Fiscal Year 2015 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 2015.

During fiscal year 2015, we fulfilled and renewed our commitment to protecting Ohio's workers and employers, improving the lives of injured workers and partnering with the business community to bolster economic development. Below are a few of our accomplishments.

- For the second consecutive year, we provided $1 billion in rebates for eligible employers who pay into the State Insurance Fund. We sent rebate checks to nearly 200,000 businesses, local governments and school districts in October 2014.
- Effective July 1, 2015, private employer base rates saw a reduction of 10.8 percent. This latest reduction means private employer rate levels are now 21.4 percent lower than the rate levels in effect Jan. 1, 2011.
- In addition, the BWC Board of Directors voted to reduce average rates for public employer taxing districts by 9.1 percent effective Jan. 1, 2015. This rate reduction, combined with decreases implemented in each of the past four years, results in a total decrease to local government rates of nearly 20 percent since 2011.
- As planned, we transitioned private employers to the industry standard of prospective billing for premiums beginning July 1, 2015. This important reform includes a $1.2 billion credit to employers to make this transition without added costs to Ohio's businesses. Ohio's public employer taxing districts will transition on Jan. 1, 2016.
- Additionally, we strengthened our commitment to workplace safety by allocating up to $35 million during the next two years to help Ohio companies and local governments reduce workplace accidents and injuries, and protect Ohio's workers. This invesment includes another $15 million in funding for our safety grant programs.
- We introduced the First Fill prescription program to cover the initial prescription related to a workplace injury in some instances. In the past, we were unable to pay upfront for a prescription before making a claim determination. This program now allows injured workers to immediately obtain necessary medications without delay or expense.

At BWC, we always seek new ways to improve our customers' experience while ensuring the safety, health and economic well-being of our state and its citizens. In fiscal year 2016, we will keep making strides to position ourselves as a world-class insurance provider.

Sincerely,

Stephen Buehrer

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

Introduction

The environment for employers operating in Ohio is improving along with the state's economy, and BWC is certainly part of the story. In fiscal year 2015 (FY15), we pursued improvements that will yield positive results to Ohio's workers' compensation system and are conducive to business growth. Lower rates, along with a focus on workplace accident prevention and care for those who are injured, are helping make Ohio a better place for businesses and workers.

BWC constantly works to improve the quality of life for Ohio's workers and to make certain we're a positive influence on economic growth in Ohio. In FY15, we implemented improvements and initiatives across the state. These actions helped us maintain an effective and efficient workers' compensation system, letting businesses focus on growing, and helping injured workers get back to work. In fiscal year 2016, we will continue to strive to ensure the safety, health and economic well-being of our state and its citizens.

Our focus to improve the quality of life for Ohio's workers and ensure we're a positive influence on economic growth in Ohio guided us to operate more efficiently during FY15. Our FY15 administrative cost budget of $279.6 million was $16.5 million or 5.6 percent less than the FY14 appropriation. In addition, our FY14-15 biennial budget was nearly $82 million less than the FY10-11 biennial budget.

With assets of approximately $29 billion, we are the largest state-fund insurance system in the U.S. We provide insurance to 252,000 Ohio employers. In FY15, we approved 93,936 new claims, a decrease of 3,636 from FY14. Contributing reasons for this significant decrease include:

- Expanded safety funding;
- Continued promotion of safe and healthy workplaces;
- More employers putting safety education resources to work.

Accomplishments

Returning $1 billion to employers

For the second consecutive year, we provided $1 billion in rebates for eligible employers who pay premiums into the State Insurance Fund. Governor John Kasich proposed Another Billion Back in August. The BWC Board of Directors authorized the rebate of $1 billion for private employers and public employer taxing districts in September. We sent rebate checks to just under 200,000 businesses, local governments and school districts in October 2014.

Rebate

Like last year, the rebate was possible because sound fiscal management and a well-executed investment strategy put us in a position to return money to our customers — Ohio's employers. The preliminary annualized return of investments was 8.9 percent during the last three fiscal years (FY12 through FY14), with an unexpected 13.4 percent in FY14. As of June 30, 2015, the State Insurance Fund net position stood at $9.3 billion.

Because our investment team did an exceptional job, our return on investments exceeded our need. So eligible employers received a check for 60 percent of what they paid in premiums during the July 1, 2012, through June 30, 2013, policy year for private employers and Jan. 1, 2012, to Dec. 31, 2012, for public taxing districts.

Another Billion Back is an example of how our work during the last four years shows our commitment to being a partner in improving Ohio's business environment and growing the economy. Sound financial and operational management has also allowed BWC to:

- Reduce average base rates for Ohio's private employers, bringing combined four-year collections down $409 million.
- Reduce average rates for public employers by an estimated $70 million since 2011, placing them at their lowest levels in at least 30 years.
- Commit $1.2 billion in transition credits to Ohio employers as part of the conversion to prospective billing.

Private employer base-rate reduction of 10.8 percent

The BWC Board of Directors approved a private employer base-rate reduction of an overall statewide average of 10.8 percent effective July 1, 2015. This latest reduction, which will reduce annual premiums an estimated $153 million, means private employer rate levels are now 21.4 percent lower than the rate levels in effect Jan. 1, 2011.

The double-digit reduction was attributable to a number of factors, including lower than expected claim frequency and the upcoming adoption of a prospective billing system. Under the new system of prospective billing, we will collect premiums before extending coverage. Prospective billing is the industry standard practice and enables us to lower rates in reflection of increased investment income from the earlier collection of premiums.

Reduced average rates for public employer taxing districts by 9.1 percent

In addition, the board followed our recommendation to reduce average rates for public employer taxing districts by 9.1 percent effective Jan. 1, 2015. This rate reduction, combined with decreases implemented in each of the past four years, resulted in a total decrease to local government rates of nearly 20 percent since 2011.

Overall, due to the 2015 rate cut, we estimate these employers —3,800 cities, counties, townships, villages, schools and special districts — will pay $19 million less in annual premium.

Each of the 14 classifications associated with public employer taxing districts saw a decrease in base rates. The base rate for townships decreased by an overall 6 percent; villages by 8.1 percent; cities by 13.9 percent; counties by 9.7 percent; and school districts fell by 12.7 percent.

Switched to prospective billing

We implemented our plan to transition to the industry standard of prospective billing for premiums. The Ohio General Assembly passed legislation authorizing us to move toward a prospective billing system. Under this new system, we will collect premiums before extending coverage to an employer.

This important reform included an eight-month, $1.2 billion premium credit in July 2015 for all active (non-lapsed) private state-fund employers to cover the costs of the transition. This credit allowed employers to avoid being double billed for both their previous and upcoming billing cycle. On July 1, 2015, private employers officially switched to prospective billing. Ohio's public employer taxing districts will make the change to prospective billing on Jan. 1, 2016.

We provided frequent updates to employers – both private and public – and other stakeholders regarding the switch to prospective billing. These communications included online resources, written correspondence, newsletter items, statewide seminars, webinars and how-to videos.

The benefits of prospective billing

- An overall base-rate reduction of approximately 2 percent for private employers and a 4-percent reduction for public employers
- More flexible payment options for businesses
- Better non-compliance and fraud detection, which provides long-term savings

Expanding safety programs

FY15's plan also proposed several new exciting safety initiatives.

In FY15, we strengthened our commitment to workplace safety by up to $35 million during the next two years to support expanded statewide efforts to protect Ohio's workers. These initiatives, which will ultimately enhance the safety, health and wellness of Ohio's workforce include:

- Development of safety curricula and funding for skilled labor training programs;
- Partnerships with higher-education institutions and organizations to support research and promote innovations in the area of workplace safety and health;
- Additional money given to Safety Council Programs to encourage them to incorporate health and wellness into their agendas;
- $1 million in funding for the State Fire Marshal's Firefighter I training grant program.

Included in this $35 million is another $15 million in funding for our safety grant programs for each of the next two years (fiscal years 2016 and 2017) to help Ohio companies and local governments reduce workplace accidents and injuries.

During FY15, we approved 709 grant applications for 680 employers worth approximately $15 million.

Updating our infrastructure

Our Core Project, which will modernize our technology architecture to better serve Ohio's injured workers and employers, is proceeding. 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. This project involves replacing our outdated claims, policy and employer billing systems with a commercial product called PowerSuite. Our updated infrastructure will improve service to our customers.

Improving pharmacy management

We introduced the First Fill prescription program to cover the initial prescription related to a workplace injury in some instances. In the past, we were unable to pay upfront for a prescription before making a claim determination. This program now allows injured workers to obtain coverage immediately for limited quantities of select, acute-care type medications before we formally approve new injury claims without delay or expense.

In cases where the first fill rule is used, but we ultimately deny the claim, the cost will be covered by BWC's surplus fund account and not charged to the employer associated with the disallowed claim.

In addition, we continue to see success in our effort to reduce opioid prescriptions. In FY15, we saw a 15.1-percent reduction in opioid prescriptions and a 14.9-percent reduction in the use of anti-ulcer agents from FY14. Also, in FY15, the third full year of our new formulary, we saw a 39.8-percent reduction in opioid prescriptions from FY11. There also was a 71.6-percent reduction in muscle relaxant prescriptions and an 82.8-percent reduction in the use of anti-ulcer agents during that period.

Fraud efforts continue to generate results

During FY15, our special investigations department (SID) celebrated its 22nd anniversary of protecting the State Insurance Fund by investigating, detecting and deterring fraud. Marked by a successful year of identifying overpayments and prosecuting workers' compensation fraud, SID improved upon its accomplishments of the previous year.

The department identified more than $60 million in overpayments. It closed 1,514 cases; 665 (44 percent) of these SID classified as closed founded, meaning we proved the original allegation. Of these 665 founded cases, SID referred 229 (34 percent) for prosecution. SID obtained 130 indictments and 151 convictions, a 14 percent increase in convictions compared to the prior year. The average closed founded case in FY15 identified a record $90,903 in savings to the Ohio workers' compensation system. SID improved its operational efficiencies by decreasing the average number of days required to complete investigations.

Enforcement is not the only method used by SID to support its departmental mission. SID employees exceeded by more than double their goal of educational presentations to safety councils, civic organizations and other external entities. These efforts educated, informed and built support for the overall BWC mission of "protecting Ohio's injured workers and employers through the prevention, care and management of workplace injuries and illnesses at fair rates."

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 antifraud 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.

In the coming year, SID will to continue upholding the overall mission of BWC and to build upon its reputation as a committed criminal justice organization.

BWC Leadership

Board of Directors

The 11-member BWC Board of Directors is 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 BWC's Administrator/CEO since January 2011. He previously served as BWC's chief of human resources and oversaw all workers' compensation legislation while chairman of the State Senate Insurance, Commerce and Labor Committee. In addition to his work as an attorney, he represented the citizens of northwest Ohio for 12 years as a state representative and as a state senator. As Administrator/CEO, he is focused on connecting with stakeholders to improve the workers' compensation system in Ohio.

BWC history

Ohio's workers' compensation system has cared for injured workers since 1912. We will continue to seek ways to operate more efficiently and provide high-quality service to our customers: injured workers, employers and medical providers.

2015 BWC Year-End Statistics

	FY 2015	FY 2014	FY 2013
State-fund claims filed			
Lost time	11,870	12,134	11,539
Medical only	81,348	84,688	84,632
Occupational disease	533	592	714
Death	185	158	156
Disallowed or dismissed	11,061	10,977	11,049
Total	104,997	108,549	108,090
Net allowed injuries	93,936	97,572	97,041

NOTE: BWC evaluates every claim 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 2015	FY 2014	FY 2013
Open claims (Per statute)			
Lost time	288,059	315,951	346,039
Medical only	503,579	542,822	612,586
Total	791,638	858,773	958,625
Benefits paid			
Medical benefits paid	$615,544,209	$662,319,483	$705,758,248
Compensation paid			
Wage loss	$12,764,857	$14,948,538	$16,960,502
Temporary total	220,766,392	231,607,195	250,848,501
Temporary partial	16,543	37,368	22,422
Permanent partial	19,269,455	17,869,347	14,877,251
% permanent partial	67,385,815	65,387,993	69,588,261
Lump sum settlement	179,185,086	184,218,915	181,163,702
Lump sum advancement	18,067,160	24,768,008	21,581,813
Permanent total and DWRF	390,863,930	395,160,052	392,040,670
Death	83,090,326	82,644,603	84,093,415
Rehabilitation	35,492,795	38,651,042	38,977,535
Other	6,153,355	6,046,420	5,919,080
Total compensation paid	$1,033,055,714	$1,061,339,481	$1,076,073,152
Total benefits paid	$1,648,599,923	$1,723,658,964	$1,781,831,400

NOTE: Due to improvements in BWC data capture and reporting systems, prior year data may not agree with amounts previously reported.

	FY 2015	FY 2014	FY 2013
Fraud statistics			
Fraud dollars identified	$60,450,575	$60,124,021	$55,058,157
$$$ saved to $$$ spent ratio	5.34 to 1	5.28 to 1	4.83 to 1
Prosecution referrals	229	267	236
Active employers by type			
Private	247,829	249,602	249,085
Public (local)	3,807	3,815	3,794
Public (state)	121	121	129
Self-insured	1,180	1,197	1,205
Black lung	34	36	36
Marine fund	135	146	139
Total	253,106	254,917	254,388
BWC personnel	1,866	1,953	1,920
MCO fees paid	$170,688,324	$169,580,627	$169,814,894

BWC combined funds financial data (000s omitted)

	Audited FY 2015	Audited FY 2014	Audited FY 2013
Operating revenues			
Premium and assessment Income, net of provision for uncollectibles and ceded premiums	$1,954,174	$2,085,821	$1,492,389
Other income	8,413	8,141	11,723
Total operating revenues	$1,962,587	$2,093,962	$1,504,112
Non-operating revenues			
Net investment earnings	$602,902	$664,670	$670,654
Increase (decrease) in fair value	(93,020)	2,348,938	230,200
Net investment income (loss)	$509,882	$3,013,608	$900,854
Dividends, rebates and credits	$1,051,952	$1,229,045	$965,636
Total BWC assets	$29,054,112	$30,341,708	$28,242,089
Total net position (deficit)	$9,268,332	$ 9,460,213	$ 6,779,077

NOTE: Due to improvements in BWC data capture and reporting systems, prior year data may not agree with amounts previously reported.

Investment Class Annual Report Comments

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Background

The U.S. economy continued to improve in fiscal year 2015 (FY15), sustaining a sixth consecutive year of economic growth following the financial shocks and recessionary period of FY09. Real gross domestic product averaged 2.7-percent growth quarter-over-quarter for the four quarters of FY15. This was similar to the 2.6-percent average growth rate for FY14. The FY15 first quarter (calendar year 3Q14) and last quarter (calendar year 2Q15) exhibited very strong real GDP growth of 4.3 percent and 3.9 percent, respectively. Whereas the two middle quarters of FY15 covering calendar year 4Q14 and 1Q15 had slower but still positive real GDP growth of 2.1 percent and 0.6 percent, respectively. The 1Q15 slow economic growth was due in part to a second consecutive hard winter in portions of the nation as well as significant West Coast port closures from labor strikes delaying imports of many important goods.

The national unemployment rate continued to decline during FY15 from 6.1 percent in June 2014 to 5.3 percent in June 2015. This represented an impressive further decline from 7.5 percent in June 2013. The positive employment trend whereby private non-farm payrolls have averaged more than 200,000 new jobs per month during the past two fiscal years is one of the intended effects of the continued accommodative monetary policy of the Federal Reserve in maintaining very low interest rates. Inflation continued to be moderate during FY15 with the annualized growth in the consumer price index (CPI) being 1.8 percent for all items excluding food and energy. The CPI for food was 1.8 percent and -15 percent for energy given the rapid decline in fuel oil prices. Because of this dramatic decline in energy prices, the CPI for all items increased only 0.1 percent for FY15.

A number of global developments in FY15 highlighted investor nervousness and reduced investor confidence. The ongoing conflicts in the Middle East and Ukraine combined with the fragile economic and political situation in Greece created investor uncertainty. In addition, the economic slowdown in China and the consequent result of significantly lower commodity prices negatively impacted emerging market nations and the industrial equipment market. The precipitous fall in crude oil prices due to at least a temporary glut of oil supply is likely to have a long-term positive impact for U.S. consumers. However, the rapidity of the decline in oil prices and its negative repercussions for the important U.S. petroleum service sector and related energy equipment capital expenditures created further investor anxiety. The petroleum industry accounts for around 20 percent of total U.S. economy capital expenditures. All of the important events affecting the global economy and global financial markets resulted in the U.S. dollar strengthening in exchange value by more than 15 percent in FY15 versus a basket of important foreign currencies. These included the Euro and Japanese Yen, making U.S. exports more expensive and U.S. imports cheaper. In the midst of global uncertainty, investors around the world perceive the U.S. economy as the world's strongest economy. Its interest rates on government and corporate debt are among the highest of all developed countries. Central Banks of Europe and Japan are reducing borrowing rates whereas the Federal Reserve is on a path to eventually increase borrowing rates soon unless the U.S. economy weakens.

The BWC investment portfolio provided a total return of 2.2 percent (net of management fees) in FY15. The return fell short of the 4-percent discount rate applied to future liabilities. The annualized return of the BWC investment portfolio for the three-year and five-year fiscal periods ending June 30, 2015, was 6.3 percent and 8.2 percent, respectively. The BWC fixed-income portfolio returned 0.5 percent in FY15. Bond interest income earned yielding an average of 3.2 percent offset slightly market value reduction averaging 2.7 percent for this 12-month period. The BWC equity portfolio returned a modest 3.1 percent in FY15. This followed two exceptional years of performance providing net returns of 23.3 percent in FY14 and 19.0 percent in FY13. The growing BWC real estate portfolio comprised of 11 pooled real estate commingled funds provided an exceptional net return after management fees of 14.5 percent in FY15. This continued the strong performance of this asset class provided a net return of 11.4 percent in FY14.

There were two important asset-class strategy initiatives for the State Insurance Fund (SIF) implemented by the BWC Investment Division in FY15.

- The transition of the 15 percent of targeted intermediate duration fixed income portfolio assets benchmarked to the broad Barclays U.S. Aggregate index from passive management to an active managed Core Plus strategy

- Building of the SIF Real Estate assets to a targeted 12 percent of total portfolio assets from an original 6-percent target

The Investment Committee and BWC Board of Directors (Board) approved in September 2013 to convert to 100-percent active management from 100-percent passive management the targeted 15 percent of SIF portfolio assets allocated to intermediate duration fixed income assets benchmarked to the broad Barclays U.S. Aggregate fixed income index. They took this action after consultations with the BWC Chief Investment Officer (CIO), BWC Director of Investments and investment consultant RVK.

The active management strategy approved by the Board for this mandate is a Core Plus strategy. It allows each active manager to manage a bond portfolio of securities that are mostly part of the benchmark index. However, it permits them also to invest in securities and sectors that are not in the index. Securities include mortgage-backed issues and sectors include below investment-grade quality high-yield bonds within imposed limits. These active Core Plus fixed-income managers can manage a portfolio with duration, credit quality and sector distribution weightings that may vary, perhaps significantly at times, from what is represented by the benchmark index. This reflects the strategy employed by the Core Plus fixed-income manager to outperform the benchmark index.

The BWC investment staff has placed limits on the discretionary latitude given each of its Core Plus fixed income managers regarding the variability of portfolio duration range, portfolio sector weighting and average portfolio quality compared to the benchmark. In addition, the BWC investment staff imposed a maximum percentage portfolio ownership for high-yield bonds for each manager that varies from manager to manager.

Upon approval by the Investment Committee and Board, the Investment Division drafted an RFP to search for and identify a group of active Core Plus fixed income managers to fulfill this important active asset class mandate for SIF. BWC issued the RFP in January 2014. After the completion of an extensive RFP search and review process, the RFP Evaluation Committee recommended four finalist managers. The Investment Committee and Board approved the four finalist managers at their respective October 2014 meetings. The investment staff subsequently engaged a transition manager in February 2015 to oversee the transfer of SIF assets with a market value of $2,948 million and the subsequent funding of each new Core Plus fixed-income manager. The implemented strategy and results of this major asset-class transition event conducted in March 2015 are addressed later in this annual report.

The Investment Committee and Board approved at their respective February 2015 meetings the recommended increase in Real Estate allocation for the SIF portfolio to a 12-percent target of total investment assets from the prior 6-percent target. They took this action after numerous discussions and educational sessions led by RVK that involved asset-liability studies performed by RVK. This increased target was offset with a matching reduction in total fixed-income asset targeted allocation from 64 percent to the current 58-percent portfolio allocation target. This decision to increase SIF Real Estate assets to a 12-percent target included:

- Increasing the Core real estate fund target allocation to 7 percent from 4.5 percent;
- Raising the Value-Added real estate fund target to 2 percent from 1.5 percent;
- Having a 3-percent allocation target toward Core Plus real estate funds (a new real estate asset class).

With respect to the approved 6-percent reduction in SIF targeted fixed-income assets, the passive managed U.S. long duration government fixed-income mandate target was reduced to 4 percent from 6 percent. In addition, the passive managed U.S. TIPS fixed-income mandate target was reduced to 10 percent from 14 percent. These two fixed-income asset classes will be the primary funding source for all additional investments made in either new or already owned real estate funds of which the Investment Committee and Board must approve.

Upon approval by the Investment Committee and Board, the Investment Division drafted an RFP to search for Core Plus real estate commingled fund managers to fulfill this new 3-percent asset allocation mandate. BWC issued this RFP in March 2015 and received bid submissions in May 2015. The RFP Evaluation Committee is evaluating these bid submissions and making progress with the objective of identifying finalist funds to recommend for investment consideration to the Investment Committee in fiscal year 2016. Additional new capital commitments to several existing core real estate funds were made in FY15 in addition to capital commitment drawdowns toward existing core and Value-added real estate funds. Details regarding these added real estate capital investments are provided later in this annual report.

Compliance

The investment portfolios were in compliance with the BWC Investment Policy at the end of each month of FY15 except in two instances. The first instance related to asset class allocation target ranges. Per the BWC Investment Policy, any asset class whose asset allocation falls outside the permitted ownership range specified is subject to portfolio rebalancing only after the end of each calendar quarter if such asset class remains outside of its portfolio allocation range.

The U.S. Equity asset-class portfolio allocation for the Disabled Workers' Relief Fund (DWRF) was 23.4 percent at the end of December 2014 at $374.3 million. This exceeded its upper limit ownership range of 17 percent to 23 percent by 0.4 percent or by approximately $6.3 million.

