102	$23,285	$22,275	$20,507	$19,687	$18,930
MCO fees (9)	$ 168,327	$161,317	$165,187	$166,960	$168,403	$169,815
Total medical payments plus MCO fees	$ 1,004,159	$990,458	$962,401	$945,813	$917,254	$875,573
Total indemnity payments (10)	$ 1,208,793	$ 1,115,083	$ 1,071,508	$ 1,053,771	$ 1,078,699	$ 1,076,073
Grand total (11) Benefits paid (Total regular medical payments plus MCO fees plus total indemnity payments)	$ 2,189,850	$ 2,082,256	$ 2,011,634	$ 1,999,584	$ 1,995,953	$ 1,951,646

(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 accounts is the reason 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 resulted in a reduction of re-issued orders. It also resulted in 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 and updated based on a new desk audit in CY2012.

(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.

Division of Safety and Hygiene Annual Report

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Division of Safety & Hygiene Financials

The BWC's Division of Safety & Hygiene (DSH) budget appropriation for Fiscal Year 2013 (FY13) was approximately $16,984,596. This figure excludes safety grants, the Long-Term Care Loan Program, Bureau of Labor & Statistics (BLS) federal grant and Occupational Safety and Health Administration (OSHA) On-Site's federal grant. Additionally, DSH appropriated $4 million for grants (safety intervention and drug-free workplace training, and workplace wellness) and $20,000 for the Long-Term Care Loan Program. The total premium assessment for FY13 was about $17,475,157. A federal BLS Grant provided an additional source of funding of $61,256. A federal OSHA On-Site grant provided an additional source of funding of approximately $1,653,900.

Table A: FY13 DSH premium assessments

Employer type	Assessments ($)
Private	$13,575,563
Public taxing districts	$2,165,195
Public state	$773,602
Self insured	$960,797
Total assessments	$17,475,157

As of June 30, 2013, DSH disbursements for safety services amounted to about $16,734,311. Grants and loan disbursements amounted to approximately $4 million. Table B provides general description of the DSH disbursements.

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

	Safety admin	Field consulta-tions	Outreach program and ser-vices	Education services	Meetings and con-ventions safety council and congress	Resource center	Technical advisors	*OSHA state fund match (10%)	PERRP	Training overhead (XTRS)	BLS state match 50%	Totals	Safety grants	Long term care loan	OSHA federal grant 90%	BLS federal match 50%
Payroll	314,281	9,527,029	507,161	421,614	308,182	320,652	920,185	153,539	837,565	-	53,756	13,363,964	-	-	1,381,754	52,346
Overtime	500	337	-	2,160	127	-	-	-	-	-	189	3,313	-	-	-	189
Purchased services	12,563	-	17,204	421,967	13,784	-	13,500	4,331	25,491	-	-	508,840	-	-	25,937	-
Other pers service	9,989	1,769	490	49,736	4,608	59,593	1,504	678	1,199	8,192	-	137,758	-	-	5,923	-
Total	337,333	9,529,135	524,855	895,477	326,701	380,245	935,189	158,548	864,255	8,192	53,945	14,013,875	-	-	1,413,614	52,535
Supplies	9,880	7,224	690	8,628	677	65,425	203,730	786	1,412	-	191	298,643	-	-	7,057	191
Vehicle maintenance	2,400	130,501	-	2,595	3,242	45	8,680	3,067	11,479	-	-	162,009	-	-	23,871	-
Travel	2,532	33,231	1,067	6,619	16,751	144	10,721	1,811	10,420	-	2,344	85,640	-	-	20,226	2,344
Communications	25,801	63,471	-	528	32,342	7,134	6,932	1,291	6,702	-	285	144,486	-	-	10,046	285
Maintenance/ Repairs	19,299	1,039	-	12,500	-	526	15,238	861	-	-	-	49,463	-	-	7,747	-
Rentals	500,479	-	-	48,597	165,717	-	532	-	-	-	-	715,325	-	-	-	-
Printing/ Advertising	-	787	-	-	28,173	35,555	142	-	14	-	-	64,671	-	-	-	-
General/Other/ Subsidies	79,268	33,976	170	52,259	965,064	5,291	1,318	1,418	3,244	-	779	1,142,787	3,996,861	644	11,590	779
Total	639,659	270,229	1,927	131,726	1,211,966	114,120	247,293	9,234	33,271	-	3,599	2,663,024	3,996,861	644	80,537	3,599
Office equipment	-	-	562	-	-	-	-	-	-	-	-	562	-	-	-	-
Motor vehicles	-	-	-	-	-	-	-	4,611	-	-	-	4,611	-	-	41,499	-
Med/Lab/ Therapeutic	-	-	-	-	-	-	14,296	4,635	-	-	-	18,931	-	-	41,728	-
Educt'/Recrt'l	-	-	-	5,086	-	-	-	-	-	-	-	5,086	-	-	-	-
Data Proc equipment	-	-	-	6,339	-	788	1,224	-	-	-	-	8,351	-	-	-	-
Copy/Print equipment	-	-	-	-	-	19,876	-	-	-	-	-	19,876	-	-	-	-
Total	-	-	562	11,425	-	20,664	15,520	9,246	-	-	-	57,417	-	-	83,227	-
Grand total *	976,992	9,799,364	527,344	1,038,628	1,538,667	515,029	1,198,002	177,028	897,526	8,192	57,544	16,734,316	3,996,861	644	1,577,378	57,544

BWC's 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 relative to the number of employers who benefited from these services.

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;
- Risk management.

BWC conducted 361 classes at 11 locations on 75 topics. BWC also offered 11 online courses, and employers hosted 80 additional classes. Furthermore, 17,857 students from 12,708 companies completed 25,867 classroom Web-based and on-site training courses. About 16,403 of the completed classes were associated with Web-based courses.

Safety Council Program

The Ohio 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 8,000 Ohio employers through monthly meetings. BWC co-sponsors 80 safety councils throughout the state; organized through chambers of commerce, trade and manufacturing associations, safety education providers and other local community organizations.

BWC provided $917,150 in subsidies toward the direct costs of these councils and paid $10,320,260.34 in premium rebates to employers who met the safety councils' attendance, active participation and performance incentives. In addition to providing subsidies and rebates, BWC presented more than 1,350 awards through a structured program to recognize companies for their efforts in injury and accident prevention. Safety councils held 1,159 meetings during FY13.

Table C: Fiscal Year 2013 occupational safety and health services statistics by policy type

Service type	Private employers	Public employers	State agencies	Self-insured	Marine fund	Other	Total
Training and education	12,053	372	35	242	1	5	12,708
Safety congress	1,997	219	34	268	1	2	2,521
Safety council	7,326	874	10	459	1	1	8,671
Safety intervention grants*	442	85	0	0	0	0	527
Video library	1,093	126	18	110	0	8	1,355
Specialized field consulting - visit only	3,549	386	37	251	2	53	4,278
OSHA On-site	580	0	0	0	0	0	580
PERRP field consulting – visit only	8	305	6	3	0	0	322

* = 517 Grants awarded to 508 employers.

Ohio Safety Congress & Exposition

The annual Ohio Safety Congress & Exposition continues to be the largest state conference in the United States. This year's safety congress hosted 6,270 participants from 2,521 Ohio businesses. The free, three-day event offered general sessions, workshops, lectures, panel discussions, safety simulations, innovation awards and an exposition.

A record-setting 227 products and service providers participated in the exposition, providing $251,300 of event revenue to BWC. These providers displayed the latest advances in safety and health training, equipment, technology and services. Local and national experts presented 170 general sessions, workshops and educational sessions.

More than 91 percent of participants indicated they would implement what they learned at safety congress. In addition, 95 percent of them revealed they were satisfied or completely satisfied with the event. Approximately 34 percent of participants attended the event for the first time. In addition to servicing the training and education needs of Ohio businesses, the event also provided professional development for BWC employees. This reduced the funds needed for this purpose through external sources.

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 Safety Intervention Grants (SIG) Program, Drug-Free Safety Program (DFSP) grants, Workplace Wellness Grant-Program (WWGP) and the Long-Term Care Loan (LTCL) Program.

Safety Intervention Grants Program

The SIG, now in its 14th year, provides financial assistance to employers to purchase equipment that significantly reduces or eliminates the risk of occupational injuries and illnesses. For FY13, the program provided 2-to-1 matching funds, up to a maximum of $40,000, to participating employers. The program requires employers to evaluate their interventions and share their results with BWC.

In FY13, BWC awarded 130 SIG grants totaling $3,991,469 to 128 employers, compared to 150 SIG grants totaling $3,253,932 to 145 employers in FY12. 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 (29), followed by commercial industry (25).

Of the 130 SIG grants awarded in FY13, BWC awarded 13 grants totaling $166,367 to employers in the wholesale and retail trade/material handling sector. BWC and the National Institute for Occupational Safety and Health (NIOSH) are collaborating to research ways to create a safer work environment for employees working in this industry and other sectors that have delivery, installation, receiving or material handling tasks. The study will analyze the effects of adding equipment to a material handling process and determine if the addition reduces on-the-job injuries to the back and shoulder.

Employers receiving grant funds through the SIG program must provide quarterly reports and a year-end case study to document their experience with the equipment purchased through the grant. BWC and NIOSH use the data and information to:

- Conduct cost/benefit studies;
- Identify best practices;
- Advance knowledge in the area of occupational safety and health;
- Show other employers how they can benefit from implementing safety and health improvements in their workplaces.

Last year, 69 companies fulfilled their participation requirements in SIG. These companies reported $650,924.87 in annual productivity savings, $505,888.50 in annual claim cost savings and $13,293.53 in other savings (quality, absenteeism, etc.). The return on investment on the cost of the interventions based on this reported information is 1.29 years.

Workplace Wellness Grant Program

The WWGP assists Ohio employers with the development and implementation of a workplace wellness program. The program's goal is to control the escalating cost of workers' compensation claims through addressing health-risk factors. The WWGP's collateral goals are also to reduce health-care costs for employers, as well as improve the health of the workforce. Participating employers may receive $300 per participating employee during a four-year period, up to a maximum amount of $15,000 per employer. Employers participating in the WWGP must use wellness grant funds to compensate an external wellness program vendor for providing health-risk assessments (HRAs), biometric screenings, coaching and other activities to address the results of the screening and assessment. Participating employers receive grant funds after the completion and submission to BWC of aggregate HRA, biometric and employee data. During FY13, BWC dispersed funds totaling $514,600 to 156 employers who submitted the required data.

