Fiscal Year 2016 Report

Ohio | Bureau of Workers' Compensation

Governor John R. Kasich
BWC Administrator/CEO Sarah D. Morrison

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Letter from the Administrator

Dear Governor Kasich:

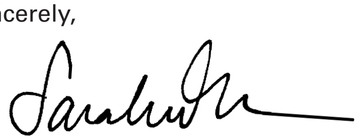
I am pleased to present the annual report of the Ohio Bureau of Workers' Compensation for fiscal year 2016.

During fiscal year 2016, we further strengthened our commitment to protecting Ohio's workers and employers, improving the lives of injured workers, and acting as a partner for local businesses and governments to bolster economic development. Below are a few of our accomplishments.

- The BWC Board of Directors approved a private employer base-rate reduction of 8.6 percent, effective July 1, 2016. This latest reduction means private employers will pay $463 million less annually and represents a combined 28.2 percent decrease since 2011.
- The board approved a reduction in the average rates for public employer taxing districts by 9 percent effective Jan. 1, 2016. The reduction, combined with decreases implemented during the past five years, results in a total average decrease to local government rates of 26.5 percent since 2011. Also, strong investment returns allowed us to provide a one-time $15 million rebate to Ohio's 88 county governments from the Public Work-Relief Employees' Fund.
- We successfully transitioned to the industry standard of prospective billing for premiums. We accomplished this important reform by providing a $1.2 billion credit to employers.
- We awarded 725 grants totaling nearly $15 million to 689 employers through our Safety Intervention Grant Program, Drug-Free Safety Program and Workplace Wellness Grant Program to help reduce workplace accidents and injuries.
- We launched our Other States Coverage option, which for the first time gives Ohio employers the option to purchase from BWC additional workers' compensation coverage in other states.
- In conjunction with our annual Ohio Safety Congress & Expo, we hosted our first-ever Medical and Health Symposium. The event offered health-care providers free continuing education credits. Attendees participated in a combination of lectures and interactive panel discussions featuring leading national and state experts covering best practices related to the care of injured workers.
- The board approved a new rule governing the prescribing of opioids to treat injured workers that became effective on Oct. 1, 2016. The rule seeks to prevent opioid dependence by requiring appropriate prescribing by BWC-certified physicians. We now limit reimbursement for opioid prescriptions to claims in which providers follow current best medical practices.

We are working on exciting improvements and initiatives to come in fiscal year 2017.

Sincerely,



Sarah D. Morrison, Administrator/CEO
Ohio Bureau of Workers' Compensation

Introduction

Ohio's business climate is improving along with the state's economy. BWC is certainly part of the story. This report documents some of the actions we took in fiscal year 2016 (FY16) to improve the quality of life for Ohio's workers and to be a positive influence for economic growth in Ohio. Our focus on preventing workplace accidents, lowering rates and caring for those who are injured on the job are making Ohio a better place for businesses and workers.

This focus and our commitment to the principles of service, simplicity and savings have helped us operate more efficiently during FY16. Our FY16 administrative cost budget of $275.6 million was 2 percent less than appropriated by the Ohio General Assembly.

With assets of approximately $27 billion, we are the largest state-fund insurance system in the U.S. In addition, we're one of the top 10 largest underwriters of workers' compensation insurance in the nation. Insuring 244,000 Ohio employers, we provide insurance coverage to approximately 60 percent of Ohio's workforce. In FY16, we approved 88,170 new claims, a decrease of 5,766 from FY15. 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

Rebates and lower rates

The BWC Board of Directors approved an 8.6-percent reduction in private employer base rates, effective July 1, 2016. This latest reduction means private employers are paying $463 million less annually than they did at the beginning of 2011. This represents a combined 28.2 percent decrease over the last five years.

This latest rate reduction was attributable to a number of factors, including lower than expected claim frequency and the adoption of a prospective billing system. Under prospective billing, we collect premiums before extending coverage. Prospective billing is the industry standard practice, and it enables us to lower rates due to increased investment income from the earlier collection of premiums.

In addition, we reduced average rates for public employer taxing districts by 9 percent effective Jan. 1, 2016. The reduction, combined with decreases implemented during the past five years, results in a total average decrease to local government rates of 26.5 percent since 2011. This makes this year's rates the lowest level in more than 30 years. Also, strong investment returns allowed us to provide a one-time $15 million rebate to Ohio's 88 county governments from the Public Work-Relief Employees' Fund.

Reduced rates, rebates, credits and grants resulted in $4.8 billion in combined savings for Ohio's public and private employers during the last five years.

Switch to prospective billing

We successfully transitioned to the industry standard of prospective billing effective July 1, 2015, for private employers and Jan. 1, 2016, for public taxing district employers. To ensure a smooth transition, we issued Ohio employers $1.2 billion in credits. A prospective billing system provides benefits to Ohio employers that include:

- More flexible payment options (up to 12 installments);
- The ability to provide more accurate quotes;
- Better fraud detection;
- An overall base-rate reduction of approximately 2 percent for private employers and a 4-percent reduction for public employers.

Now employers estimate and pay premium at the start of the policy period. At the end of the policy period, a "true-up" process allows them to reconcile their estimated and actual premiums. As of Sept. 29, 91 percent of private employers had submitted their true-up report. Approximately half of the employers who did not true up were minimum-premium policyholders.

The deadline for public employer true up is Feb. 15, 2017.

We have provided, and continue to provide, 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;
- How-to videos.

Other states coverage

We launched our Other States Coverage option in FY16. For the first time, Ohio employers have the option to purchase, through BWC, workers' compensation coverage in other states.

Our option protects against workers' compensation insurance gaps. This option also helps provide protection from penalties and stop-work orders in other states. We partnered with United States Insurance Services and Zurich American Insurance Co. to provide this optional coverage.

Expanded safety programs

In FY16, we awarded 725 grants totaling $15 million to employers for safety intervention, wellness and drug-free programs. The Safety Intervention Grant Program provides 3-to-1 matching funds, up to $40,000, for an employer to purchase equipment to reduce or eliminate injuries and illnesses. We have committed $15 million for fiscal year 2017 to continue these programs.

In conjunction with our annual Ohio Safety Congress & Expo, we hosted our first ever Medical & Health Symposium. The event offered health-care providers free continuing education credits. Providers also participated in a combination of lectures and interactive panel discussions featuring leading national and state experts covering best practices related to the care of injured workers. Approximately 400 health-care providers attended the symposium. Approximately 7,000 people attended the safety congress, making it one of the largest safety events in the country.

The Ohio Occupational Safety and Health Research Program continued in fiscal year 2016. This program provides institutions up to $250,000 per project to research occupational health and safety issues. This year, we approved four projects totaling $950,000 at two Ohio not-for-profit higher education institutions. This is in addition to nine projects totaling $2 million at six Ohio not-for-profit higher education institutions in FY15.

Updating our infrastructure

During the past year, we made significant progress in implementing a new claims and policy management system. PowerSuite will modernize operations and improve customer service by replacing current systems that are 20 years old. The system successfully went live in November 2016, following an extensive testing and training period.

Governance process

Improving ourprogram governance process is a top priority. A good governance program strengthens strategic alignment between the business and IT. It also advances programs that:

- Return injured workers to the job;
- Promote safe workplaces;
- Manage medical outcomes;
- Grow Ohio's economy.

We're planning a major re-design of our website. The fresh look will be easier to navigate with features to enhance the customer experience.

The IT optimization project will remain a focus for us. This project involves the relocation of our server and storage resources and includes disaster recovery capabilities to the State of Ohio's private cloud. We will continue to manage endpoints, software and business applications. For these assets, IT will pursue critical upgrades, including desktops, laptops, office software and collaboration software.

Coding

We successfully converted from the previous International Classification of Diseases (ICD) codes known as ICD-9 to the newer ICD-10 coding system in October 2015. The coding system assigns a unique code to every defined condition based on the type of injury. Updates to the ICD-10 coding and ongoing training and monitoring activities will continue into fiscal years 2018 and 2019. While not required to do so, we made the conversion to ensure providers don't have to run dual billing systems to do business with us.

Improving pharmacy management

We have continued to improve pharmacy management to ensure workers are prescribed drugs that help, not hinder, their recovery.

We developed a new opioid prescribing rule the BWC Board of Directors approved in early FY17. The rule aims to prevent opioid dependence and encourages physicians to employ current best medical practices when treating injured workers. Under the rule, we will not reimburse for opioid prescriptions written by physicians who fail to:

- Develop an individualized treatment plan;
- Assess risk;
- Monitor the progress and improvement in function of the worker.

The new rule strengthens BWC's peer review process to address physicians who fail to comply with best practices. Corrective actions range from written warnings to removing the physician from our network of approved providers.

This rule also allows us to provide treatment for opioid dependence that arises from the use of medications related to a workplace injury. Treatment for dependence could include psychological counseling and medication-assisted treatment for recovery.

In FY16, we also transitioned responsibility for drug utilization review to the managed care organizations (MCOs). We now require prior authorization for prescriptions in any claim where no prescriptions were covered in the preceding nine months. Both of these steps help injured workers receive the right drug for the right condition at the right time.

These changes, when combined with previous improvements, are reducing opioid usage and pharmacy costs. Since the creation of our formulary in September 2011, prescriptions for opiates have declined by 48 percent. Total drug costs have decreased by more than $46 million.

New MCO contract

We negotiated contracts with all MCOs for calendar years 2016 and 2017. A key highlight of the new contract is a change in the MCO compensation methodology. The new methodology increases the connection between MCOs' medical management outcomes and the MCOs' resulting compensation. This pay-for-performance approach encourages MCO competition and innovation. The expected impact is improved return-to-work outcomes for injured workers.

Another significant change in the new contract is an incentive program to encourage MCOs to use innovative ideas. The goal is to improve the following areas:

- Management of medical services;
- Examinations;
- Recommendations and determinations;
- Establishment of on-site case management services;
- The meeting of exceptional performance goals.

Medical enhancements

For the past year, we have worked with a team of stakeholders to modernize our health-care delivery system. The team represents business, labor, MCOs and the medical community. The first step was the creation of a pilot in northeast Ohio called the Enhanced Care Program (ECP). The ECP began on July 1, 2015, and will continue through FY17. This program looks for ways to improve injured worker outcomes, focusing on knee claims. It does this by identifying and addressing pre-existing conditions that may adversely impact the ability of the injured worker to return to work in a timely manner. Incentives encourage the coordination of care among workers' compensation medical providers, primary care physicians and MCOs.

We will continue to focus on:

- Providing quality medical and pharmacy care to injured workers;
- Timely return-to-work services;
- Vocational rehabilitation services for injured workers who cannot return to work through standard medical care.

We will modify and improve our health-care delivery system using the guidance and recommendations resulting from a contract with The Ohio State University to evaluate the ECP. We expect to expand the ECP to include body parts beyond knee claims and additional geographical regions of the state.