The Investment Division received a request in late December 2014 by the BWC Fiscal & Planning Division for $17.9 million in cash. This would fund projected operating expenses of DWRF for the first quarter of 2015. As a result, the Senior Officer Review Team Portfolio Rebalancing Committee met in early January 2015 to consider a portfolio rebalancing recommendation made by the CIO to redeem $17.9 million from the U.S. equity asset class to fund the upcoming first quarter 2015 operating expenses of DWRF. This action would also satisfy the portfolio-rebalancing requirement for DWRF. A redemption of $17.9 million from the DWRF U.S. equity commingled fund to fund operations would reduce its portfolio percentage market value of U.S. equities to 22.3 percent from 23.4 percent based on Dec 31, 2014, market values. This redemption action would result in the DWRF portfolio being comfortably back within its target range for U.S. equities. After some discussion, the Senior Officer Review Team Portfolio Rebalancing Committee approved this CIO portfolio rebalancing recommendation for DWRF. The Investment Division subsequently executed this portfolio rebalancing activity for DWRF in January 2015.

The second compliance instance involved one of the six active long credit fixed-income managers of SIF informed the Investment Division in mid-June 2015 of a specific portfolio-investment guideline breach involving Trust Preferred/Hybrid securities. This specific investment guideline as reflected in the BWC investment management agreement with this investment manager requires that Trust Preferred/Hybrids are eligible for investment if such specific individual securities are:

- In the benchmark index (Barclays U.S. Long Credit index);
- Subject to a total maximum exposure of 3 percent over the benchmark weight of this security type.

The investment manager notified the CIO that the internal compliance group of the manager discovered that the benchmark inclusion requirement for these types of securities was not coded and, therefore, inadvertently omitted. The 3 percent maximum weight above the benchmark index formula was coded properly. The manager identified six specific hybrid securities in the BWC portfolio that were not in the benchmark index. These six securities totaled approximately $9.6 million at cost. Two securities were purchased as early as 2012 and four securities purchased in 2014. Upon discovery of this coding error, the manager promptly sold these six securities in mid-June 2015 at an aggregate realized capital gain of approximately $846,000. The Investment Division subsequently amended this breached guideline to eliminate the requirement for this manager that such trust preferred/hybrids owned in the portfolio be in the benchmark index. Nevertheless, the division maintained a restriction on total portfolio exposure to hybrid securities similar to the current restriction in place.

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 $24,709 million on June 30, 2015. This represented a decrease of $761 million when compared to $25,470 million on June 30, 2014. SIF invested assets were $22,669 million at fair value on June 30, 2015. This represented 91.7 percent of total BWC invested assets at fiscal year-end 2015. As stated earlier, the total rate of return on invested assets of BWC for FY15 ended June 30, 2015, was 2.2-percent net of management fees. Net investment income for FY15 was $510 million, comprised of $647 million in interest and dividend income ($482 million interest income; $165 million dividend income, including $57 million of real estate dividend income). Income was offset by $93 million depreciation in fair value of investments and by $44.2 million in investment expenses, including $42.9 million in investment management fees. The investment manager fees for FY15 represented an annual fee of between 17-18 basis points (less than 18/100 of 1 percent) of total average month-end market value of fixed income, equity and real estate assets (all invested assets excluding cash and equivalents).

The investment expenses of $44.2 million for FY15 included $42.9 million in investment management fees. This compares to $33.2 million of total investment expenses for FY14, including $31.8 million in investment management fees (between 13-14 basis points of average month-end investment assets excluding cash). The increase in investment fees of $11.1 million in FY15 was largely attributable to the following:

(a) A full 12 months of active management of all SIF mid-cap and small-cap U.S. equities ranging between $1.8 to $2.1 billion in market value for all of FY15. From July 2013 to January 2014 during FY14, $1.9 billion of SIF comparable U.S. equity assets were passively managed at much lower fees. This was part of the previous all-cap U.S. equity mandate (representing $6.7 million increase in management fees to $13.3 million in FY15 from $6.6 million in FY14);

(b) Similarly a full 12 months of active management of SIF long duration credit bond assets ranging from $6.4 to $7.2 billion in market value during FY15. From $1.4 to $1.5 billion of these assets were still passively managed at lower fees during FY14 from July to November 2013. This was before such assets were transferred in early December 2013 to several active managers with higher management fees per additional dollar actively managed (representing $1.4 million increase in management fees to $11.1 million in FY15 from $9.7 million in FY14);

(c) Three months of active management of the new Core Plus fixed-income mandate during April to June 2015 of FY15 versus lower-fee passive management of all of the intermediate-duration U.S. aggregate benchmarked bond assets throughout all of FY14 (representing $1.2 million in FY15 from $0.1 million in FY14);

(d) An additional $142 million of new capital invested in SIF commingled real estate funds during FY15 with $123 million invested at the beginning of the fiscal year that were funded from very low-fee passive-managed U.S. government bond assets. This represented a $2.1 million increase in real estate management fees to $14.6 million in FY15 from $12.5 million in FY14. This increase was due to slightly more new capital invested in FY15, higher market values of existing fund investments in FY15 versus FY14 due to strong performance and the continued phasing in of capital fundings toward existing core real estate funds occurring in FY14).

The six SIF active long-credit bond managers taken together continued to deliver superior performance for their third consecutive full year of active management in FY15. These six managers provided a combined return for FY15 on SIF assets that exceeded the benchmark index return by +0.48 percent (+0.11 percent vs. -0.37 percent benchmark index return) before management fees and by +0.32 percent (-0.05 percent vs.-0.37 percent) after management fees. BWC estimates the excess net return of +0.32 percent above this benchmark index achieved by these six long-credit managers in the aggregate provided incremental net income for SIF of approximately $21.8 million in FY15.

The 13 SIF active mid-cap and small-cap U.S. equity managers provided a combined total return for FY2015 of 5.96 percent on SIF assets managed. This return trailed the Russell composite small/mid-cap custom blended benchmark index return of 6.59 percent by 0.63 percent before management fees. The net return of these active managers was 5.38 percent for FY15. This return trailed this benchmark by 1.21 percent. The nine active mid-cap U.S. equity managers provided a combined return of 6.59 percent gross of fees and 6.08 percent net of fees for FY15. This return trailed the Russell mid-cap U.S. equity benchmark index return of 6.63 percent by 0.04 percent gross of fees and 0.55 percent net of fees.

The four active small-cap U.S. equity managers provided a combined return of 3.54 percent gross of fees and 2.67 percent net of fees. These active small-cap U.S. equity returns trailed the Russell 2000 small-cap U.S. equity benchmark return of 6.49 percent by 2.95 percent gross of fees and 3.82 percent net of fees. The volatile high-risk biotech subsector of the Russell 2000 index provided a total annual return of 51 percent during the 12-month period of FY15 and contributed an outsized 2.54 percent of the 6.49-percent total return of this index during this period. This occurred even though the biotech subsector comprised only an average weighting of 5.6 percent of this index during this period. Each of the four active BWC small-cap U.S. equity managers were substantially underweight to this high-risk biotech subsector during FY15. This explained much of their relative underperformance to this benchmark index. The Investment Division estimated the aggregate net underperformance after fees of these active mid-cap and small-cap U.S. equity investment managers to the BWC custom-blended benchmark index represented a reduction in net investment income for SIF of approximately $24.5 million in FY15.

The asset allocation mix of the BWC aggregate investment portfolio based on represented fair value on June 30, 2015, was:

- 57.8 percent bonds;
- 33 percent equities;
- 6 percent real estate;
- 3.2 percent cash and equivalents.

This asset mix compares to the BWC aggregate investment portfolio (based on represented fair value on June 30, 2014,) of:

- 59 percent bonds;
- 34.1 percent equities;
- 4.7 percent real estate;
- 2.2 percent cash and equivalents.

Columns D, E and F of the table provided at the end of this annual report summarize the asset-class transfer activity occurring over FY15. These activities are important to highlight because they had a material impact on the respective fair-value levels of bond, equity and real estate portfolios during the course of FY15. Column E reflects the redemption activity initiated by the Investment Division to provide cash needed to fund operational requirements of BWC. This included large cash outflows of more than $1 billion for the second Another Billion Back premium rebate program to Ohio employers and approximately $395 million in settlement payments associated with the San Allen group-rating litigation case. These two prominent funding requirements accounted for more than $1.4 billion of cash raised from the sales of bonds and equities in the SIF portfolio applied to fund these two large events in FY15. The asset transfer activity shown in Column D involves shifts of assets from one asset class to another for portfolio-rebalancing purposes and to fund real estate fund capital drawdowns.

The Investment Division formulated a three-phase investment strategy to raise $1.2 billion in cash involving the SIF portfolio to fund the Board-approved second employer premium rebate program of more than $1 billion paid out in November 2014 and to fund seasonal operating expense funding requirements occurring in December 2014 and January 2015. The Investment Division decided to redeem assets from the two SIF asset classes with actual portfolio allocations that were the most above their respective investment policy target asset allocations due to strong relative performance within the total portfolio. At the end of September 2014, the SIF U.S. large-cap equity allocation was 15 percent or 3 percent above its 12-percent target portfolio allocation. The SIF long-credit fixed income allocation was 29.9 percent or 1.9 percent above its 28-percent target portfolio allocation.

The division also decided to redeem an equal $600 million from each of these two asset classes in three phases during October and November 2014. The first phase involved selling in early October 2014 $600 million of common stock positions in the passively managed U.S large-cap equity separate-account portfolio. The second and third phases of the redemption strategy involved the sale of long-duration credit bonds totaling $300 million each from the two largest actively managed separate-account portfolios. These two separate-account portfolios had asset values approximately $300 million higher than the next largest long-duration credit separate-account portfolio when the division made this redemption decision.

The bond-sale strategy for each of the two bond separate-account portfolios involved redeeming $100 million during three consecutive weeks in October 2014 from one account and similarly redeeming $100 million each during three consecutive weeks in November 2014 from the second account. This strategy spread the selling activity during six weeks in two months to achieve good trading execution and not telegraph the sale program to the market. The Investment Division was very satisfied with the trading execution results achieved by both of these active long-duration credit bond investment managers.

The funding of the remaining San Allen litigation payments totaling approximately $258 million paid during May to July 2015 was a two-phase redemption strategy of the Investment Division. The division redeemed $150 million in May 2015 from a third SIF active long-duration credit bond separate-account portfolio. Trading occurred during a three-week period. A redemption of an additional $150 million occurred in late June 2015 from the passively managed U.S. large-cap equity separate account portfolio to fund the remaining slightly more than $100 million of San Allen settlement payments. This redemption also partially funded projected SIF net operating expenses for July to August 2015. The Investment Division decided to redeem $150 million from this large-cap U.S. equity portfolio because this asset class was the most above its asset allocation target (24.7 percent actual versus 20 percent target) at the time of sale on June 29, 2015, which was near its upper-limit portfolio allocation of 25 percent. This redemption transaction ensured that there would be no need to rebalance any SIF asset class at quarter-end.

These two large funding events account for most of the funds inflow/outflow activity represented in

Columns E and F of the table provided at the end of this annual report. New real estate investments totaling a net of $104 million during FY15 shown on Column D were largely funded by $123 million of U.S. government bond sales. These sales were consistent with the real estate funding strategy mentioned earlier with $19 million net returned to the SIF operating cash.

The total fair value of the BWC bond portfolio was $14,278 million on June 30, 2015, compared to $15,034 million on June 30, 2014, representing a decrease of $756 million. The bond portfolio had net outflows totaling $925 million during FY15 (see Column F of table) resulting from:

- $750 million of redemptions from three long-duration credit bond separate-account portfolios previously mentioned to fund portions of the "Another Billion Back" premium rebates and the San Allen litigation settlements;
- A net $175 million of redemptions to fund real estate capital investments ($123 million) and operations (net $52 million).

Adjusted for these net bond sale outflows, the fair value change of the BWC bond portfolio was an increase of $169 million, which represented a total return of 0.5 percent for FY15.

The BWC bond portfolio in FY15 earned $482 million in interest income and had net realized/unrealized losses of $394 million. This resulted primarily from interest rate levels being somewhat higher for long-duration credit bonds and the Barclays U.S. Aggregate benchmarked portfolios at the end of FY15 compared to the start of the fiscal year. The weighted average yield-to-maturity of the Barclays long duration U.S. credit bond benchmark index increased from 4.58 percent on June 30, 2014, to 4.92 percent on June 30, 2015, an average increase of 0.34 percent in yield for bonds in the index, which had a long 13.3-year duration on June 30, 2015. The weighted average yield-to-maturity of the Barclays U.S. Aggregate intermediate-duration benchmark index increased from 2.22 percent on June 30, 2014, to 2.39 percent on June 30, 2015, an average increase of 0.17 percent in yield of bonds in this index.

The transition activity occurring in the first quarter of 2015 involved the conversion from passive to active management of approximately $2.95 billion of intermediate-duration bond assets benchmarked to the Barclays U.S. Aggregate index. This transition activity resulted in net realized capital gains of $109.1 million. The transfer of all of these passively managed assets to a fixed-income transition account resulted in a net realized capital gain of $89.6 million recognized by BWC. This represented the difference between the original cost basis of all assets transferred and their respective market values as of the March 9, 2015, transfer date. This asset transfer event converted unrealized capital gains to realized capital gains for accounting reporting purposes.

An additional $19.5 million of net realized capital gains were produced from transition account trading activity performed by the chosen BWC transition manager to construct portfolios desired by each of the four new active Core Plus fixed-income managers. The $750 million redeemed from the three active managed long-duration credit fixed-income portfolios for operation needs previously described resulted in an additional $32 million of net realized capital gains in FY15. Total net realized capital gains from BWC bond assets were $219.6 million in FY15.

The BWC bond portfolio had an average quality of between "AA" and "A" at the end of FY15. Of the fair value of bonds held on June 30, 2015, 40 percent were U.S. government issues of "AAA" quality (by credit rating agencies Moody's and Fitch) and "AA" rated (by Standard & Poor's notable downgrade in August 2011). Of the fair value of bonds owned on June 30, 2015, 35 percent were direct U.S. Treasury issues, including 23.5 percent represented by U.S. Treasury Inflation Protection Securities (TIPS). Issues held on June 30, 2015, rated below investment grade represented 4.5 percent of total fair value of bonds owned. These were owned in certain active long-duration credit and active Core Plus fixed-income managed accounts. These specified accounts are permitted to own such below-investment-grade bonds within BWC-imposed percentage ownership limits. The weighted average effective duration of the bond portfolio on June 30, 2015, was 10 years, based on individual asset class duration calculations of the BWC investment accounting vendor as represented in the FY15 audited financial statements.

The total fair value of the BWC equities portfolio was $8,151 million on June 30, 2015, a decrease of $531 million compared to $8,682 million on June 30, 2014. There were net outflows totaling $628 million (see Column F table) from the BWC equities portfolio, which were all from its U.S. equities portfolio during FY15.

These outflows with amounts noted were to fund the:

- Another Billion Back premium rebates ($600 million);
- DWRF and Black Lung Fund (BLF) operations ($10 million);
- A DWRF portfolio quarter-end rebalancing action ($18 million) to reduce its excess U.S. equity assets that exceeded its permissible upper portfolio allocation target due to its significant outperformance compared to its other portfolio asset classes.

Accounting for these net outflows, the adjusted fair-value increase in the BWC total equities portfolio was $97 million for FY15. The total net return of the BWC equities portfolio was 3.1 percent for FY15.

The total fair value of the BWC U.S. equities portfolio was $5,670 million on June 30 2015. This was a decrease of $392 million compared to the fair value of $6,062 million on June 30, 2014. Accounting for the $628 million of net outflows during FY15, the adjusted fair value increase of the U.S. equities portfolio was $236 million during FY15. This represented a net return of 6.8 percent. Total net realized capital gains from BWC U.S. equities assets were $128.3 million in FY15.

The total fair value of the BWC non-U.S. equity portfolio was $2,481 million on June 30, 2015. This was a decrease of $139 million in fair value compared to $2,620 million on June 30, 2014. There were no inflows or outflows of funds during FY15 involving the passively managed non-U.S. equity commingled fund used by each of the SIF, DWRF and BLF for all assets owned by BWC in this asset class.

The BWC non-U.S. equities portfolio had a total net return of negative 5.3 percent for FY15. A significant drag that resulted in a negative return for this portfolio in FY15 was the significant strength of the U.S. dollar compared to the composite basket of currencies represented by all of the stock holdings of the MSCI ACWI ex-US benchmark index. The BWC passive external investment manager replicates this for portfolio strategy purposes. The BWC commingled fund portfolio owned stocks that were denominated in 34 separate foreign currencies as of June 30, 2015. The most prominent currencies were the Euro, British Pound and Japanese Yen. These currencies combined represented 52.4 percent of portfolio fair value as represented in the FY15 audited financial statements.

The U.S. dollar strengthened by a very significant 14.9 percent compared to the composite currency weightings of all stocks in the benchmark index over FY15. The dollar strengthened largely due to the combination of the U.S. exhibiting stronger economic growth compared to the major developed countries represented in the index and the higher yields offered by U.S. government and corporate bonds compared especially to Europe and Japan during the period.

The combined return of the MSCI ACWI ex-US benchmark index expressed in all respective foreign currencies for its stock holdings was a positive 9.6 percent for FY15. After being translated into U.S. dollars at then prevailing foreign exchange rates, this positive 9.6-percent return expressed in local currencies became a negative 5.3-percent return in U.S. dollars as BWC chose not to attempt to hedge foreign currency risk in its non-U.S. equity strategy. Total net realized capital gains from BWC non-U.S. equities assets were $0.3 million in FY15.

The total fair value of the BWC real estate portfolio was $1,481 million on June 30, 2015. This was an increase of $293 million in fair value compared to $1,188 million on June 30, 2014. All initial capital commitments made to the eight Board-approved core real estate funds totaling $1,121.5 million at cost were fully funded by July 2014. Final initial capital investments totaled $123 million (made to two core real estate funds.)

The initial capital commitments toward core real estate funds were made to achieve the initial 4.5-percent target asset allocation for this asset class approved by the Board in August 2011 for the SIF portfolio. The Investment Division made all of these initial SIF core real estate fund investments from January 2013 to July 2014. The Board-approved an additional $200 million in capital commitments toward three existing core real estate fund holdings in May 2015. This allowed BWC to move closer to achieving the new 7-percent SIF target asset-class allocation toward core real estate funds. The fair value of the core real estate fund portfolio was $1,435 million on June 30, 2015, which represented 6.3 percent of SIF invested assets at fair value.

There were no new Value-Added real estate funds recommended and approved for investment in FY15. The Investment Division invested $19 million of new capital in three of the four approved Value-Added funds in FY15. A significant event occurred late in FY15 involving one of the Value-Added real estate funds owned by BWC. A Value-Added fund focusing exclusively on industrial properties was unexpectedly involved in a buyout of all of its assets by an investment group that included one of its primary competitors. BWC received $33.4 million of returned capital from this fund on June 30, 2015, representing all of its capital investment made to date ($20.8 million) and appreciation of value, which represented an annualized internal rate of return on capital invested in excess of 40 percent. A net realized capital gain of $12.6 million was booked in FY15 because of this event. The fair value of the value-added real estate fund portfolio was $46 million on June 30, 2015, which represented 0.2% of SIF, invested assets at fair value.

As reported earlier in this annual report, the BWC real estate portfolio had an increase in fair value of $293 million in FY15. Adjusted for net new capital invested of $104 million ($137 million new capital less $33 million returned capital from fund buyout) in FY15 as reflected in Column D of the table, the adjusted fair value increase of the real estate portfolio was $189 million for FY15. The total return after management fees of BWC real estate assets was an exceptional 14.5 percent in FY15. This comprised of a net return of 13.9 percent for core fund assets and 23.5 percent for value-added fund assets fueled by the value-added fund buyout transaction described.

Total BWC cash and cash equivalents had a fair value of $797 million on June 30, 2015, compared to $563 million on June 30, 2014. BWC raised a significant amount of cash for operations that netted $1,430 million (shown in Column E of table) redeemed mostly from active managed long-duration bond portfolios and the passive managed large-cap U.S. equity portfolio as described earlier. The Investment Division applied most of these sale proceeds to fund the second Another Billion Back premium rebate program and the San Allen litigation settlements.

BWC used an institutional U.S. government money market fund offered by its custodian bank (JPMorgan Chase Bank) during FY15 to earn interest income on its short-term invested assets. Short-term yields on money market investments remained extremely low throughout FY15 as the Federal Reserve Bank kept the targeted federal funds rate between 0 percent and 0.25 percent. It also maintained 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 FY15.

Portfolio Interest Rate Sensitivity

BWC investment consultant RVK prepared an updated SIF fixed-income portfolio sensitivity analysis based on the market value and composition of the SIF bond portfolio as of June 30, 2015. 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 bond portfolio, with a market value of $13.06 billion on June 30, 2015, had an estimated effective duration of 10.3 years on that date. The estimated duration of SIF total liability payments was approximately 10 years. This compares to a similar effective duration of SIF bond assets of 10.5 years on June 30, 2014. 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 payments and its supporting long-duration bond 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, 2015, SIF fixed-income portfolio. RVK based these observations on defined interest rate movements during a one-year (12-month) period 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 +3.8 percent, resulting in an increase in market value of +$500 million.

If interest-rate levels increase by +0.50 percent, the total SIF fixed-income portfolio could decline in value by -1.1 percent, resulting in a decrease in market value of -$141 million.

If interest-rate levels increase by +1 percent, the total SIF fixed-income portfolio could decline in value by -5.6 percent, resulting in a decrease in market value of - $726 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 - $1,726 million.

Summary Table

As referenced throughout this annual report, the table that follows provides a summary of asset class valuations, asset class sales to fund operations, and transfers of funds involving transition activity. The table also includes portfolio asset allocation rebalancing actions and performance returns of asset classes of the total portfolio for FY15.

Prepared by: Bruce Dunn, CFA
BWC Chief Investment Officer
Oct. 19, 2015

Asset Class Fair Value/Performance Summary

Fiscal Year Ending June 30, 2015

($millions) Asset Class	(A) Fair Value 6/30/15	(B) Fair Value 6/30/14	(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 2015 Annual Return**
Bonds	$ 14,278	$ 15,034	$ (756)	$ (123)	$ (802)	$ (925)	$ 169	**+ 0.5%**
U.S. Equities	5,670	6,062	(392)		(628)	(628)	236	+ 6.8%
Non-U.S. Equities	2,481	2,620	(139)				(139)	− 5.3%
Total Public Equities	8,151	8,682	(531)		(628)	(628)	97	**+ 3.1%**
Real Estate	1,481	1,188	293	104		104	189	**+ 14.5%**
Miscellaneous	2	3	(1)				(1)	
Cash & Equivalents	797	563	234	19	1,430	1,449	(1,215)	0.0%
Net Change				0	0	0	(761)	
Total Invested Assets	$ 24,709	$ 25,470	$ (761)				*454	**+ 2.2%**

Column Definitions

C = A minus B
F = D plus E
G = C minus F

*Represents all fair value Asset Class changes except Cash & 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 operated as 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. BWC 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 and Compliance Division coordinates BWC's health-care services through a network of providers and managed care organizations (MCOs).