Drug-Free Workplace Safety Program grants

The DFSP provides support for Ohio's employers in their efforts to maintain safe, drug-free workplaces. In FY13, BWC awarded 241 grants amounting to $179,491 to 235 employers. Construction and manufacturing accounted for 55 percent of the participating employers. Eight public taxing districts and schools benefited from these grants as well. In comparison to last year, BWC awarded 145 grants amounting to $124,191 to 141 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 to 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 $644.38 in interest reimbursements to one employer.

On-site and field consulting services

BWC's on-site and field consulting safety services include the OSHA On-Site Consultation Program, Public Employment Risk Reduction Program (PERRP) and specialized field consulting safety services. BWC's on-site and field-consulting specialists work directly with employers on:

- Hazard assessment and mitigation;
- Safety management systems analysis and improvement;
- On-site education and training;
- Implementation 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 $1,653,900 with BWC funding the remaining 10 percent ($180,470). The program provides highly specialized services to relatively small employers (fewer than 250 employees) in high hazard/risk industries.

Program field consultants conducted 892 visits to workplaces throughout Ohio. They improved workplace safety for 580 employers with 53,290 employees. In addition, the program provided safety on-site training for 1,520 employees. BWC recognized 26 companies as having exemplary safety and health programs. These companies earned the Safety and Health Achievement Recognition (SHARP) designation.

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. The Public Employment Risk Reduction Program (PERRP) is tasked with enforcing these adopted OSHA rules. It also assists the public sector workforce in creating safe and healthy workplaces. PERRP conducted three fatality investigations and processed 29 complaints. In addition to enforcement activities, PERRP staff provides free safety inspections, site-specific evaluations, written program reviews, safety training, and hazard recognition. PERRP safety and health consultants identified 5,472 violations at 1,125 public employer workplaces that affected 18,289 employees. On average, PERRP processed written reports of findings within 17 days. Expeditious reporting allows employers to begin the abatement process to correct these hazards. Additionally, PERRP consultants provided 145 on-site safety trainings and 25 presentations to 1,385 employees.

Specialized field consulting safety services

Specialized consulting services provided through 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[1] made 13,713 visits to Ohio workplaces owned by 4,596 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 library 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 of more than 800 workplace safety and health DVDs, videotapes and training aids. It is a convenient and popular source for Ohio employers to obtain quality workplace safety and health training aids for their employees. In FY13, the video library contracted with two online streaming video vendors, which offer more than 150 titles for Ohio employers. On Jan. 1, 2013, the video library introduced a new Web-based video ordering tool. With the new tool, each customer must create an online borrower account. To date, 1,242 customers have created profiles to order material from the video library. This year, the video library served 1,355 Ohio employers and loaned hundreds of DVDs and training aids circulated 8,908 times throughout the fiscal year.

Technical advisors unit

The technical advisors unit provides statewide-specialized technical support to BWC on-site and field consulting specialists and employer management staff. It provides ergonomics, industrial hygiene, and industrial and construction safety support. They also serve as subject matter experts in the development and application of BWC safety rebate programs and technical pre-approval evaluation and post-approval monitoring of the safety intervention grants.

The unit maintains and updates the Ohio Administrative Code Specific Safety Requirements. It also disseminates information on new advancements in safety literature, standards and technology. The advisors provide technical support for the development and revision of safety training courses and modules. They also teach several occupational safety, ergonomics and industrial hygiene courses.

Industrial hygiene laboratory

BWC's industrial hygiene laboratory provides a variety of support services to BWC consultants. The laboratory handles the inventory, repairs, maintains and calibrates more than 2,000 measurement devices and tools used by DSH staff. Last year, the laboratory performed certified calibration of 764 devices, with estimated savings of approximately $134,410.

Furthermore, by working with an external specialized laboratory, BWC's laboratory coordinated elaborate testing of 781 air quality samples to measure workers' exposure to a variety of chemicals at 544 Ohio workplaces.

[1] BWC/DSH and PERRP

Bureau of Labor Statistics

BWC entered into a cooperative agreement with the Federal Bureau of Labor Statistics (BLS) for the Survey of Occupational Injuries and Illnesses (SOII). The survey is the only comprehensive measure of work-related injuries and illnesses in American workplaces. The agreement allows BWC, through the DSH, to administer this survey for Ohio. Prior to this agreement, Ohio has not had publishable statistics for the past 20 years due to lack of partnership between the BLS and any agency in Ohio.

BLS developed this federally mandated survey as part of the Occupational Safety and Health Act of 1970 (PL 91-596). BLS provides 50 percent of the funding and BWC provides 50 percent. The survey provides information to the public annually on the number and frequency of non-fatal injuries and illnesses occurring in workplaces. It also provides demographic and case characteristics information for serious injuries requiring time away from work. The BLS uses the information gathered through this report to generate both state and national benchmarks for incidence of occupational injuries and illnesses. It also uses the report to develop prevention policies and training, which are essential for improving safety standards. Furthermore, the report provides industry specific information, which is useful in developing prevention programs that can be relevant to the safety needs of different industries.

The survey for FY 2013 gathered data on occupational injuries and illnesses for the 2012 calendar year. BLS selected 4,000 establishments (both private and public) as a representative sample for the entire Ohio workforce. The survey achieved a 92-percent completion rate with more than 5,000 cases of occupational injuries and illnesses reported. BLS will make comprehensive statistics and publishable data available by the end of calendar year 2013.

In preparation for the 2014 survey cycle, BLS pre-notified 4,000 establishments of their inclusion in the SOII program on which to gather data for the 2013 calendar year.

Research Activities and Initiatives

In FY13, the BWC and NIOSH research partnership continued to develop a system for trending the frequency, severity/cost and causes of claims by specific industries. This system will allow BWC to focus consulting services and additional research on priority industries. It will also allow individual employers to benchmark their safety performance versus peers for common preventable outcomes like ergonomic and slip-trip-fall claims.

BWC and NIOSH also focused on examining the effectiveness of the SIG Program. This study found that claims frequency, cost per employee and cost per claim significantly dropped for affected employees after the intervention. BWC used this information in part to triple the budget for the overall program in FY14 to assist more employers in benefiting from the program funds, and consequently improve safety and health in their workplaces. Examples of recent key papers and presentations produced by the partnership include:

- Workers' compensation claims for musculoskeletal disorders among wholesale and retail trade industry workers - Ohio, 2005-2009. Morbidity and Mortality Weekly Report, June 2013; 62(22):437-442;
- Analyzing workers' compensation data for Ohio businesses (Presented at the 2013 Ohio Safety Congress & Expo);
- The effectiveness of an insurer supported engineering controls program on workers' compensation claims and costs (Submitted to the American Journal of Industrial Medicine).

Ohio occupational fatalities for calendar years 2009-2012

DSH performed thorough analysis of work-related accidents that resulted in fatalities in Ohio for calendar years 2009 through 2012 with emphasis on calendar year 2012. However, occupational disease claims were not analyzed in detail for the purposes of this report. Claims where no relationship was established between the work injury and death were not included in the analysis. Based on these criteria, BWC's claims data system recorded 85 work-related fatalities for calendar year 2012. The 85-recorded fatalities are consistent with the national downward trend in occupational fatalities. Non-immediate fatalities increased slightly in 2012. However, the number of immediate fatalities decreased by 14.

Of the 85 fatalities in calendar year 2012:

- Fifty-six workers were injured and died on the day of injury;
- Twenty workers were injured and died on different dates during 2012;
- Nine workers were injured in previous years and died in 2012.

Fatalities due to "electrocution" and "transportation" decreased from 2011 to 2012. However, fatalities due to being "caught in or between" and "working on or near a roadway" increased.

Figure 1 provides a general overview of work-related fatalities in Ohio for calendar years 2009 through 2012. The majority of the fatalities were immediate with injury date and death date being the same. The number of immediate fatalities decreased in 2012. Non-immediate fatalities remained the same as 2011 with 29-recorded fatalities.

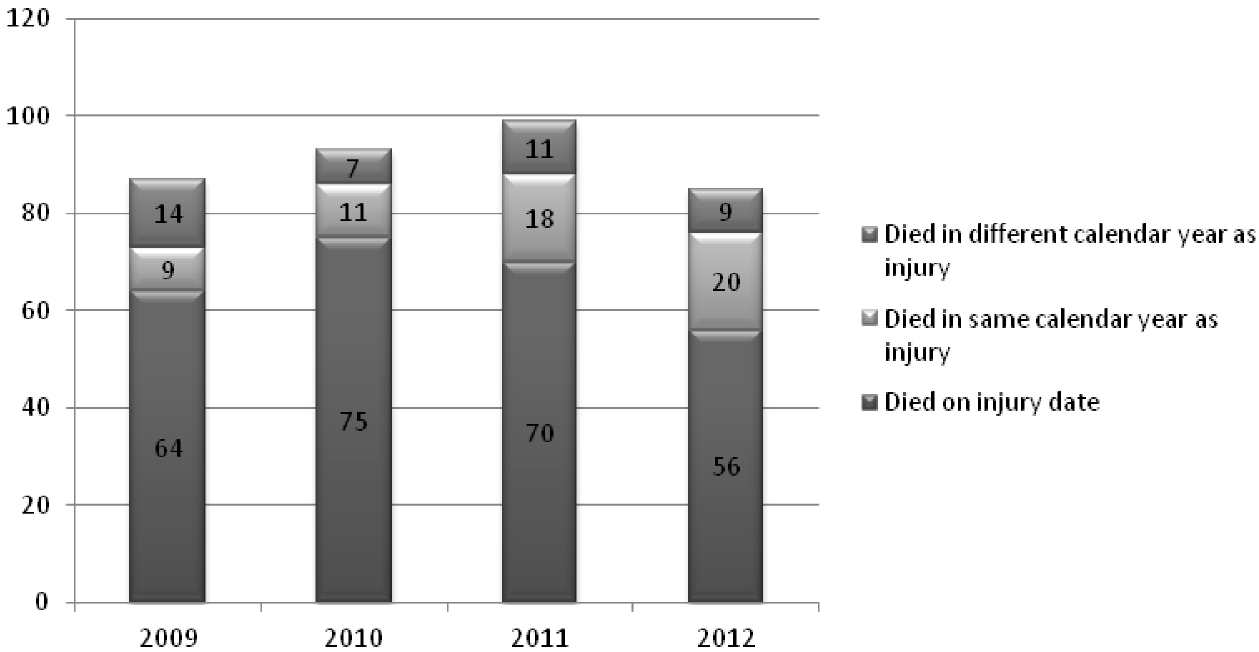

Figure 1: Ohio occupational fatalities, 2009-2012

Fatalities according to source of injury/illness (causation)

Transportation-related accidents were the leading cause of fatal accidents in 2012, with 33 deaths. Twenty-three workers were fatally injured in motor vehicle accidents as a driver or passenger. Six workers were fatally injured as a result of being struck by a forklift or construction equipment. In addition, four workers were fatally injured as a result of being struck by vehicular traffic while walking or working by the roadway.