Fraud efforts continue to generate results

During FY16, our special investigations department (SID) celebrated its 23rd anniversary. SID protects the State Insurance Fund by investigating, detecting and deterring fraud. From January 2011 to present, SID obtained 773 convictions, identifying a total of $328 million in savings for the State Insurance Fund. Last year, SID improved its operational efficiencies by decreasing the average number of days required to complete investigations.

Our efforts protect employers from fraudulent claims and injured workers from potentially dangerous care. For example, we decertified one of the state's most prolific providers of inappropriately prescribed narcotics as a result of an SID investigation.

Education is an important part of deterring fraud. BWC employees gave educational presentations to safety councils, civic organizations and other external entities.

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

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

Ohio Governor John Kasich appointed Sarah Morrison Administrator/CEO of the Ohio Bureau of Workers' Compensation in May 2016. Morrison had joined BWC in November 2012 with more than 15 years of diverse legal experience. Prior to joining BWC, she was a partner at Taft Stettinius & Hollister, LLP in Columbus. She has specialized in various types of civil and commercial litigation, including complex litigation and class actions.

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 2016	FY 2015	FY 2014
State-fund claims filed			
Lost time	10,932	11,870	12,134
Medical only	76,648	81,348	84,688
Occupational disease	407	533	592
Death	183	185	158
Disallowed or dismissed	10,912	11,061	10,977
Total	99,082	104,997	108,549
Net allowed injuries	88,170	93,936	97,572

NOTE: Every claim is evaluated at 60 days after filing for purposes of claim type, State Fund versus Self-Insured, combine status, and allowance status. Values exclude combined and Self-Insured claims.

	FY 2016	FY 2015	FY 2014
Open claims (Per statute)			
Lost time	263,618	288,059	315,951
Medical only	488,694	503,579	542,822
Total	752,312	791,638	858,773
Benefits paid			
Medical benefits paid	$580,294,319	$614,375,366	$660,912,037
Compensation paid			
Wage loss	$9,810,677	$12,764,857	$14,948,538
Temporary total	219,298,295	220,766,392	231,607,195
Temporary partial	7,226	16,543	37,368
Permanent partial	19,708,785	19,269,456	17,869,347
% Permanent partial	65,019,190	67,385,815	65,387,993
Lump sum settlement	159,289,682	179,185,086	184,218,915
Lump sum advancement	21,852,376	18,067,160	24,768,008
Permanent total and DWRF	402,054,481	390,863,930	395,160,052
Death	85,945,428	83,090,326	82,644,603
Rehabilitation	33,080,852	35,492,795	38,651,042
Other	5,535,475	6,153,354	6,046,420
Total compensation paid	$1,021,602,467	$1,033,055,714	$1,061,339,481
Total benefits paid	$1,601,896,786	$1,647,431,080	$1,722,251,518

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

	FY 2016	FY 2015	FY 2014
Fraud statistics			
Fraud dollars identified	$56,571,121	$60,450,575	$60,124,021
$$$ Saved to $$$ spent ratio	4.61 to 1	5.34 to 1	5.28 to 1
Prosecution referrals	198	229	267
Active employers by type			
Private	239,331	247,829	249,602
Public (Local)	3,796	3,807	3,815
Public (State)	121	121	121
Self-insured	1,178	1,180	1,197
Black lung	31	34	36
Marine fund	138	135	146
Total	244,595	253,106	254,917
BWC personnel	1,842	1,866	1,953
Managed care organization fees paid	$169,229,310	$170,688,324	$169,580,627

BWC combined funds financial data (000s omitted)	**Audited FY 2016**	**Audited FY 2015**	**Audited FY 2014**
Operating revenues			
Premium and assessment Income,net of provision for uncollectibles and ceded premiums	$1,439,143	$1,954,174	$2,085,821
DWRF II unbilled assessment	(1,499,600)	-	-
Other income	12,442	8,413	8,141
Total operating revenues	$(48,015)	$1,962,587	$2,093,962
Operating expenses			
Workers' compensation benefits and compensation adjustment expenses	$1,211,609	$1,394,939	$1,519,175
Other expenses	119,419	118,372	117,277
Total operating expenses	$1,331,028	$1,513,311	$1,636,452
Non-operating revenues			
Net investment earnings	$633,497	$602,902	$664,670
Increase (Decrease) in fair value	731,967	(93,020)	2,348,938
Net investment income	$1,365,464	$509,882	$3,013,608
Net dividends, rebates and credits	$(6,674)	$1,051,952	$1,229,045
DWRF I alternative funding expense	$507,891	$-	$-
Total assets	$27,439,254	$29,054,112	$30,341,708
Totall liabilities	$18,742,292	$19,800,028	$20,881,495
Total net position	$8,753,885	$9,268,332	$9,460,213

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 2016 (FY16), sustaining a seventh consecutive year of economic growth following the financial shocks and recessionary period of FY09. Real gross domestic (GDP) product averaged a tepid 1.3-percent growth quarter-over-quarter for the four quarters of FY16. This was clearly a slowdown from the real GDP growth of 3 percent and 2.5 percent experienced for FY15 and FY14, respectively. Many reasons contributed for the slowdown of real GDP in FY16. These include a reduction in U.S. exports due to the strong U.S. dollar, a weak global economy and a significant reduction in capital investments in the important energy sector. A significant decline in oil and natural gas prices contributed to the decline in capital investments in the important energy sector.

The national unemployment rate continued to fall in FY16 from 5.3 percent in June 2015 to 4.9 percent in June 2016. This decrease was at a more moderate rate when compared to the impressive decline in the unemployment rate from 7.5 percent in June 2013, and 6.1 percent in June 2014. Some argue the U.S. is nearing full employment, as there will always be a certain amount of "frictional" unemployment. The Federal Reserve and others emphasize the mismatch in the labor market between a shortage of labor for certain skilled jobs and a significant number of unemployed and part-time workers lacking the necessary skills to fill these more demanding jobs.

The Federal Reserve finally raised the benchmark federal funds rate by 0.25 percent at its December 2015 meeting. However, the Federal Reserve and other key central banks such as the European Central Bank (ECB) and Bank of Japan (BOJ) are maintaining very accommodative monetary policies in attempts to stimulate economic growth. The monetary policy easing of both the ECB and BOJ led to more than $10 trillion of sovereign debt in Europe and Japan trading at slight negative interest rate levels below zero. Each of these central banks buying up sovereign debt at ever-higher prices and lower yields triggered this rather dramatic event.

At the end of FY16, approximately 36 percent of outstanding developed market government debt was yielding less than zero percent. Inflation continued to be very tame over FY16 with the annualized growth in the consumer price index (CPI) being 1 percent for all items and 2.3 percent for all items except food and energy (up from an increase of 1.8 percent for FY15). The CPI for FY16 was only 0.3 percent for food and -9.4 percent for energy, with gasoline down 15.4 percent and fuel oil down 19.6 percent. Their rapid price declines were a continuing trend from FY15 where the CPI decline for energy was -15 percent. The Federal Reserve has stated it wants the U.S. inflationary rate to rise to its 2-percent target, and recent signs indicate this goal may occur soon.

There were several significant developments in FY16 that impacted the financial markets in addition to the 0.25 percent federal funds rate increase in December 2015, and the further easing monetary policy moves by the ECB and BOJ. The August 2015 unexpected devaluation of China's currency (Yuan) led to heightened anxiety over the health of the world's second largest economy. Thus, global growth in general contributed to a decline in the value of risk assets in 3Q2015. The S&P index declined 6.9 percent and the MSCI EAFE equity index of developed nations dropped nearly 11 percent.

U.S. bond yields declined with the flight to quality by investors. The financial markets recovered most of its equity losses in 4Q2015 as the initial shock of the Chinese currency devaluation did not signal as significant of a slowdown of the Chinese economy as first feared. The 1Q2016 period exhibited extreme volatility with sharp declines in the equities markets in the first half of the quarter. This was due to large declines in commodity prices, especially gasoline falling below $30 per barrel. However, the equity markets then staged a furious rally in the second half of the quarter once oil prices rebounded due to a possible coordinated production freeze by oil producers.

Helping this market turnaround was the Federal Reserve admitting in March 2016 that the risks of soft global growth and financial market volatility would prevent the Fed from raising its target federal funds rate as quickly as previously expected. The 2Q2016 period exhibited a further rally in commodity prices and a positive tone in financial markets up until the unexpected United Kingdom "Brexit" vote of June 23, 2016, to leave the European Union. This surprise vote led to sharp initial declines in equities (6.9-percent decline during two days in global equity market indexes). A quick rebound occurred during the last three days of June 2016 following a series of dovish comments from central banks, including the Bank of England.

In summary, FY16 can be characterized as a period exhibiting significant swings in mood of global investors as reflected in the equity markets, with the primary U.S. equity markets up 2 percent to 4 percent, and the broad non-U.S. equity index as reported by the MSCI ACWI ex-U.S. index down 10.2 percent. Major intermediate duration U.S. bond indexes returned between 4 percent and 6 percent and long duration bond indexes returned mid-to-high teens annual returns for FY16. U.S. long-term interest rates declined more than shorter-term interest rates as higher yielding bonds in a very low yield environment for global credit attracted investors. Global investors continue to perceive the U.S. economy as being the strongest in the world. Its interest rates on government and corporate debt are among the highest of all developed countries.

The BWC investment portfolio provided a total return (net of management fees) of 5.8 percent in FY16. The annualized net return of the BWC investment portfolio for the three-year and five-year fiscal periods ending June 30, 2016, were 7 percent and 6.9 percent, respectively. Each of these returns exceeded the 4-percent discount rate applied to future liabilities.

In addition, the BWC fixed income portfolio returned 10 percent in FY16 from a combination of bond interest income earned yielding an average of 3.5 percent and market appreciation of 6.5 percent with the decline in U.S. interest rate levels over the course of FY16.

The BWC equity portfolio returned a negative 2.4 percent in FY16 and was comprised of a positive 1-percent net return for its U.S. equity portfolio and a negative net return of 10.3 percent for its non-U.S. equity portfolio. The growing BWC real estate portfolio comprised of 14 pooled real estate commingled funds provided a net return after management fees of 10.2 percent in FY16. This continued the strong performance of this asset class, which provided a net return of 14.5 percent in FY15 and 11.4 percent in FY14.

The BWC Investment Committee and Board of Directors (Board) approved at their respective February 2015 meetings the recommended increase in Real Estate allocation for the State Insurance Fund (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 investment consultant RVK that involved asset-liability studies performed by RVK. A matching reduction in the targeted total fixed income assets allocation from 64 percent to the current 58 percent portfolio allocation target offset this increase.

This decision to increase SIF Real Estate assets to a 12-percent target consisted of:

Increasing the Core real estate fund target allocation to 7 percent from 4.5 percent;

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, which is a new real estate asset class for the SIF portfolio.