How HPP works

BWC contracts with MCOs to manage the medical component of workers' compensation claims, while also determining compensability and paying indemnity benefits. MCOs educate employers and injured workers on HPP. They also process *First Report of an Injury, Occupational Disease or Death* (FROI) applications. 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 (MoD) metric. BWC also measures MCO FROI timing, FROI data accuracy, bill timing and bill data accuracy. Further, it publishes most of these measures in an annual *MCO Report Card*, available on www.bwc.ohio.com. BWC encourages employers to view this report before selecting an MCO. Fifteen 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. BWC's Medical Services and Compliance Division along with the Chief Medical Officer Division, coordinates health-care delivery through a network of certified providers and MCOs. We accomplish this by using management, pricing and payment strategies that benefit injured workers and employers. Specific supporting responsibilities include:
- Developing, maintaining and executing quality and cost-effective medical and vocational rehabilitation benefits plans and associated fee schedules;
- Developing and supporting the appropriate managed-care processes, including contract management and training;
- Establishing and maintaining a quality pool of medical and vocational service providers to ensure injured workers have access to quality, cost-effective and timely care;
- Developing and implementing appropriate medical and vocational policies, rules and training, which address the management from inception to resolution of all of medical and vocational issues arising out of an allowed claim; and
- Evaluating and processing medical bills, guaranteeing proper and timely payment consistent with benefits plan criteria.

During the course of the year, we have made positive progress on initiatives undertaken to support existing divisional and BWC enterprise business objectives and strategies. The remainder of this report provides selected highlights of HPP activities and outcomes.

HPP rules

Pursuant to the required five-year Ohio administrative rules review protocols, the Medical Services and Compliance Division reviewed and modified, as appropriate, all Ohio administrative rules governing the HPP. In total, the division addressed 99 HPP rules. The BWC Board approved changes to 66 of those rules. These included amendments to 61 rules, rescinding of three rules, rescinding and replacing of one rule and the addition of one rule. Those rules addressed all areas of the HPP program, including the Qualified Health Plan, MCOs, medical and vocational providers, medical and vocational services, pharmacy services and injured worker medical reimbursements. During this process, the division received more than 20 comments from stakeholders, providers and associations to which BWC staff provided responses. This successful effort has positioned the BWC to continue to facilitate and move forward visionary goals reflected in the development and implementation of the HPP system.

Benefits plan design

Prompt, effective medical care is crucial for those injured on the job. Such care 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. Having access to appropriate treatment facilitates faster recovery and a prompt, safe return to work. For employers, it also means the availability of appropriate, cost-effective treatment provided based on 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 establishes 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 us executing quality methodologies and protocols for revising benefits plans and their corresponding fee schedules. BWC strives to review all fee schedules annually.

For medical and vocational services rendered during Fiscal Year 2014 (FY14), as of early November 2015, BWC paid providers nearly $644.9 million, which is $35.7 million less than payments made in FY13. For FY15, as of early November 2015, BWC paid $612.5 million, which is $32.3 million less than payments made in FY14.

Note: Given providers have 12 months to bill for services rendered the estimated difference in medical spending between FY15 and FY14 will likely be less than BWC's current calculation. BWC has achieved those reductions while continuing to follow four objectives:

1. To maintain stability in the environment and reimbursement methodologies;
2. To ensure injured workers access to quality care;
3. To promote efficiency in the provision of quality services;
4. To maintain a competitive environment where providers can render safe effective care.

These four objectives also continued to guide BWC's evaluation of Ohio's reimbursement methodologies and the development of recommendations for FY15-16. As a result, BWC made minimum changes to the majority of the agency's reimbursement methodologies and protocols. Pursuant to adopted recommendations for FY15 and FY-16, BWC expects total medical and vocational services reimbursements to remain relatively stable depending on injury mix and services utilization mix and rates. Below is a summary of the fee schedules, their effective dates and projected impacts on medical and vocational service spending.

Table 1.

Fee schedule	**Effective date**	**Board presentation and approval periods**	**Fee schedule description**
Medical providers and services	Jan. 1, 2016	Aug. 27, 2015 Sept. 23, 2015 Dec. 17, 2015	Covers all medical providers and medical services not covered by any of the other schedules (OAC 4123-6-8) Projected 2016 impact: 0.4 percent spending decrease
Hospital outpatient	May 1, 2016	Nov. 19, 2015 Dec. 17, 2015	Covers facilities for outpatient services (OAC 4123-6-37.2) Projected 2016 impact: 1 percent spending increase
Hospital inpatient	Feb. 1, 2016	Aug. 27, 2015 Sept. 23, 2015	Covers facilities for inpatient services (OAC 4123-6-37.1) Projected 2016 impact: 1.7 percent spending decrease
Ambulatory surgical centers (ASC)	May 1, 2016	Nov. 19, 2015 Dec. 17, 2015	Covers surgical procedures not requiring inpatient hospitalization (OAC 4123-6-37.3) Projected 2016 impact: reimbursement remains flat
Vocational rehabilitation services	No Update	No Update	Covers all vocational rehabilitation services (OAC 4123-18-09) Projected 2016 impact: reimbursement remains flat

BWC continues to evaluate and undertake initiatives to improve access to care for Ohio injured workers. As part of the 2016 ambulatory surgery centers' (ASC) reimbursement development activities, BWC initiated actions to develop a certification program to begin allowing physicians to perform certain joint arthroplasties within ASCs. An arthroplasty is a surgical replacement or reconstruction of a joint. ASCs provide a safe and convenient alternative to having these procedures performed in a hospital setting. Allowing physicians to perform these procedures in ASCs will improve access to care by giving injured workers additional treatment options, as well as potentially reducing costs for the system. ASCs are a more cost-effective alternative, as they have much lower cost structures than hospitals. In 2015, Medicare rates are 82 percent higher in hospital outpatient departments than in ASCs.

This expansion of services to the ASC setting is an exercise of a unique departure from BWC's normal determination of which services physicians will perform at ASCs. BWC will generally follow Medicare's determination of which services physicians can perform in the ASC setting. However, when appropriate, BWC has deviated from Medicare in not only reimbursement methodologies but also services available to injured workers.

This willingness to deviate from Medicare when it is appropriate occurred in 2014 when BWC with the Board of Directors' approval began to allow the service of lumbar microdiscectomies to be performed in ASC facilities. In 2014, Medicare did not allow physicians to perform that procedure in the ASC setting. It changed that position in 2015. Guiding BWC's determination to deviate from Medicare is the fact that Ohio's workers' compensation population is quite different from the Medicare population. The injured worker population is younger and generally in better condition than Medicare patients. This presents a greater opportunity for other types of services to be safely and effectively performed in the ASC setting.

Executing per the direction of the BWC's Health Care Quality Assurance Advisory Committee, Medical Services has worked with the Ohio ASC Association and five ASC facility representatives to develop the program parameters. The five ASC facilities involved are:

- Wooster Surgery Center;
- Orthopedic Surgery Center
- Taylor Station Surgery Center;
- Dublin Surgery Center;
- Ohio Orthopedic Surgery Institute.

Early program parameter recommendations coming out of the workgroup discussion include the following:

Procedures to allow: BWC is planning to cover 10 new arthoplasty procedures in ASCs. Two of these procedures – shoulder joint reconstructions and revisions to shoulder joint reconstructions – are only allowed to be performed as either inpatient or outpatient procedures. While the others such as total shoulder replacements, partial and total hip replacements, total knee replacements and revisions, and total ankle reconstructions and revisions, are only allowed in an inpatient setting at this point;

Certification requirements: BWC wants to make sure it has adequate requirements in place to ensure physicians perform these procedures safely and effectively. Thus, as part of the program setup, ASC facilities will need additional certification to have physicians perform these services at their facilities. Some of the requirements BWC has discussed include the need for the facility and physician to be BWC-certified, submission of quality data and adoption of appropriate patient selection criteria to ensure physicians perform these procedures when it is safe for the patient. Additionally, ASC facilities will need to have requirements to ensure the physicians performing the procedures in their facilities have adequate experience and credentials. These could include board certification, success in performance of a sufficient number of procedures and having admitting privileges at a hospital within 30 miles of the ASC or at the closest hospital to the ASC;

Pricing methodologies: Since Medicare does not have rates for these procedures, BWC will have to develop an appropriate pricing methodology for these services. A primary concern that the ASC Association has raised is that of having a rate sufficient enough to cover the implant costs associated with the services. Thus, one possible reimbursement methodology approach would be to establish a base cost for services plus, an add-on payment for the cost of the implant used in the procedure. This potential approach was well received. The workgroup will further develop this method in coming meetings.

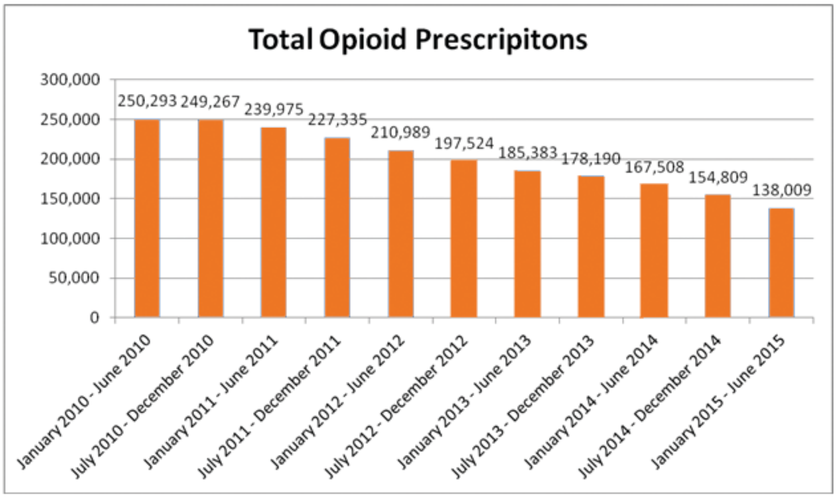
The goal is to have all program elements and recommendations completed and approved by the BWC Board in December 2015, with implementation set for May 1, 2016.

Pharmacy

Our pharmacy program implemented a formulary for prescription drugs that became effective Sept. 1, 2011. When comparing FY15 with the base FY11 before the formulary became effective, the agency experienced:

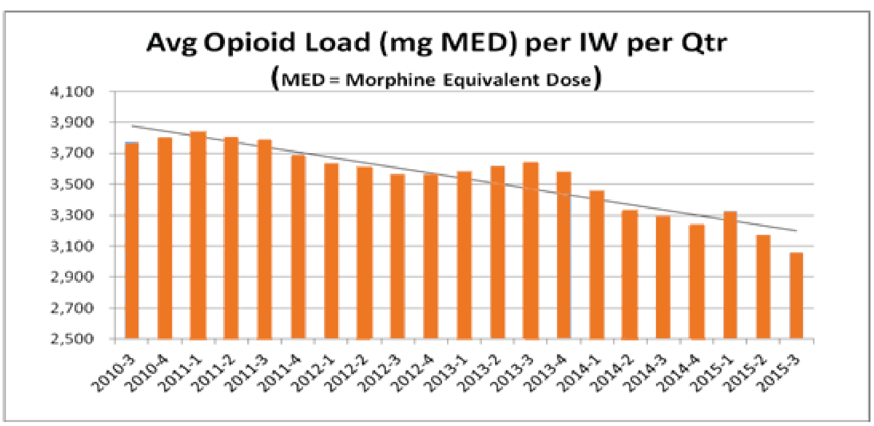
- 72 percent reduction in prescriptions for skeletal muscle relaxants;
- 59 percent annual decline in prescriptions for opioids (Chart 2);
- 83 percent reduction in prescriptions for anti-ulcer agents;
- 35 percent reduction in total prescriptions covered with 10 percent fewer prescriptions covered per injured worker.

Chart 1.



In FY15, BWC experienced a decline in overall opioid use among injured workers as measured by injured workers receiving opioid prescriptions and total opioid load as measured by morphine equivalent dose. Between the peak in the first quarter of 2011 and the third quarter of 2015, the total average opioid load of injured workers has declined by 20 percent. (Chart 3)

Chart 2.



BWC experienced a $28 million (21 percent) reduction in total prescription drug costs in FY15 compared to FY11.

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 4123-6-21.3):

- Revised coverage of the topical fentanyl and buprenorphine opioid products to limit reimbursement to FDA approved dosing schedules;
- Revised coverage of new abuse deterrent opioids to only allow reimbursement for those that incorporate the highest rated FDA abuse deterrent technology.

In addition, the pharmacy program enacted a new rule (OAC 4123-6-21.6) that allows for coverage of a limited number of formulary drugs before BWC places a claim in allowed status. This First Fill Rule provides coverage for emergency type prescriptions in the immediate post injury period.

Managed-care processes

Per OAC 4121.44, BWC certifies MCOs to participate in the HPP for two-year periods. BWC did complete the re-certification of all MCOs in 2014. Thus, as of Jan. 1, 2015, there are 15 MCOs certified through Dec. 31, 2016. During the course of the last year, BWC approved and oversaw the merger of two MCOs, resulting in a reduction of the number of MCOs from 16 to the current number of 15.

The current MCO contract expires on Dec. 31, 2015. Therefore, BWC has worked with the MCOs to negotiate and finalize a new two-year MCO contract to be effective Jan. 1, 2016. The terms of the new contract will continue to build on the work begun under the 2013-2015 contract. Thus, the following BWC goals, which guided the 2013-2015 contract, are guiding the current contract discussions:

- A greater focus on quality outcomes for injured workers and employers;
- Increased effectiveness of the MCOs in execution of their responsibility for medical management;
- Increased effectiveness of the MCOs in execution of their responsibility for return-to-work and remain-at-work management;
- Increased collaboration between BWC claims staff and the MCOs' medical management staff in:
    - Capturing and exchanging relevant medical;
    - Reducing redundancy in communicating with medical services providers, employers and injured workers;
- Increased focus of the MCOs in providing on-site case management to Ohio's most seriously injured workers;
- Increased MCOs' incorporation of innovative approaches to managing medical care;
- Reduction of redundancy and duplication.

A key highlight of this contract will be the continued refinement of the MCO compensation methodology. This methodology increases the connection between a MCO's outcomes and that MCO's compensation. This pay for performance approach encourages MCO competition and innovation with the expected impact of improving return-to-work outcomes for injured workers and employers.

Medical providers

A continued focused effort of BWC's provider relations unit designed to support the HPP goal of having and maintaining a strong, effective network of certified providers is the execution of OAC 4123-6-02.7 Provider decertification procedures. BWC implemented this rule, which provides a progressive compliance path to address medical service providers' adherence to Ohio workers' compensation rules and policies in January 2013. MCOs report providers' non-adherence to workers' compensation rules and policies to BWC, which compiles them for an internal review monthly. BWC's goal is to provide educational notice to those providers having infractions, to correct inappropriate behavior.

Providers with three non-compliance infractions or more of the same code violation or five non-compliance infractions of different codes receive a first notice from BWC following these findings, informing them of further monitoring. BWC informs them that further non-compliance may lead to decertification. If the provider has two additional infractions during the next year, they receive a second notice. Two additional infractions lead to a proposal to decertify. Below are the current numbers of notices sent since January 2013.

Table 2.

Total compliance infractions	2013	2014	3rd Qtr 2015	Total # infractions
First notice	116	142	34	292
Second notice	1	40	5	46
Notice proposing to decertify	0	0	0	0

The 15 percent recurrence rate of providers receiving second notices and the decline of notices overall in 2015 denote success in this endeavor. Among the areas that providers appear to have the most challenge and for which additional communication and training have been provided are:

1. OAC 4123-6-16.2(A) – failure to prior authorize services;
2. OAC 4123-6-20(D) – late documentation submission.

Effective communication with providers is critical to maintaining an effective relationship between medical services providers and BWC. The Medical Services and Compliance Division electronic newsletter is vital to keep providers informed and aware of current activities affecting them. Thus, BWC continues to send a monthly electronic newsletter to providers and interested parties. The division's outreach has grown to include 69 provider associations, boards and other organizations, along with an internal list serve of more than 600 interested parties. In addition, more than 900 individual medical services providers receive the e-newsletter. We have kept providers updated on many pertinent topics within BWC, including:

- ICD-10 changes;
- Vocational rehabilitation and Ohio Means Jobs partnering program;
- Transitional work;
- Fee schedules and policy changes affecting providers (ex: drug testing policy)
- First fill prescription changes;
- Training and education information, including announcement of our first-ever offering of free provider continuing medical education credits at our Ohio Safety Congress Expo - a well received endeavor that will be enhanced to give more physician level courses in the future.

Medical and vocational service administration support

Increasing the quality of services to injured workers that will drive increased positive outcome has been a key focus for BWC during the past year. That focus underlies BWC's continued evaluation of the Catastrophic Claims program pilot and the introduction of a new Enhanced Care Program pilot.

Catastrophic claims program pilot

The Medical Services team continues to work with Paradigm Outcomes Management to provide professional, high-quality services to selected injured workers who have experience catastrophic injuries. The pilot program has experienced expected operational and administrative challenges. However, during the initial course of the pilot activities, operational processes have experienced significant improvement. There has been improved coordination and collaboration between BWC, the MCOs and Paradigm in managing and data exchange on relevant catastrophic claims. Additionally, negotiations with Paradigm on maximum level of expected outcomes for claims it manages resulted in a reformation of the level 5 outcome plan expectations. These include a more aggressive and clear objective of positioning injured workers to be successful in vocational rehabilitation when an injured worker cannot return to his or her previous job due to an injury. This is the final year of the pilot program. A scheduled 2015 year-end assessment will determine next steps for 2016 and beyond.

Enhanced Care Program pilot

On July 1, 2015, BWC implemented the Enhanced Care Program (ECP) pilot. The ECP is a natural reflection of an underlying principle and goal of the HPP. That principle and goal is to ensure that injured workers receive the right care at the right time that results in an optimal outcome of returning or keeping an injured worker at work. The ECP is piloting new operational steps to managing an injured worker's medical needs.

In late July 2014, a team of 30 people, from business, labor, the medical community and MCOs came together in a summit to create a path to provide better care for at-risk claimants. While the team sent a clear message that our system continues to work well today, they also indicated there was opportunity for improvement.

In a given year, approximately 75 percent to 85 percent of Ohio's workers' compensation claims are low intensity. This mean the injured worker receives treatment and quickly returns to work. For the remaining claims, our health-care model doesn't encourage coordination, which often results in delayed care for claimants at a higher cost for employers. During the July 1, 2013, policy year, nearly 80 percent of paid and incurred losses were associated with just 16 percent of the claims.

Thus, the summit's participants agreed that BWC should institute a health-care model that meets the following three prongs:

1. Claimants at risk of poor outcomes should have their care managed by a high-quality provider of record (POR);
2. The POR should establish a comprehensive treatment plan that considers the claimant's workplace injuries and other physical, behavioral and social factors that could impede the claimant's path back to work;
3. The MCO supports the POR through coordinating the exchange of information and removing barriers that prevent the claimant from returning to work.

So what is BWC expecting relative to how this approach will benefit employers? BWC hypothesizes this approach will benefit employers' workers' compensation policies by ensuring employees receive high-quality care. This should facilitate a faster return to work while minimizing premium costs. Potential direct benefits include:

- Minimizing lost productivity – more than 2 million days were lost during the July 1, 2013, policy year.
- Shortening the average duration of a lost-time claim, approximately 45 days for the July 1, 2013, policy year;
- Lessening costs for employers, since this model should allow lost-time claimants to move more quickly through treatment and return to work faster;
- Reducing opiate addictions, which afflict nearly one in six lost-time claimants today.

Key to the effective implementation of the pilot program was the approval and adoption of OAC 4123-6-01.2: Provisional Treatment Pilot Program. In summary, the rule provides:

- BWC the authority to implement the pilot program and allow one or more MCOs without disclaimer to authorize medical treatment reimbursement requests for the first 60 days from the initial allowance of a claim. The MCO can take this action for any conditions that fall within the same body part or parts as the conditions initially allowed in the claim. This is provided those conditions are presumed to be causally related to the same industrial injury or occupational disease;
- Allows that action where BWC has not yet allowed the conditions in the claim, but is under consideration for allowance or in adjudication;
- Maintains the right of an employer to appeal a claim, additional allowance or medical treatment reimbursement determination for claims included in the pilot;

- Allows the pilot program for a period of one year from the effective date of July 1, 2015. It provides the Administrator the discretion to either terminate the pilot early or extend the pilot for up to one additional year.

The specific claims that are covered under the pilot must meet the following criteria:
- Have only a knee condition allowed in their claim at initial determination;
- Have a home address in the pilot region, which includes 16 counties in northeastern Ohio; Choose to be treated by a POR participating in the program.

PORs participating in the program are called enhanced-care PORs. To be eligible, a physician must:
- Practice in or near the pilot region;
- Agree to abide by all aspects of the Enhanced-Care POR agreement;
- Enroll in the program by submitting a signed agreement.

After thoroughly examining the injured worker, the enhanced-care POR must submit a comprehensive care plan to the MCO responsible for the claim that addresses the following:

- Allowed conditions;
- Other injuries to or issues with the knee believed to be causally related to the workplace injury;
- Other general health issues or social factors impacting the optimal path back to work.

The POR can begin rendering care (with expectation of appropriate compensation) before receiving MCO approval for services as long as the services fall within the Official Disability Guidelines (ODG). Proposed treatment that falls outside of ODG will still require MCO approval.

Vocational rehabilitation services

The vocational rehabilitation program provides individualized, face-to-face return-to-work assistance for injured employees who without specialized services beyond standard medical treatment would be unlikely to return to work or stay at work in a timely, safe and productive manner.

While the number of injured workers referred into the vocational rehab program has declined, the utilization rate is still strong. The program is an essential part of the workers' compensation system to keep injured works on the job or help them return to work.

Table 3.

Voc rehab referral summary	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Claims potentially eligible for VR	315,065	297,500	278,746	256,970	256,970
Claims actually referred for VR	6,462	5,540	5,682	5,082	4,524
% eligible claims referred for VR	**2.1%**	**1.9%**	**2.0%**	**2.0%**	**1.9%**

Note: This data shows the volume of and percentage of claims actually referred to VR in the CY. A claim may have referrals in more than one year

In this past year, BWC sought ways to improve the overall quality of the program and in turn implemented three changes.