The second leading cause of fatalities in 2012 was slips and/or falls, resulting in 15 fatalities; followed by "struck by," which resulted in 13 fatalities; workplace violence resulted in seven fatalities; and "caught in or between" resulted in seven fatalities.

The remaining coded causations for calendar year 2012 fatalities include:

- Three workers were fatally injured in an explosion;
- One worker was fatally injured due to contacting electrical current;
- Six workers were fatally injured due to miscellaneous causes.

Figure 2 depicts the distribution of calendar year 2012 fatalities according to causation.

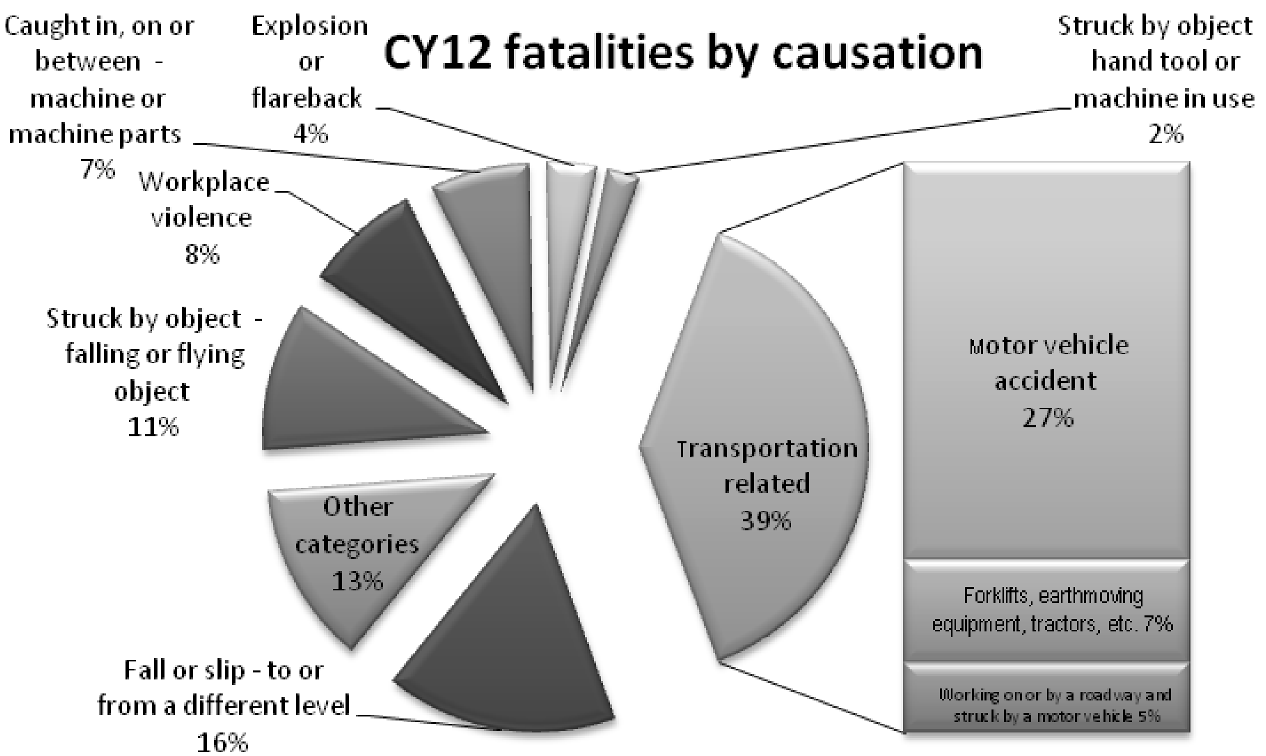

Figure 2: Calendar year 2012 fatalities by causation

Fatalities according to industry sector

The industry sector with the most fatalities (17) in 2012 was the construction sector. The two leading causes of fatalities in this sector were transportation related (seven) and falls (six).

The industry sector with the second highest number of fatalities (14) in 2012 was manufacturing. The top two leading causes of fatalities in the manufacturing industry were "caught in or between" (five) and "transportation related" (four). Last year, the manufacturing industry ranked fifth with 12 fatalities.

The service industry sector had the third highest number of fatalities (13) in 2012. The top two leading causes of fatalities in the service industry were "fall or slip" (three) and "transportation related" (three).

Figure 3 shows the fatality counts for calendar years 2009 through 2012, according to the industry sector.

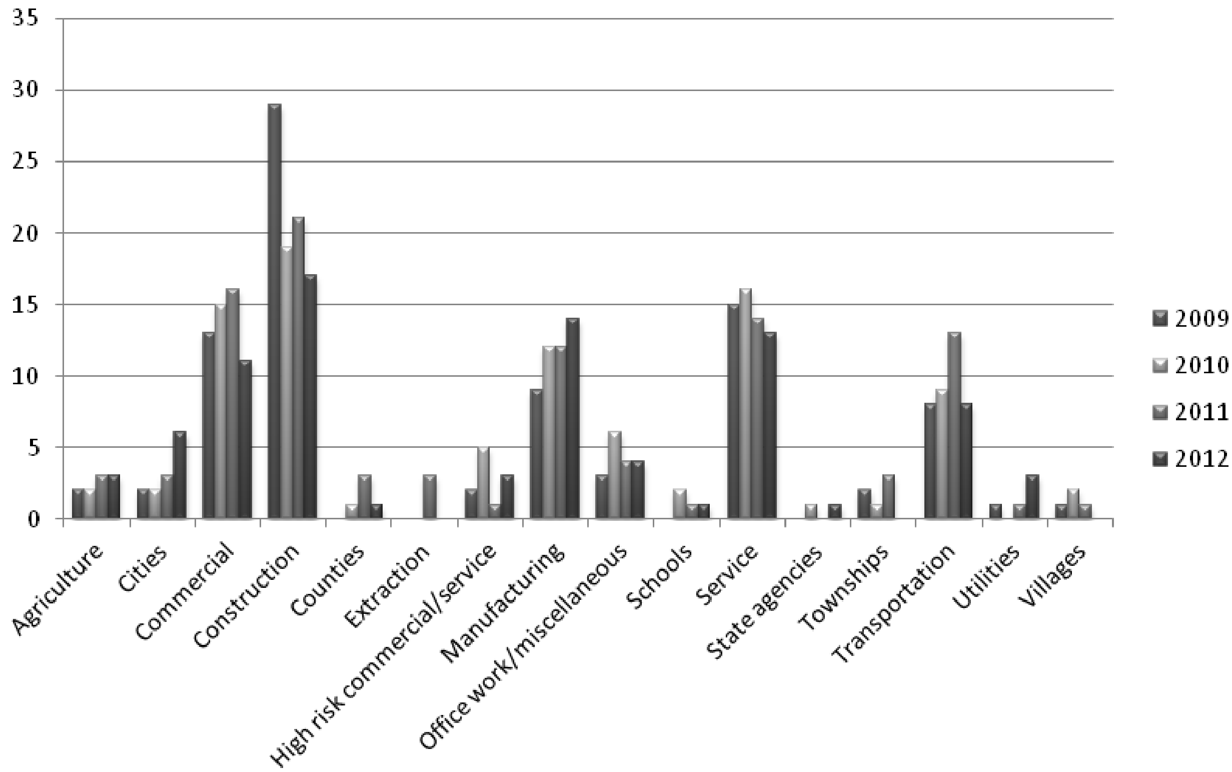

Figure 3: Fatalities by employer industry sector

(Public employers include cities, counties, schools, townships and villages.)

Market Value of BWC's Safety Services and Programs

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

Table F: Estimated market value of BWC's occupational safety and health services.

Employer type	Field consulting	Video library	Training	Safety congress	Safety grants	Library other	PERRP	On-Site	Total
Private (PA)	$7,487,399	$1,377,197	$2,792,920	$1,386,351	$2,629,9210	$7,785	$12,506	$1,943,625	$17,637,704
Public taxing district (PEC)	$919,899	$222,394	$184,990	$202,759	$1,361,549	$465	$464,808	-	$3,356,864
Public state (PES)	$324,531	$94,106	$176,945	$301,655	-	$200,658	$184,309	-	$1,282,204
Self-insured	$1,308,691	$170,488	$281,340	$541,896	-	$1,565	$6,063	-	$2,310,043
Not defined	$442,914	$15,403	$28,715	$60,963	-	$13,040	$24,570	-	$585,606
Total	$10,483,435	$1,879,588	$3,464,910	$2,493,625	$3,991,470	$223,513	$692,255	$1,943,625	$25,172,420

Industrial Commission of Ohio Annual Report

Letter from the Chairman

Governor John Kasich is dedicated to leading Ohio's state agencies on a path to better customer service and increased accountability at a lower cost to all Ohioans.

As chairman of the Industrial Commission of Ohio (IC), I share Governor Kasich's vision. I firmly believe in implementing innovative ideas while never losing sight of our financial responsibility to the citizens of Ohio.

Throughout fiscal year 2013 (FY13), our agency delivered timely, impartial workers' compensation hearings. Simultaneously, we cut expenditures, streamlined procedures, simplified hearing processes, improved customer service and eliminated excessive bureaucracy.

Fiscal year highlights include:

- Presented a biennium budget for FY14/15, which was a combined 6.6 percent reduction from the previous budget year. It passed in the 130th General Assembly unanimously;
- Cut administrative rates for three of four Ohio employer groups for a third straight year. This resulted in an estimated combined $6.6 million savings for these groups;
- Negotiated the Commission's exit as an obligated party to the William Green Building debt service and annual maintenance assessment. This action resulted in a combined savings of $6.1 million for FY13/14.
- Reduced total expenditures to $45.9 million for FY13, a level not seen since FY99;
- Achieved a 31.9 percent set-aide rate for Minority Business Enterprise (MBE) directed expenditures, while the statutory mandate is 15 percent;
- Continued to reduce employment levels in FY13, which resulted in 22.7 percent decrease through attrition since January 2008. This represents an estimated cumulative savings of $19.6 million.

In furtherance of our commitment to fiscal accountability, I am pleased we have remained compliant with statutory mandates. We accomplished this despite reducing costs and implementing new, innovative services.

Looking into the future, the IC will strongly focus on cost-effective methods that will only enhance our customer's experience with our agency. We will meet each new idea with an open mind. If we identify an improvement to agency operations, we will implement it promptly to better serve our stakeholders.

Each fiscal year brings new challenges, but the IC will remain dedicated to a simple mission: Provide injured workers and employers with timely, impartial resolution of their workers' compensation appeals while remaining fiscally responsible stewards of public funds.