In fulfillment of the new 3-percent Core Plus real estate asset allocation for the SIF portfolio, the Investment Division issued an RFP for Core Plus real estate commingled fund managers. After an extensive review process of RFP bid submissions and conducting a number of on-site meetings with finalist candidates, the RFP Evaluation Committee recommended seven finalist open-end Core Plus real estate funds to the Investment Committee for consideration at its February 2016 meeting. The RFP Evaluation Committee consisted of the BWC Chief Investment Officer (CIO), BWC Director of Investments and RVK real estate consultants. Representatives of each of the seven finalists appeared before the Investment Committee and remaining Board members at this meeting to discuss their respective fund and answer questions from all Board members. After review and consideration, the Investment Committee and Board approved the RFP Evaluation Committee recommended capital commitment totaling $700 million for the SIF portfolio divided among the seven funds. The respective capital commitments approved for each Core Plus real estate fund ranged from $75 million to $125 million. The $700 million aggregate capital commitment represented approximately 3.3 percent of total SIF invested assets as of February 2016.

BWC made additional new capital commitments to several existing invested core real estate funds and several new value-added real estate funds in FY16 in addition to capital drawdowns of prior capital commitments. These additional capital drawdowns resulted in the increased minimum SIF asset allocation ownership of 9 percent of total SIF invested assets being first achieved in January 2016. More information regarding these added real estate capital investments are provided later in this Annual Report.

There had been asset-liability modeling studies performed by RVK on four of the five specialty funds (all but the Self-Insured Employers Guarantee Fund), which were presented for review by the Investment Committee over the months of April-July 2015. These studies resulted in one asset allocation strategy change that involved the Disabled Workers' Relief Fund II (DWRF II) that the Investment Committee and Board approved at their respective October 2015 meetings. At the recommendation of the CIO and Director of Investments, the Board approved the conversion of the 34 percent asset allocation target of the DWRF II portfolio from a passive managed indexed intermediate-duration U.S. Aggregate benchmarked fixed income mandate to a passive managed indexed long-duration U.S. Long Government/Credit benchmarked fixed income mandate. The very long-term DWRF II liabilities have an estimated average duration of 18 years with few payments projected during the next 10 years. Converting this 34-percent asset allocation target from an intermediate-duration benchmarked mandate to a long-duration benchmarked mandate results in an improved duration matching of DWRF II assets and liabilities as well as increased interest income earned.

BWC issued a new RFP for passive investment management services in mid-June 2016. Bids were received in mid-July 2016. This RFP involved all DWRF II and Black Lung Fund (BLF) U.S. equity and fixed income mandates. This includes the recently approved long-duration fixed income DWRF II mandate. This RFP also included the passive managed U.S. Long Government and the U.S. Treasury Inflation Protection Securities (TIPS) fixed income mandates of SIF. The RFP Evaluation Committee recommended finalist passive indexed investment managers for each of these mandates at the August 2016 Investment Committee meeting. The RFP Evaluation Committee consisted of the BWC CIO, BWC Director of Investments and RVK consultants. After review and consideration, the Investment Committee and Board approved these finalist manager recommendations in August 2016. BWC completed contracts with each respective selected passive index manager on September 2016. In addition, BWC completed the DWRF II portfolio transition to the new long-duration U.S. Long Government/Credit fixed income mandate in September 2016. There will be annual management fees savings estimated at $430,000 from these new contracts resulting from this RFP versus prior fee schedules for approximately $5 billion in passive indexed managed assets.

Compliance

The investment portfolios were in compliance with the BWC investment policy at the end of each month of FY16 except for one matter with one manager discussed herein. BWC investment staff and the Investment Committee and Board understood the buildout of the SIF Real Estate portfolio to an asset allocation target of 12 percent from 6 percent approved by the Board in February 2015 meant BWC would not achieve the minimum ownership range of 9 percent of SIF assets until January 2016. These entities also understood BWC could not complete the DWRF II asset allocation conversion to the new 34-percent asset allocation target to the U.S. Long Government/Credit mandate approved by the Board in October 2015 until the RFP process to select a passive indexed manager for the mandate and the subsequent transition of assets occurred. BWC investment staff completed this conversion to this new fixed income asset class in September 2016.

The one specific action regarding the BWC portfolios during FY16 that involved an out of compliance issue that needed addressed and reported to the Investment Committee via the monthly CIO Report involved the SIF actively managed long credit fixed income portfolio managed by PIMCO. PIMCO manages a SIF portfolio that had a market value of approximately $1,441 million of long credit assets on Dec. 31, 2015. It is one of six active long credit managers of SIF.

One of the investment guidelines of the PIMCO managed long credit portfolio of SIF restricts below investment-grade high yield securities to a maximum of 5 percent of total portfolio market value. At the end of December 2015, the market value of high yield securities owned in the PIMCO managed long credit portfolio of SIF was 5.46 percent ($78.6 million) of portfolio total market value of $1,441 million or approximately $6.6 million above the 5-percent limit.

This occurred because of a credit rating downgrade on Petrobras bond holdings from "BBB-" to "BB+" by Fitch made on Dec. 17, 2015. All three bond-rating agencies (Moody's, S&P, Fitch) then had Petrobras in the BB rating category. There were five different Petrobras bond issues owned in the PIMCO managed portfolio totaling $15.7 million in market value representing 1.09 percent of total portfolio market value on Dec. 31, 2015.

Petrobras is the large national oil company of Brazil in which the federal government of Brazil has a majority ownership by law. Petrobras suffered financially in 2015 due to a combination of weakening oil prices, a weak Brazilian currency and an ongoing corruption probe on certain contracts involving high-level officials of the company and the Brazilian government.

The Investment Division granted PIMCO a temporary waiver of this high yield bond ownership restriction until Jan. 26, 2016. The PIMCO managed portfolio complied with this below investment-grade limit guideline by the BWC imposed deadline.

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 $25,330 million on June 30, 2016. This represented an increase of $621 million when compared to $24,709 million on June 30, 2015. SIF invested assets were $23,269 million at fair value on June 30, 2016. This represented 91.9 percent of total BWC invested assets at FY16 year-end.

As stated earlier, the total rate of return on invested assets of BWC for FY16 ended June 30, 2016, was 5.8 percent net of management fees. Net investment income was $1,365 million for FY16, comprised of:

- $507 million of interest income;
- $99 million of stock dividend income;
- $76 million of real estate dividend income;
- $2 million of miscellaneous investment income (from corporate and legal actions)
- $732 million appreciation in fair value of investments.

A total of $51.4 million in investment expense, including $50.1 million in investment-management fees, offset net investment income.

The investment manager fees for FY16 represented an annual fee of 21 basis points (21/100 of 1 percent) of total average month-end market value of fixed income, equity and real estate assets (all invested assets excluding cash and cash equivalents).

The investment expenses of $51.4 million for FY16 included $50.1 million in investment-management fees. This compares to $44.2 million of total investment expenses for FY15, which included $42.9 million in investment management fees (from 17-18 basis points of average month-end investment assets excluding cash). The increase in investment-management fees of $7.2 million in FY16 was largely attributable to the following:

(a) A full 12 months of all SIF core plus U.S. Aggregate intermediate-duration fixed income assets ranging between $2.9 to $3.1 billion in market value were actively managed for all of

FY16. Whereas, $2.9 billion of SIF comparable U.S. Aggregate fixed income assets were passively managed at lower fees from July 2014 to March 2015 in FY15. These assets became actively managed commencing April 2015. This represented a $3 million increase in management fees to $4.4 million in FY16 from $1.4 million in FY15;

(b) An additional $576 million of new capital in SIF commingled real estate funds were invested during FY16 with $534 million funded from redemptions of low fee passive-managed U.S. government bond assets ($434 million) and U.S. equity assets ($100 million redeemed in late June 2015 to fund a July 1, 2015, capital call) that combined with higher market values of existing fund investments in FY16 versus FY15. This was due to strong year-over-year performance that resulted in an increase of $5.2 million in real estate management fees to $19.8 million in FY16 from $14.6 million in FY15.

The six SIF active long credit bond managers in the aggregate provided a combined return for FY16 on SIF assets of 13.72 percent before management fees and 13.54 percent after management fees. This fell short of the benchmark index return of 13.76 percent by 0.04-percent gross of fees and 0.22-percent net of fees. The Investment Division estimates the net return of 0.22 percent below the benchmark index return provided by these six long credit managers in the aggregate represented a shortfall of SIF net investment income of approximately $14.3 million below the benchmark index return for FY16. The division bases this valuation on an average month-end balance of $6.5 billion in asset market value under management during FY16.

These six active long credit bond managers have nevertheless exceeded the benchmark index performance by an annualized return of 0.61-percent net of fees from their inception date of June 1, 2012. This satisfactory performance by the six active managers collectively from an inception date of four years and one month through FY16 year-end ranks as a top quintile (top 20 percent) performance among a peer group of long duration bond managers, as represented by BWC investment consultant RVK.

The four SIF active core plus intermediate duration bond managers provided a combined total return for FY16 of 5.92-percent gross of fees and 5.76-percent net of fees. This trailed the U.S. Aggregate benchmark index return of 6 percent by 0.08-percent gross of fees and 0.24-percent net of fees. Based on an average month-end balance of asset market value under management of $2.985 billion for FY16, the net return of 0.24 percent below the benchmark index return of these four core plus fixed income managers in the aggregate represented a reduction of SIF net investment income estimated at approximately $7.2 million for FY16.

The 13 SIF active mid-cap and small-cap U.S. equity managers provided a combined total return for FY16 of negative 1.92-percent gross of fees and negative 2.47-percent net of fees. This trailed the Russell composite small/mid-cap custom blended index return of negative 0.92 percent by 1-percent gross of fees and 1.55-percent net of fees.

In addition, the nine active mid-cap U.S. equity managers provided a combined return of negative 1.54-percent gross of fees and negative 2.02-percent net of fees for FY16. This trailed the Russell mid-cap U.S. equity benchmark index return of positive 0.56 percent by 2.10-percent gross of fees and 2.58-percent net of fees.

Also, the four active small-cap U.S. equity managers provided a combined return of negative 3.42-percent gross of fees and negative 4.24-percent net of fees. These active small-cap U.S. equity returns exceeded the Russell 2000 small-cap equity benchmark return of negative 6.73 percent by 3.31-percent gross of fees and 2.49-percent net of fees.

Based on an average month-end market value of assets under management of $1.99 billion for the active small/mid-cap U.S. equity managers for FY16, the Investment Division estimates the aggregate net underperformance of these managers to the BWC custom blended benchmark represented a reduction of SIF net investment income of approximately $30.8 million in FY16.

The asset allocation mix of the BWC investment portfolio based on represented fair value on June 30, 2016, was 58.2 percent bonds, 30.9 percent equities, 8.9 percent real estate and 2 percent cash and equivalents. This asset mix compares to 57.8 percent bonds, 33 percent equities, 6 percent real estate and 3.2 percent cash and cash equivalents on June 30, 2015.