First, BWC changed the rule to provide for the creation of an assessment plan prior to a comprehensive plan. This would more fully expose the path needed for a particular injured worker to get back to work. This change has been in place for one-year now.BWC believes it has resulted in more clear agreement in the expectations of all parties during the progression to return to work.

Next, BWC implemented an outcome based hybrid fee schedule offering an extra payment to providers who achieve their goal of return to work for their client. The implementation activities included conducting meetings with a consortium composed of various vocational rehabilitation stakeholders, developing training and tools supportive of the new fee schedule, conducting training with providers, MCOs and BWC staff, and implementation of the new assessment and comprehensive plan types.

BWC created the consortium to propose high-level strategic changes to the vocational rehabilitation process to drive improved return-to-work outcomes for injured workers. The guiding principles for the workgroup were non-legislative solutions, solutions and strategies that incorporated input from all interested stakeholders, and solutions that capitalized on market strengths and focused on the top areas/barriers of concern. A few of the topic discussion topics were:

- Injured workers have difficulty finding employment, thus, resulting in a delayed return to work;
- Vocational rehabilitation is a complicated, time consuming process that involves many people;
- There is a lack of early intervention, as providers are not submitting referrals to vocational rehabilitation in a timely manner.

In addition, a workgroup comprised of BWC and MCO staff, along with vocational rehabilitation stakeholders was formed to make recommendations for content improvements related to the rules changes within OAC 4123-18. The goal of the workgroup was to make recommendations for content improvements that would support vocational rehabilitation case managers with successful return to work for Ohio's injured workers.

The workgroup made several recommendations for content improvements, specifically a recommendation to create standard BWC forms and templates for each step in the rehab process. BWC offered training on the rule changes, template forms and other enhancements in late July 2014 and early August 2014 throughout the state (Cleveland, Columbus, and Cincinnati). Two hundred fifty participants attended at least one of the face-to-face training sessions and received CEU credits. BWC made DVDs of the training available to anyone who was unable to attend. BWC offered additional training in the last quarter of 2014. This training specifically related to the fee schedule changes and focused on how to properly bill for services. While it is too early to document the true effects of the new model, BWC sees many providers receiving these outcome payments.

Finally, BWC set in place an enhanced certification requirement for providers who wish to provide employment services for injured workers. The response from providers has been very good, as most have increased their credentials to meet the new quality criteria.

Medical bill processing

The Medical Services and Compliance Division successfully led BWC's transition from the use of International Classification of Diseases (ICD) 9 codes to ICD-10 codes. This update to the health-care industry's diagnosis code, mandatory for most providers, was effective Oct. 1, 2015. BWC is an exempt entity from the Health Insurance Portability and Accountability Act and exempt from this mandate, and not required to adopt ICD-10. However, doing so allowed BWC to take advantage of standard health-care industry tools such as prospective pricing methodologies used for hospital bills and clinical editing tools for professional bills. Further, the update also avoids a potential administrative burden to health-care providers who would otherwise need to maintain a second ICD coding system exclusively for their workers' comp patients. Providers include diagnosis codes on each of the roughly 11,000 medical bills MCOs receive daily, which MCOs use to validate the billed treatment is related to the injured worker's claim.

To ensure a successful transition, the Medical Services Division undertook the task of developing an infrastructure conducive to implementation. Included in this effort was the:

1. Execution of a robust training program for BWC staff;
2. Management of a historical claim code conversion initiative addressing 2.8 million ICD-9 codes captured on existing claims; and
3. Creating a system infrastructure that would effectively process both ICD-9 and ICD-10 codes.

BWC successfully launched all relevant coding changes and system infrastructure modifications on Oct. 1, 2015.

Selected HPP Measurements

All dollar amounts are shown in 1,000s.

The figures below are limited to the HPP.

Table 4

Measurement	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Active employers (1)	229,765	228,144	227,619	227,487	227,370	225,466
Active claims (2)	245,634	311,315	326,264	316,935	306,268	294,326
FROI timing (3)	17.4	15.47	15.61	16.28	14.28	15.18
Percent of FROIs filed within seven days of date of injury (4)	74.47%	74.39%	74.40%	74.61%	75.94%	75.17%
Percent of claims determined within 14 days of filing date (5)	73.41%	66.82%	61.52%	57.88%	57.44%	55.02%
Bill timing (6)	79.21	78.1	79.92	86.28	73.21	74.39
LDOS–MCO	64.31	62.37	64.48	71.19	61.98	62.86
MCO–BWC	5.76	6.59	6.24	6.53	5.46	5.82
BWC–MCO	7.2	7.19	7.25	7.16	4.38	4.41
MCO–Provider	1.95	1.95	1.95	1.39	1.39	1.31
Total regular medical payments (7)	$774,939	$755,797	$724.395	$682,401	$640,525	$593,827
Payments for file reviews and IMEs (8)	$22,275	$20,507	$19,687	$18,930	$17,754	$17,569
MCO fees (9)	$165,187	$166,960	$168,403	$169,815	$169,581	$170,688
Total medical payments, plus MCO fees	$962,401	$943,265	$912,485	$871,147	$827,859	$782,084
Total indemnity payments (10)	$1,071,508	$1,039,299	$1,065,739	$1,062,656	$1,048,049	$1,019,954
Grand total (11)						
Benefits paid (Total regular medical payments, plus MCO fees, plus total indemnity payments)	$2,011,634	$1,962,056	$1,958,537	$1,914,872	$1,858,155	$1,784,469

(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 FY11 versus FY10.

(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.

(6) Average time, in calendar days, between the last date of service (LDOS) being billed to a check 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, updated in CY2014.

(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);

BWC made some payments after the end of the contract. For example, the agency made the balance of the CY2009 exceptional performance payment in February 2010.

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

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

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Division of Safety & Hygiene Financials

BWC's Division of Safety and Hygiene (DSH) budget appropriation for Fiscal Year 2015 (FY15) was approximately $21.7 million. This figure excludes safety grants, Bureau of Labor & Statistics (BLS) federal grant and Occupational Safety and Health Administration (OSHA) On-Site federal grant. Additionally, DSH appropriated $15 million for grants (safety intervention, workplace wellness and drug-free workplace training). Additional funding came from a federal BLS grant amounting to $116,919 and a federal OSHA On-Site grant amounting to about $1.7 million. The total premium assessment for DSH for FY15 was approximately $16 million. Table A provides FY15 premium assessments.

Table A: FY15 DSH premium assessments

Employer type	Assessments ($)
Private	$12,537,957
Public taxing districts	$1,898,722
Public state	$667,778
Self insured	$878,026
Total assessments	$15,982,483

As of June 30, 2015, DSH disbursements for safety services and programs amounted to about $20.7 million. These disbursements included $1.83 million in research grants to Ohio higher education institutions and training for firefighters. Grants disbursements amounted to approximately $15 million. Disbursements for the BLS and OSHA On-Site grants amounted to about $1.54 million. DSH safety services and programs include:

- Education and training services in 12 statewide locations;
- Eighty-two safety councils across Ohio;
- Ohio Safety Congress and Exposition;
- Safety grants;
- Specialized occupational safety and health, workers' compensation and rehabilitation library services;
- Field consulting services in occupational safety and health, industrial hygiene and ergonomics;
- Public Employment Risk Reduction Program (PERRP);
- Ohio Occupational Safety and Health Research Program;
- OSHA On-Site consultation program.

Table B provides general description of the DSH disbursements as of June 30, 2015.

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

Department	Safety admin	Field consul-tations	Outreach programs and ser-vices	Educa-tion and training services	Meetings and conventions (safety councils and congress)	Resource center	Technical advisors	OSHA state fund match (10%)	PERRP	Training over-head (extras)	BLS state fund match (50%)	Totals	Safety grants	BLS federal grant (50%)	OSHA federal grant (90%)	Totals including grants
10-Payroll	$279,549	$10,241,892	$584,024	$515,095	$374,776	$303,493	$858,182	$138,583	$804,159	$0	$94,136	**$14,193,889**	$0	$94,125	$1,247,152	**$15,535,166**
10-Overtime	$0	$485	$13	$3,654	$171	$0	$0	$4	$188	$0	$0	**$4,515**	$0	$0	$39	**$4,554**
13-Purchased services	$2,563	$1,085	$96,832	$418,174	$24,220	$0	$7,989	$784	$33,938	$0	$0	**$585,585**	$0	$0	$7,055	**$592,640**
15-Other personal services	$23,078	$1,950	$2,245	$2,525	$0	$2,279	$1,520	$427	$325	$1,482	$0	**$35,831**	$0	$0	$2,729	**$38, 560**
Total	**$305,190**	**$10,245,412**	**$683,114**	**$939,448**	**$399,167**	**$305,772**	**$867,691**	**$139,798**	**$838,610**	**$1,482**	**$94,136**	**$14,819,820**	**$0**	**$94,125**	**$1,256,975**	**$16,170,920**
20-Edible products	$0	$0	$0	$0	$49,996	$0	$0	$0	$0	$0	$0	**$49,996**	$0	$0	$0	**$49,996**
21-Supplies	$90,933	$17,088	$2,027	$16,328	$9,804	$108,687	$234,766	$1,619	$2,198	$0	$1,557	**$485,007**	$0	$1,557	$14,524	**$501,088**
22-Vehicle mainte-nance	$3,765	$77,354	$0	$1,615	$1,722	$0	$5,157	$1,217	$6,613	$0	$0	**$97,443**	$0	$0	$10,905	**$108,348**
23-Travel	$2,342	$53,212	$1,712	$7,888	$26,845	$262	$21,563	$1,478	$4,810	$0	$602	**$120,714**	$0	$602	$20,080	**$141,396**
24-Communications	$19,062	$0	$0	$0	$8,418	$21,438	$5,630	$486	$53	$0	$0	**$55,087**	$0	$0	$4,374	**$59,461**
24-IT Lic Commun	$7,989	$71,573	$1,365	$49,931	$1,733	$1,260	$3,268	$1,488	$7,291	$0	$334	**$146,232**	$0	$272	$10,016	**$156,520**
25-Fuel/Utilities	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	**$0**	$0	$0	$0	**$0**
26-Maintenance/ Repairs	$15,007	$50,940	$1,100	$43,533	$539	$266	$9,849	$1,077	$11,178	$0	$0	**$133,489**	$0	$0	$9,497	**$142,986**
27-Rentals	$499,762	$0	$0	$3,120	$218,605	$0	$0	$0	$0	$0	$0	**$721,487**	$0	$0	$0	**$721,487**
27-ISTV/Goods/ Srvs	$1,059,960	$21,086	$158	$74,644	$7,572	$2,178	$1,588	$301	$3,173	$0	$102	**$1,170,762**	$0	$298	$8,264	**$1,179,324**
28-Printing/ Adver-tising	$100,989	$0	$275	$25,397	$41,554	$608	$1,338	$0	$1,676	$0	$0	**$171,837**	$0	$0	$0	**$171,837**
29-General/ Other/ Subsidies	$826,900	$6,502	$0	$0	$1,361,600	$0	$0	$56	$483	$7,904	$0	**$2,203,445**	$14,959,527	$0	$475	**$17,163,447**
Total	**$2,626,709**	**$297,755**	**$6,637**	**$222,456**	**$1,728,388**	**$134,699**	**$283,159**	**$7,722**	**$37,475**	**$7,904**	**$2,595**	**$5,355,499**	**$14,959,527**	**$2,729**	**$78,135**	**$20,395,890**
30-Food Handling	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	**$0**	$0	$0	$0	**$0**
31-Office Equipment	$10,868	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	**$10,868**	$0	$0	$0	**$10,868**
32-Motor Vehicles	$157,353	$0	$0	$0	$0	$0	$0	$6,733	$0	$0	$0	**$164,086**	$0	$0	$60,596	**$224,682**
34-Commun Equip	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	**$0**	$0	$0	$0	**$0**
35-Med/Lab/ Therpeut	$27,975	$0	$0	$0	$0	$0	$0	$2,463	$0	$0	$0	**$30,438**	$0	$0	$22,170	**$52,608**
36-Educt'l/Recrt'l	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	**$0**	$0	$0	$0	**$0**
37-Data Proc Equip	$292,519	$0	$1,081	$0	$0	$0	$0	$1,810	$29,988	$0	$0	**$325,398**	$0	$0	$16,292	**$341,690**
38-Copy/Print Equip	$6,348	$0	$0	$0	$0	$2,869	$12,707	$1,624	$0	$0	$0	**$23,548**	$0	$0	$14,612	**$38,160**
39-Other Equip	$0	$0	$0	$0	$0	$0	$2,353	$371	$0	$0	$0	**$2,724**	$0	$0	$3,335	**$6,059**
Total	**$495,063**	**$0**	**$1,081**	**$0**	**$0**	**$2,869**	**$15,060**	**$13,001**	**$29,988**	**$0**	**$0**	**$557,062**	**$0**	**$0**	**$117,005**	**$674,067**
Grand Total	**$3,426,962**	**$10,543,167**	**$690,832**	**$1,161,904**	**$2,127,555**	**$443,340**	**$1,165,910**	**$160,521**	**$906,073**	**$9,386**	**$96,731**	**$20,732,381**	**$14,959,527**	**$96,854**	**$1,452,115**	**$37,240,877**

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 grant programs, on-site and field consulting safety services, PERRP, the OSHA On-Site Consultation Program and library services. Table C provides general statistics about the number of employers who benefited from these services in FY 15.

Education and training services

BWC's safety education and training services include classroom and Web-based safety courses. These include classes in industrial and construction safety, industrial hygiene, ergonomics, and risk and safety management. Course completions for classroom, Web-based and on-site training totaled 17,635 completions by 11,528 students, representing 6,924 employers. BWC offered 88 courses through 346 classes at 11 locations. Field staff conducted 40 additional on-site classes to 567 students representing 127 employers. BWC's learning management system offered 14 online courses, resulting in 9,622 completions by 6,361 students representing 4,294 employers.

Safety Council Program

Through monthly meetings, 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 8,300 Ohio employers. BWC co-sponsors 82 safety councils throughout the state, organized through chambers of commerce, trade and manufacturing associations, safety education providers and other local community organizations.

BWC provided $968,000 in subsidies toward the direct costs of these councils. In addition, BWC paid $9.1 million in premium rebates to employers who met the safety councils' enrollment, active participation and performance requirements. Beyond subsidies and rebates, BWC presented more than 5,300 awards through a structured program to recognize companies for their efforts in injury and accident prevention. Safety councils held 1,148 meetings during FY15.

In FY15, BWC introduced a health and wellness initiative requiring each safety council to incorporate health and wellness related topics into its program schedule. BWC provided additional funding of $350,000 to underwrite the costs of this effort. As a result, more than 230 safety council sponsored events featured topics related to improving one's health and the role employers play in supporting and encouraging wellness. Through this initiative several safety councils held health fairs in their respective local communities and provided free of charge health screenings for hundreds of Ohioans.

Table C: FY15 occupational safety and health services statistics by policy type.

Service type	Private employers	Public employers	State agencies	Self-insured	Marine fund	Black lung	Undetermined	Total
Training and education	6,317	367	21	206	0	0	13	6,924
Safety congress	2,009	247	35	288	1	0	4	2,584
Safety council	6,948	893	8	397	0	1	102	8,349
Safety grants*	503	164	0	0	0	0	0	667
Video library	904	106	11	85	0	0	2	1,108
Specialized field consulting - visit only	3,931	661	30	230	1	0	0	4,853
OSHA On-site	667	0	0	0	0	0	0	667
PERRP field consulting – visit only	10	164	12	7	0	0	0	193

* = 709 grants awarded to 667 employers.

Ohio Safety Congress & Expo

The annual Ohio Safety Congress & Expo continues to be the largest occupational safety and health state conference in the United States. This year's safety congress hosted a record number of participants, 6,688 individuals, representing 2,584 Ohio businesses. The free, three-day event offered general sessions, workshops, lectures, panel discussions, simulations and demonstrations. Additionally, the event featured an exposition marketplace, a safety innovations competition with cash awards for top contenders and a new track of educational sessions for physicians and health-care providers.

A record-setting 235 product and service providers participated in the exposition. They provided $269,210 in event revenue to BWC. These providers displayed the latest advances in safety and health training, equipment, technology and services. Local and national experts presented 204 general sessions, workshops and educational sessions.

Of those who attended safety congress, 96 percent indicated they were "completely satisfied" or "satisfied" with the event, and 87 percent indicated they will implement what they learned in their respective workplaces. Furthermore, 13 types of continuing education credits were available for professional development and professional certifications. These included certified medical education credit for physicians and health-care providers. In addition to servicing the training and education needs of Ohio's businesses and workforce, the event provided professional development for BWC employees. This reduced the funds needed to provide for such training through external sources.

Safety grant programs

The primary focus of BWC's safety grant 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 programs include the Safety Intervention Grants (SIG) Program, the Drug-Free Safety Program (DFSP), and the Workplace Wellness Grant Program (WWGP). In FY15, BWC awarded 709 grants totaling $14,959,527 to 667 employers.

Safety Intervention Grant Program

The SIG Program, now in its 16th year, provides financial assistance to employers to purchase equipment to make their workplaces safer. The program provides 3-to-1 matching funds, up to a maximum of $40,000 per employer eligibility cycle. The total payroll report for the last full policy year determines the eligibility cycle. Employers can only use funds toward the purchase or improvement of equipment to significantly reduce or eliminate the risk of injury. The program requires employers to evaluate their interventions and share their results with BWC.

In FY15, BWC awarded 539 SIG grants totaling $14,597,282 to 513 employers, compared to 515 SIG grants totaling $14,301,405 to 446 employers in FY14. This year, 85 percent of the awards went to employers with 200 or fewer employees. The majority of employers who participated in the program were in the manufacturing (22 percent), construction (18 percent) and service (17 percent) industry sectors.

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

Last year, 198 safety grant companies completed their one-year benefit/cost analysis reports. These companies reported $1,728,000 in annual productivity savings, $1,122,957 in annual claim cost savings and $974,649 in other savings (quality, absenteeism, etc.). The return on investment on the cost of the interventions based on this reported information is approximately two years.

Drug-Free Safety Program Grant

In FY15, BWC awarded 54 DFSP grants amounting to $57,045 to 50 employers. Commercial accounted for 24 percent and service accounted for 22 percent of the participating employers. Manufacturing and construction benefited from these grants as well. In comparison, in FY14, there were 159 grants amounting to $178,637 awarded to 144 employers.

Workplace Wellness Grant Program

Designed to assist Ohio employers with the development and implementation of workplace wellness programs, the WWGP is now in its third year. The goal of the program is to control the escalating cost of workers' compensation claims through addressing health risk factors. The WWGP's collateral goals are 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 policy. 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 and subsequent activities designed to address the results of the HRAs and biometric screenings. Participating employers receive grant funds after completing and providing BWC the aggregate results of the HRAs and biometric screenings of the participating employees.

During FY15, BWC approved 35 employers to participate in the WWGP, bringing the participating employers total to 305. BWC gave $305,200 to 116 employers in the program during FY15.

On-site and field consulting services

BWC's on-site and field consulting safety services includes the OSHA On-Site Consultation Program, PERRP, and specialized field consulting services in the areas of industrial safety, construction safety, ergonomics and industrial hygiene. BWC's on-site and field safety specialists work directly with employers on hazard and risk assessment and mitigation, safety-management system enhancements as well as the introduction of safety interventions in the workplace.

OSHA On-Site Consultation Program

The OSHA On-Site Consultation Program is 90-percent funded by a federal OSHA grant of $1,532,131 with BWC funding the remaining 10 percent ($165,177). The program provides highly specialized services to relatively small employers (fewer than 250 employees) in high hazard/risk private industries.

Program field consultants conducted 947 visits to workplaces throughout Ohio belonging to 667 employers with 166,556 employees. In addition, the program provided on-site safety training for 1,044 employees. BWC recognized one company as having an exemplary safety and health program in FY15. This company earned the Safety and Health Achievement Recognition Program (SHARP) designation. Twenty-nine employer sites are in the SHARP Program.

Public Employment Risk Reduction Program

Ohio legislation passed in 1992 requires the adoption and application of federal occupational safety and health standards to Ohio public employers and employees. The PERRP enforces adopted safety and health standards, as well as assisting the public sector workforce in creating safe and healthful workplaces.

During FY15, PERRP provided 557 compliance assistance service services and conducted 66 enforcement activities, including six fatality investigations.

Overall, PERRP compliance and enforcement specialists worked with 267 public employers. PERRP compliance assistance and enforcement inspections resulted in public employers voluntarily correcting more than 950 workplace hazards. This resulted in improved working conditions for Ohio public employees.

PERRP's outreach efforts concentrated on assisting public employers in the areas of mobile crane operator certification, use of the Ohio Manual of Uniform Traffic Control Devices to improve work zone safety, and safe tree felling and trimming operations. PERRP supported other DSH programs by assisting 63 public employers enrolled in the Industry-Specific Safety Program (ISSP) and provided enrolled employers with risk reduction services that qualified for 135 ISSP activity credits. PERRP also assisted public employers in attaining 11 safety intervention grants that resulted in improved working conditions for public employees.

Specialized field consulting safety services

Specialized consulting services provided through the BWC customer service offices help employers implement safety programs, identify hazards and apply remediation techniques. These field activities include thousands of noise measurements, air quality sampling, ergonomic surveys and safety audits in workplaces throughout Ohio. In FY15, BWC's field consultants made 14,412 visits to Ohio workplaces belonging to 4,853 employers to provide consulting services in industrial hygiene, industrial and construction safety and ergonomics.

Library services

The BWC library offers access to information, training materials and experienced librarians 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. Additionally, the library provides services on state-of-the-art developments in workers' compensation and rehabilitation.

Resources include:

- Safety codes and standards;
- Sample charts, forms, templates and written safety programs;
- Chemical safety information;
- Occupational disease and injury management;
- Research studies and statistics;
- Training resources.

Employers, local and state government, attorneys, health-care professionals, researchers, union members and students, as well as the public and BWC employees use the library services. The library's book collection is part of the statewide OHIOLINK library network.

The video library houses a video collection, which includes more than 800 workplace safety and health DVDs, 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. The video library has partnered with several online streaming video vendors, offering more than 150 titles in electronic format for Ohio employers. This year, the video library served 1,108 Ohio employers with 7,636 circulations of DVD and videotape training titles.

Technical advisors unit

BWC's technical advisors unit provides specialized technical support to BWC field consultants and field operations staff in the areas of occupational safety and health, ergonomics and industrial hygiene. The technical advisors also serve as subject matter experts in the development, maintenance and policy relative to the various BWC safety programs and services, including rebate programs such as the ISSP, DFSP, SIG Program and WWGP.