Sincerely,

Thomas H. Bainbridge,
Chairman
Industrial Commission of Ohio

About the IC

The IC conducts more than 150,000 hearings each fiscal year. Most of these hearings take 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, Jodie M. Taylor represented employers; Karen L. Gillmor represented the public; and Gary M. DiCeglio represented the interests of employees.

The governor appointed Thomas H. Bainbridge as the employee member of the agency on July 1, 2013. He became chairman on July 9, 2013.

Fiscal year highlights

In addition to the Commissioners, there are 95 hearing officers — all attorneys — in five regional and seven district offices throughout the state.

In FY13, the IC heard 150,070 claims. District hearing officers heard 104,538 claims. Staff hearing officers heard 45,110 claims and the Commission heard 422 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 30 days. Staff level (second level) hearing appeals averaged 32 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 34 days on average. For the staff level, it averaged 36 days.

The Industrial Commission Online Network (ICON) makes it easy to file appeals online and is one reason for our continued success. There were 64,877 first-level motions and appeals filed on ICON this fiscal year. There were also 65,548 second-level (or above) appeals filed on ICON during the fiscal year.

AskIC is another tool that has helped accelerate our response to customer inquiries. AskIC 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 responded to 1,065 AskIC submissions during the fiscal year. The department also scheduled 1,274 interpreters for injured worker hearings. In addition, our toll-free customer service line received 8,245 calls. Staff personally assisted 8,364 people at our Columbus office.

Customer Service Initiatives

New customer service location offers greater convenience

In September 2012, the customer and staff resources department officially moved from the ninth floor to the first floor of the William Green Building in Columbus. The new site allows the department to see its customers on a daily basis. Before the move, customer service assistants would often travel to the ninth floor from the first floor front desk to remedy a problem. The new location eliminates this issue because a customer service supervisor is always available on the first floor.

Workers' comp reps saying goodbye to snail mail

With a few clicks of the mouse, workers' compensation representatives now have instant access to IC hearing orders and notices. They no longer have to wait for the mail carrier. In January 2013, the agency made hearing notices, orders and letters available to representatives digitally via ICON instead of by U.S. mail. The new system of delivery allows claims representatives to receive correspondence at a faster rate than traditional mail delivery. Representatives may view their electronic notices, orders and letters by using the daily correspondence link available on ICON. The procedure eases the process, saves paper, and encourages the active use of ICON among representatives. This innovative approach not only simplifies the hearing process, it also saves the agency money on paper, ink and work hours devoted to mail delivery.

Commitment to security leads to safer customers

The IC is dedicated to providing the most enhanced security training to its employees. Throughout FY13, each IC employee received in-depth training on how to respond if an active shooter enters an IC facility. As a safety reference, we posted a simulated active shooter video on our internal website for IC employees to review. In addition, the agency launched a comprehensive workplace violence training program. This program educated our employees on workplace violence issues. Employees also learned ways to react if an unstable situation occurred. Additionally, Captain Steve Saltsman, bomb squad commander, City of Columbus Division of Fire, visited the William Green Building in January 2013. He offered his expertise in handling potentially deadly packages and letters.

New IT initiatives will better serve customers

In June 2013, the IT department launched two new services that will boost customer service throughout each IC office. On June 17, the IC allowed customers to fax and email hearing documents directly into the IC imaging system. This occurred after a successful pilot program with two representative firms and two third-party administrators. This process will offer customers a faster and more convenient method of sending documents to the agency. On June 19, all IC offices began providing expanded Internet access via an additional secure wireless network, ICWIFI. Use of this service requires logging in with a username and password after obtaining an agency-issued identification card.

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, 2013 and 2012

and Independent Auditors' Report Thereon

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C O N T E N T S

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

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, 2013, 2012, and 2011. 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, 2013 were $28.2 billion, an increase of $226 million or 0.8 percent compared to June 30, 2012.
- BWC/IC's total liabilities at June 30, 2013 were $21.5 billion, an increase of $1.3 billion or 6.3 percent compared to June 30, 2012.
- BWC/IC's operating revenues for fiscal year 2013 were $1.5 billion, a decrease of $454 million or 23.2 percent compared to fiscal year 2012.
- BWC/IC's operating expenses for fiscal year 2013 were $1.6 billion, a decrease of $341 million or 17.5 percent from fiscal year 2012.
- BWC/IC had $966 million in rebate expenses and an $859 million loss contingency in fiscal year 2013.
- BWC's non-operating revenues for fiscal year 2013 were $901 million, compared to $2.0 billion for fiscal year 2012.
- BWC/IC's net position decreased by $1.0 billion in fiscal year 2013, compared to a $2.0 billion increase in fiscal year 2012.

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 Position - This statement is a point-in-time snapshot of BWC/IC's assets, liabilities and net position at fiscal year end. Net position represents 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 Position - 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 position and the statement of revenues, expenses and changes in net

Continued

position 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.

Financial analysis

Components of BWC/IC's Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position as of June 30, 2013, June 30, 2012, and June 30, 2011, and for the years then ended were as follows (000's omitted):

	2013	2012	2011
Current assets	$ 2,935,812	$ 1,813,133	$ 1,571,167
Noncurrent assets	25,306,277	26,203,374	24,529,539
Total assets	$ 28,242,089	$ 28,016,507	$ 26,100,706
Current liabilities	$ 3,713,761	$ 2,779,729	$ 2,533,248
Noncurrent liabilities	17,749,251	17,419,039	17,795,456
Total liabilities	$ 21,463,012	$ 20,198,768	$ 20,328,704
Net position invested in capital assets, net of related debt	$ 88,663	$ 57,105	$ 43,051
Unrestricted net position	6,690,414	7,760,634	5,728,951
Total net position	$ 6,779,077	$ 7,817,739	$ 5,772,002
Net premium and assessment income, including provision for uncollectibles	$ 1,492,389	$ 1,944,478	$ 1,935,180
Other income	11,723	14,115	14,989
Total operating revenues	$ 1,504,112	$ 1,958,593	$ 1,950,169
Workers' compensation benefits and compensation adjustment expenses	$ 1,491,515	$ 1,832,992	$ 2,238,942
Other expenses	120,741	120,228	123,153
Total operating expenses	$ 1,612,256	$ 1,953,220	$ 2,362,095
Premium rebate	$ (965,636)	$ -	$ -
Expense for loss contigency	(859,440)	-	-
Operating transfers out	(6,365)	(3,390)	(5,545)
Net investment income	900,854	2,043,644	2,364,359
Gain on disposal of capital assets	69	110	35
(Decrease) increase in net position	$ (1,038,662)	$ 2,045,737	$ 1,946,923

BWC/IC's net position decreased by $1.0 billion during fiscal year 2013, compared to a $2.0 billion increase during fiscal year 2012.

Continued

- Premium and assessment income exceeded workers' compensation benefits and compensation adjustment expenses by $874 thousand in fiscal year 2013 and $111 million in fiscal year 2012.

- Over the past two years, the net position of the State Insurance Fund (SIF) had grown to the degree that it exceeded the guidelines in the Net Asset Policy established by the BWC Board of Directors. A rebate to reduce the net position in SIF was approved by the Board on May 30, 2013. Private employers were granted a rebate equivalent to 56 percent of premiums for the July 1, 2011 through June 30, 2012 policy period, while public taxing district employers were granted a rebate equivalent to 56 percent of premiums for the January 1, 2011 through December 31, 2011 policy period. This action resulted in premium rebate expense of $966 million in fiscal year 2013.

- Premium and assessment income for fiscal year 2013 reflects no change in the overall premium rates for the majority of Ohio's private employers and a 5.0 percent reduction for public employer taxing districts (PECs) for the policy period that began on January 1, 2013. PECs include cities, counties, townships, villages, schools, libraries, and special taxing districts. The change in the methodology to exclude the provision for future employer defaults from the estimated self-insured employer default liabilities resulted in a corresponding decrease of $458 million to unbilled premium receivables.

- As part of Destination: Excellence, savings were available to employers for effective policy maintenance such as reporting payroll and paying premiums online and keeping current on their premiums. The Go Green program rewards employers for reporting payroll and paying premiums on-line with a discount of one percent of premium up to a maximum discount of $1,000 per six month reporting cycle. In fiscal year 2013, almost 40 percent of the employer population chose to Go Green earning discounts of $2.4 million. To reward timely premium payers, employers with no lapses in coverage during the past 60 months can receive a premium discount of one percent up to a maximum of $1,000 per six month reporting cycle. Employers earned lapse-free discounts of $7 million in fiscal year 2013.

- Ohio has 80 safety councils that promote increased safety awareness in the workplace and educate businesses on occupational health and safety issues. Employers meeting safety council participation eligibility requirements and performance goals for reducing either frequency or severity earned safety council bonuses of $9.8 million in fiscal year 2013.

- BWC/IC has 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 2013, 2012 and 2011 for the accrual of the ceded reinsurance premiums.

Continued

- Workers' compensation benefits and compensation adjustment expenses were $1.5 billion in fiscal year 2013, compared to $1.8 billion in fiscal year 2012 and $2.2 billion in fiscal year 2011.

($ in millions)	2013	2012	2011
Change in reserves for compensation and compensation adjustment expenses	$ (515)	$ (245)	$ 146
Net benefit payments	1,649	1,715	1,733
Payments for compensation adjustment expenses	188	195	194
Managed Care Organization administrative payments	170	168	166
	$ 1,492	$ 1,833	$ 2,239

- The discounted liabilities for workers' compensation benefits and compensation adjustment expenses as of June 30, 2013 are $515 million lower than the June 30, 2012 discounted liabilities. There were no significant changes in the methodology to determine unpaid loss estimates except for revisions to exclude the provision for future employer defaults from the estimated self-insured employer default liabilities. The June 30, 2013 estimated unpaid losses for self-insured employer default liabilities decreased by $458 million compared to the June 30, 2012 estimate. These revisions in the recognition of liabilities have no impact on net position as the changes in the liability estimates are offset by corresponding changes in unbilled premium receivables and assessment income.

- Benefit payments for all accident years emerged $219 million or 12 percent lower than expected during fiscal year 2013. Approximately $140 million of the lower than expected paid development is associated with medical benefits. Incurred losses for accident years 1977 and subsequent emerged 31 percent lower than expected. Claim frequency continued to decrease while medical severity remained stable for accident years 2008 through 2012.

- A loss contingency of $859 million was recorded in the financial statements in fiscal year 2013 as a result of the adverse decision issued by the Cuyahoga County Common Pleas Court awarding damages to the plaintiff class in the San Allen group rating litigation. It is BWC/IC's intent to vigorously defend its position and on April 15, 2013, a notice of appeal was filed. A friend of the court brief supporting BWC's position in the appeal was filed by the Ohio Chamber of Commerce, the National Federation of Independent Business/Ohio, and the Ohio AFL-CIO.