Columns D, E and F of the table provided at the end of this Annual Report summarize the asset class transfer activity occurring over FY16. 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 FY16. The asset transfer activity shown in Column D reflects that $434 million of low yielding U.S. government bonds ($234 million U.S. TIPS; $200 million long duration U.S. government bonds) were redeemed by the Investment Division to fund real estate investments. Column E reflects the redemption activity initiated by the Investment Division to provide cash needed to fund operational requirements of BWC that totaled a net of $402 million in FY16. Column E also shows the division redeemed $142 million from the operations account in FY16 to fund real estate investments. This includes $100 million of cash prepositioned at the start of FY16 to fund a $100 million real estate capital call on July 1, 2015 as well as $42 million of net cash drawn periodically from the SIF operations account to fund smaller real estate fund capital calls. There were no asset class rebalancing actions required during FY16.

The total fair value of the BWC bond portfolio was $14,735 million on June 30, 2016, compared to $14,278 million on June 30, 2015. The bond portfolio had net outflows totaling $866 million during FY16 (see Column F of table) resulting from:

(a) $434 million of SIF U.S. government bond redemptions to fund real estate investments;

(b) $432 million of bond redemptions to fund operations, of which $391 million came from U.S. TIPS redemptions.

The Investment Division redeemed $625 million of U.S. TIPS in FY16 to fund SIF real estate ($234 million) and SIF operations ($391 million). In addition, it redeemed $220 million of long duration U.S. government bonds in FY16 to fund SIF real estate ($200 million) and SIF operations ($20 million). Adjusted for these net bond sale outflows, the fair value change of the BWC bond portfolio was an increase of $1,323 million. This represented a total return of 10 percent for FY16.

The BWC bond portfolio returned 10 percent in FY16 with bond interest income yielding an average of 3.5 percent and market value appreciation providing the remaining 6.5 percent of total return net of fees. The bond portfolio in FY16 earned $507 million in interest income and had net realized/unrealized gains of $880 million. This resulted primarily from interest rate levels being significantly lower for long duration credit bonds and long duration Treasury bonds at the end of FY16 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 fell from 4.92 percent on June 30, 2015, to 4.18 percent on June 30, 2016. This represents a decrease of 0.74 percent in yield for bonds in the index, which had a long 14-year duration on June 30, 2016. The weighted average yield-to-maturity of the Barclays long duration U.S. government bond index (comprised of mostly U.S. Treasury bonds) fell from 3.03 percent on June 30, 2015, to 2.17 percent on June 30, 2016. This is a decrease of 0.86 percent in yield for bonds in the index. The intermediate duration U.S. Aggregate benchmark index fell in average yield-to-maturity a more modest 0.47 percent from 2.39 percent to 1.92 percent from the start to the end of FY16.

As a result of the yields of long duration bonds declining more than intermediate duration bonds during FY16 combined with their longer duration, the long duration portion of the BWC bond portfolio significantly outperformed the intermediate duration portion of the BWC bond portfolio in FY16. The BWC long duration credit portfolio had a net return of 13.5 percent and the BWC long duration U.S. government portfolio had a net return of 18.9 percent for FY16. The BWC intermediate duration U.S. Aggregate benchmarked portfolios returned 5.8 percent and the intermediate duration U.S. TIPS portfolios returned 4.4 percent in FY16. Long duration bond portfolios represented 55.3 percent of total market value of BWC bonds held on June 30, 2016, (long credit 48.0 percent; long government 7.3 percent). Intermediate duration bond portfolios represented the remaining 44.7 percent of market value.

The BWC bond portfolio had an average quality of between "AA" and "A" at the end of FY16. A total of 40 percent of the fair value of the bonds held on June 30, 2016, 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). A total of 34.4 percent of fair value of bonds owned on June 30, 2016, were U.S. Treasury issues. This included 19.7 percent represented by U.S. TIPS. Issues held on June 30, 2016, 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. BWC permits these specified accounts 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, 2016, was 10.7 years, based on individual asset class duration calculations of the BWC investment accounting vendor as represented in the FY16 audited financial statements.

The total fair value of the BWC equities portfolio was $7,839 million on June 30, 2016, a decrease of $312 million compared to $8,151 million on June 30, 2015. There were net outflows of $112 million (see Column F table) from the BWC equities portfolio. These were all from its U.S. equities portfolio during FY16. The Investment Division redeemed the $112 million from the U.S equities portfolio to fund SIF operations ($80 million) and DWRF II and BLF operations ($32 million). Accounting for these net outflows, the adjusted fair value decrease in the BWC total equities portfolio was $200 million for FY16. The total net return of the BWC equities portfolio was negative 2.4 percent for FY16.

The total fair value of the BWC U.S. equities portfolio was $5,612 million on June 30, 2016. This was a decrease of $58 million compared to the fair value of $5,670 million on June 30, 2015. Accounting for the $112 million of net outflows during FY16, the adjusted fair value increase of the U.S. equities portfolio was $54 million over FY16. This represented a net return of 1 percent. The U.S. equities portfolio represented 71.6 percent of the fair value of the BWC total public equities portfolio on June 30, 2016.

The total fair value of the BWC non-U.S. equities portfolio was $2,227 million on June 30, 2016. This was a decrease of $254 million in fair value compared to $2,481 million on June 30, 2015. There were no inflows or outflows of funds during FY16 involving the passively managed non-U.S. equity commingled fund used by each of SIF, DWRF II 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 10.3 percent for FY16. In FY15, the strength of the U.S. dollar had a very negative impact (-14.9 percent) on the overall annual return of the BWC non-U.S. equity portfolio represented by many foreign currencies. However, the U.S. dollar strengthened modestly (+1 percent) during FY16 versus the composite basket of foreign currency stocks of the BWC owned commingled fund portfolio for this asset class.

The BWC passive investment manager replicates the benchmark index holdings of foreign currency denominated stocks. As a result, the total negative return of 10.3 percent of BWC non-U.S. equities in FY16 was comprised of a decline of 9.3 percent in fair value of all local currency stocks owned in this passive commingled fund and a reduction of return of 1 percent due to the foreign currency translation impact to the U.S. dollar. The BWC commingled fund portfolio owned stocks that were denominated in 39 separate foreign currencies as of June 30, 2016. The most prominent currencies represented in the BWC non-U.S. equities portfolio are the Euro, British Pound and Japanese Yen. These currencies combined represented 51.2 percent of this portfolio's fair value as represented in the FY16 audited financial statements.

The total fair value of the BWC real estate portfolio was $2,242 million on June 30, 2016. This was an increase of $761 million in fair value compared to $1,481 million on June 30, 2015. There were additional capital investments totaling $375 million made toward five of the eight owned core real estate funds in FY16. The Investment Divisions intent was to reach the minimum 9-percent SIF asset allocation target for real estate assets stated in the investment policy. The division achieved this goal in January 2016. SIF real estate assets represented 9.6 percent of total fair value of SIF invested assets on June 30, 2016. Real estate assets represented 8.9 percent of total BWC invested assets at fair value on June 30, 2016.

In addition to the $375 million of new capital invested toward core real estate funds in FY16, BWC invested $125 million of new capital in one core plus real estate fund and $76 million of net capital in five value-added real estate funds. This totaled $576 million of net new capital invested (see Column F of table) in real estate funds during FY16. As a result of this investment activity during FY16, the adjusted fair value increase for real estate assets in FY16 is $185 million as reflected in Column G of the table.

The real estate portfolio achieved a total return after fees of 10.2 percent in FY16. This represents the third consecutive annual double-digit net return for this asset class following net returns of 14.5 percent for FY15 and 11.4 percent for FY14. BWC first invested in real estate funds at the end of calendar year 2012, with FY14 being the first full fiscal year of owning real estate assets in the BWC investment portfolio. The $185 million of adjusted fair value increase of real estate assets for FY16 was comprised of $76 million of dividend income and $131 of unrealized gains reduced by $20 million of management fees paid and $2 million of capital returned.

Total BWC cash and cash equivalents had a fair value of $514 million on June 30, 2016, compared to $797 million on June 30, 2015. In part, the large cash position BWC held at the end of June 30, 2015, was to fund a $100 million real estate investment on July 1, 2015. In addition, BWC held this cash to cover operating expenses from July to August 2015 when it granted an additional transition credit of approximately $262 million of estimated annual premiums to private employers.

BWC used an institutional U.S. government money market fund offered by its custodian bank (JPMorgan Chase Bank) during FY16 to earn interest income on its short-term invested assets. This included all cash held by its outside investment managers in all managed separate accounts. The Federal Reserve Bank finally initially raised its targeted federal funds rate by 0.25 percent in December 2015 to a range of 0.25 percent to 0.50 percent and from 0 percent to 0.25 percent. This action resulted in the seven-day yield on the JPMorgan government money market fund to increase steadily from a 0.01-percent yield received from July-November 2015 to 0.13 percent on Dec. 31, 2015, to 0.23 percent on March 31, 2016, and to 0.30 percent on June 30, 2016.

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, 2016. This annual 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 $13.4 billion on June 30, 2016, had an estimated effective duration of 11.1 years on that date. In addition, it had an estimated duration of SIF total liability payments of approximately 10 years. This compares to a similar effective duration of SIF bond assets of 10.3 years on June 30, 2015. 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. The SIF bond portfolio market value is quite sensitive to movements in interest rate levels in both directions. This is because of the long-term nature of its liability payments and its supporting long duration bond portfolio.

Below are some observations made from the RVK fixed income sensitivity analysis on the June 30, 2016, SIF fixed income portfolio. RVK based these observations on defined interest rate movements during a 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 +3.6 percent, resulting in an increase in market value of +$481 million.

If interest rate levels increase by +0.50 percent, the total SIF fixed income portfolio could decline in value by -1.7 percent, resulting in a decrease in market value of -$229 million.

If interest rate levels increase by +1. percent, the total SIF fixed income portfolio could decline in value by -6.5 percent, resulting in a decrease in market value of -$872 million.

If interest rate levels increase by +2. percent, the total SIF fixed income portfolio could decline in value by -14.6 percent, resulting in a decrease in market value of -$1,958 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, transfers of funds involving transition activity and performance returns of asset classes of the total portfolio for FY16.

Prepared by: Bruce Dunn, CFA
BWC Chief Investment Officer
October 17, 2016

Asset Class Fair Value/Performance Summary

Fiscal Year Ending June 30, 2016

($millions) Asset Class	(A) Fair value 6/30/16	(B) Fair value 6/30/15	(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 2016 Annual Net Return
Bonds	$ 14,735	$ 14,278	$457	$ (434)	$ (432)	$ (866)	$ 1,323	**+ 10.0%**
U.S. equities	5,612	5,670	(58)		(112)	(112)	54	+ 1.0 %
Non-U.S. equities	2,227	2,481	(254)				(254)	− 10.3 %
Total public equities	7,839	8,151	(312)		(112)	(112)	(200)	**− 2.4 %**
Real estate	2,242	1,481	761	434	142	576	185	**+ 10.2%**
Miscellaneous	0	2	(2)				(2)	
Cash & cash Equivalents	514	797	(283)		402	402	(685)	+ 0.1%
Net change				0	0	0	621	
Total invested assets	$ 25,330	$ 24,709	$ 621				*1,306	**+ 5.8%**

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

*Represents all fair value Asset Class changes except Cash & 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 medical services and compliance officer directs the program. The chief medical services and compliance officer coordinates management of the HPP with the chief medical officer and the chief of medical operations, appropriately using and making available a network of providers and managed care organizations (MCOs).