The unit assists the service offices with reviewing job applications, interviewing candidates and mentoring new safety, ergonomics and industrial hygiene field consultants. They also arrange professional development events and discipline-specific staff meetings, and lead special projects and safety initiatives.

This unit also maintains and updates the Ohio Administrative Code specific safety requirements codes. The unit revised and updated three major codes in FY15 including firefighting operations, construction, and workshops and factories. Additionally, the unit disseminates information on new advancements in safety research, consulting tools, standards and technology. Finally, the technical advisors provide technical support for the development and revision of the BWC safety services website, safety publications, training courses and presentation modules, and 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, maintenance and calibration of more than 2,000 measurement devices and tools used by DSH staff. Last year, the laboratory performed certified calibration of 640 devices, with estimated savings of approximately $111,270.

BWC industrial hygienists, working with an accredited external laboratory, coordinated 4,746 specialized tests of air quality samples to measure workers' exposures to a variety of chemicals at 623 Ohio workplaces.

Survey of Occupational Injuries and Illnesses (Bureau of Labor Statistics)

BWC renewed the cooperative agreement with the Federal Bureau of Labor Statistics (BLS) for the Survey of Occupational Injuries and Illnesses (SOII) for FY15. The survey is the only comprehensive measure of work-related injuries and illnesses in American workplaces. The agreement allows BWC to continue to administer the survey for Ohio. This federally mandated survey was developed as part of the Occupational Safety and Health Act of 1970. BLS provides 50 percent of the funding and BWC provides 50 percent. The survey provides information 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. BLS uses the information gathered through this report to generate state and national benchmarks for incidence of occupational injuries and illnesses. The report is a valuable research tool for the development of prevention policies and training toward improving safety standards in workplaces at both state and national levels.

The survey gathered data on occupational injuries and illnesses for the 2014 calendar year. BLS randomly selected 4,148 establishments (both private and public) as a representative sample for the entire Ohio workforce. The survey achieved a 96-percent response rate with more than 5,300 cases of occupational injuries and illnesses reported. This number includes a sampling of cases with job restriction and transfer and all recordable cases involving days away from work.

Of the total cases reported, BWC coded 99.7 percent of these using the Occupational Injury and Illness Classification System and the Standard Occupational Classification System for comparison and analysis. BLS and BWC will make comprehensive statistics and publishable data available to the public later this year. In preparation for FY16 survey cycle, BLS pre-notified 4,148 establishments of their inclusion in the SOII program. The FY16 survey will gather occupational injury and illness data for the 2015 calendar year.

Last year, the program successfully published the survey statistics available from the BLS survey for calendar year 2013 for Ohio. Results from the survey for the past two years have shown lower incidence rates of occupational injury and illness in Ohio in comparison to the nation and Ohio's neighboring states. To ensure accessibility of the survey data, BWC created a Web page for the program at www.bwc.ohio.gov. BWC updates the page with educational articles on safety and prevention using statistics available within the survey.

The department facilitated two educational presentations related to the SOII at the 2015 Ohio Safety Congress & Expo (OSC). The first presentation provided introductory information on the SOII, its significance and use. The second presentation provided information on injury and illness statistics in the Ohio health-care industry. In a continued effort to expand recognition in the safety industry and provide tools for safety professionals, BWC will offer these presentations and more at the upcoming 2016 OSC.

Research Activities and Initiatives

DSH administers the Ohio Occupational Safety and Health Research Program launched in FY15. The program is a competitive research program with an emphasis on maximizing the impact of research efforts in the areas of occupational safety and health on the overall safety, health, productivity and competitiveness of Ohio's workforce. The program, with minor modifications, is modeled after and similar to the National Institute for Occupational Safety and Health's (NIOSH) National Occupational Research Agenda.

The program provides funding for research projects up to $250,000 per project. The duration of each research project is limited to 12 to 24 months. The program is an open competition for researchers in Ohio's not-for-profit higher education institutions and research organizations. BWC funded nine projects from six institutions in FY 15. These included projects involving safe patient handling in nursing homes, prevention of assault of nursing staff, total worker health and fitness, fall prevention using wearable technology, safety and health risks for stored grain facilities, measuring the impact of safety and ergonomics with lean and six sigma, and ergonomic standards for pushing and pulling and torque tools.

In FY15, BWC and NIOSH collaborated on Innovative Methods for Measuring the Impact and Economic Return to Wellness Programs and their Integration with Occupational Safety and Health (OSH) programs.

The research project addresses research gaps in the area of health and wellness in the workplace by evaluating the WWGP and its impact on OSH programs. The specific aims of the project are as follows:

- Measure the effectiveness of wellness programs by comparing data from pre- and post-implementation of the effect of a wellness program on health risk appraisal scores, biometric data, absenteeism rates, turnover rates and health-care costs;
- Gain better understanding of the relationship between wellness programs and the frequency, severity and cost of injuries;
- Estimate the costs, savings and return on investment for wellness programs.

Ohio occupational fatalities for calendar years 2010 through July 2015

On the next page is an analysis of work-related injury fatalities reported to BWC during calendar years 2010 through July 2015. The focus is on fatalities that occurred in 2014, and does not include fatalities that were the result of occupational illnesses/diseases (OD).

At the time of this report, BWC had received reports of 90 work-related injury fatalities for calendar year 2014. Of those, 63 workers were injured and died on the day of injury, 19 workers were injured and died on days after the date of injury during 2014 and eight workers injured in previous years died in 2014. Additionally, there were 25 occupational disease-related fatalities in 2014.

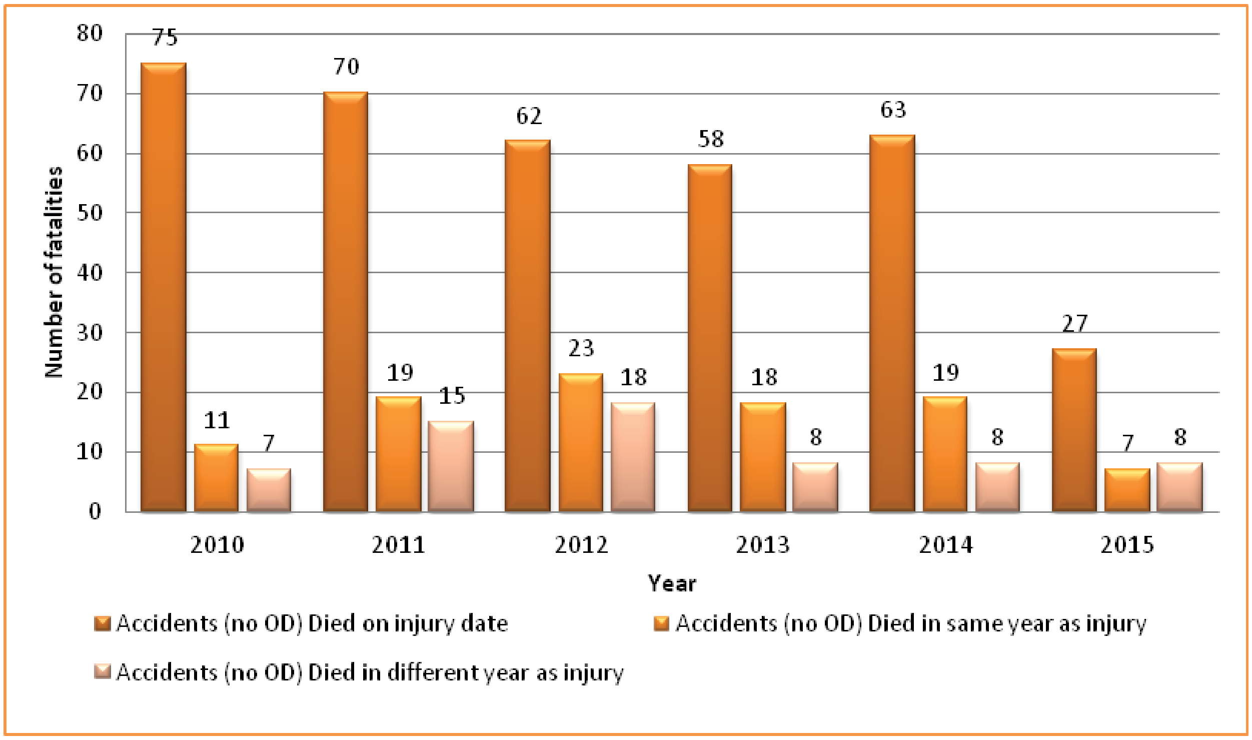

Figure 1: Ohio occupational injury fatalities (excluding occupational disease fatalities) from 2010 through July 2015.

Figure 1 provides a general overview of work-related fatalities in Ohio for calendar years 2010 through July 2015. For each year, the chart depicts the number of fatalities where the worker died on the date of injury, fatalities where the worker was injured and died on different dates during the same year and fatalities where the worker died in a later year than the year of injury.

Generally, occupational fatalities in Ohio have followed a downward trend during the past few years. However, there was an increase in workplace fatalities in 2014, which is consistent with the national trend. The majority of the fatalities were immediate with injury date and death date being the same.

A comparison between the fatality data for calendar years 2013 and 2014 includes the following observations:

- There were eight workplace violence fatalities in 2014 compared to four fatalities in 2013;
- There were 41 transportation-related fatalities in 2014 compared to 37 fatalities in 2013;
- There were 22 fatal falls in 2014 compared to 18 fatalities in 2013;
- There were five fatalities as a result of fire or flames in 2014 compared to two fatalities in 2013;
- There were six fatalities caused by being caught in, on or between a machine/machine parts or other mechanical apparatus in 2014 compared to five fatalities in 2013;
- There were three struck by fatalities in 2014 compared to 13 fatalities in 2013.

2014 fatalities according to source of injury/illness (causation)

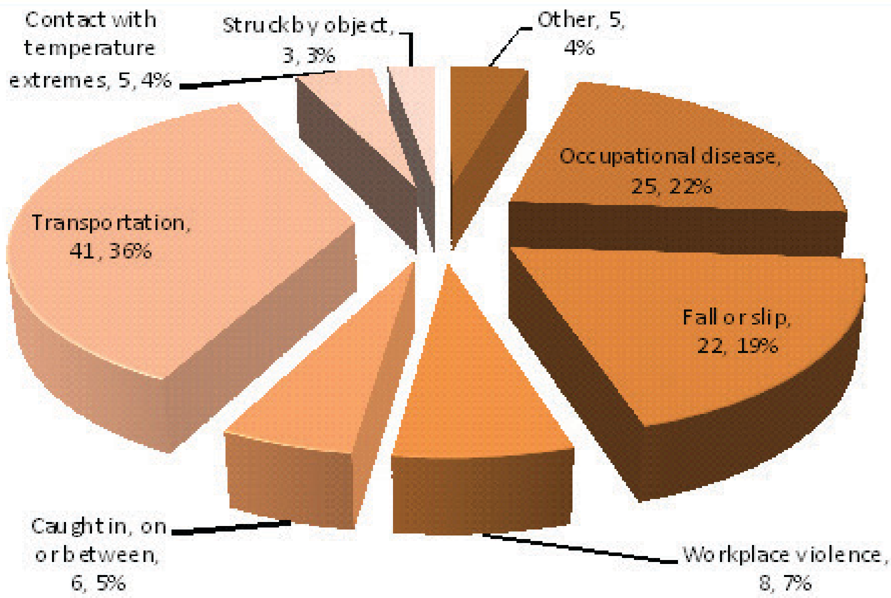

Figure 2: Calendar year 2014 fatalities by causation.

Figure 2 provides a summary of the primary causations for the fatalities reported to BWC for calendar year 2014. The chart depicts the number and percentage of fatalities for 2014 grouped by causation.

Transportation-related accidents were the leading cause of work-related fatalities in 2014, resulting in 41 deaths. Twenty-nine workers died in motor vehicle accidents as a driver or passenger. Accidents related to forklifts or construction equipment killed two workers. Eight workers died when struck by a vehicle while walking or working by the roadway. A train struck one worker and another worker died in a plane crash.

Occupational disease related fatalities increased from 19 in 2013 to 25 in 2014.

Compared to 2013, fatalities from slips and/or falls increased from 18 in 2013 to 22 in 2014, becoming the second leading cause of non-OD work-related fatalities. Other leading causes of fatalities in 2014 included being a victim of workplace violence (eight) and getting caught in or between machines or machine parts (six). There was a decrease in the struck by object fatalities, which decreased from 13 fatalities in 2013 to three fatalities in 2014.

The remaining coded causations for calendar year 2014 fatalities are as follows:

- Five workers died as a result of fires or flames;
- Two workers died as a result of contact with electrical current;
- Two workers died as a result of an explosion or flareback;
- One worker died as a result of a trench engulfment.

2014 fatalities according to industry sector

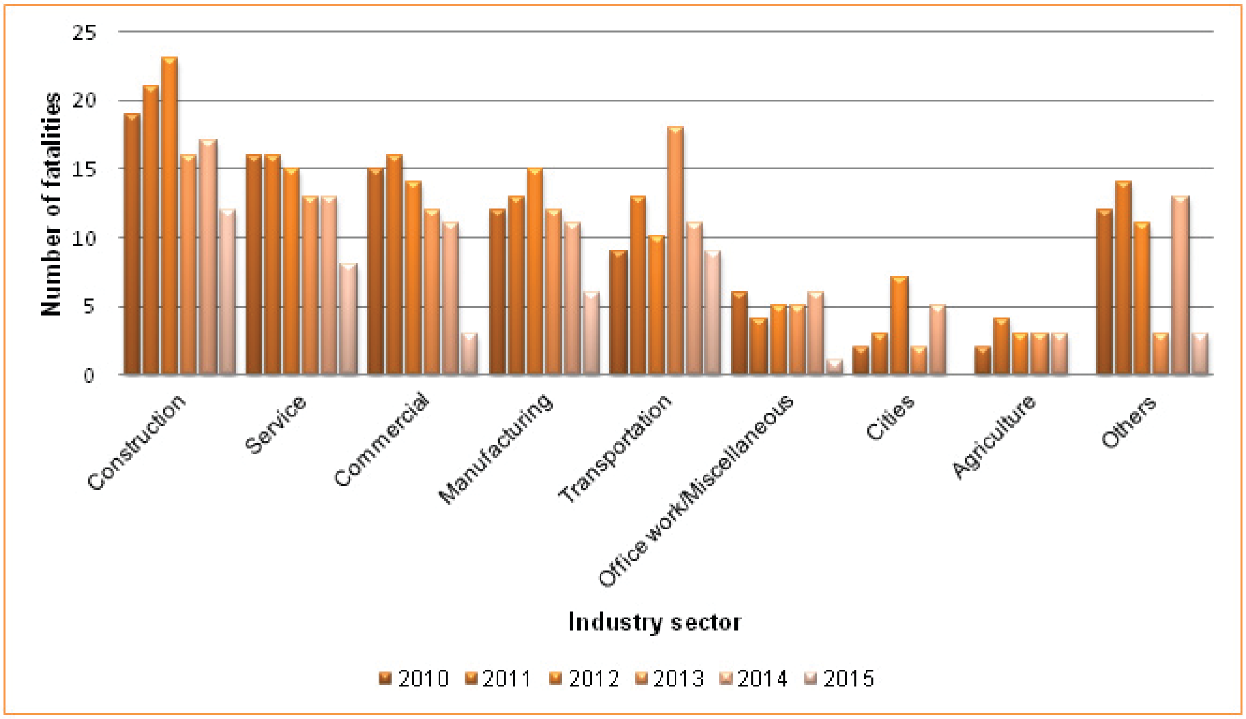

Figure 3: Fatalities by employer industry sector from 2010 through July 2015.

Figure 3 depicts the number of fatalities by industry sector from 2010 through July 2015. The industry sector with the most fatalities in 2014 was the construction sector with 17 fatalities, which is one more fatality than that sector had in 2013. The primary cause was falls.

The service industry sector had the second highest number of fatalities (13) in 2014. The leading causes of fatalities in the service industry were motor vehicle accidents and workplace violence.

The transportation, manufacturing and commercial industry sectors had the third highest number of fatalities in 2014 with 11 fatalities each. The transportation industry sector experienced a reduction in fatalities as compared to 2013, with 11 in 2014, compared to 18 in 2013.

The public employer industry sector experienced a 100 percent increase in fatalities as compared to 2013, from five in 2013 to 10 in 2014. The public employer sector includes state agencies, cities, counties, townships, schools and villages.

Market Value of BWC's Safety Services and Programs

Table D 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 D: Estimated market value of BWC's occupational safety and health services (FY15).

Employer type	Field consulting	Video library	Training	Safety congress	Safety grants	Library other	PERRP	On-Site	Total
Private (PA)	$8,584,199	$1,234,772	$1,932,335	$1,947,000	$10,675,109	$6,050	$21,285	$1,897,000	$26,297,750
Public taxing district (PEC)	$1,498,580	$170,910	$186,935	$301,950	$4,284,418	$596	$574,585		$7,017,974
Public state (PES)	$276,639	$72,584	$243,890	$495,550		$195,382	$100,171		$1,384,216
Self-insured	$1,174,827	$121,958	$252,225	$677,600		$1,696	$48,221		$2,276,527
Not defined	$949	$10,972	$34,595	$255,750		$6,596	$0		$308,862
TOTAL	$11,535,194	$1,611,196	$2,649,980	$3,677,850	$14,959,527	$210,320	$744,262	$1,897,000	$37,285,329

The estimates of the market value of DSH's services and programs described in Table D do not include the potential market values associated with grants for funding the Ohio Occupational Safety and Health Research Program and the Firefighter I training for volunteer firefighters.

Industrial Commission of Ohio Annual Report

Letter from the Chairman

The Ohio Industrial Commission (IC) greatly enhanced customer service in Fiscal Year 2015 (FY15). We did this without placing a greater financial strain on Ohio's workers' compensation ratepayers. The previous fiscal year has demonstrated our agency's dedication to executing innovative solutions while remaining a fiscally responsible government entity.

I am very proud that our agency delivered timely and fair workers' compensation rulings. We accomplished this while using advanced technologies, reforming procedures, simplifying hearing processes, improving customer service and eradicating unnecessary bureaucracy.

Fiscal and customer service highlights include:

- Reduced our portion of administrative rates charged to Ohio employers from $63.6 million in 2008 to $48.9 million in 2014, a reduction of 23 percent. Last year, we proposed new, lower administrative rates for three of four Ohio employer groups. The fourth employer group, while not realizing a reduction, remained stable with no rate increase;
- Renovated the Cleveland Regional Office to greatly increase the quality of the customer experience. The benefits of the new public space include bigger hearing rooms and lobby space with a larger seating area, additional workspace in the lobby for workers' compensation attorneys, direct access to the emergency exits, improved lobby and hearing room security with greater guard visibility and ADA-compliant restrooms on the same floor;
- Enhanced the quality of our hearing orders through excellent training and order review. Our 88 hearing officers, all of which are licensed attorneys, adjudicated more than 131,000 claims last year. Of these, only 88 advanced through a writ of mandamus to the Tenth District Court of Appeals;
- Remodeled the Columbus Hearing Room Lobby and Customer Service area for better traffic flow;
- Implemented technological changes to allow representatives to enter temporary concurrent hearing values via the Industrial Commission Online Network (ICON) to accommodate their staff vacation schedules;
- Created a program to allow workers' compensation representatives to view their hearing schedules on their smart phones;
- Conducted office security checks in each regional and district office to increase the safety of our customers.

These successes demonstrate our agency has created a culture of fiscal accountability and resourceful innovation. I am delighted to say we cut costs and improved services while remaining compliant with statutory mandates.

We're dedicated to instituting cost-effective solutions that have proven to enhance the workers' compensation appeals process while decreasing costs to Ohioans.

During the next fiscal year, the IC plans to continue our momentum by upgrading our technological systems while focusing on the assurance of quality decisions rendered in a timely manner. We'll do this while building on our legacy of fiscal prudence and exceptional customer service.

Sincerely,

Thomas H. Bainbridge
Chairman
Ohio Industrial Commission

About the IC

The IC conducts more than 130,000 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 the Ohio Bureau of Workers' Compensation (BWC) and self-insured employer decisions.

Since 1912, the IC has resolved issues between parties who have a dispute in a workers' compensation claim. With each claim, the agency strives to offer 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, Chairman Thomas H. Bainbridge represented the employees; Jodie M. Taylor represented employers; and Karen L. Gillmor represented the public.

FY15 highlights

In addition to the commissioners, there are 88 hearing officers — all attorneys — in five regional and seven district offices throughout the state.

In FY15, the IC heard 130,417 claims. District hearing officers (DHOs) heard 91,747 claims. Staff hearing officers (SHOs) heard 38,344 claims and the Commission heard 326 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 35 days.

Staff level (second level) hearing appeals averaged 34 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 39 days on average. For the staff level, it averaged 37 days.

The Industrial Commission Online Network (ICON) is the primary reason for our continued success because it has made it easy to file appeals online. There were 58,340 first-level motions and appeals filed on ICON this fiscal year. There were also 57,005 second level (or above) appeals filed on ICON during the fiscal year.

Customer service received and responded to 1,199 Ask IC submissions during this fiscal year. The department also scheduled 1,174 interpreters for injured worker hearings. In addition, our toll-free customer service line received 7,591 calls in FY15. Staff personally assisted 11,338 people at our Columbus office.

Commission Performance Highlights – FY 15

The IC heard approximately 130,417 claims during FY 2015 at all adjudicatory levels. IC workloads and performance are initiated by and heavily dependent upon the volume of new claims filed with BWC along with new motion and appeal filings. IC inventory volume is subject to volatile daily swings dependent on appeal filings, claim flows from BWC, docketing loads and other factors.

The total DHO volume accounts for 70 percent of overall hearings at 91,747 claims heard. Total SHO claims heard totaled 38,344 claims. Deputy venue claims heard totaled 126 in FY 2015, while the Commission venue recorded 200 claims heard.

Regionally, the distribution of FY 2015 claims heard at DHO and SHO hearing levels is as follows: Columbus – 29 percent; Cleveland – 27 percent; Cincinnati – 19 percent; Akron – 16 percent; Toledo – 9 percent.

The total claims heard figure is inclusive of continuances, referrals, dismissals and other final determinations made because of a hearing. The DHOs and SHOs conducted hearings on 247 days during FY15. In addition, they heard an average of 527 claims per day. DHOs averaged 371 claims heard per day, while SHOs averaged 155 claims heard per day.