- In fiscal year 2013, BWC/IC recorded net investment income of $901 million, compared to $2.0 billion in fiscal year 2012. The investment portfolio earned an unaudited net return of 3.8 percent, after management fees, during fiscal year 2013 compared to 9.8 percent in fiscal year 2012 and a return of 12.4 percent in fiscal year 2011.

- The Board of Directors approved a 6 percent allocation of the SIF investment portfolio to real estate. This allocation is directed towards U.S. concentrated real estate funds divided between a targeted 4.5 percent allocation to private open-end core funds and a targeted 1.5 percent allocation to private close-ended value-added funds. As of June 30, 2013, a total of $807.6 million has been invested in eight core real estate funds. Two value-added real estate funds, with commitments of $50 million in each fund to be invested in stages over the next three and one-half years, have also been approved. As of June 30, 2013, initial capital investments totaling $20.8 million have been made to

Continued

these value-added funds. Redemptions from the SIF passively managed U.S. long government bond portfolio and the SIF U.S. TIPS fixed income portfolio have been used to fund the real estate investments.

- As of June 30, 2013 and June 30, 2012, BWC/IC had debt in special obligation bonds of $15.4 million and $31.6 million, respectively. These bonds were issued in 2003, through the Ohio Building Authority (OBA) to refund the 1993 William Green Building Series A bonds. All matters related to the issuance of obligations for the financing of capital facilities were transferred to the Treasurer of State (TOS), effective January 1, 2012. The TOS has assumed responsibility for the administration of the 2003 agreement. The bonds are collateralized by lease rental payments pledged by BWC/IC. These bonds were rated Aa3 by Moody's Investors Service, Inc.

Conditions expected to affect financial position or results of operations

BWC/IC's guiding principles of prevention and care drive our commitment to keep Ohio workers safer on the job; help injured workers recover and return to their lives – at work and home; and to keep costs down for Ohio businesses.

- Private employer statewide average base rates will decrease an average of 2.1 percent for the July 1, 2013 policy year, producing estimated savings of $29 million for these employers. Public employer taxing district premiums decreased by an average of 5.0 percent for the January 1, 2013 policy year. Average rates, based on public employer taxing district payroll, have not been this low since at least 1983.

- The Safety Grant Program has been expanded from $5 million to $15 million to support increased statewide efforts that promote workplace safety and encourage further investment in protecting Ohio's workers.

- The comprehensive annual actuarial analysis found that the average cost per private employer claim remained flat for accident years 2009 through 2012. However, through June 30, 2013, accident year 2013 is showing an increase in the average lost time medical cost per claim. The average lost time medical cost per claim as of 6 months of age is $6,040 for 2013 compared to $5,582 for accident year 2012, and $5,683 for accident year 2011. These trends show the need for BWC to remain focused on cost control and returning injured workers back to work in a timely manner. 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 the transitional work bonus program.

- Rooting 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 resulted in the identification of more than $55 million in savings for the State Insurance Fund after closing more than 2,000 cases. Significant resources have also been deployed to combat prescription fraud. Drug utilization reviews are requested in cases when there is a question of whether BWC paid prescriptions are medically necessary. These reviews resulted in the termination of drugs in 171 cases, generating $9.5 million in savings.

Continued

- The Board of Directors has approved the active management of all SIF long-duration credit fixed income assets. The Investment Policy Statement (IPS) has been revised whereby the 8 percent allocation of SIF invested assets targeted to passive management of long-duration credit assets has been eliminated and the allocation of SIF invested assets towards actively managed long-duration credit assets has increased from 20 percent to 28 percent. The 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.

- Work continues on the Core Project to modernize BWC's technology architecture to better serve Ohio's injured workers and employers. This project will replace outdated claims, policy, and employer billing systems with a commercial product called PowerSuite. PowerSuite is scheduled to go into production in November 2014.

- Legislative approval has been obtained that will allow for modernizing how premiums are collected in Ohio by moving to a prospective payment system. This switch will result in rate reductions of 2 percent for private employers and 4 percent for pubic taxing district employers as premiums will be collected sooner. Management is working on the design and drafting of rules to implement the prospective payment system with actual implementation targeted for early 2015.

- BWC's net asset policy contains the business rationale, methodology, and guiding principles with respect to maintaining a prudent net position 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 position). Over the past two years the net position has increased to the point these ratios are no longer within the guidelines established by the policy. One of the options to reduce the net position and move towards compliance with the policy was the Board approval for the issuance of a cash rebate reducing the net position by $966 million. Management will be requesting Board approval for transition credits to mitigate the cost to employers for transitioning to the prospective payment system. With the approval of transition credits, it is anticipated that the net position level will be in compliance with Board policy.

	2013	2012	2011	2010	Guideline
Funding Ratio	1.39	1.47	1.33	1.22	1.15 to 1.35
Net Leverage Ratio	2.93	2.47	3.45	5.17	3.0 to 7.0

- The cities of Cleveland and Parma filed separate lawsuits on June 28, 2013 and September 18, 2013, respectively, alleging that BWC overcharged public employers that were not group rated. The lawsuit filed by Parma seeks class action status for similarly situated public employers. Similar to the allegations raised in the San Allen case, the cities claim that BWC overcharged non-group rated public employers in order to unlawfully subsidize the discounts for the group rated public employers. A trial date has not been set for either case. Accordingly no provision for any liability has been reported in the financial statements for this matter.

From time to time, BWC/IC is involved in 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

Report on the Financial Statements

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, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the BWC/IC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the BWC/IC as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information
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 1–6 and 36–37, 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, who 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 statements, and other knowledge we obtained during our audit of the basic financial statements. 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.

Other Information
As discussed in Note 1, the financial statements of the BWC/IC are intended to present the financial position and changes in financial position and, where applicable, cash flows of the BWC/IC. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2013, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the BWC/IC's financial statements as a whole. The supplemental schedule of net position and schedule of revenues, expenses and changes in net position included in pages 38 through 40 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2013, on our consideration of the Government'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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Government's internal control over financial reporting and compliance.

Schneider Downs & Co., Inc.

Columbus, Ohio
September 30, 2013

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

STATEMENTS OF NET POSITION

June 30, 2013 and 2012

(000's omitted)

	2013	2012
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$861,448	$442,182
Collateral on loaned securities (Note 2)	1,030	849
Premiums in course of collection	744,889	713,343
Assessments in course of collection	168,887	171,146
Accounts receivable, net of allowance for uncollectibles of $1,129,328 in 2013; $1,091,672 in 2012	134,832	130,388
Investment trade receivables	876,163	194,429
Accrued investment income	141,192	151,512
Other current assets	7,371	9,284
Total current assets	2,935,812	1,813,133
Noncurrent assets:		
Fixed maturities, at fair value (Note 2)	13,917,702	15,751,396
Domestic equity securities, at fair value - common stock (Note 2)	5,090,287	4,801,935
Non-U.S equity securities, at fair value - common stock (Note 2)	2,153,273	1,879,572
Investments in real estate funds (Note 2)	853,553	-
Unbilled premiums receivable	2,891,821	3,381,859
Retrospective premiums receivable	295,555	299,873
Capital assets (Notes 3 and 5)	104,072	88,650
Restricted cash (Note 2)	14	89
Total noncurrent assets	25,306,277	26,203,374
Total assets	$ 28,242,089	$ 28,016,507

	2013	2012
LIABILITIES		
Current liabilities:		
Reserve for compensation (Note 4)	$ 2,015,531	$ 2,024,705
Reserve for compensation adjustment expenses (Note 4)	393,792	386,954
Warrants payable	284,820	24,660
Bonds payable (Notes 5 and 6)	15,422	15,914
Investment trade payables	292,822	302,143
Accounts payable	9,621	11,767
Obligations under securities lending (Note 2)	1,030	849
Premium rebate payable (Note 8)	683,504	-
Other current liabilities (Note 6)	17,219	12,737
Total current liabilities	3,713,761	2,779,729
Noncurrent liabilities:		
Reserve for compensation (Note 4)	15,288,626	15,790,395
Reserve for compensation adjustment expenses (Note 4)	1,492,108	1,502,648
Contingent liabilities (Note 11)	859,440	-
Premium payment security deposits (Note 6)	86,486	86,285
Bonds payable (Notes 5 and 6)	-	15,719
Other noncurrent liabilities (Note 6)	22,591	23,992
Total noncurrent liabilities	17,749,251	17,419,039
Total liabilities	21,463,012	20,198,768
NET POSITION		
Invested in capital assets, net of related debt	88,663	57,105
Unrestricted net position	6,690,414	7,760,634
Total net position (Note 12)	$ 6,779,077	$ 7,817,739

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 POSITION

For the years ended June 30, 2013 and 2012

(000's omitted)

	2013	2012
Operating revenues:		
Premium and assessment income net of ceded premium (Note 7)	$1,533,153	$ 1,992,018
Provision for uncollectibles	(40,764)	(47,540)
Other income	11,723	14,115
Total operating revenues	1,504,112	1,958,593
Operating expenses:		
Workers' compensation benefits (Note 4)	1,136,718	1,516,800
Compensation adjustment expenses (Note 4)	354,797	316,192
Personal services	64,810	66,081
Other administrative expenses	55,931	54,147
Total operating expenses	1,612,256	1,953,220
Net operating (loss) income before premium rebates and loss contingencies	(108,144)	5,373
Premium rebate (Note 8)	965,636	-
Expense for loss contingencies (Note 11)	859,440	-
Total premium rebates and loss contingencies	1,825,076	-
Net operating (loss) income	(1,933,220)	5,373
Non-operating revenues:		
Net investment income (Note 2)	900,854	2,043,644
Gain on disposal of capital assets	69	110
Total non-operating revenues	900,923	2,043,754
Net transfers out	(6,365)	(3,390)
(Decrease) increase in net position	(1,038,662)	2,045,737
Net position, beginning of year	7,817,739	5,772,002
Net position, end of year	$ 6,779,077	$ 7,817,739

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, 2013 and 2012

(000's omitted)