How HPP works

BWC, while determining compensability and paying indemnity benefits, contracts with MCOs to manage the medical component of workers' compensation claims. MCOs educate employers and injured workers on HPP. They also process *First Report of an Injury, Occupational Disease or Death* (FROI) applications. In addition, MCOs help employers establish transitional/early return-to-work programs. Finally, MCOs process medical bills and make provider payments.

BWC monitors MCOs' managed care performance. For example, it measures the effectiveness of the MCOs' return-to-work efforts using the Measurement of Disability (MoD) metric. BWC also measures MCOs' FROI timing, FROI data accuracy, bill timing and bill-data accuracy. 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, the Chief Medical Officer Division and the Medical Operations Division coordinate health-care delivery through a network of certified providers and MCOs. BWC accomplishes 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 benefit 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 the medical and vocational issues arising out of an allowed claim;
- Evaluating and processing medical bills, and guaranteeing proper and timely payment consistent with benefits plan criteria.

During the course of the year, BWC 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

In 2015 BWC completed the full implementation of HPP rule changes adopted per the 2014 five-year rules review process. Notwithstanding that process, efficient and effective execution of activities to achieve the intent of the HPP program requires an appropriate level of constant review and updates of HPP rules. Therefore, pursuant to feedback and BWC reviews, BWC modified the rules on the next two pages to provide additional enhancement and clarity to the administration of the HPP in FY2016.

Ohio Administrative Code (OAC) 4123-17-55 Transitional work development grant and performance bonus

One of the most important strategies to help injured workers remain at work or return to work is transitional work. BWC's Transitional Work Grant Program helps employers develop an employer-specific transitional work program that facilitates returning an injured worker to the job as soon as safely possible. Previously, an employer must have had at least one lost-time claim to be eligible for the program. After review of this requirement, the staff determined that such a requirement provided little benefit, and discouraged businesses from investing in a transitional work program prior to experiencing an accident. In addition to not aligning with our goal of prevention and care, this could result in a program not being available when an injured worker needed it.

Therefore, in 2016 the BWC Board of Directors approved the Medical Services Division's recommended changes to OAC 4123-17-55 language. The adopted changes to the rule did the following:

- Eliminated the requirement that an employer have at least one lost-time claim in the employer's experience period to be eligible to receive a transitional work grant;
- Clarified that employers who have elective coverage only or are sole proprietors with zero payroll will remain ineligible to receive a transitional work grant.

In addition, language was added that:

Required an employer to have and maintain continuous active state-fund coverage for a period of one year from the date BWC disburses the grant funds to the employer;

Allowed BWC to recover the entire grant if it determines the employer has failed to maintain coverage for the required period.

The addition of this new paragraph brought the transitional work grant rule in concert with similar language found in BWC's Safety Grants Program and Workplace Wellness Program grants rules. Moreover, the rule changes will facilitate:

- Appropriate growth and expansion of the Transitional Work Program;
- Eliminate any perceive contradiction of the program to BWC's mission of prevention and care;
- Further, clarify the expectations of employers of their responsibilities to remain in good standing in order to retain the benefit of the transitional work grant award.

The rule became effective July 1, 2016.

OAC 4123-6-02.7 Provider access to the HPP – provider decertification procedures

This rule set forth the protocol to which BWC adheres in addressing medical and vocational service providers continued violations of Ohio workers' compensation statute or rule, a term of the provider applications and agreement or a term of the provider recertification application and agreement. This rule facilitates the administrator's charge under the companion rule of 4123-6-02.5 (B) which in part states that "the administrator … may … decertify a provider where the provider has failed to comply with the workers' compensation statutes or rules, the terms of the provider application and agreement or recertification application and agreement." The rule also supports the Administrator's authority under paragraph D of 4123-6-02.5, which states in part, "the administrator may impose disciplinary sanctions upon a provider where the provider has failed to comply with workers' compensation statutes or rules governing providers or the terms of the provider applications and agreement or recertification application and agreement."

This rule sets forth a repeatable methodology BWC uses to track providers' non-compliant behavior. It also establishes action steps for BWC to take to facilitate educating the provider to achieve compliance prior to taking disciplinary actions and sanctions. BWC refers to the protocol of providing notice and the repeatable opportunities for provider compliance as the progressive compliance procedures. However, for certain violations, the rule also provides for an accelerated process that allows BWC to immediately take a provider to a decertification hearing without engaging in the progressive compliance steps.

The changes implemented in the rule now allow BWC to take a provider to a decertification hearing immediately when medical peers have determined a provider's services and/or actions to be or have been harmful to Ohio's injured workers. BWC can take action without engaging in the progressive compliance steps when a peer review recommendation is received from the BWC's Health Care Quality Assurance Advisory Committee (HCQAAC), the Pharmacy and Therapeutics committee or any other peer review committee established by BWC. The change will allow the Administrator to proceed directly to the actions for enrollment termination and/or decertification.

Rule 4123-6-22 Stakeholders' Health Care Quality Assurance Advisory Committee

This rule provides the language and parameters governing BWC's Health Care Quality Assurance Advisory Committee (HCQAAC). This committee is composed of 13 medical and service providers. BWC created this committee to advise the administrator, the chief of medical services and the chief medical officer with regard to medical quality issues. Paragraph F of the rule reflects language that states in part that:

(F) The HCQAAC shall be responsible to respond to requests for action on any medical quality assurance issue submitted by the bureau's administrator, chief of medical services, or chief medical officer, including, but not limited to,:

(3) [a] Review of any of the bureau's medical providers' professional performance and conduct, including bureau certification and malpractice issues.

To ensure clarity and consistency of the actions resulting from this committee's recommendation of a peer provider sanction involving decertification, the rule was modified to add language that expressly states:

Any decertification or sanction of a provider by the bureau pursuant to recommendation of the HCQAAC shall be conducted in accordance with rule 4123-6-17 of the Administrative Code.

Rule 4123-6-17 concisely set forth the procedures that BWC must follow prior to entering an order of decertification on any provider. Those procedures include notice and an opportunity for a provider to have a hearing on the matter at issue. Thus, a recommendation from this committee involving decertification cannot be executed without the provider being granted a hearing.

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 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 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 2015 (FY15), as of early November 2015, BWC paid providers nearly $612.5 million, which is $45.1 million less than the payments made in FY14. For FY16, as of early November 2015, BWC paid $582.5 million, which is $30 million less than payments made in FY15. Given providers have 12 months to bill for services rendered, the estimated difference in medical spending between FY16 and FY15 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 have 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.

Those four objectives also continued to guide BWC's evaluation of Ohio's reimbursement methodologies and the development of recommendations for FY16-17. 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 spend.

Chart 1

Fee schedule	Effective date	Board presentation and approval periods	Fee schedule description
Medical providers and services	Jan. 1, 2017	Aug. 25, 2016 Sept. 22, 2016 Dec. 1, 2016	Covers all medical providers and medical services not covered by any of the other schedules (OAC 4123-6-8) Projected 2017 impact: 0.2 percent spending decrease
Hospital outpatient	May 1, 2017	Nov. 17, 2016 Dec. 15, 2016	Covers facilities for outpatient services (OAC 4123-6-37.2) Projected 2017 impact: 2.69 percent spending decrease
Hospital inpatient	Feb. 1, 2017	Aug. 25, 2016 Sept. 22, 2016	Covers facilities for inpatient services (OAC 4123-6-37.1) Projected 2017 impact: 1.5 percent spending decrease
Ambulatory surgical centers (ASC)	May 1, 2017	Nov. 17, 2016 Dec. 15, 2016	Covers surgical procedures not requiring inpatient hospitalization (OAC 4123-6-37.3) Projected 2017 impact: 4.4 percent spending increase
Vocational rehabilitation services	TBD	TBD	Covers all vocational rehabilitation services (OAC 4123-18-09) Projected 2017 impact: reimbursement remains flat

Ambulatory surgical centers (ASC) Arthroplasty Program

BWC continues to evaluate and undertake initiatives to improve access to care for Ohio injured workers. As apart of the 2016 ASCs' 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. 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 physicians to perform the service of lumbar microdiscectomies 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 physicians to perform other types of services safely and effectively in the ASC setting.

BWC will eventually include 10 procedures in the arthroplasty program. As illustrated in Chart 2, physicians perform two of the procedures in the hospital inpatient and outpatient settings. Physicians perform the remaining eight only in an inpatient setting.

Chart 2

CPT	Description	2015 Medicare Coverage
23470	Arthroplasty, glenohumeral joint; hemiarthroplasty	Hospital inpatient and outpatient
23473	Revision of total shoulder arthroplasty, including allograft when performed; humeral OR glenoid component	Hospital inpatient and outpatient
23472	Arthroplasty, glenohumeral joint; total shoulder (glenoid and proximal humeral replacement)	Hospital inpatient only
27125	Hemiarthroplasty, hip, partial	Hospital inpatient only
27130	Arthroplasty, acetabular and proximal femoral prosthetic, with or without autograft or allograft	Hospital inpatient only
27132	Conversion of previous hip surgery to total hip arthroplasty, with or without autograft or allograft	Hospital inpatient only
27445	Arthroplasty, knee, hinge prosthesis	Hospital inpatient only
27447	Arthroplasty, knee, condyle and plateau; medial AND lateral compartments with or without patella resurfacing	Hospital inpatient only
27702	Arthroplasty, ankle; with implant (total ankle)	Hospital inpatient only
27703	Arthroplasty, ankle; revision, total ankle	Hospital inpatient only

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. It also potentially reduces costs for the system. ASCs are a more cost-effective alternative, as they have much lower cost structures than hospitals. In 2011, Medicare reimbursements as a percentage of hospital outpatient department reimbursement were about 56 percent.

For the initial phase of the program, BWC on May 1, 2016, implemented two hospital outpatient procedures -- a partial shoulder replacement (CPT 23470) and a revision of a total shoulder replacement (CPT 23473). As of May 1, ASC facilities that BWC certified to perform arthroplasty procedures could also undertake those two procedures.

BWC primarily selected the procedures because it considers them generally to pose less risk than the inpatient only procedures. In addition, BWC easily established reimbursement rates using the same method as was used for the 2014 microdiscectomy procedure.

Initially limiting the program to these two procedures also allows BWC to perform frequent program assessments. The assessments will help establish solid communication and workflows between ASCs, physicians, MCOs and BWC. Additionally, the phased rollout of these procedures will facilitate any program adjustments, if needed. Finally, the approach will provide additional time for BWC to establish appropriate reimbursement rates for the eight inpatient-only procedures. BWC will address the performance for the outpatient setting, as well as the ASC setting.