Hearing time frame performance mandates and benchmarks have been set forth in House Bill (HB) 107 and HB 413 for the DHO, SHO, and Commission hearing venues. On average, all IC offices and venues performed within the statutory limits set forth that require the IC to hear a claim within 45 days of a motion or appeal filing. The overall IC performance benchmarks for Filing to Mailing for each hearing venue are 52 days. The IC bases this performance measure on the combination of the two statutory periods Filing to Hearing and Hearing to Mailing (45 + 7).

DHO Performance

DHOs conduct hearings on two formal docket types – Allowance (primarily injury allowance, compensation and treatment issues) and C-92 (permanent partial disability issues).

Only allowance dockets fall under period requirements outlined in HB107. DHOs heard a total of 72,312 allowance docket claims during FY 2015. Of those, 56,985 qualified for inclusion in time studies.

On average, the DHO process was completed within 39 days during FY 2015.

SHO Performance

SHOs conduct hearings on five formal docket types:

- Appeal (primarily injury allowance, compensation and treatment issues);
- Permanent total disability;
- Reconsideration (permanent partial disability issues);
- Violations of Specific Safety Requirements;
- Miscellaneous (other issues not designated to a pre-defined docket type).

Only appeal dockets fall under time frame requirements outlined in HB107.

SHOs heard a total of 32,028 appeal claims during FY 2015. Of those, 27,873 qualified for inclusion in time studies.

On average, the SHO process was completed within 37 days during FY 2015.

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, 2015 and 2014

and Independent Auditors' Report Thereon

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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, 2015, 2014, and 2013. BWC and IC are collectively referred to as BWC/IC. This information is based on BWC/IC's financial statements, which begin on Page 13.

Financial highlights

- BWC/IC's total assets at June 30, 2015 were $29.1 billion, a decrease of $1.3 billion or 4.2 percent compared to June 30, 2014.
- BWC/IC's total liabilities at June 30, 2015 were $19.8 billion, a decrease of $1.1 billion or 5.2 percent compared to June 30, 2014.
- BWC/IC's operating revenues for fiscal year 2015 were $2.0 billion, a decrease of $131 million or 6.3 percent compared to fiscal year 2014.
- BWC/IC's operating expenses for fiscal year 2015 were $1.5 billion, a decrease of $123 million or 7.5 percent from fiscal year 2014.
- BWC/IC had $1.0 billion in premium rebate expenses, $39 million in transition credit expenses and reduced the legal settlement expense by $23 million in fiscal year 2015.
- BWC's non-operating revenues for fiscal year 2015 were $510 million, compared to $3.0 billion for fiscal year 2014.
- BWC/IC's net position as of July 1, 2014 has been decreased by $122 million for the implementation of Governmental Accounting Standards Board (GASB) Statement Number 68, as amended by GASB Statement Number 71.
- BWC/IC's net position decreased by $70 million in fiscal year 2015, compared to a $2.7 billion increase in fiscal year 2014.

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.

Continued

- 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. The notes present information about accounting policies and disclose material risks, subsequent events, and contingent liabilities, if any, that may significantly impact BWC/IC's financial position.
- Supplemental Information – The financial statements include the following supplemental information schedules:
    - Required supplemental information that presents 10 years of BWC/IC's revenue and reserve development information;
    - Required supplemental information that presents BWC/IC's proportionate share of the Ohio Public Employees Retirement System (OPERS) net pension liability;
    - Required supplemental information that presents BWC/IC's contribution to OPERS based on statutory requirements; and
    - Optional supplemental schedules presenting the statement of net position and the statement of revenues, expenses and changes in net position for the individual accounts administered by BWC/IC.

Continued

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, 2015, 2014, and 2013, and for the years then ended were as follows (000's omitted):

	2015	2014	2013
Current assets	$ 1,597,941	$ 1,980,409	$ 2,935,812
Noncurrent assets	27,456,171	28,361,299	25,306,277
Total assets	$ 29,054,112	$ 30,341,708	$ 28,242,089
Deferred outflows of resources	$ 16,679	$ -	$ -
	$ 16,679	$ -	$ -
Current liabilities	$ 3,532,668	$ 3,867,108	$ 3,713,761
Noncurrent liabilities	16,267,360	17,014,387	17,749,251
Total liabilities	$ 19,800,028	$ 20,881,495	$ 21,463,012
Deferred inflows of resources	$ 2,431	$ -	$ -
	$ 2,431	$ -	$ -
Net investment in capital assets	$ 142,347	$ 125,998	$ 88,663
Unrestricted net position	9,125,985	9,334,215	6,690,414
Total net position	$ 9,268,332	$ 9,460,213	$ 6,779,077
Net premium and assessment income, including provision for uncollectibles	$ 1,954,174	$ 2,085,821	$ 1,492,389
Other income	8,413	8,141	11,723
Total operating revenues	$ 1,962,587	$ 2,093,962	$ 1,504,112
Workers' compensation benefits and compensation adjustment expenses	$ 1,394,939	$ 1,519,175	$ 1,491,515
Other expenses	118,372	117,277	120,741
Total operating expenses	$ 1,513,311	$ 1,636,452	$ 1,612,256
Transition credit expense	$ (38,781)	$ (1,229,000)	$ -
Premium rebate	(1,013,171)	(45)	(965,636)
Legal settlement / loss contingency	22,938	439,440	(859,440)
Operating transfers out	(425)	(425)	(6,365)
Net investment income	509,882	3,013,608	900,854
Gain on disposal of capital assets	71	48	69
(Decrease) increase in net position	$ (70,210)	$ 2,681,136	$ (1,038,662)
Prior period adjustment - pension	$ (121,671)	$ -	$ -

Continued

BWC/IC's net position decreased by $70 million during fiscal year 2015, compared to a $2.7 billion increase during fiscal year 2014.

- Premium and assessment income exceeded workers' compensation benefits and compensation adjustment expenses by $559 million in fiscal year 2015 and $567 million in fiscal year 2014.
- Over the past three 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 (the Board). 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 $45 thousand in fiscal year 2014 and $966 million in fiscal year 2013. An additional rebate to reduce the net position in SIF was approved by the Board on September 25, 2014. Private employers were granted a rebate equivalent to 60 percent of premiums for the July 1, 2012 through June 30, 2013 policy period, while public employer taxing districts were granted a rebate equivalent to 60 percent of premiums for the January 1, 2012 through December 31, 2012 period. This action resulted in premium rebate expense of just over $1 billion in fiscal year 2015.
- On April 23, 2014, the Board approved a transition credit of $1.2 billion for private and public taxing district employers to minimize the cash flow impacts of transitioning from collecting premiums in arrears (or after the coverage period) to prospective billing where premiums are collected in advance of the coverage period. The transition credit covers one hundred percent of private employer premiums for the January 1 through June 30, 2015 policy period and one sixth of the annual premiums for the policy year beginning July 1, 2015. Public taxing district employers will receive transition credits of 50 percent of annual premiums for each of the policy years beginning January 1, 2015 and 2016. The transition credit was reflected in the fiscal year 2014 financial statements when the Board committed funds for paying these premiums. An additional transition credit expense of $39 million was recorded in fiscal year 2015 based on the actual reporting of payroll and premiums by private employers for the January 1, 2015 through June 30, 2015 policy period.
- Premium and assessment income for fiscal year 2015 reflects a 6.3 percent reduction in the overall premium rates for the majority of Ohio's private employers and a 9.1 percent reduction for public employer taxing districts (PECs) for the policy period that began on January 1, 2015. PECs include cities, counties, townships, villages, schools, libraries, and special taxing districts.
- 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 2015, almost 45 percent of the employer population chose to Go Green, earning discounts of $4.4 million compared to $3.7 million in fiscal year 2014. 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 $6.1 million in fiscal year 2015 and $6.3 million in fiscal year 2014. Employers earned discounts of $3.6 million in fiscal year 2015 and

$3.8 million in fiscal year 2014 by completing requirements of the Industry-Specific Safety Program. Completing the requirements of the Transitional Work Bonus Program earned employers $5.7 million in fiscal year 2015 compared to $3.1 million in fiscal year 2014.

- Ohio has 82 safety councils that promote increased safety awareness in the workplace and educate businesses on occupational health, wellness, and safety issues. Employers meeting safety council participation eligibility requirements and performance goals for reducing either frequency or severity earned safety council bonuses of $9.2 million in fiscal year 2015 and $9.5 million in fiscal year 2014.

- BWC/IC has secured reinsurance as a risk management strategy to protect our assets in the event of a catastrophic event. Premium and assessment income has been reduced by $4.0 million in fiscal years 2015 and 2014 and $6.0 million in fiscal year 2013 for the accrual of the ceded reinsurance premiums.

- Workers' compensation benefits and compensation adjustment expenses were as follows in fiscal years 2015, 2014 and 2013:

($ in millions)	2015	2014	2013
Change in reserves for compensation and compensation adjustment expenses	$ (527)	$ (468)	$ (515)
Net benefit payments	1,551	1,626	1,649
Payments for compensation adjustment expenses	200	191	188
Managed Care Organization administrative payments	171	170	170
	$ 1,395	$ 1,519	$ 1,492

- The discounted liabilities for workers' compensation benefits and compensation adjustment expenses as of June 30, 2015 are $527 million lower than the June 30, 2014 discounted liabilities. These liabilities are discounted using an annual interest rate of 4.0 percent.

- SIF benefit payments for all accident years emerged $156 million or 9.5 percent lower than expected during fiscal year 2015. Approximately $100 million of the lower than expected paid development is associated with medical benefits, while indemnity benefits were $56 million lower than expected. During the past 15 years, annual payments have remained steady, ranging from a low of $1.5 billion in fiscal year 2015 to a high of $1.9 billion in fiscal year 2008. Fiscal year 2015 payments are lower than fiscal year 2014 payments and are the lowest annual payments during the last 15 fiscal years.

- The fiscal year 2013 loss contingency of $859 million resulting from the adverse decision issued by the Cuyahoga County Common Pleas Court awarding damages to the plaintiff class in the San Allen group rating litigation was reduced by $439 million when the parties agreed to a $420 million settlement during fiscal year 2014. In February 2015, settlement payments of $137.5 million were made to plaintiff attorneys for fees and litigation costs and $75 thousand for incentive compensation payments to the 6 named plaintiffs in the case. Payments of $255.7 million were made to the class members in June 2015. Payments of $1.6 million were made to the court appointed class administrator and special master during fiscal year 2015. BWC/IC expects that an additional $1.8 million will be paid to class members during fiscal year 2016. As a result of actual settlement payments made in fiscal year 2015 and those anticipated to be made during fiscal year 2016, legal settlement expenses were reduced by $23 million in fiscal year 2015.

Continued

- In fiscal year 2015, BWC/IC recorded net investment income of $510 million, compared to $3.0 billion in fiscal year 2014. The investment portfolio earned a net return of 2.2 percent, after management fees, during fiscal year 2015 compared to 13.4 percent in fiscal year 2014 and a return of 3.8 percent in fiscal year 2013.

- In September 2013, the Board approved the active management of all SIF intermediate duration fixed income assets. The Investment Policy Statement (IPS) was revised whereby the 15 percent allocation of SIF invested assets targeted to passive management of intermediate duration fixed income assets was eliminated. The active investment strategy approved by the Board is a Core Plus strategy allowing each active manager to manage a bond portfolio of securities that are mostly part of the broad Barclays U.S. Aggregate fixed income benchmark but permitting the investment in securities and sectors (including below investment-grade quality high yield bonds) that are not in the index. Approximately $2.9 billion was transitioned from the SIF passively managed intermediate duration fixed income portfolio to a transition account on March 9, 2015, resulting in realized capital gains of $90 million. The transfer of almost $3.0 billion in assets from the transition manager account to the four new Core Plus fixed income managers was accomplished on March 27, 2015 and produced additional net realized gains of $19.5 million.

- In August 2011, the Board 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, 2015, a total of $1.1 billion has been invested in eight core real estate funds. The June 30, 2015 carrying value of these core real estate funds is $1.4 billion or approximately $320 million above cost representing a percentage increase in value of 28.6 percent after fees and the reinvestment of all dividend income and capital distributions. Four value-added real estate funds, with commitments of $50 million in each fund, have been subscribed to, and are expected to be funded over a 3 to 4 year period. The total market value of investments in value-added real estate assets is $46.4 million at June 30, 2015. The value-added KTR III fund was unexpectedly involved in a buyout of all of its assets by an investment group that included one of its primary competitors. SIF received $33.4 million from the KTR fund in June 2015 representing all of its $21.4 million capital investment made to date plus appreciation of value. A net realized capital gain of $12 million was recorded in fiscal year 2015 as result of this event.

- The special obligation bonds issued in 2003, through the Ohio Building Authority (OBA) to refund the 1993 William Green Building Series A bonds were retired during fiscal year 2014. In 2015, the BWC now owns the William Green building.

- BWC/IC implemented the provisions of Governmental Accounting Standards Board (GASB) Statement Number 68, as amended by GASB Statement Number 71 related to the measurement and reporting of the annual costs and long-term obligations associated with the pension benefits provided to our employees. These new standards require BWC/IC to record a proportionate share of the net pension liability of OPERS. Pension expense is now based on the full cost of pension benefits being provided to an employee during the year that the employee is providing services to BWC/IC. The 14 percent of covered payroll that is required by statute to be funded each year is not impacted by the new GASB pronouncements.

Continued

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 10.8 percent for the July 1, 2015 policy year, producing estimated savings of $153 million for these employers. Private employer rate levels are 21.4 percent lower than rates in 2011 and are the lowest average rate levels in 38 years.
- A 9.0 percent rate reduction for public employer taxing district premiums for the January 1, 2016 policy year was approved by the Board on September 24, 2015, producing an estimated decrease in annual premiums of $17.7 million. Public employer taxing district rate levels are 26.5% lower than rates in 2011.
- Investments in safety create safer workplaces, prevent costly accidents and ultimately result in lower premiums for employers. The Safety Grant Program provides matching funds up to $40 thousand for employers to purchase equipment that will substantially reduce or eliminate injuries and illnesses. The program was expanded in fiscal year 2014 with $15 million in grants awarded to 535 employers. In fiscal year 2015, 709 grants totaling $15 million were awarded to employers for safety intervention, wellness, and drug-free programs. BWC has committed $15 million for each of the next two fiscal years (2016 and 2017) to continue these programs. BWC has invested approximately $2 million to fund nine advanced research projects from six Ohio universities to promote innovation in areas of workplace safety and health. Financial resources are also being committed to implement and fund safety programming as part of required training in high-risk specialties such as carpentry, welding, and plumbing. BWC will work with two-year universities and trade schools to include this safety training as part of the education provided to those looking to attain skilled labor positions. BWC/IC continues to invest in safety programs. Bureau of Labor Statistics study indicates Ohio's injury rate for private employers is 2.9 incidents per 100 workers compared to a national rate of 3.3 incidents per 100 workers.
- The annual actuarial unpaid loss and loss adjustment expense analysis includes a $5.1 billion discounted liability for unpaid medical costs, which represents 35.1 percent of the discounted liability for SIF unpaid claims. The cost of medical benefits is based on current prices for medical services and is not dependent on the year of injury like indemnity benefits. Therefore, the cost of future medical payments is dependent on future inflation and future utilization rates. The average annual medical cost increase per lost time private employer claim was 4.2 percent from 2003 through 2014. These trends show the need for BWC to remain focused on cost control and programs enabling injured workers to return to work in a timely manner. The sooner an injured worker gets healthy and returns to work, the more likely it is that there will be positive outcomes for the worker, 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.
- A pilot program began on July 1, 2015 to identify injured workers who are at risk for not receiving optimal outcomes in their claims. This pilot program will look for ways to identify injured workers who might be at risk due to pre-existing conditions that may adversely impact the ability of the injured worker to return to work in a timely manner. Incentives have been designed that will encourage the coordination of care among

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workers' compensation medical providers, primary care physicians, and managed care organizations.

- BWC/IC's pharmacy program manages drug utilization to ensure coverage for necessary medications to allow proper care for injured workers in a fiscally responsible manner. Since 2011, many operational changes have occurred to the pharmacy program, including the establishment of a closed formulary, limiting coverage of compound prescriptions, placement of 366 out 405 drug classes on a relatedness list, and requiring prior authorization for prescriptions in medical-only claims after 60 days. Since 2010, total drug costs have been lowered by more than $20 million with prescriptions for opiates down by 37 percent.

- 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 $60.5 million in savings for the State Insurance Fund after closing 1,514 cases during fiscal year 2015.

- The Board has approved an increase in the real estate allocation for the SIF investment portfolio to a targeted 12 percent asset allocation from the current 6 percent allocation with a matching reduction in total fixed income assets to 58 percent from the current 64 percent allocation. The increase in the real estate allocation consists of increasing the core real estate funds target allocation to 7.0 percent from 4.5 percent, the value-added real estate fund target to 2.0 percent from 1.5 percent, and the establishment of a 3.0 percent target allocation for the new core plus real estate fund asset class. Bid submissions are being evaluated and progress is being made to identify finalist core plus real estate funds for investment consideration by the Board's Investment Committee.

- 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 was scheduled to go into production in November 2014, but has been delayed because of quality concerns and the need to make changes to existing systems for the implementation of prospective billing and ICD-10. BWC/IC anticipates that PowerSuite will be implemented during calendar year 2016.

- Legislative approval was obtained for modernizing how premiums are collected in Ohio by moving to a prospective payment system. This switch resulted in rate reductions of 2 percent for private employers and 4 percent for public taxing district employers since premiums will be collected sooner. The switch to prospective billing also allows employers more flexible payment options. Private employers transitioned to prospective billing on July 1, 2015, while public employer taxing districts will transition on January 1, 2016.

- 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 three years, primarily as a result of excess investment

Continued

returns and lower than expected claims costs, the net position has increased to the point these ratios are no longer within the guidelines established by the policy. These net position excesses have enabled the Board to approve a $966 million cash rebate in fiscal year 2013 and a $1.2 billion transition credit, in conjunction with the move to a prospective billing system, in fiscal year 2014. In September 2014, the Board approved an additional cash rebate which returned over $1 billion to private and public taxing district employers in October and November 2014. While these rebates and transition credits did not immediately bring the ratios to within the policy guideline ranges, BWC is following this more conservative approach until a more comprehensive study can be completed regarding the risks associated with BWC's estimated reserves for compensation and compensation adjustment expenses and potentially the correlation of this risk with the investment risk. BWC/IC anticipates that an economic capital modeling project will be completed during fiscal year 2016. These are the funding and net leverage ratios for the fiscal years ended June 30, 2015, 2014, 2013 and 2012:

	2015	2014	2013	2012	Guideline
Funding Ratio	1.58	1.57	1.39	1.47	1.15 to 1.35
Net Leverage Ratio	1.98	2.02	2.93	2.47	3.0 to 7.0

- House Bill 52 of the 131st General Assembly amended Ohio Revised Code (ORC) 4123.411 allowing the Administrator discretionary authority to levy assessments to fund DWRF I benefits. ORC 4123.419 was also amended to allow the Administrator with the advice and consent of the Board of Directors the authority to transfer investment income from the SIF to cover the cost of the DWRF I benefits for private and public taxing district employers rather than levying assessments against these employers. BWC management will be recommending that the Board of Directors approve the use of SIF investment earnings to provide funding to pay DWRF I cost of living benefits for private and public taxing district employer claims. Upon approval of this recommendation in fiscal year 2016, a liability of $582 million will be recorded in SIF to recognize the long-term commitment to use SIF investment earnings to fund DWRF I benefits for private and public taxing district employer claims. A receivable will be recorded in DWRF to recognize the long-term commitment from SIF to cover these benefits. This receivable will replace unbilled receivables of $582 million previously recorded in DWRF that recognized the ability to assess private and public taxing district employers in the future to provide funds needed to pay DWRF I benefits. The net impact of these changes will be a $582 million decrease to the net position during fiscal year 2016.

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), as of and for the years ended June 30, 2015 and 2014, 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.

Auditors' 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 financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance that 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the BWC/IC, as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include Management's discussion and analysis, supplemental revenue and reserve development information, the schedule of proportionate share of the net pension liability (asset), and the schedule of employer contributions and contributions subsequent to measurement date, on Pages 1-9, 45-46, 47 and 48, respectively, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries to 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 no provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and 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, 2015, 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 to opine on the BWC/IC's financial statements taken as a whole.