	2013	2012
Cash flows from operating activities:		
Cash receipts from premiums and assessments net of reinsurance	$ 2,088,725	$ 2,074,006
Cash receipts - other	55,028	43,183
Cash disbursements for claims	(1,958,567)	(1,988,923)
Cash disbursements to employees for services	(201,268)	(214,655)
Cash disbursements for other operating expenses	(72,811)	(68,863)
Cash disbursements for employer refunds	(83,022)	(59,620)
Net cash used for operating activities	(171,915)	(214,872)
Cash flows from noncapital financing activities:		
Operating transfers in	-	95
Operating transfers out	(6,365)	(3,485)
Net cash used by noncapital financing activities	(6,365)	(3,390)
Cash flows from capital and related financing activities:		
Purchase of capital assets, net of retirements	(25,077)	(8,400)
Principal and interest payments on bonds	(17,459)	(18,216)
Net cash used in capital and related financing activities	(42,536)	(26,616)
Cash flows from investing activities:		
Investments sold	8,274,646	14,969,317
Investments purchased	(8,317,413)	(15,348,352)
Interest and dividends received	700,117	728,660
Investment expenses	(17,343)	(7,987)
Net cash provided by investing activities	640,007	341,638
Net increase in cash, cash equivalents and restricted cash	419,191	96,760
Cash, cash equivalents and restricted cash, beginning of year	442,271	345,511
Cash, cash equivalents and restricted cash, end of year	$ 861,462	$ 442,271

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, 2013 and 2012

(000's omitted)

	2013	2012
Reconciliation of net operating (loss) income to net cash used for operating activities:		
Net operating (loss) income	$ (1,933,220)	$ 5,373
Adjustments to reconcile net operating (loss) income to net cash used for operating activities:		
Provision for uncollectible accounts	40,764	47,540
Depreciation	9,724	10,776
Amortization of discount and issuance costs on bonds payable	1,248	1,960
(Increases) decreases in assets and increases (decreases) in liabilities:		
Premiums and assessments in course of collection	(29,287)	(38,621)
Unbilled premiums receivable	490,038	38,177
Accounts receivable	(45,208)	(48,056)
Retrospective premiums receivable	4,318	9,737
Other assets	1,913	138
Reserves for compensation and compensation adjustment expenses	(514,645)	(245,198)
Contingent liabilities	859,440	-
Premium payment security deposits	201	(1,379)
Warrants payable	260,160	5,165
Accounts payable	(2,146)	4,048
Premium rebate payable	683,504	-
Other liabilities	1,281	(4,532)
Net cash used for operating activities	$ (171,915)	$ (214,872)
Noncash investing, capital, and financing activities		
Change in fair values of investments	230,200	1,323,434

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO

(A DEPARTMENT OF THE STATE OF OHIO)

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013 and 2012

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. House Bill 100 created an 11-member BWC Board of Directors (Board). All members have full voting rights. 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, premium rebates, 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. 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"
- GASB No. 69, "Government Combinations and Disposals of Government Operations"
- GASB No. 70, "Accounting and Financial Reporting for Nonexchange Financial Guarantees"

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 position 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 bond index funds, commingled U.S. equity index funds, commingled non-U.S equity index funds, U.S. real estate funds, and collateral on securities lending.

Investments 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, commingled non-U.S. equity funds, and U.S. real estate funds are based on the value of the underlying net position 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 position. 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 position. 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 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 position 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 receives 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 12) 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 position.

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 position. 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 position (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.

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 position. 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 capital asset category of “intangible assets – definite useful lives” for internally generated software has been added to capital assets. When expenditures for the design, software configuration, software interfaces, coding, hardware, hardware installation, data conversion (i.e. to the extent that they are necessary for the operation of the new software), testing, and licensure on internally generated software exceed $1 million, the costs will be capitalized as an intangible asset. Intangible assets will start being depreciated upon implementation of the software. The useful lives of intangible assets will vary and will be determined upon completion of each project.

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

Continued

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, 2013 and 2012 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, changing claims frequency and severity conditions.

Reinsurance

BWC/IC purchases 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 2012 financial statement amounts have been reclassified in order to conform to their 2013 presentation.

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, 2013 and 2012, the carrying amount of BWC/IC's cash deposits were $8.4 million and $11.3 million, respectively, and the bank balances were $3.3 million and $8.3 million, respectively. Of the June 30, 2013 bank balance, $250 thousand was insured by the FDIC. The entire bank balance at June 30, 2012 was insured by the FDIC and that full coverage expired on December 31, 2012. 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. Remaining BWC/IC's investments are not exposed to custodial credit risk and are held in BWC/IC's name at either JP Morgan, in commingled account types, or are fixed maturity bank loans which by definition are not exposed to custodial credit risk.

Continued

The composition of investments held at June 30, 2013 and 2012 is presented below (000's omitted):

	2013 Fair Value	2012 Fair Value
Fixed maturities		
U.S. corporate bonds	$ 4,559,627	$ 4,832,980
U.S. treasury inflation protected securities	2,856,062	3,377,583
U.S. government obligations	2,279,297	2,937,821
Non-U.S. corporate bonds	1,014,402	1,112,576
U.S. state and local government agencies	636,472	762,126
U.S. government agency mortgages	611,496	659,736
Commingled U.S. treasury inflation protected securities	605,317	649,128
Commingled U.S. aggregate indexed fixed income	594,946	599,102
Non-U.S. government and agency bonds	390,645	381,315
U.S. government agency bonds	211,837	281,349
Supranational issues	48,028	48,351
Commingled U.S. intermediate duration fixed income	48,004	47,912
Commercial mortgage backed securities	46,701	55,618
Asset backed securities	8,121	5,799
Bank loans	6,747	-
Total fixed maturities	13,917,702	15,751,396
Domestic equity securities - common stock	5,090,287	4,801,935
Commingled non-U.S equity securities - common stock	2,153,273	1,879,572
Investments in real estate funds	853,553	-
Securities lending short-term collateral	1,030	849
Cash and cash equivalents		
Cash	8,404	11,287
Repurchase agreements	6,400	2,100
Short-term money market fund	846,644	428,795
Total cash and cash equivalents	861,448	442,182
	$ 22,877,293	$ 22,875,934

Net investment income for the years ended June 30, 2013 and 2012 is summarized as follows (000's omitted):

	2013	2012
Fixed maturities	$ 565,940	$ 636,431
Equity securities	112,192	92,396
Real estate	11,596	-
Cash equivalents	68	41
	689,796	728,868
Increase in fair value of investments	230,200	1,323,434
Investment expenses	(19,142)	(8,658)
	$ 900,854	$ 2,043,644

Continued

Real Estate Investments

In fiscal year 2013, BWC/IC began investing in real estate through limited partnerships, commingled funds, and real estate investment trusts. Core real estate funds owned are open-ended funds that offer each investor the right to redeem all or a portion of their investment ownership interest once every quarter at the stated unit net asset value of the fund. Value-added real estate funds owned are close-ended funds and do not offer such redemption rights and therefore can be considered to be illiquid investments. The real estate funds provide BWC/IC with quarterly valuations based on the most recent capital account balances. Individual properties owned by the funds are valued by an outside independent certified real estate appraisal firm at least once a year, and are adjusted as often as every quarter if material market or operational changes have occurred. Each asset is also valued internally on a quarterly basis by each fund. The internal and external valuations of properties owned are subject to oversight and review by an independent valuation advisor firm. Debt obligations of each fund receive market value adjustments by the fund every quarter, generally with the assumption that such positions will be held to maturity. Annual audits of the funds include a review of compliance with the fund’s valuation policies. BWC/IC has entered into agreements that commit the SIF funds, upon request, to make additional investment purchases up to a predetermined amount. As of June 30, 2013, the real estate funds have unfunded investment commitments of $395 million.

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, 2013 and 2012, the Ohio BWC held $6.4 million and $2.1 million, respectively, 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

Continued

fixed-income portfolio be invested with duration characteristics that are within a range consistent with Barclays 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.

At June 30, 2013 and 2012, the effective duration of BWC's fixed-income portfolio is as follows (000's omitted):

	June 30, 2013		June 30, 2012	
Investment Type	Fair Value	Effective Duration	Fair Value	Effective Duration
U.S. state and local government agencies	$ 636,472	12.89	$ 762,126	12.78
U.S. corporate bonds	4,559,627	12.14	4,832,980	11.83
Non-U.S. corporate bonds	1,014,402	11.31	1,112,576	11.29
U.S. government obligations	2,279,297	10.70	2,937,821	11.40
Non-U.S. government and agency bonds	390,645	10.50	381,315	10.47
U.S. treasury inflationary protected securities	2,856,062	7.54	3,377,583	8.18
Commingled U.S. treasury inflationary protected securities	605,317	7.17	649,128	8.27
U.S. government agency bonds	211,837	6.94	281,349	7.38
Commingled U.S. aggregate indexed fixed income	594,946	5.48	599,102	5.05
Supranational issues	48,028	5.26	48,351	5.82
Asset backed securities	8,121	4.12	5,799	2.59
U.S. government agency mortgages	611,496	3.97	659,736	2.28
Commingled U.S. intermediate duration fixed income	48,004	3.90	47,912	3.92
Bank loans	6,747	0.93	-	-
Commercial mortgage backed securities	46,701	0.12	55,618	2.99
Total fixed maturities	$ 13,917,702		$ 15,751,396	

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 major 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 years 2013 and 2012. 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, 2013 and 2012, fixed maturities held in commingled bond funds in the custody of State Street were $1.2 billion and $1.3 billion, respectively. In addition, in fiscal year 2013 the $6.7 million in bank loans were not held by the custodian. The remaining balance presented as of June 30, 2013 was held by the custodian on behalf of BWC/IC.

Quality Rating	2013 Fair Value	2012 Fair Value
Credit risk debt quality		
AAA	$ 237,806	$ 273,262
AA	1,517,466	1,581,827
A	2,709,346	2,889,831
BBB	2,731,480	2,939,980
BB	141,121	142,920
B	16,474	17,959
Total credit risk debt securities	7,353,693	7,845,779
U.S. government agency bonds		
AAA	11,438	-
AA	199,559	278,055
A	840	3,294
Total U.S. government agency bonds	211,837	281,349
U.S. government agency mortgages	611,496	659,736
U.S. government obligations	2,279,297	2,937,821
U.S. treasury inflation protected securities	2,856,062	3,377,583
Commingled U.S. treasury inflation protected securities	605,317	649,128
Total fixed maturities	$ 13,917,702	$ 15,751,396

BWC/IC owned $52.5 million in Ford Motor Company fixed maturities and at June 30, 2013 these securities were rated BB by S&P. On September 6, 2013, Ford Motor was upgraded by S&P to BBB and was rated BBB by all three credit rating agencies.

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 2013 and 2012, 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.