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. As detailed in the proposed rule, ASCs that apply to participate in this program must meet the following criteria:

- BWC-certified;
- Joint replacement program in place for at least one year;
- Target procedure(s) previously performed at the ASC;
- Adequate physician credentialing criteria;
- Adequate patient selection criteria;
- Reports Medicare and OAASC quality measures (data potentially used to develop quality thresholds in the future).

Medical Services will collect data on the program to ensure injured workers receive quality medical care. The division will review the outcomes of each BWC injured worker against the established quality measures for Medicare and the OAASC. It also will track other measures such as return-to-work time frames to determine program impacts. Additionally, Medical Services will track and monitor overall program outcomes such as:

- Number of and credentials of surgeons performing the service;
- Numbers of participating ASCs;
- Volume of services performed;
- Individual ASC performance (i.e., report cards);
- Estimated cost savings;
- Feedback and suggestions from ASCs, physicians, MCOs on workflows and administrative issues.

If any BWC claimants experience an MCO or ASC-reported or BWC-identified complication or perceived negative outcome, Medical Services will send the case to a BWC clinical review committee and/or the HCQAAC to assess the severity of the outcome and to recommend action.

Finally, BWC will re-credential and re-certify these facilities every two years to ensure these facilities and the treating physicians continue to provide high quality care for our injured workers.

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:

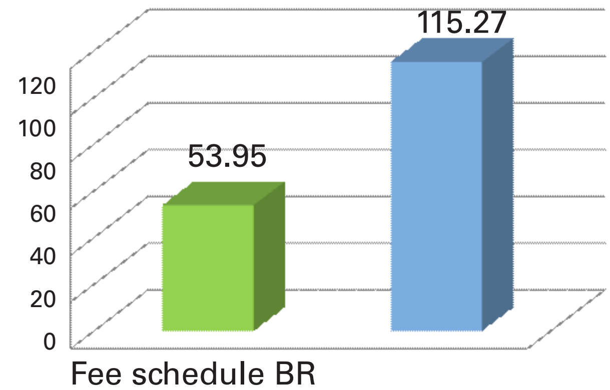
- Wooster Surgery Center;
- Orthopedic Surgery Center
- Taylor Station Surgery Center;
- Dublin Surgery Center;
- Ohio Orthopedic Surgery Institute.

Prosthetics reimbursement

Medical Services has continued its efforts with implementation of the new prosthetic pricing methodology. The rule change addresses issues identified during an audit performed on 319 treatment authorization requests for prosthetic devices. The audit showed significant differences in turnaround time of processing prosthetic requests associated with by-report reimbursement codes versus codes with set fees. The reason for this extended period is associated with how by-report codes are handled in our system. By-report codes do not have established fees and require negotiation with the vendors. MCOs must negotiate with the vendor to reach an optimal price to pay for the associated prosthetic device, and MCOs try to determine a base from which to start the negotiation. In the absence of any market pricing from which to start their negotiations, MCOs work to get the manufacturer's invoice for the base device being provided to the injured worker and then negotiate an add-on component to cover not only a prosthetist's device acquisition and prep cost, but also a profit for the prosthetist. However, prosthetists are in many instances reluctant to provide the invoice due to their manufactures not wanting the information discoverable by other prosthetists. Thus, the back and forth actions between the MCOs and prosthetists has led to challenges in turnaround times.

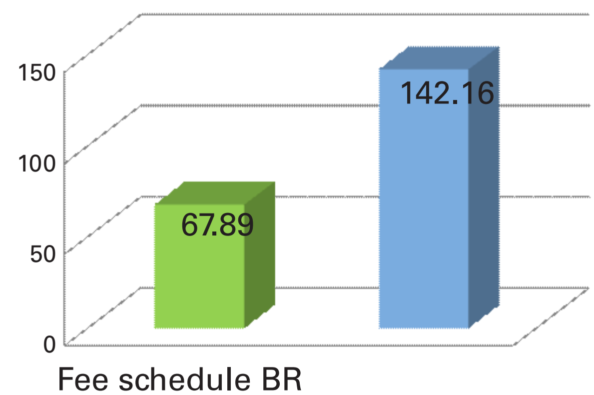
As illustrated on chart 3, there was a 61-day increase in time difference of dispensing a prosthetic device to an injured worker.

Chart 3: Comparison of turnaround days in dispensing prosthetics



Additionally, as indicated on chart 4 below, there was a 74-day difference in the time BWC dispensed reimbursement to a provider.

Chart 4: Comparison of turnaround days in dispensing reimbursement



BWC agreed these turnaround times were unacceptable. Thus, it initiated the effort to change those times through the adoption of the new methodology. To address those issues, BWC on Jan. 1, implemented a new prosthetic reimbursement negotiation methodology. Since the implementation of this methodology, Medical Services has worked with the Ohio Orthotics and Prosthetics Association and prosthetic service providers to develop a workgroup to assist with developing policies and procedures that will improve the execution of the new methodology.

The first meeting of the workgroup occurred Feb. 4, 2016. The meeting included representatives from:

- OSU Orthopedics/Amputee Rehab;
- Optimus Prosthetics;
- The Ohio Orthopedic and Prosthetics Association;
- Hanger Prosthetics;
- CareWorks MCO;
- 3Hab MCO.

The discussion centered on cost issues, which the prosthetic providers felt BWC and the MCOs should consider in executing the new negotiation methodology. The prosthetic vendors accepted the task of creating a proposed matrix of cost consideration points to present to BWC. If accepted, BWC would incorporate in a tool that the MCOs will adopt and use in executing negotiations on relevant prosthetic devices and services. Additionally the group agreed to have ongoing quarterly meetings to continue to vet ideas to improve on the delivery of prosthetic devices in the face of the increasing speed in the changing prosthetic technology landscape.

There continue to be multiple internal meetings and external discussions to clarify items such as:

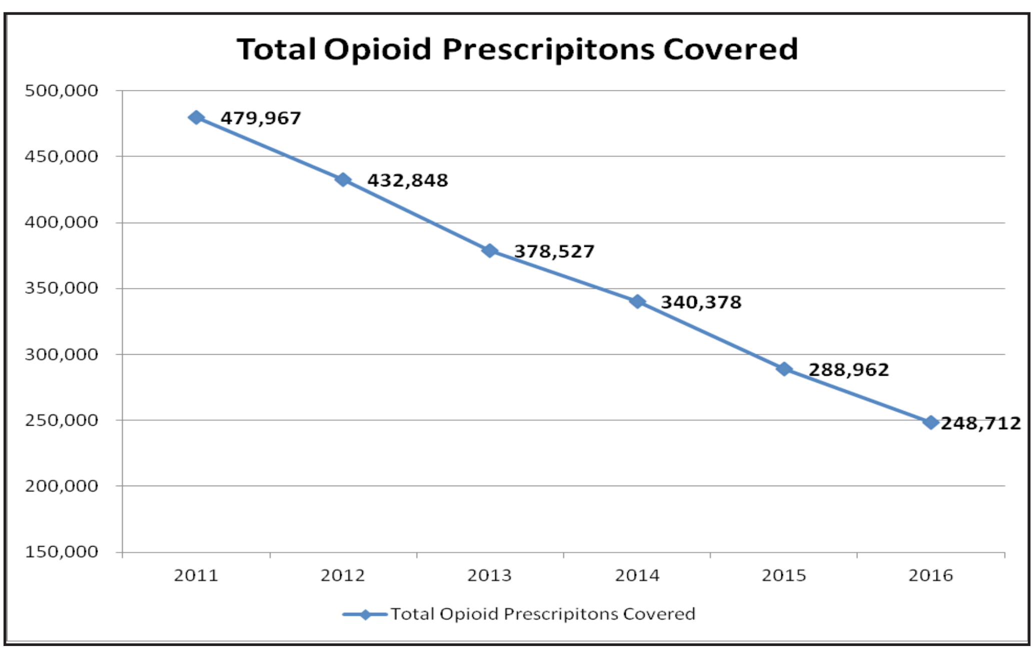
1. When is a manufacturer's invoice needed for reimbursement?
2. What should be considered as part of the negotiation process?
3. How the "service" aspect of what a prosthetic vendor is providing when fitting an injured worker with a prosthetic device is considered in the total reimbursement for the device?

Pharmacy program

BWC's pharmacy program implemented a formulary for prescription drugs that became effective Sept. 1, 2011. When comparing FY16 with the base FY11 before the formulary became effective, the agency experienced:

- An 80-percent reduction in prescriptions for skeletal muscle relaxants;
- A 48-percent decline in prescriptions for opioids (Chart 2);
  - This represents a drop of 19 mllion doses of opioids covered by BWC;
- An 85-percent reduction in prescriptions for anti-ulcer agents.

Chart 5



In January 2010, the BWC pharmacy program initiated a monitoring program focused on opioid use among injured workers. The total average opioid load (as measured in grams of morphine equivalent doses) of injured workers has consistently declined for the past 28 quarters. Average total opioid load per injured worker was 18.6-percent lower in the last quarter of FY2016 compared with the first quarter CY2010.

BWC experienced a $46 million (34 percent) reduction in total prescription drug costs in FY2016 compared with FY2011.

To enhance the health care of injured workers, the pharmacy program enacted a new rule (OAC 4123-6-21.7) that requires the use of best practices as defined in national and Ohio prescribing guidelines when prescribing opioids for longer than 12 weeks. The rule also allows for treatment of opioid dependency without that condition being allowed in the claims.

Managed-care processes

MCO 2016-2017 contract

BWC successfully completed the HPP negotiation and contracting process between the agency and MCOs in December 2015. Thus, on Jan. 1, 2016, the new 2016-2017 MCO Contract was formally implemented. The terms of the new contract continue to build on the work begun under the most recent BWC-MCO contracts and reflect the following BWC goals:

- A greater focus on quality outcomes for injured workers and employers;
- Increased effectiveness of the MCOs in execution of their responsibility for the management of the medical portion of a claim;
- 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.

Relying on those goals, as well as early contract discussions, four larger areas of focus served as the backdrop against which BWC and the MCOs negotiated the 2016 and 2017 contract terms. Those four areas were:

1. Ways in which the HPP can better mainstream with standard health-care delivery and medical management approaches to address medical and vocational needs arising out of a workplace accident;
2. Increasing the focus on MCO actively managing the medical portion of claims from day one of a workplace injury while recognizing the positives of the HPP's performance;
3. Identifying ways to reduce the use of prescriptive policies and/or rules that dictate how to perform tasks, by implementing better performance and quality outcomes metrics, which allow the MCOs to determine the best approach to execute the HPP intent and related tasks;
4. Enhancing the approach to MCO services reimbursement to better align payments to reflect MCOs' success on high valued returns versus perceived imbalance of current compensation for basic administrative tasks.