The supplemental schedule of net position and schedule of revenues, expenses and changes in net position are managements' responsibility, and derives from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected the supplemental schedule of net position and schedule of revenues, expenses and changes in net position to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the supplemental schedule of net position and schedule of revenues, expenses and changes in net position directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, these supplemental schedules of net position and schedule of revenues, expenses and changes in net position are fairly stated in all material respects in relation to the basic financial statements taken 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, 2015, 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, 2015

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

STATEMENTS OF NET POSITION

June 30, 2015 and 2014

(000's omitted)

	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$796,803	$563,253
Collateral on loaned securities (Note 2)	2,250	2,747
Premiums in course of collection	49,648	762,678
Assessments in course of collection	20,482	172,817
Accounts receivable, net of allowance for uncollectibles of $1,158,399 in 2015; $1,132,826 in 2014	105,985	110,880
Investment trade receivables	486,154	217,563
Accrued investment income	134,504	142,937
Other current assets	2,115	7,534
Total current assets	1,597,941	1,980,409
Noncurrent assets:		
Fixed maturities, at fair value (Note 2)	14,278,096	15,034,289
Domestic equity securities, at fair value - common stock (Note 2)	5,669,220	6,060,409
Domestic equity securities, at fair value - preferred stock (Note 2)	1,198	1,207
Non-U.S equity securities, at fair value - common stock (Note 2)	2,480,758	2,620,019
Investments in real estate funds (Note 2)	1,481,070	1,187,975
Unbilled premiums receivable	3,188,200	3,079,480
Retrospective premiums receivable	215,057	251,922
Capital assets (Note 3)	142,347	125,998
Net pension asset (Note 8)	225	-
Total noncurrent assets	27,456,171	28,361,299
Total assets	$ 29,054,112	$ 30,341,708
DEFERRED OUTFLOW OF RESOURCES (Note 8)	16,679	-
Total assets and deferred outflow of resources	$ 29,070,791	$ 30,341,708

	2015	2014
LIABILITIES		
Current liabilities:		
Reserve for compensation (Note 4)	$ 1,752,249	$ 1,826,129
Reserve for compensation adjustment expenses (Note 4)	379,156	388,893
Transition credit liability (Note 11)	351,902	831,000
Legal settlement (Note 10)	2,368	420,000
Premium payment security deposits (Note 5)	86,088	-
Warrants payable	278,363	24,396
Investment trade payables	637,652	337,625
Accounts payable	21,226	14,109
Obligations under securities lending (Note 2)	2,250	2,747
Other current liabilities (Note 5)	21,414	22,209
Total current liabilities	3,532,668	3,867,108
Noncurrent liabilities:		
Reserve for compensation (Note 4)	14,637,151	15,042,071
Reserve for compensation adjustment expenses (Note 4)	1,426,448	1,464,607
Transition credit liability (Note 11)	46,000	398,000
Net pension liability (Note 8)	134,479	-
Premium payment security deposits (Note 5)	-	86,481
Other noncurrent liabilities (Note 5)	23,282	23,228
Total noncurrent liabilities	16,267,360	17,014,387
Total liabilities	$ 19,800,028	$ 20,881,495
DEFERRED INFLOW OF RESOURCES (Note 8)	2,431	-
Total liabilities and deferred inflow of resources	$ 19,802,459	$ 20,881,495
NET POSITION		
Net investment in capital assets	142,347	125,998
Unrestricted net position	9,125,985	9,334,215
Total net position (Note 13)	$ 9,268,332	$ 9,460,213

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, 2015 and 2014

(000's omitted)

	2015	**2014**
Operating revenues:		
Premium and assessment income net of ceded premium (Note 6)	$1,993,706	$ 2,142,549
Provision for uncollectibles	(39,532)	(56,728)
Other income	8,413	8,141
Total operating revenues	1,962,587	2,093,962
Operating expenses:		
Workers' compensation benefits (Note 4)	1,071,689	1,190,341
Compensation adjustment expenses (Note 4)	323,250	328,834
Personal services	61,606	64,157
Other administrative expenses	56,766	53,120
Total operating expenses	1,513,311	1,636,452
Net operating income before transition credits, premium rebates and legal settlement	449,276	457,510
Transition credit expense (Note 11)	38,781	1,229,000
Premium rebate (Note 7)	1,013,171	45
Legal settlement (Note 10)	(22,938)	(439,440)
Total transition credits, premium rebates and legal settlement	1,029,014	789,605
Net operating loss	(579,738)	(332,095)
Non-operating revenues:		
Net investment income (Note 2)	509,882	3,013,608
Gain on disposal of capital assets	71	48
Total non-operating revenues	509,953	3,013,656
Net transfers out	(425)	(425)
(Decrease) increase in net position	(70,210)	2,681,136
Net position, beginning of year	9,460,213	6,779,077
Prior period adjustment (Note 8)	(121,671)	-
Net position, end of year	$ 9,268,332	$ 9,460,213

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, 2015 and 2014

(000's omitted)

	2015	2014
Cash flows from operating activities:		
Cash receipts from premiums and assessments net of reinsurance	$ 2,041,203	$ 2,117,977
Cash receipts - other	36,652	37,932
Cash disbursements for claims	(1,773,525)	(1,855,158)
Cash disbursements to employees for services	(189,767)	(196,793)
Cash disbursements for other operating expenses	(90,224)	(80,793)
Cash disbursements for employer refunds	(1,310,018)	(1,105,218)
Net cash used for operating activities	(1,285,679)	(1,082,053)
Cash flows from noncapital financing activities:		
Operating transfers out	(425)	(425)
Net cash used by noncapital financing activities	(425)	(425)
Cash flows from capital and related financing activities:		
Purchase of capital assets, net of retirements	(25,139)	(30,623)
Principal and interest payments on bonds	-	(15,941)
Net cash used in capital and related financing activities	(25,139)	(46,564)
Cash flows from investing activities:		
Investments sold	18,697,992	22,497,355
Investments purchased	(17,766,017)	(22,334,098)
Interest and dividends received	655,585	696,201
Investment expenses	(42,767)	(28,625)
Net cash provided by investing activities	1,544,793	830,833
Net increase (decrease) in cash and cash equivalents	233,550	(298,209)
Cash and cash equivalents, beginning of year	563,253	861,462
Cash and cash equivalents, end of year	$ 796,803	$ 563,253

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, 2015 and 2014

(000's omitted)

	2015	2014
Reconciliation of net operating loss to net cash used for operating activities:		
Net operating loss	$ (579,738)	$ (332,095)
Adjustments to reconcile net operating loss to net cash used for operating activities:		
Provision for uncollectible accounts	39,532	56,728
Depreciation	8,861	8,745
Amortization of discount and issuance costs on bonds payable	-	519
Transition credit liability	(831,098)	1,229,000
Pension	(1,665)	-
Legal settlement	-	(439,440)
(Increases) decreases in assets and increases (decreases) in liabilities:		
Premiums and assessments in course of collection	865,365	(21,719)
Unbilled premiums receivable	(108,720)	(187,659)
Accounts receivable	(34,637)	(32,776)
Retrospective premiums receivable	36,865	43,633
Other assets	5,418	(163)
Reserves for compensation and compensation adjustment expenses	(526,696)	(468,357)
Legal settlement	(417,632)	-
Premium payment security deposits	(393)	(5)
Warrants payable	253,966	(260,424)
Accounts payable	7,117	4,488
Premium rebate payable	-	(683,504)
Other liabilities	(2,224)	976
Net cash used for operating activities	$ (1,285,679)	$ (1,082,053)

Noncash investing, capital, and financing activities

	2015	2014
Change in fair values of investments	$ (93,020)	$ 2,348,938

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) with the advice and consent of the senate and nominating committee appoints the BWC Administrator, the three members of the IC, and the 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 as applicable to government organizations. 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.

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)

Continued

Description of the Accounts

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, transition credits, 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. 72, "Fair Value Measurement and Application" (effective fiscal year 2016)
- GASB No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB statements 67 and 68" (effective fiscal year 2017)
- GASB No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" (effective fiscal year 2018)
- GASB No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments" (effective fiscal year 2016)

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.

Continued

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, bond mutual funds and collateral on securities lending.

Investments are reported at fair value, which is the amount reasonably expected to be received for an investment in a current sale between a willing buyer and a willing seller. Fixed income securities, domestic securities, and bond mutual funds are valued based on published market prices and quotations from national security exchanges and securities pricing services. 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.

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. Legislative approval was obtained for modernizing how premiums are collected in Ohio by moving to a prospective payment system starting with fiscal year 2016. Private employers transitioned to prospective billing on July 1, 2015, while public employer taxing districts will transition on January 1, 2016. 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.

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 credit. The group experience rating plan allows employers that operate similar businesses to group together to potentially achieve lower premium rates than they could individually.

Continued

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 14) 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. Legislative approval was obtained for modernizing how assessments are collected in Ohio by moving to a prospective payment system starting with fiscal year 2016. Private employers transitioned to prospective billing on July 1, 2015 while public employer taxing districts will transition on January 1, 2016. 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.

Continued

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 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, 2015 and 2014 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

Continued

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 6).

Income Taxes

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

Net Pension Liability, Net Pension Asset, Deferred Outflows and Inflows of Resources

In accordance with GASB Statement No. 68, a net pension liability, net pension asset, and deferred outflows and inflows of resources for pension were recorded in 2015. BWC/IC is required to record BWC/IC's proportionate share of Ohio Public Employee's Retirement System's (OPERS) net pension liability and disclose additional information in the footnotes and required supplementary information sections of our annual report.

Use of Estimates

In preparing the financial statements, management and BWC/IC's pension plan are 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.

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, 2015 and 2014, the carrying amount of BWC/IC's cash deposits were $20.6 million and $10.5 million, respectively, and the bank balances were $12.4 million and $5.8 million, respectively. Of the June 30, 2015 and 2014 bank balances, $250 thousand were insured by the FDIC. The remaining cash balance on deposit with the bank was collateralized by pledges held by the trustee of either a surety bond or securities with a market value of at least 100 percent or 102 percent, respectively, of the total value of the public monies that are on deposit at the financial institution and was not exposed to custodial credit risk. Any pledged securities are held by the Federal Reserve, the Federal Home Loan Bank, or an insured financial institution serving as agent of the Treasurer of the State of Ohio.

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that, in the event of a failure of a counter-party to a transaction, BWC/IC will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. BWC/IC's investments are not exposed to custodial credit risk 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, 2015 and 2014 is presented below (000's omitted):

	2015 Fair Value	2014 Fair Value
Fixed maturities		
U.S. corporate bonds	$ 5,193,347	$ 5,151,891
U.S. treasury inflation protected securities	2,695,040	2,801,188
U.S. government obligations	1,677,093	2,442,096
Non-U.S. corporate bonds	1,252,518	1,258,157
Commingled U.S. aggregate indexed fixed income	660,718	648,679
Commingled U.S. treasury inflation protected securities	654,957	666,599
U.S. state and local government agencies	544,152	641,684
U.S. government agency mortgages	492,498	621,482
Asset backed securities	275,136	10,696
Commercial mortgage backed securities	242,596	54,875
U.S. government agency bonds	206,777	190,408
Non-U.S. government and agency bonds	192,694	391,473
Bank loans	60,484	27,498
Commingled U.S. intermediate duration fixed income	53,389	51,100
Preferred securities	48,744	27,085
Bond mutual fund	25,263	-
Supranational issues	2,690	49,378
Total fixed maturities	14,278,096	15,034,289
Domestic equity securities - common stocks	5,669,220	6,060,409
Domestic equity securities - preferred stocks	1,198	1,207
Commingled Non-US equity securities - common stocks	2,480,758	2,620,019
Commingled investments in real estate	1,481,070	1,187,975
Securities lending short-term collateral	2,250	2,747
Cash and cash equivalents		
Cash	20,585	10,548
Repurchase agreements	3,000	-
Short-term money market fund	773,218	552,705
Total cash and cash equivalents	796,803	563,253
	$ 24,709,395	$ 25,469,899

Net investment income for the years ended June 30, 2015 and 2014 is summarized as follows (000's omitted):

	2015	2014
Fixed maturities	$ 482,060	$ 547,706
Equity securities	107,633	103,356
Real estate	57,391	46,827
Cash equivalents	67	56
	647,151	697,945
Increase in fair value of investments	(93,020)	2,348,938
Investment expenses	(44,249)	(33,275)
	$ 509,882	$ 3,013,608

As of September 25, 2015, the market value of the investment portfolio has decreased approximately 2%.

Continued

Real Estate Investments

BWC/IC invests 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, 2015 and 2014, the real estate funds have unfunded investment commitments of $306 million and $276 million, respectively.

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

Overnight repurchase agreements are considered cash and cash equivalents. 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, 2015 and 2014, the Ohio BWC held $3 million and zero, 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 fixed-income portfolio be invested with duration characteristics that are within a range consistent with Barclays Fixed Income Index ranges.

Continued

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, 2015 and 2014, the effective duration of BWC's fixed-income portfolio is as follows (000's omitted):

	June 30, 2015		June 30, 2014	
Investment Type	Fair Value	Effective Duration	Fair Value	Effective Duration
Supranational issues	$ 2,690	15.86	$ 49,378	4.07
U.S. government obligations	1,677,093	14.08	2,442,096	11.06
U.S. state and local government agencies	544,152	13.03	641,684	13.25
Non-U.S. government and agency bonds	192,694	12.31	391,473	11.51
U.S. corporate bonds	5,193,347	12.03	5,151,891	12.64
Non-U.S. corporate bonds	1,252,518	10.34	1,258,157	11.85
U.S. treasury inflationary protected securities	2,695,040	7.81	2,801,188	7.71
Commingled U.S. treasury inflationary protected securities	654,957	7.81	666,599	7.71
Commingled U.S. aggregate indexed fixed income	660,718	5.64	648,679	5.60
U.S. government agency bonds	206,777	5.34	190,408	7.21
Preferred securities	48,744	4.82	27,085	6.73
U.S. government agency mortgages	492,498	4.16	621,482	3.82
Commercial mortgage backed securities	242,596	4.12	54,875	3.29
Commingled U.S. intermediate duration fixed income	53,389	3.95	51,100	3.90
Asset backed securities	275,136	0.97	10,696	3.70
Bank loans	60,484	0.79	27,498	1.17
Bond mutual fund	25,263	0.60	-	0.00
Total fixed maturities	$ 14,278,096		$ 15,034,289	

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. In fiscal year 2012, 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. treasury inflation protected securities, and Commingled U.S. treasury inflation protected securities are all rated AA+ by Standard and Poor's in fiscal years 2015 and 2014. 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). Fixed maturities held in commingled bond funds in the custody of State Street were $1.4 billion at June 30, 2015 and 2014. At June 30, 2015 and 2014, investments in open-ended bond mutual funds were $25.3 million and zero, respectively, and

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investments in bank loans were $60.5 million and $27.5 million, respectively, and were not held by the custodian. The remaining balance presented as of June 30, 2015 was held by the custodian on behalf of BWC/IC.

Quality Rating	2015 Fair Value	2014 Fair Value
Credit risk debt quality		
AAA	$ 383,409	$ 245,046
AA	1,690,939	1,710,863
A	2,299,931	2,741,317
BBB	3,530,343	3,432,820
BB	499,353	171,209
B	133,070	11,261
CCC	14,686	-
Total credit risk debt securities	8,551,731	8,312,516
U.S. government agency bonds		
AAA	23,559	5,492
AA	183,218	184,916
Total U.S. government agency bonds	206,777	190,408
U.S. government agency mortgages		
AAA	28,463	-
AA	464,035	621,482
Total U.S. government agency mortgages	492,498	621,482
U.S. government obligations (AA)	1,677,093	2,442,096
U.S. treasury inflation protected securities (AA)	2,695,040	2,801,188
Commingled U.S. treasury inflation protected securities (AA)	654,957	666,599
Total fixed maturities	$ 14,278,096	$ 15,034,289

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 2015 and 2014, 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, 2015 and 2014 is as follows (000's omitted):

Currency	2015 Fair Value	2014 Fair Value
Australian Dollar	$ 121,250	$ 142,792
Brazilian Real	40,663	60,074
British Pound	367,200	400,594
Canadian Dollar	163,995	196,155
Chilean Peso	6,586	8,384
Chinese Renminbi	503	424
Colombian Peso	3,164	5,725
Czech Koruna	959	1,330
Danish Krone	29,414	27,583
Egyptian Pound	1,098	1,086
Euro	531,152	580,280
Hong Kong Dollar	191,038	153,243
Hungarian Forint	1,135	1,236
Indian Rupee	41,331	37,773
Indonesian Rupiah	12,557	13,600
Israeli Shekel	10,609	9,665
Japanese Yen	402,618	373,451
Malaysian Ringgit	17,073	21,442
Mexican Peso	24,328	28,284
New Zealand Dollar	2,266	2,540
Norwegian Krone	11,231	16,180
Philippines Peso	7,312	5,435
Polish Zloty	7,879	9,167
Qatari Rial	5,139	2,209
Russian Ruble	10,003	23,765
Singapore Dollar	25,079	26,247
South African Rand	42,594	41,413
South Korean Won	77,341	85,877
Swedish Krona	51,598	56,124
Swiss Franc	162,383	167,054
Taiwan Dollar	68,239	67,083
Thailand Baht	12,232	12,128
Turkish Lira	7,827	9,358
United Arab Emirates Dirham	3,992	2,623
Exposure to foreign currency risk	2,461,788	2,590,324
United States Dollar	18,970	29,695
Total international securities	$ 2,480,758	$ 2,620,019

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Securities Lending

At June 30, 2015 and 2014, BWC/IC had no securities out on loan. BWC/IC has been allocated with cash collateral of $2.3 million in 2015 and $2.7 million in 2014 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, 2015 and 2014 are summarized as follows (000's omitted):

	Balance at 6/30/2013	Increases	Decreases	Balance at 6/30/2014	Increases	Decreases	Balance at 6/30/2015
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	59	-	205,830
Building improvements	3,542	-	-	3,542	-	-	3,542
Furniture and equipment	30,042	284	(404)	29,922	2,617	(4,757)	27,782
Land improvements	66	-	-	66	-	-	66
Subtotal	239,421	284	(404)	239,301	2,676	(4,757)	237,220
Accumulated depreciation							
Buildings	(152,173)	(6,787)	-	(158,960)	(6,786)	-	(165,746)
Building improvements	(398)	(177)	-	(575)	(178)	-	(753)
Furniture and equipment	(25,427)	(1,780)	390	(26,817)	(1,896)	4,733	(23,980)
Land improvements	(58)	(1)	-	(59)	(1)	-	(60)
Subtotal	(178,056)	(8,745)	390	(186,411)	(8,861)	4,733	(190,539)
Capital assets							
Intangible assets - definite useful lives	30,713	30,401	-	61,114	22,558	-	83,672
Subtotal	30,713	30,401	-	61,114	22,558	-	83,672
Net capital assets	$ 104,072	$ 21,940	$ (14)	$ 125,998	$ 16,373	$ (24)	$ 142,347

BWC has not started amortizing the intangible assets yet because the internally generated software project has not been placed in to service as of June 30, 2015. BWC/IC anticipates this asset will be placed in service during calendar year 2016.

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, 2015 and 2014. A decrease in the discount rate to 3.0% would result in the reserves for compensation and compensation adjustment expenses increasing to $20.3 billion at June 30, 2015, while an increase in the rate to 5.0% would result in the reserves for compensation and compensation adjustment expenses decreasing to $16.5 billion. The undiscounted reserves for compensation and

Continued

compensation adjustment expenses were $30.7 billion at June 30, 2015 and $31.7 billion at June 30, 2014.

The changes in the reserves for compensation and compensation adjustment expenses for the years ended June 30, 2015 and 2014 are summarized as follows (000's omitted):

	2015	2014
Reserves for compensation and compensation adjustment expenses, beginning of period	$ 18,722	$ 19,190
Incurred:		
Provision for insured events of current period	1,853	1,854
Net decrease in provision for insured events of prior periods net of discount accretion of $749 in 2015 and $768 in 2014.	(458)	(338)
Total incurred	1,395	1,516
Payments:		
Compensation and compensation adjustment expenses attributable to insured events of current period	331	337
Compensation and compensation adjustment expenses attributable to insured events of prior period	1,591	1,647
Total payments	1,922	1,984
Reserves for compensation and compensation adjustment expenses, end of period	$ 18,195	$ 18,722

5. 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, 2015 and 2014 is summarized as follows (000's omitted):

	Balance at 6/30/2013	Increases	Decreases	Balance at 6/30/2014	Due Within One Year
Transition credit payable	$ -	$ 1,229,000	$ -	$ 1,229,000	$ 831,000
Contingent liabilities	859,440	-	(439,440)	420,000	420,000
Premium payment security deposits	86,486	1,350	(1,355)	86,481	-
Bonds payable	15,422	1,238	(16,660)	-	-
Other liabilities	39,810	82,401	(76,774)	45,437	22,209
	$ 1,001,158	$ 1,313,989	$ (534,229)	$ 1,780,918	$ 1,273,209

	Balance at 6/30/2014	Increases	Decreases	Balance at 6/30/2015	Due Within One Year
Transition credit payable	$ 1,229,000	$ -	$ (831,098)	$ 397,902	$ 351,902
Net pension liability	-	134,479	-	134,479	-
Contingent liabilities	420,000	149	(417,781)	2,368	2,368
Premium payment security deposits	86,481	1,525	(1,918)	86,088	86,088
Other liabilities	45,437	86,815	(87,556)	44,696	21,414
	$ 1,780,918	$ 222,968	$ (1,338,353)	$ 665,533	$ 461,772

6. 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 million
- 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

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Coverage for policies is provided under the following terms:

Policy Period: April 1, 2014 to March 31, 2016

Reinsurance Coverage:

- Section One – Other than Acts of Nuclear, Biological, Chemical, or Radiological (NBCR) Terrorism - 50% of $250 million in excess of $100 million per Loss Occurrence - Maximum loss of $5 million of any one person
- Section Two – Only for Acts of Terrorism including NBCR Terrorism - 15% of $650 million (or $97.5 million) in excess of $350 million per Loss Occurrence - Maximum loss of $5 million of any one person

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

Reinsurance Coverage:

- Section One – Other than Acts of NBCR Terrorism - 50% of $275 million in excess of $125 million per Loss Occurrence - Maximum loss of $5 million of any one person
- Section Two – Only for Acts of Terrorism including NBCR Terrorism - 15% of $600 million (or $90 million) in excess of $400 million per Loss Occurrence - Maximum loss of $5 million 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, 2015 and 2014 (000's omitted):

	2015	2014
Premium and assessment income	$ 1,997,601	$ 2,146,499
Ceded premiums	(3,895)	(3,950)
Total premium and assessment income net of ceded premiums	$ 1,993,706	$ 2,142,549

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 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, 2015 and 2014:

Reinsurer	2015	2014
Allied World Assurance Company	A	A
Alterra Zurich Branch of Alterra UK Underwriting Services Limited	A	Ag
Axis Specialty LTD	A+	A+
Hannover Re (Bermuda) LTD	A+	A+g
Tokio Millennium Re Limited	A++	A++
Underwriters at Lloyd's	A	A

7. 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 were 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 at the September 2014 board meeting. As a result, the private employers were granted a rebate equivalent to 60 percent of billed premiums for the July 1, 2012 through June 30, 2013 policy period, while public taxing district employers were granted a rebate equivalent to 60 percent of premiums for the January 1, 2012 through December 31, 2012 policy period.

This action resulted in premium rebate expense of $1 billion in fiscal year 2015 and $45 thousand in fiscal year 2014.

8. Benefit Plans

General Information about the 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, 2015, the most recent report issued by OPERS is as of December 31, 2014.

Chapter 145 of the Ohio Revised Code provides OPERS statutory authority for employee and employer contributions. For 2015, member and employer contribution rates were consistent across all three plans. For the years ended December 31, 2014 and 2013, the employee contribution rate was 10% and the employer contribution rate was 14% of covered payroll.

Pension Assets, Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, BWC/IC reported a liability of $134 million for its proportionate share of the Traditional Plan's net pension liability and $225 thousand for its proportionate share of the Combined Plan's net pension asset. The net pension liability and asset were measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability and asset was determined by an actuarial valuation as of that date. Ohio BWC/IC's proportion of the net pension liability was based on a projection of the state agencies' long-term share of contributions to the pension plan relative to the projected contributions of all participating state agencies, actuarially determined. At December 31, 2014, Ohio BWC/IC's proportions were as follows:

	BWC	IC
Traditional Plan	0.920909%	0.194073%
Combined Plan	0.501246%	0.084752%

For the year ended June 30, 2015, Ohio BWC/IC recognized pension expense of $18.2 million.