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, 2013 and 2012 is as follows (000's omitted):

Currency	2013 Fair Value	2012 Fair Value
Australian Dollar	$ 121,343	$ 110,689
Brazilian Real	53,064	58,027
British Pound	331,305	298,378
Canadian Dollar	155,543	151,589
Chilean Peso	9,029	8,528
Chinese Renminbi	765	847
Colombian Peso	5,488	5,658
Czech Koruna	1,101	1,373
Danish Krone	16,847	14,504
Egyptian Pound	1,131	1,504
European Euro	426,361	342,565
Hong Kong Dollar	130,521	115,803
Hungarian Forint	1,097	1,277
Indian Rupee	31,830	28,510
Indonesian Rupiah	14,940	11,725
Israeli New Sheqel	7,682	7,282
Japanese Yen	341,669	276,430
Malaysian Ringgit	18,897	15,761
Mexican Peso	25,406	22,037
Moroccan Dirham	393	448
New Taiwan Dollar	55,696	48,473
New Zealand Dollar	1,861	1,552
Norwegian Krone	12,418	11,714
Peruvian Nuevo Sol	-	318
Philippine Peso	4,913	4,189
Polish Zloty	7,307	6,310
Russian Ruble	21,447	22,060
Singapore Dollar	25,024	23,674
South African Rand	33,644	35,070
South Korean Won	68,064	66,949
Swedish Krona	47,104	39,561
Swiss Franc	138,821	107,931
Thai Baht	13,174	9,612
Turkish New Lira	9,122	7,386
Exposure to foreign currency risk	2,133,007	1,857,734
United States Dollar	20,266	21,838
Total Commingled non-U.S equity securities	$ 2,153,273	$ 1,879,572

Continued

Securities Lending

At June 30, 2013 and 2012, BWC/IC had no securities out on loan. BWC/IC has been allocated with cash collateral of $1 million in 2013 and $849 thousand in 2012 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, 2013 and 2012 are summarized as follows (000's omitted):

	Balance at 6/30/2011	Increases	Decreases	Balance at 6/30/2012	Increases	Decreases	Balance at 6/30/2013
Capital assets not being depreciated							
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	3,542	-	-	3,542	-	-	3,542
Furniture and equipment	29,689	1,201	(1,472)	29,418	1,765	(1,141)	30,042
Land improvements	66	-	-	66	-	-	66
Subtotal	239,068	1,201	(1,472)	238,797	1,765	(1,141)	239,421
Accumulated depreciation							
Buildings	(138,599)	(6,787)	-	(145,386)	(6,787)	-	(152,173)
Building improvements	(44)	(177)	-	(221)	(177)	-	(398)
Furniture and equipment	(21,447)	(3,811)	1,457	(23,801)	(2,759)	1,133	(25,427)
Land improvements	(56)	(1)	-	(57)	(1)	-	(58)
Subtotal	(160,146)	(10,776)	1,457	(169,465)	(9,724)	1,133	(178,056)
Capital assets to be amortized							
Intangible assets - definite useful lives	-	7,324	-	7,324	23,389	-	30,713
Net capital assets	$ 90,916	$(2,251)	$ (15)	$ 88,650	$ 15,430	$ (8)	$ 104,072

BWC has not started amortizing the Intangible assets yet because the internally generated software project is not yet been placed into service as of June 30, 2013.

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, 2013 and 2012. A decrease in the discount rate to 3.0% would result in the reserves for compensation and compensation adjustment expenses increasing to $21.3 billion at June 30, 2013, while an increase in the rate to 5.0% would result in the reserves for compensation and compensation adjustment expenses decreasing to $17.6 billion. The undiscounted reserves for compensation and compensation adjustment expenses were $30.7 billion at June 30, 2013 and $32.2 billion at June 30, 2012.

The changes in the reserves for compensation and compensation adjustment expenses for the years ended June 30, 2013 and 2012 are summarized as follows (in millions):

Continued

	2013	2012
Reserves for compensation and compensation adjustment expenses, beginning of period	$ 19,705	$ 19,950
Incurred:		
Provision for insured events of current period	1,720	1,800
Net (decrease) increase in provision for insured events of prior periods net of discount accretion of $788 in 2013 and $798 in 2012	(229)	33
Total incurred	1,491	1,833
Payments:		
Compensation and compensation adjustment expenses attributable to insured events of current period	380	386
Compensation and compensation adjustment expenses attributable to insured events of prior period	1,626	1,692
Total payments	2,006	2,078
Reserves for compensation and compensation adjustment expenses, end of period	$ 19,190	$ 19,705

There were no significant changes to the methodology to determine the reserves for compensation and compensation adjustment expenses except for revisions to exclude the provision for future employer defaults from the estimated self-insured employer default liabilities. The estimation of future defaults in future fiscal years is subject to significant uncertainty. When such future defaults occur, they will result in an increase in the liability estimate at that time. The June 30, 2013 estimated unpaid losses for self-insured employer default liabilities decreased by $458 million compared to the June 30, 2012 estimate.

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. Amended Substitute House Bill 153 transferred all matters related to the issuance of obligations for the financing of capital facilities to the Treasurer of State, effective January 1, 2012. At that time OBA ceased operations and the Treasurer of State's office has assumed responsibility for the administration of the 2003 agreement. 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 the Ohio Treasurer of State's office. 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 $17.5 million and $18.2 million for the years ended June 30, 2013 and 2012, respectively. These payments included interest of $1.5 million and $2.3 million for the years ended June 30, 2013 and 2012, respectively.

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

Fiscal Year	Principal	Interest	Total
2014	$15,200	$751	$15,951
Deferred loss on refunding	(34)	-	(34)
Unamortized Bond Discount & issuance costs	256	-	256
Total	$15,422	$751	$16,173

Continued

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, 2013 and 2012, is summarized as follows (000's omitted):

	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

	Balance at 6/30/2012	Increases	Decreases	Balance at 6/30/2013	Due Within One Year
Contingent liabilities	$ -	$ 859,440	$ -	$ 859,440	$ -
Premium payment security deposits	86,285	1,793	(1,592)	86,486	-
Bonds payable	31,633	2,237	(18,448)	15,422	15,422
Other liabilities	36,729	54,452	(51,371)	39,810	17,219
	$ 154,647	$ 917,922	$ (71,411)	$ 1,001,158	$ 32,641

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.

In every policy period reported below, Section Two covers BWC's remaining liability under the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA). TRIPRA is the successor legislation to the Terrorism Risk Insurance Act (TRIA) of 2002. TRIPRA is in effect for losses up to $1 billion. Certain provisions frame the coverage under TRIPRA and they are the following:

- The aggregate losses from an occurrence must exceed $100,000,000
- Each insurer will have an annual aggregate retention equal to 20% of its prior year's direct earned premiums
- Each insurer will be responsible for 15% of losses otherwise recoverable that exceed its TRIPRA retention

Continued

Coverage for policies is provided under the following terms:

Policy Period: April 1, 2013 to March 31, 2014

Reinsurance Coverage:

- Section One – Other than Acts of Nuclear, Biological, Chemical, or Radiological (NBCR) Terrorism - 50% of $275,000,000 in excess of $125,000,000 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 $600,000,000 (or $90,000,000) in excess of $400,000,000 per Loss Occurrence - Maximum loss of $5,000,000 of any one person

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

The following premiums ceded for reinsurance coverage have been recorded in the accompanying basic financial statements for the years ended June 30, 2013 and 2012 (000's omitted):

	2013	2012
Premium and assessment income	$ 1,539,301	$ 1,998,168
Ceded premiums	(6,148)	(6,150)
Total premium and assessment income net of ceded premiums	$ 1,533,153	$ 1,992,018

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

Continued

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, 2013 and 2012:

Reinsurer	2013	2012
Allied World Assurance Company	A	A
Aspen Insurance UK LTD	A	A
Axis Specialty LTD	A	A
Hannover Re (Bermuda) LTD	A+	A
Odyssey America Reinsurance Corporation	A	A
Tokio Millennium Re Limited	A++	A++
Underwriters at Lloyd's	A	A
Alterra Zurich Branch of Alterra UK Underwriting Services Limited	A	A

8. Premium rebate

BWC's net asset policy contains the business rationale, methodology, and guiding principles with respect to maintaining a prudent net position to protect SIF against financial and operational risks that may threaten the ability to meet future obligations. Over the past two years the net position has increased to the point that the SIF Funding Ratio and Net Leverage Ratio are no longer within the guidelines established by the policy. In response, a rebate to reduce the net position in SIF was approved by the Board on May 30, 2013. Private employers were granted a rebate equivalent to 56 percent of premiums for the July 1, 2011 through June 30, 2012 policy period, while public taxing district employers were granted a rebate equivalent to 56 percent of premiums for the January 1, 2011 through December 31, 2011 policy period. This action resulted in premium rebate expense of $966 million in fiscal year 2013.

9. 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, but less than, 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 be obtained by visiting https://www.opers.org/investments/cafr.shtml, by 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, 2013, the most recent report issued by OPERS is as of December 31, 2012.

Chapter 145 of the Ohio Revised Code provides OPERS statutory authority for employee and employer contributions. For the year ended December 31, 2012 and 2011, 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, 2013	$20,012
Twelve months ended June 30, 2012	$20,617
Twelve months ended June 30, 2011	$22,264

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 Board of Trustees 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

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set aside for the funding of OPEB for members in the Traditional Plan was 4% during calendar year 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05% during calendar year 2012. Effective January 2013, the portion of employer contributions allocated to healthcare was lowered to 1 percent for both plans, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

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, 2013 allocated to OPEB was approximately $5.7 million and $5.9 million for the 12 months ended June 30, 2012.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

10. 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 2013 or 2012. 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.

11. Contingent Liabilities

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

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 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. On October 22, 2011, the court issued a partial grant of

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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 10th District Court of Appeals on January 19, 2012. On September 27, 2012, the 10th District reversed the dismissal of the claims for fraud, unjust enrichment, and declaratory relief. However, the court affirmed the dismissal of the claims for breach of contract and breach of fiduciary duty, and the court upheld BWC's statute of limitations defense. On February 13, 2013, BWC filed another motion for summary judgment on the basis that plaintiff's claims were barred by the statute of limitations. On August 5, 2013, the court granted the motion, and redered judgment in favor of BWC, however the plaintiff filed yet another appeal. The briefing on this appeal has not yet begun. 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 November 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 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 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. 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. On December 28, 2012, the court issued an opinion which found that BWC unlawfully charged the class excessive premiums in violation of ORC 4123.29 and 4123.34, and that plaintiffs were entitled to restitution. On March 20, 2013, the court determined the damages and ordered that the class was entitled to restitution in the amount of $859 million. Accordingly, a provision for this liability has been reported in the 2013 financial statements for this matter. On April 15, 2013, BWC filed a notice of appeal of the judgment. On July 19, 2013, BWC filed its appeal brief. The appeals court will schedule an oral argument on the appeal, and will subsequently decide the outcome of the appeal. Management is vigorously defending this case.

The cities of Cleveland and Parma have filed separate lawsuits on June 28, 2013 and September 18, 2013, respectively, alleging that BWC overcharged public employers that

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were not group rated. The lawsuit filed by Parma seeks class action status for similarly situated public employers. The cities claim that BWC overcharged non-group rated public employers in order to unlawfully subsidize the discounts for the group rated public employers. A trial date has not been set for either case. Accordingly, no provision for any liability has been reported in the financial statements for these matters. Management is vigorously defending these cases.