Summary of Key 2016-2017 MCO Contract Changes

A. Base pay amount remains steady – percentages change

The fee payment base remains $170,029,665.00 per year, as it has been since Jan. 1, 2013. The key difference in the 2016-2017 MCO Agreement is that the payment now consists of a 50-percent ($85,014,832.50) administrative payment and a 50-percent ($85,014,832.50) outcomes payment. Previously, the payment consisted of a 55-percent administrative payment ($93,516,316) and 45-percent outcomes payment ($76,513,349). This shift is another step in continuing to better align service payments to program outcomes.

1. MoD remains the outcome measure tool for 2016.
2. Additional outcome measure tool for 2017
   To continue driving improvements in return-to-work rates, BWC will work with the MCOs to develop an additional outcome measure aimed at incentivizing the MCOs to increase their focus on working claims from day one of a lost-time event and reducing the number of lost days. This measurement, while separate and distinct from the current MoD outcome measure, will become a companion measure of MCO medical and case management success. If BWC successfully develops the measure during 2016 for deployment in 2017, then BWC would allocate the outcomes payment in the following manner:
   a. 10 percent ($8,501,483.25) to the new measurement;
   b. 40 percent ($76,513,349.25) to MoD.
   However, if the new measure is not developed or deployed for 2017, then the 2016 outcomes payment methodology will continue during the 2017-contract period.

B. Provision to increase the use of on-site case management services

During 2015, BWC and the MCOs engaged in lengthy discussions to increase and encourage the appropriate use of on-site case management visits in the medical management of claims. While there was a strong focus on the use of this tool for catastrophic claims, there was also an acceptance of the utility of on-site visits in non-catastrophic cases. Thus, a key inclusion in this contract is the terms governing MCOs use of on-site case management is for:

1. Catastrophic cases;
2. Non-catastrophic cases to remove barriers to MCOs' effective medical management of cases.

BWC's expectations are that effective on-site case management will:

1. Result in an improvement in tracking of injured worker progress and treatment compliance;
2. Facilitate the sharing among providers of critical information such as medications, diet, and upcoming medical appointments;
3. Help reduce complications and errors, which cost both time in recovery to the injured worker and increased expenditures to the compensation system.

   BWC will reimburse on-site visits at $250 per visit. BWC recognized that not all MCOs might have the infrastructure to execute this task in-house. Thus, BWC implemented a rule change that provides the MCOs the opportunity to outsource this service, once BWC has given approval to the MCO. To gain this approval, the MCOs must submit a detailed request to BWC for consideration.

C. Innovation incentive

A key MCO partnership opportunity that can create beneficial enhancements to the HPP is that of tapping into and promoting MCO innovative thinking. Therefore, this contract took another step in providing MCOs an incentive to identify and implement innovative ideas, which improves the HPP in the areas of medical management services, examinations, and recommendations and determinations. Under the terms of this contract, MCOs can submit a written project proposal, which reflects:

a. Purpose of project;
b. The HPP goals to be achieved;
c. Performance success measures.

A cross department internal BWC Review Team will evaluate the submitted project and make a decision. BWC will require the MCO to develop quantifiable performance metrics for each innovative idea upon which BWC can measure the MCO to ensure the innovative idea produces improvements as expected. A MCO can receive up to $510,000 for a successful innovative idea. BWC has reserved $5,100,000 to support the program. BWC will return any monies not allocated to the State Insurance Fund.

D. Exceptional performance incentives

BWC has also developed a series of exceptional performance incentive programs designed to improve the quality of life for an injured worker, reduce the risks associated with medication usage and/or increase the potential for an injured worker to return to the workforce. Under the terms of the contract, MCOs can earn incentive monies for exceptional performance in the following four key areas:

a. Medication management – 15-percent opportunity
b. Transitional work – 30-percent opportunity
c. Vocational rehabilitation – 30-percent opportunity
d. Legacy-claim management (RTW) – 25-percent opportunity.

The total incentive opportunity available to the MCOs is $3.4 million. BWC allocates that amount across the four areas based on a consideration of the challenge, impact opportunity and optimal end-objective.

BWC would make the incentive payments to the MCOs at the end of each contract year. The potential payments will be on a graduated earning reward methodology. Pursuant to a graduated earnings reward methodology for each incentive area, BWC would pay a MCO the appropriate portion of the total incentive opportunity. BWC will make a minimum payment upon a MCO achieving a minimum benchmark and with payment continuing to increase up to the established exceptional benchmark. BWC will return any exceptional performance monies not allocated to the State Insurance Fund.

A summary description below provides additional insight on each of the measures.

Exceptional performance measures description

1. Medication management

Medication management consists of two primary areas of focus: elderly injured workers and injured workers on high-risk drug regimens. In both instances, an expectation to see that injured workers take appropriate medications and are monitored to ensure the medications that they take are not harmful or place the injured workers at greater risk of death due to an overdose drive the incentive measures.

For the elderly injured workers, the population includes those more than 70 years of age who take a medication on the *Beers Criteria for Potentially Inappropriate Medication Use in Older Adults* (2015) as published by the American Geriatrics Society. To earn incentive payments for this measure, BWC will require MCOs to intervene with prescribers to either eliminate the medication from the injured workers regimen or provide guidance in the selection of a more suitable medication not on the *Beers* list.

For injured workers prescribed high-risk drug regimens, the population includes any injured worker who takes four or more of eight therapeutic drug classes known to increase the risk of patient death when taken in combination. To receive incentive payments for this measure, MCOs must work with prescribers to reduce the number of therapeutic classes prescribed to an injured worker to three or fewer or reduce the dosage amounts by 15 percent or more.

2. Transitional work

The transitional work measurement consists of two key areas:

- Increasing the award of transitional grants to employers;
- Increasing the use of transitional return to work.

BWC has a Transitional Work Grant Program. However, the program is not reaching its potential, as BWC is not awarding grant monies to the fullest extent possible. Recognizing a need to grow the Transitional Work Grant Program, BWC designed this measure to incentivize MCOs to assist employers to develop complete transitional work grant applications, which BWC may approve and award a grant. With more transitional work programs in place, BWC expects injured workers will have a better path to return to the workforce earlier in the life of a claim and in jobs that can accommodate any restrictions until the injured worker has recuperated.

The second key component of the transitional work measurement is the use of transitional return to work, regardless of whether an employer has an approved transitional work grant program. For this measurement, MCOs will need to work closely with providers to determine whether an injured worker may safely return to work with restrictions. The MCO will then work with an employer to see that an injured worker actually returns to work in a light duty/transitional work capacity for at least 30 days. As experience has shown, the longer an injured worker remains out of the workforce, the more difficult it becomes for him or her to return to work. BWC designed this measurement to encourage the safe, effective return to work early in the life of a claim and to remove any barriers that may impede an injured worker's ability to return to work.

3. Vocational rehabilitation

Unlike the transitional work incentive, BWC aimed the vocational rehabilitation incentive at increasing the use of vocational services when it is unlikely that an injured worker can return to his or her same employer or same job and has been out of the workforce for three years or less. This measurement also has two key areas: appropriate decision-making and positive outcomes.

BWC's noted experience with the use of vocational rehabilitation indicates only about 2 percent of eligible claims are referred for vocational rehabilitation. BWC wants to see that percentage increase. Therefore, BWC designed this measurement to increase the number of referrals while ensuring staff assigns referrals to a vocational rehabilitation case manager, resulting in the development of vocational rehabilitation plans. Conversely, BWC does not expect to see an increase in the percentage of pre-plan closures, which would otherwise indicate the injured workers referred were appropriate for using vocational rehabilitation services.

With appropriate claim selection for referrals, BWC expects the outcomes in those claims will result in more injured workers returning to the workforce for sustained periods of 30 days or more.

4. Legacy claim return to work

As the last measurement piece on the return-to-work continuum, BWC aimed the legacy claim return-to-work measure at addressing injured workers who have been out of the workforce for three or more years. BWC gives MCOs broad discretion to determine what tools they may best use to assist an injured worker with returning to the workforce. MCOs will receive credit for each injured worker that they successfully return to work for at least 30 days. BWC recognizes these claims may be the most difficult to resolve. However, these claims have the greatest impact on the workers' compensation system and on the lives of injured workers. The ability to return even one injured worker to the active workforce:

- Reduces the compensation paid;
- Improves the opportunities for the injured worker to increase her or her earnings and receive benefits;
- Facilitates the injured worker in becoming a productive member of society once again.

For these reasons, this measurement consists of 30 percent of the possible payments for all exceptional performance payments.

Medical providers

Provider recruitment

A continued focus of BWC is to support the HPP goal of having and maintaining a strong, effective network of certified providers. Quality providers meeting the needs of Ohio's injured workers are critical to managing a positive return to work or quality of life. BWC's system reflects providers in two ways — certified providers and enrolled providers. Enrolled providers have rendered service at least once to an injured worker. However, they have not taken steps to become BWC-certified. Enrolled providers cannot generally render ongoing care to an Ohio injured worker. Certified providers have completed the BWC provider application process, and have agreed to abide by all of the Ohio workers' compensation laws and policies, and are able to render ongoing treatment to an injured worker. There are 59,543 certified and 48,097 enrolled providers captured in the BWC system.

In FY16, BWC's provider relations business unit managed the following BWC certified provider activities:

- New provider enrollment:10,140;
- Providers that were recertified: 7,344;
- Providers whose certification lapsed and were not recertified: 9,314;
- Providers who were decertified from the system: 5,455;
- Annual amount of providers enrolled and certified in FY2016: 9,728.

Disability Evaluators Panel (DEP)

The disability evaluators panel program maintains and supports the more than 400 physicians who make up the disability evaluator panel (DEP). This panel provides file reviews and independent medical examinations as needed to support claims determination, drug utilization reviews and ADR appeals.

During the last year, BWC released an enhanced DEP agreement and handbook. The revised *DEP Handbook* assists DEP physicians in understanding the Ohio workers' compensation system, sets DEP expectations, details policies and procedures and serves as a general reference. BWC had not increased DEP physician reimbursement rates for more than 10 years. To ensure BWC reimburses DEP physicians adequately for their time, expertise and reported opinion, BWC implemented increased reimbursement rates in a two-phased approach. The first phase became effective March 1, 2016. BWC will implement the second phase July 1, 2017.

The revised DEP Physician Agreement correlates with the *DEP Handbook* and contracts the DEP physicians to fulfill services for Ohio's injured workers and employers based on specific criteria detailed in the *DEP Handbook*. BWC required DEP physicians wanting to re-contract with it to submit their completed DEP Physician Agreement to the DEP central unit prior to March 1, 2016. Four hundred and six DEP physicians signed their agreements. They are actively providing services to Ohio's injured workers and employers. The revised and updated *DEP Handbook* and DEP Physician Agreement create an accurate list of active DEP physicians.