At June 30, 2015, Ohio BWC/IC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (000's omitted):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 2,431
Net difference between projected and actual earnings on pension plan investments	7,189	-
BWC/IC contributions subsequent to the measurement date	9,490	-
Total	$ 16,679	$ 2,431

Deferred outflows of resources related to pensions resulting from Ohio BWC/IC's contributions subsequent to the measurement date of $9.5 million will be recognized as a reduction of net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (000's omitted):

Year ended June 30:	
2016	$ 699
2017	699
2018	1,607
2019	1,789
2020	(8)
Thereafter	$ (28)

Continued

Actuarial assumptions

The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	Traditional Pension Plan	Combined Plan
Investment Rate of Return	8.00%	8.00%
Wage Inflation	3.75%	3.75%
Projected Salary Increases	4.25% - 10.05% (includes wage inflation at 3.75%)	4.25% - 8.05% (includes wage inflation at 3.75%)
Cost of living Adjustments	3.00% Simple	3.00% Simple

Mortality rates were based on the RP-2000 mortality table projected 20 years using Projection Scale AA. For males, 105% of the combined healthy male mortality rates were used. For females, 100% of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based upon the RP-2000 mortality table with no projections. For males, 120% of the disabled female mortality rates were used, set forward two years. For females, 100% of the disabled female mortality rates were used.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the five-year period ended December 31, 2010. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

The long-term expected rate of return on defined benefit investment assets was determined using a building-block method in which best estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation. The table below displays the OPERS Board approved asset allocation policy for 2014 and the long-term expected real rates of return.

Asset Class	Target Allocation	Weighted Average Longterm Expected Real Rate of Return
Fixed income	23.00%	2.31%
Domestic equity	19.90%	5.84%
International equity	19.10%	7.40%
Real estate	10.00%	4.25%
Private equity	10.00%	9.25%
Other Investments	18.00%	4.59%
Total	100.00%	5.28%

Discount Rate

The discount rate used to measure the total pension liability was 8.00% for both the Traditional Pension Plan and the Combined Plan. The projection of cashflows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for both the Traditional Pension Plan and the Combined Plan was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of BWC/IC's proportionate share of the net pension liability to changes in the discount rate

The following presents BWC/IC's proportionate share of the net pension liability calculated using the discount rate of 8.00 percent, as well as what BWC/IC's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate (000's omitted):

	1% Decrease - 7.0 %	Current Discount Rate - 8.0%	1% Increase - 9.0%
Traditional Plan:			
BWC	204,340	111,072	32,517
IC	43,063	23,407	6,853
Total Net Pension Liability	247,403	134,479	39,370
Combined Plan:			
BWC	25	(192)	(366)
IC	4	(33)	(62)
Total Net Pension (Asset)	29	(225)	(428)

Defined Contribution Plans

Defined contribution plan benefits are established in the plan documents, which may be amended by the OPERS Board of Trustees. Member-Directed Plan and Combined Plan members who have met the retirement eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the Combined Plan consists of the member's contributions plus or minus the investment gains or losses resulting from the member's investment selections. Combined Plan members wishing to receive benefits must meet the requirements for both the defined benefit and defined contribution plans. Member-Directed participants must have attained the age of 55, have money on deposit in the defined contribution plan and have terminated public service to apply for retirement benefits. The amount available for defined contribution benefits in the Member-Directed Plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five year period, at a rate of 20% each year. BWC/IC recognized $496 thousand in pension expense for defined contribution plans in fiscal year 2015. At retirement, members may select one of the several distribution options for payment of the vested balance of their individual OPERS accounts. Options include the purchase of a monthly annuity from OPERS (which includes joint and survivor options), partial lump sum payments (subject to limitations), a rollover of the vested account balance to another financial institution, receipt of entire account balance, net of taxes withheld, or a combination of these options.

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued OPERS financial report.

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Change in Accounting Principle

Net position as of June 30, 2014 has been restated as follows for the implementation of GASB Statement No. 68, as amended by GASB Statement No. 71.

Net Position as previously reported at June 30, 2014:	$	9,460,213
Prior period adjustment:		
Net pension liability (measurement date as of December 31, 2013)		(131,442)
Deferred outflows of resources:		
BWC/IC contributions subsequent to measurement date		9,709
Net pension asset (measurement date as of December 31, 2013)		62
Total prior period adjustment		(121,671)
Net Position as restated June 30, 2014	$	9,338,542

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 Ohio Revised Code permits, but does not mandate, OPERS to provide the OPEB Plan to its eligible members and beneficiaries. The Ohio Revised Code provides statutory authority for employer contributions and requires public employers to fund post-retirement health care through their contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside for the funding of post-retirement health care coverage.

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 set aside for the funding of OPEB for members in the Traditional Plan was 1% during calendar year 2013. The portion of employer contributions allocated to health care for members in the Combined Plan was 1% during calendar year 2013. Effective January 1,

Continued

2014, the portion of employer contributions allocated to healthcare was raised to 2 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, 2015 allocated to OPEB was approximately $2.8 million and $1.4 million for the 12 months ended June 30, 2014.

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.

9. Risk Management

BWC/IC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To cover these risks, BWC/IC maintains commercial insurance and property insurance. There were no reductions in coverage in either fiscal years 2015 or 2014. Claims experience over the past three years indicates there were no instances of losses exceeding insurance coverage. Additionally, BWC/IC provides medical benefits for its employees on a fully insured basis with independent insurance companies or the State's self-insured benefit plan.

10. Contingent Liabilities

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

A class action 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 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. 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 was reported in the 2013 financial statements for this matter. On April 15, 2013, BWC filed a notice of appeal of the judgement. On July 19, 2013, BWC filed its appeal brief. The decision from the 8th District Court of Appeals in May 2014 did remand part of the case to the trial court for potential offset of damages, which did reduce the amount of judgment against BWC. On July 23, 2014, all parties agreed to a settlement of $420 million and the impact to the financial statements was a decrease of $439 million in related operating expense and corresponding liability in 2014. The class action settlement was paid in fiscal year 2015.

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

Continued

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. On August 8, 2014, the City of Parma filed a motion for class certification. On August 15, 2014, the court granted the BWC indefinite leave to oppose the motion for class certification. On October 24, 2014, BWC filed a motion for partial summary judgement and that motion remains pending as of June 30, 2015. Pretrial conference is set for October 1, 2015. While it is reasonably possible that an adverse decision will be rendered in this case, the financial exposure cannot be estimated at this time. These cases are in the preliminary stages and it is possible that the statute of limitations could bar recovery of any damages for policy years before 2007. Management intends to vigorously defend these cases. Accordingly, no provision for any liability has been reported in the financial statements for these matters.

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. Effective September 2012, BWC negotiated a new fee schedule with JP Morgan Chase Bank pursuant to which the debit card now offers one free teller visit per deposit. BWC's motion for summary judgment and plaintiff's motion for class certification are still pending. BWC provided more information in 2015 to support the agency relationship between the BWC and JP Morgan Chase. An adverse outcome is possible and any damages are estimated to be immaterial to the financial statements. Management intends to vigorously defend this case. Accordingly, no provision for any liability has been reported in the financial statements for this matter.

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. In fiscal year 2015 this case was settled and the impact to the financial statements was an increase of $149 thousand to operating expenses and a liability established at June 30, 2015 for this amount.

A class-action case was filed challenging BWC's calculation of the statewide average weekly wage. Statute says that the rate must be adjusted to the next higher even multiple of one dollar in order to establish the maximum disability payment for the subsequent calendar year. Management does not anticipate an adverse conclusion and intends to vigorously defend this

Continued

case. Accordingly, no provision for any liability has been reported in the financial statements for this matter.

Although the outcome of certain 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.

11. Transition Credit Liability

In April 2014, the Board approved a transition credit estimated to be $1.2 billion for private and public employer taxing district policyholders to minimize the cash flow impacts of transitioning from collecting premiums in arrears or after the coverage period to prospective billing where premiums are collected in advance of the coverage period. The switch to prospective billing will occur for the policy period beginning July 1, 2015 for private employers and the policy period beginning January 1, 2016 for public employer taxing districts.

Private employers will receive a one hundred percent transition credit equal to $785 million in estimated premiums for the policy period January 1 through June 30, 2015. This transition credit was reflected as a current liability in the Statement of Net Position for the year ended June 30, 2014 and has been decreased to zero in 2015. For the policy period beginning July 1, 2015, a transition credit equal to one sixth of the estimated annual premiums will also be granted to private employers. This credit is estimated to be $262 million and is reflected as a current liability in the Statement of Net Position for the year ended June 30, 2015.

Public taxing district employers will receive transition credits equal to fifty percent of the billed premium for the January 1 through December 31, 2015 policy period and fifty percent of the estimated annual premium for the January 1 through December 31, 2016 policy period. The portion of the transition credit applicable to the January 1 through June 30, 2015 is estimated to $46 million and was reflected as a current liability in the Statement of Net Position for the year ended June 30, 2014 and has been relieved in fiscal year 2015. The estimated transition credit related to the July 1, 2015 through December 31, 2016 period is $136 million and $90 million is now reflected as a current liability, while the remaining $46 million is now reflected as a noncurrent liability in the Statement of Net Position for the year ended June 30, 2015.

Continued

12. Subsequent Event

House Bill 52 of the 131st General Assembly amended Ohio Revised Code (ORC) 4123.411 allowing the Administrator discretionary authority to levy assessments to fund DWRF I benefits. The language regarding the DWRF I assessments has been changed from shall levy an assessment to may levy an assessment. ORC 4123.419 was also amended to allow the Administrator with the advice and consent of the Board of Directors the authority to transfer investment income from the SIF to cover the cost of the DWRF I benefits for private and public taxing district employers rather than levying assessments against these employers. House Bill 52 was signed by Governor on June 30, 2015, and these amendments will become effective September 29, 2015. BWC management will be recommending that the Board of Directors approve the use of SIF investment earnings to provide funding to pay DWRF I cost-of-living benefits for private and public taxing district employer claims. Upon approval of this recommendation, a liability of $582 million will be recorded in SIF to recognize the long-term commitment to use SIF investment earnings to fund DWRF I benefits for private and public taxing district employer claims. A receivable will be recorded in DWRF to recognize the long-term commitment from SIF to cover these benefits. This receivable will replace unbilled receivables previously recorded in DWRF that recognized the ability to assess private and public taxing district employers in the future to provide funds needed to pay DWRF I benefits. The net impact of these changes will be a $582 million decrease to the net position during fiscal year 2016.

13. Net Position

Individual fund net position (deficit) balances at June 30, 2015 and 2014 were as follows (000's omitted):

	2015	2014
SIF	$ 7,872,340	$ 8,044,783
SIF Surplus Fund Account	26,383	19,345
SIF Premium Payment Security Fund	151,720	147,245
Total SIF Net Position	8,050,443	8,211,373
DWRF	1,569,115	1,535,732
CWPF	259,762	270,446
PWREF	25,653	25,599
MIF	20,851	19,608
SIEGF	29,488	25,063
ACF	(686,980)	(627,608)
Total Net Position	$ 9,268,332	$ 9,460,213

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

SUPPLEMENTARY SCHEDULES

REQUIRED SUPPLEMENTAL REVENUE AND RESERVE DEVELOPMENT INFORMATION, UNAUDITED

(See Accompanying Independent Auditor's Report)

June 30, 2015 and 2014

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, 2005 through 2015.

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, Continued
(See Accompanying Independent Auditors' Report)
(In Millions of Dollars)

						Fiscal Years Ended June 30					
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
1. Gross premiums, assessments, and investment income	$ 2,552	$ 5,194	$ 2,453	$ 4,044	$ 4,356	$ 4,206	$ 2,296	$ 2,968	$ 5,251	$ 3,015	$ 3,272
2. Unallocated expenses	163	150	140	129	131	139	97	108	109	170	179
3. Estimated incurred compensation and compensation adjustment expense, end of period	1,853	1,854	1,720	1,800	1,863	1,870	2,139	2,219	2,327	2,270	2,392
Discount	874	872	830	968	974	985	1,472	1,892	2,099	2,147	2,227
Gross liability as originally estimated	2,727	2,726	2,549	2,767	2,837	2,854	3,611	4,111	4,426	4,417	4,619
4. Paid (cumulative) as of :											
End of period	331	337	380	386	400	384	458	415	423	417	449
One year later		563	600	620	641	639	711	755	747	743	795
Two years later			731	756	773	775	868	920	926	927	979
Three years later				857	879	883	979	1,056	1,048	1,066	1,121
Four years later					964	973	1,083	1,163	1,155	1,172	1,238
Five years later						1,055	1,179	1,256	1,251	1,268	1,336
Six years later							1,263	1,350	1,336	1,355	1,425
Seven years later								1,426	1,411	1,428	1,500
Eight years later									1,478	1,496	1,565
Nine years later										1,560	1,634
Ten years later											1,698
5. Re-estimated incurred compensation and compensation adjustment expenses (gross):											
One year later		2,476	2,494	2,501	2,680	2,701	2,865	3,607	3,946	4,087	4,456
Two years later			2,397	2,450	2,471	2,596	2,794	2,948	3,460	3,879	4,085
Three years later				2,361	2,438	2,425	2,730	2,909	2,909	3,410	3,929
Four years later					2,340	2,426	2,585	2,862	2,877	2,899	3,502
Five years later						2,342	2,668	2,748	2,812	2,877	2,977
Six years later							2,586	2,846	2,738	2,839	2,984
Seven years later								2,760	2,784	2,776	2,960
Eight years later									2,715	2,813	2,908
Nine years later										2,761	2,966
Ten years later											2,923
6. Decrease in gross estimated incurred compensation and compensation adjustment expenses from end of period		(250)	(152)	(406)	(497)	(512)	(1,025)	(1,351)	(1,711)	(1,656)	(1,696)

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, 2015 active miners nominal and discounted liability is approximately $195.6 million and $68.7 million, respectively.

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

REQUIRED SUPPLEMENTAL INFORMATION
Schedule of Proportionate Share of the Net Pension Liability (Asset)
(See Accompanying Independent Auditors' Report)
Last 2 fiscal years*
(000's omitted)

	2015	**2014**
BWC/IC's Percentage Proportion of the net pension liability (asset)	1.701%	1.701%
BWC/IC's Proportionate share of the net pension liability (asset)	134,254	131,380
BWC/IC's covered employee payroll	197,260	193,970
Proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	68.059%	67.732%
Plan fiduciary net position as a percentage of the total pension liability		
Traditional Pension Plan	86.45%	Not available
Combined Plan	114.83%	Not available

* - The amounts presented for each fiscal year were determined as of the calendar year end that occurred within the fiscal year.
This schedule is required to show information for 10 years. However, until a full 10 year trend is compiled, governments are required to only present information for those years for which information is available.

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

REQUIRED SUPPLEMENTAL INFORMATION
Schedule of Employer Contributions and Contributions Subsequent to Measurement Date
(See Accompanying Independent Auditors' Report)
Last 2 fiscal years*
(000's omitted)

	2015	2014
BWC/IC's Employer Contributions	$ 19,688	$ 19,971
Amount of contributions recognized by the pension plan in relation to the statutory contributions	10,198	10,262
Contributions paid subsequent to measurement date	9,490	9,709
Employer's covered employee payroll	194,884	196,851
Amount of contributions recognized by the pension plan as a percentage of employers' covered employee payroll	5.23%	5.21%

* - This schedule is required to show information for 10 years. However, until a full 10 year trend is compiled, governments are required to only present information for those years for which information is available.

OHIO BUREAU OF WORKERS' COMPENSATION
AND
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(A DEPARTMENT OF THE STATE OF OHIO)
SUPPLEMENTAL SCHEDULE OF NET POSITION
(See Accompanying Independent Auditors' Report)
June 30, 2015
(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	$ 725,233	$ 1,584	$ 107	$ 229	$ 2	$ 60,432	$ 9,216	$ -	$ 796,803
Collateral on loaned securities	-	-	-	-	-	-	2,250	-	2,250
Premiums in course of collection	49,544	-	-	104	-	-	-	-	49,648
Assessments in course of collection	-	3,246	-	-	-	-	17,236	-	20,482
Accounts receivable, net of allowance for uncollectibles	85,464	15,677	1	2	1	297	4,543	-	105,985
Interfund receivables	9,847	140,402	3	356	5	4,378	243,315	(398,306)	-
Investment trade receivables	486,154	-	-	-	-	-	-	-	486,154
Accrued investment income	134,503	-	-	-	-	1	-	-	134,504
Other current assets	2,115	-	-	-	-	-	-	-	2,115
Total current assets	1,492,860	160,909	111	691	8	65,108	276,560	(398,306)	1,597,941
Non-current assets:									
Fixed maturities	12,909,031	1,062,283	253,393	30,378	23,011	-	-	-	14,278,096
Domestic equity securities:									
Common stock	5,264,151	354,569	50,500	-	-	-	-	-	5,669,220
Preferred stocks	1,198	-	-	-	-	-	-	-	1,198
Non-U.S equity securities - common stock	2,288,048	167,376	25,334	-	-	-	-	-	2,480,758
Investments in real estate funds	1,481,070	-	-	-	-	-	-	-	1,481,070
Unbilled premiums receivable	633,710	2,055,633	-	-	-	431,888	66,969	-	3,188,200
Retrospective premiums receivable	215,057	-	-	-	-	-	-	-	215,057
Capital assets	19,715	22	-	-	-	-	122,610	-	142,347
Net pension asset	-	-	-	-	-	-	225	-	225
Total noncurrent assets	22,811,980	3,639,883	329,227	30,378	23,011	431,888	189,804	-	27,456,171
Total assets	24,304,840	3,800,792	329,338	31,069	23,019	496,996	466,364	(398,306)	29,054,112
DEFERRED OUTFLOW OF RESOURCES	-	-	-	-	-	-	16,679	-	16,679
Total assets and deferred outflow of resources	$ 24,304,840	$ 3,800,792	$ 329,338	$ 31,069	$ 23,019	$ 496,996	$ 483,043	$ (398,306)	$ 29,070,791

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)
SUPPLEMENTAL SCHEDULE OF NET POSITION, Continued
(See Accompanying Independent Auditors' Report)
June 30, 2015
(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	$ 1,605,076	$119,670	$ 1,380	$ 432	$ 284	$25,407	$ -	$ -	$ 1,752,249
Reserve for compensation adjustment expenses	169,010	98	95	-	30	1,019	208,904	-	379,156
Transition credit liability	351,902	-	-	-	-	-	-	-	351,902
Legal settlement	2,368	-	-	-	-	-	-	-	2,368
Premium payment security deposits	85,403	-	685	-	-	-	-	-	86,088
Warrants payable	278,363	-	-	-	-	-	-	-	278,363
Investment trade payables	637,652	-	-	-	-	-	-	-	637,652
Accounts payable	3,501	-	-	-	-	-	17,725	-	21,226
Interfund payables	386,515	8,284	167	13	19	3,308	-	(398,306)	-
Obligations under securities lending	-	-	-	-	-	-	2,250	-	2,250
Other current liabilities	10,393	93	24	3	141	-	10,760	-	21,414
Total current liabilities	3,530,183	128,145	2,351	448	474	29,734	239,639	(398,306)	3,532,668
Noncurrent liabilities:									
Reserve for compensation	12,033,824	2,101,826	62,820	4,968	1,620	432,093	-	-	14,637,151
Reserve for compensation adjustment expenses	644,390	1,706	4,405	-	74	5,681	770,192	-	1,426,448
Transition credit liability	46,000	-	-	-	-	-	-	-	46,000
Net pension liability	-	-	-	-	-	-	134,479	-	134,479
Other noncurrent liabilities	-	-	-	-	-	-	23,282	-	23,282
Total noncurrent liabilities	12,724,214	2,103,532	67,225	4,968	1,694	437,774	927,953	-	16,267,360
Total liabilities	16,254,397	2,231,677	69,576	5,416	2,168	467,508	1,167,592	(398,306)	19,800,028
DEFERRED INFLOW OF RESOURCES	-	-	-	-	-	-	2,431	-	2,431
Total liabilities and deferred inflow of resources	16,254,397	2,231,677	69,576	5,416	2,168	467,508	1,170,023	(398,306)	19,802,459
NET POSITION (DEFICIT)									
Net investment in capital assets	19,715	22	-	-	-	-	122,610	-	142,347
Surplus fund	26,383	-	-	-	-	-	-	-	26,383
Premium payment security fund	151,720	-	-	-	-	-	-	-	151,720
Unrestricted net position (deficit)	7,852,625	1,569,093	259,762	25,653	20,851	29,488	(809,590)	-	8,947,882
Total net position (deficit)	$ 8,050,443	$ 1,569,115	$ 259,762	$ 25,653	$ 20,851	$ 29,488	$ (686,980)	$ -	$ 9,268,332

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, 2015

(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	$1,474,944	$202,649	$25	$351	$761	$24,447	$290,529	$ -	$1,993,706
Provision for uncollectibles	(36,672)	(2,299)	204	-	-	(67)	(698)	-	(39,532)
Other income	4,128	-	-	-	-	-	4,285	-	8,413
Total operating revenues	1,442,400	200,350	229	351	761	24,380	294,116	-	1,962,587
Operating expenses:									
Workers' compensation benefits	856,306	183,351	12,179	786	(114)	19,181	-	-	1,071,689
Compensation adjustment expenses	167,609	(104)	767	-	(50)	779	154,249	-	323,250
Personal services	-	41	72	-	14	-	61,479	-	61,606
Other administrative expenses	20,724	-	1	1	7	1	36,032	-	56,766
Total operating expenses	1,044,639	183,288	13,019	787	(143)	19,961	251,760	-	1,513,311
Net operating income (loss) before transition credits, premium rebates and legal settlements	397,761	17,062	(12,790)	(436)	904	4,419	42,356	-	449,276
Transition credit expense	38,781	-	-	-	-	-	-	-	38,781
Premium rebate	1,013,171	-	-	-	-	-	-	-	1,013,171
Legal settlement	(22,938)	-	-	-	-	-	-	-	(22,938)
Total transition credits, premium rebates and legal settlement	1,029,014	-	-	-	-	-	-	-	1,029,014
Net operating (loss) income	(631,253)	17,062	(12,790)	(436)	904	4,419	42,356	-	(579,738)
Non-operating revenues:									
Net investment income	485,243	16,321	2,106	490	339	6	5,377	-	509,882
Gain on disposal of capital assets	-	-	-	-	-	-	71	-	71
Total non-operating revenues	485,243	16,321	2,106	490	339	6	5,448	-	509,953
Net transfers out	(14,920)	-	-	-	-	-	14,495	-	(425)
Increase (decrease) in net position (deficit)	(160,930)	33,383	(10,684)	54	1,243	4,425	62,299	-	(70,210)
Net position (deficit), beginning of year	8,211,373	1,535,732	270,446	25,599	19,608	25,063	(627,608)	-	9,460,213
Prior Period Adjustment	-	-	-	-	-	-	(121,671)	-	(121,671)
Net position (deficit), end of year	$8,050,443	$1,569,115	$259,762	$25,653	$20,851	$29,488	$(686,980)	$ -	$9,268,332