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 August 15, 2012. A trial date has not been set. 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. On August 7, 2013, the court denied the motion. A trial date has not been set. 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.

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.

12. Net Position

Individual fund net position (deficit) balances at June 30, 2013 and 2012 were as follows (000's omitted):

	2013	2012
SIF	$ 5,675,398	$ 6,817,487
SIF Surplus Fund Account	24,116	17,150
SIF Premium Payment Security Fund	140,693	136,776
Total SIF Net Position	5,840,207	6,971,413
DWRF	1,365,435	1,291,538
CWPF	179,139	195,181
PWREF	26,581	25,973
MIF	19,198	18,917
SIEGF	25,076	7,893
ACF	(676,559)	(693,176)
Total Net Position	$ 6,779,077	$ 7,817,739

As mandated by the Code, the SIF net position is 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.

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.

Continued

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, 2013 and 2012

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, 2003 through 2013.

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										
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
1. Gross premiums, assessments, and investment income	$ 2,453	$ 4,044	$ 4,356	$ 4,206	$ 2,296	$ 2,968	$ 5,251	$ 3,015	$ 3,272	$ 3,558	$ 2,886
2. Unallocated expenses	140	129	131	139	97	108	109	170	179	188	169
3. Estimated incurred compensation and compensation adjustment expense, end of period	1,720	1,800	1,863	1,870	2,139	2,219	2,327	2,270	2,392	2,335	2,405
Discount	830	968	974	985	1,472	1,892	2,099	2,147	2,227	2,447	2,544
Gross liability as originally estimated	2,549	2,767	2,837	2,855	3,611	4,111	4,426	4,417	4,619	4,782	4,949
4. Paid (cumulative) as of :											
End of period	380	386	400	384	458	415	423	417	449	449	485
One year later		620	641	639	711	755	747	743	795	843	872
Two years later			773	775	868	920	926	927	979	1,037	1,096
Three years later				883	979	1,056	1,048	1,066	1,121	1,181	1,248
Four years later					1,083	1,163	1,155	1,172	1,238	1,302	1,371
Five years later						1,256	1,251	1,268	1,336	1,408	1,485
Six years later							1,336	1,355	1,425	1,498	1,570
Seven years later								1,428	1,500	1,576	1,653
Eight years later									1,565	1,643	1,727
Nine years later										1,709	1,795
Ten years later											1,858
5. Re-estimated incurred compensation and compensation adjustment expenses (gross):											
One year later		2,501	2,680	2,701	2,865	3,607	3,946	4,087	4,456	4,604	4,653
Two years later			2,471	2,596	2,794	2,948	3,460	3,879	4,085	4,369	4,497
Three years later				2,426	2,730	2,909	2,909	3,410	3,929	4,138	4,297
Four years later					2,585	2,862	2,877	2,899	3,502	3,842	4,108
Five years later						2,748	2,812	2,877	2,977	3,489	3,772
Six years later							2,738	2,839	2,984	3,042	3,479
Seven years later								2,776	2,960	3,054	3,106
Eight years later									2,908	3,032	3,118
Nine years later										2,984	3,096
Ten years later											3,065
6. Decrease in gross estimated incurred compensation and compensation adjustment expenses from end of period		(266)	(366)	(429)	(1,026)	(1,363)	(1,688)	(1,641)	(1,711)	(1,798)	(1,884)

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, 2013 active miners nominal and discounted liability is approximately $385.0 and $116.7 million, respectively.

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)
SUPPLEMENTAL SCHEDULE OF NET POSITION
(See Accompanying Independent Auditors' Report)
June 30, 2013
(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	$ 802,297	$ 292	$ 15	$ 1,340	$ 760	$ 52,705	$ 4,039	$ -	$ 861,448
Collateral on loaned securities	-	-	-	-	-	-	1,030	-	1,030
Premiums in course of collection	744,581	-	-	308	-	-	-	-	744,889
Assessments in course of collection	-	44,621	-	-	-	-	124,266	-	168,887
Accounts receivable, net of allowance for uncollectibles	112,614	15,836	37	4	1	135	6,205	-	134,832
Interfund receivables	19,779	81,982	-	473	12	17,194	137,718	(257,158)	-
Investment trade receivables	876,163	-	-	-	-	-	-	-	876,163
Accrued investment income	141,192	-	-	-	-	-	-	-	141,192
Other current assets	2,800	-	-	-	-	-	4,571	-	7,371
Total current assets	2,699,426	142,731	52	2,125	773	70,034	277,829	(257,158)	2,935,812
Non-current assets:									
Fixed maturities	12,669,436	964,067	236,195	27,369	20,635	-	-	-	13,917,702
Domestic equity securities - common stock	4,683,961	360,540	45,786	-	-	-	-	-	5,090,287
Non-U.S equity securities - common stock	1,985,924	145,346	22,003	-	-	-	-	-	2,153,273
Investments in real estate funds	853,553	-	-	-	-	-	-	-	853,553
Unbilled premiums receivable	657,941	1,721,261	-	-	-	444,598	68,021	-	2,891,821
Retrospective premiums receivable	295,555	-	-	-	-	-	-	-	295,555
Capital assets	20,600	22	-	-	-	-	83,450	-	104,072
Restricted cash	-	-	-	-	-	-	14	-	14
Total noncurrent assets	21,166,970	3,191,236	303,984	27,369	20,635	444,598	151,485	-	25,306,277
Total assets	$ 23,866,396	$ 3,333,967	$ 304,036	$ 29,494	$ 21,408	$ 514,632	$ 429,314	$ (257,158)	$ 28,242,089

OHIO BUREAU OF WORKERS' COMPENSATION
AND
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(A DEPARTMENT OF THE STATE OF OHIO)
SUPPLEMENTAL SCHEDULE OF NET POSITION, Continued
(See Accompanying Independent Auditors' Report)
June 30, 2013
(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	$ 1,850,963	$134,664	$ 1,100	$ 352	$ 286	$28,166	$ -	$ -	$ 2,015,531
Reserve for compensation adjustment expenses	167,312	78	81	-	27	1,081	225,213	-	393,792
Warrants payable	284,820	-	-	-	-	-	-	-	284,820
Bonds payable	-	-	-	-	-	-	15,422	-	15,422
Investment trade payables	292,822	-	-	-	-	-	-	-	292,822
Accounts payable	1,634	-	-	-	-	-	7,987	-	9,621
Interfund payables	235,405	19,444	129	10	13	2,157	-	(257,158)	-
Obligations under securities lending	-	-	-	-	-	-	1,030	-	1,030
Premium rebate payable	683,504	-	-	-	-	-	-	-	683,504
Other current liabilities	4,267	88	21	3	97	-	12,743	-	17,219
Total current liabilities	3,520,727	154,274	1,331	365	423	31,404	262,395	(257,158)	3,713,761
Noncurrent liabilities:									
Reserve for compensation	12,906,337	1,810,436	115,557	2,548	1,714	452,034	-	-	15,288,626
Reserve for compensation adjustment expenses	653,888	3,822	7,319	-	73	6,119	820,887	-	1,492,108
Contingent liabilities	859,440	-	-	-	-	-	-	-	859,440
Premium payment security deposits	85,797	-	689	-	-	-	-	-	86,486
Other noncurrent liabilities	-	-	-	-	-	-	22,591	-	22,591
Total noncurrent liabilities	14,505,462	1,814,258	123,565	2,548	1,787	458,153	843,478	-	17,749,251
Total liabilities	18,026,189	1,968,532	124,896	2,913	2,210	489,557	1,105,873	(257,158)	21,463,012
NET POSITION (DEFICIT)									
Invested in capital assets, net of related debt	20,600	22	-	-	-	-	68,041	-	88,663
Restricted for surplus fund	24,116	-	-	-	-	-	-	-	24,116
Restricted for premium payment security fund	140,693	-	-	-	-	-	-	-	140,693
Unrestricted net position (deficit)	5,654,798	1,365,413	179,139	26,581	19,198	25,076	(744,600)	-	6,525,605
Total net position (deficit)	$ 5,840,207	$ 1,365,435	$ 179,139	$ 26,581	$ 19,198	$ 25,076	$ (676,559)	$ -	$ 6,779,077

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 POSITION
(See Accompanying Independent Auditors' Report)
For the year ended June 30, 2013
(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 and assessment income net of ceded premium	$1,560,896	$96,931	$31	$603	$453	$(398,030)	$272,269	$ -	$1,533,153
Provision for uncollectibles	(37,267)	(2,315)	-	-	-	276	(1,458)	-	(40,764)
Other income	7,692	-	-	-	-	-	4,031	-	11,723
Total operating revenues	1,531,321	94,616	31	603	453	(397,754)	274,842	-	1,504,112
Operating expenses:									
Workers' compensation benefits	1,456,406	75,124	14,484	46	150	(409,492)	-	-	1,136,718
Compensation adjustment expenses	190,754	107	63	-	28	(5,439)	169,284	-	354,797
Personal services	-	40	68	-	13	-	64,689	-	64,810
Other administrative expenses	26,302	9	1	1	20	1	29,597	-	55,931
Total operating expenses	1,673,462	75,280	14,616	47	211	(414,930)	263,570	-	1,612,256
Net operating (loss) income before premium rebates and loss contingencies	(142,141)	19,336	(14,585)	556	242	17,176	11,272	-	(108,144)
Premium rebate	965,636	-	-	-	-	-	-	-	965,636
Expense for loss contingencies	859,440	-	-	-	-	-	-	-	859,440
Total premium rebates and loss contingencies	1,825,076	-	-	-	-	-	-	-	1,825,076
Net operating (loss) income	(1,967,217)	19,336	(14,585)	556	242	17,176	11,272	-	(1,933,220)
Non-operating revenues:									
Net investment income	836,011	54,561	4,483	52	39	7	5,701	-	900,854
Gain on disposal of capital assets	-	-	-	-	-	-	69	-	69
Total non-operating revenues	836,011	54,561	4,483	52	39	7	5,770	-	900,923
Net transfers out	-	-	(5,940)	-	-	-	(425)	-	(6,365)
(Decrease) increase in net position (deficit)	(1,131,206)	73,897	(16,042)	608	281	17,183	16,617	-	(1,038,662)
Net position (deficit), beginning of year	6,971,413	1,291,538	195,181	25,973	18,917	7,893	(693,176)	-	7,817,739
Net position (deficit), end of year	$5,840,207	$1,365,435	$179,139	$26,581	$19,198	$25,076	$(676,559)	$ -	$6,779,077