In addition to streamlining the DEP, the DEP central unit enhanced training requirements for the DEP physicians. The unit designed these training updates to improve the quality of BWC's DEP physician's impartial medical examinations and medical file reviews, resulting in improved customer service. DEP physicians now must complete six hours of workers' compensation-related continuing education. In addition, the unit changed the requirement of BWC's DEP physicians to complete the *5th Edition AMA Guides to the Evaluation of Permanent Impairment rating* training from every two years to every five years. This convenience eliminates costly and redundant training of the DEP physicians. The DEP central unit's strategic approach to training the DEP physicians, increasing physician reimbursement rates, detailing BWC's expectations and policies in the revised *DEP Handbook* aid in providing objective, accurate examinations and file reviews.

During the next year, the department will implement an ongoing training program for the DEP members to address issues of quality and service execution. The division will work closely with the Chief Medical Officer and the Medical Services Division to further enhance the quality training of the DEP members and implement systemic quality reviews of DEP member reports. In addition, the department will evaluate the network to ensure statewide adequacy.

Ohio Workers' Compensation Medical & Health Symposium

BWC held its first official Ohio Workers' Compensation Medical & Health Symposium in March 2016. It was a resounding success based on the participants survey results and feedback. The medical symposium ran concurrently with BWC's Ohio Safety Congress & Expo, which draws more than 7,000 attendees each year. BWC held both events at the Columbus Convention Center and the Hyatt Regency Hotel in downtown Columbus.

BWC designed the medical symposium to accomplish several goals, including:

- Enhance the partnership between BWC and providers to achieve a common goal of high quality care;
- Enhance awareness and collaborative support of BWC's strategic initiatives;
- Provide access to quality continuing education that is convenient and cost effective;
- Support the DEP educational requirments.

The Medical Symposium offered two full days of continuing education sessions designed for physicians and health-care professionals involved in the care and management of work-related injuries. There were 13 education sessions during the two-day event, offering 12.5 continuing education credits.

Four hundred and thirty providers attended at least one of the Ohio Workers' Compensation Medical & Health Symposium classes. Nurses and rehabilitation professionals constituted about 60 percent of the participants. Comments were very positive on the quality and credibility of the presenters. Surveyed attendees' 94 percent overall satisfaction rates reflected this.

Planning is underway for the 2017 medical symposium scheduled for March 9 and 10. Marketing efforts will continue to focus on increasing provider interest for upcoming symposiums.

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

BWC implemented the Catastrophic Claims Program pilot in January 2013. An objective of the pilot was to evaluate the effectiveness of a medical management risk-sharing model for catastrophic claims within the Ohio workers' compensation environment. BWC would refer selected catastrophic workers' compensation claims to the vendor for an assessment. The vendor would assess the claim to determine what impact it could have, and establish a claim outcome goal. The vendor would then present a contract to BWC to manage the claim to the agreed to outcome goal. The vendor would have the responsibility, except in very narrow circumstances, to pay for all services and activities associated with the claim, even if some services were for issues not allowed in the claim, until it achieved the agreed to goal. Through a RFP process, BWC selected Paradigm Management Services as the vendor to execute the program

BWC wanted to see if a risk sharing model could efficiently be integrated into the HPP system in coordination with the MCOs. In addition, BWC wanted to determine if such a model in a cost-effective way would result in better quality and/or return-to-work outcomes for selected claims. The pilot ran for one year with three successive one-year extensions. Thus, 2016 is the last year of the pilot. Pursuant to the terms of the pilot, BWC's medical leadership conducted meetings to determine whether it would issue a new vendor RFP to either further test the pilot model or fully integrate the model into the HPP system.

Because of those discussions, the medical team did not believe there was a need for further testing of the model, given the experience with 26 pilot claims. Those pilot claims represented 20 percent of the total catastrophic injuries experienced in Ohio since the pilot began. Further discussion among the leadership team also resulted in the determination that a risk-sharing model is not an inherently more efficient and/or optimal program that would significantly add to the value of the current HPP system. Management of the model required system redundancies with the MCOs, which did not yield expected system efficiencies. Therefore, BWC decided not release a new Catastrophic Claims Program RFP.

This decision will not impact claims in active Paradigm management. Paradigm will continue to manage these claims until it achieves the agreed to clinical outcomes. At that point, the management portion of the claims transitions back to the MCOs. Moreover, BWC will incorporate what it learned from the pilot program into activities to better define quality medical and case management expectations for further enhancement of the MCO contract requirements.

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 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 in managing an injured worker's medical needs.

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, BWC's 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.

The ECP Pilot reflects 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.

The specific claims 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 have treatment by a POR participating in the program.

BWC calls PORs participating in the program 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.

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.

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.

Per the rule, the BWC Administrator in June extended the ECP pilot for another year to end on June 30. An identified critical next step is to have an external party assess the ECP pilot and provide objective insights and strategy on the next steps. Therefore, on July 22, 2016, BWC issued a RFP, and entered into a contract in October 2016 with The Ohio State University. Ohio State University analytical staff will execute a 240-day project, which will:

A. Review the design of the pilot program and evaluate the integrity of how BWC implemented the pilot program;

B. Identify next step improvement opportunities an strategies to include;

  i. Identify potential gaps or limitations of the pilot program and provide distinct analysis and specific approaches to improve upon the pilot program;
  ii. Provide and/or recommend tools/strategies to make improvements to the existing pilot program;
  iii. Recommend and/or design tools/strategies to effectively capture, collate and evaluate pilot program data to identify opportunities to improve claimant outcomes;
  iv. Provide recommendations/suggestions to consider in measuring the performance of pilot program physicians;

C. Take the BWC approved recommendations from Biii. and Biv. and present a model that demonstrates the successful application of the approved recommendations and BWC's ability to maintain the model.

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.

The number of injured workers referred into the vocational rehabilitation program has declined. However, the usage rate is still strong. In addition, 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 1

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

Voc Rehab Referral Summary	FY2012	FY2013	FY2014	FY2015	FY2016
Claims Potentially Eligible for VR	297,685	278,882	257,082	233,723	210,177
Claims Actually Referred for VR	5,537	5,681	5,078	4,527	4,374
%Eligible Claims Referred for VR	1.9%	2.0%	2.0%	1.9%	2.1%

In this past two years, BWC has sought ways to assist injured workers and employers with return to work by optimizing use of services for employment offered by the Ohio Department of Jobs and Family Services (ODJFS). BWC enacted an agreement between the two agencies to provide links to reference the services of Ohio Means Jobs on the BWC website and BWC vocational rehabilitation programs and services on the Ohio Means Jobs website. BWC also initiated a data sharing agreement that allows BWC to understand better how injured workers use the services of Ohio Means Jobs. BWC recently completed the programming necessary to transfer this data securely between the agencies. In addition, ODJFS and BWC staff presented training to BWC providers about the information available for use in re-employment found on the Ohio Means Jobs website in November 2015.

This year, BWC continued to monitor the changes in the vocational rehabilitation planning process initiated in September 2014. As the result of reconvening the vocational rehabilitation content workgroup composed of BWC, MCO and providers, BWC made some minor changes to the forms used by the vocational rehabilitation case manager to reflect better the needed content and signatures. BWC continues to work with the providers to enhance the function of the rehabilitation forms. BWC also created several new forms to allow the agency to better document the return-to-work Incentive agreements made with return-to-work employers. The agency recently completed conversion of Chapter 4 of the *MCO Policy Reference Guide* to technical policy format that fully reflects the programmatic changes implemented in September 2014.

In the fall 2014, changes to OAC 4123-18-05 introduced an assessment plan that providers may use to assess an injured worker's interest, skills and abilities to better inform the development of comprehensive vocational rehabilitation plans. The percent of successful vocational rehabilitation comprehensive and job-retention plans has increased from 51.2 percent successful in FY 2014 to 55.7 percent in FY 2016. During that same period, the number of vocational rehabilitation referrals that have closed after comprehensive or job retention plans decreased from 2,376 plans in FY 2014 to 1,704 plans in FY 2016, a 28.3-percent rate of decrease.

The overall pool of potentially eligible claims as reported in table 3 above for vocational rehabilitation referrals has decreased by 18.2 percent during this same period. In addition to the decrease in the population, BWC anticipated a reduction in the number of referrals that entered comprehensive or job-retention plans with the introduction of the Assessment Plan in FY 2015. The purpose of the Assessment Plans is to determine the injured worker's likelihood to return to work because of vocational rehabilitation services and to establish solid job goals and vocational directions.

In February 2015, 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. During FY 2016, BWC made 666 outcome payments to the vocational rehabilitation case managers and 451 payments to employment specialists. The agency continues to study the impact the modifications to the fee schedule have had on outcomes.

Medical bill processing

The Medical Services 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;
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.

Beginning Oct. 1, 2015, the freeze on updating ICD codes was also lifted. Thus, on October 1, 2016, BWC moved to appropriately update all related systems to accept the newly added and revised codes, and to delete expired codes. There were 6,808 code changes. The ICD-10-CM (Clinical Modification) included 1,943 new codes, 422 revised codes and 305 deleted (expired) codes. The ICD-10-PCS (Procedure Coding System) included 3,651 new codes and 487 revised codes.

BWC's goals of the ICD codes updates included:

- Ensuring continued compliance with current ICD coding guidelines;
- Adding new codes to further specify conditions (disease);
- Ensuring consistency and ease of use for providers, doctors and facilities of ICD codes;
- Preventing of bills denial;
- Ensuring timely approve all necessary treatments for injured workers.

The BWC claims system was updated with all of the code changes effective Oct. 1, 2016. The system update activities included:

- Appropriately indicating which of the new ICD codes are BWC allowed or non-allowed for claim allowance;
- Removing expired (deleted) codes from the system, with the 202 affected claims having appropriate replacement codes based on the claim's allowance description being inserted in place of the expired and deleted codes;
- Initiating conversion activity to translate new ICD-10 codes to ICD-9 code for actuary and MCO performance measurement use was also timely completed.
- The BWC provider payment support system was also updated with the new codes. This included updating the ICD code grouping logic which is designed to prevent the denial of provider bills associated with previously allowed claims and corresponding modified or deleted ICD.

Selected HPP Measurements

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

The table below reflects a historical trend of selected HPP performance data by Ohio fiscal year. Data for certain measurement variables can be different based on the impact of new information received before or subsequent to the compiling of the data for this report.

Table 2

Selected HPP Measurements

Measurement	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Active employers (1)	228,144	227,619	227,487	227,370	225,466	225,513
Active claims (2)	311,315	326,264	316,935	306,268	294,326	288,379
FROI timing (3)	15.47	15.61	16.28	14.28	15.18	15.63
% of FROIs filed within seven days of date of injury (4)	74.39%	74.40%	74.61%	75.94%	75.17%	74.38%
% of claims determined within 14 days of filing date (5)	66.82%	61.52%	57.88%	57.44%	55.02%	63.71%
Bill timing (6)	78.1	79.92	86.28	76.01	77.19	75.52
LDOS–MCO	62.37	64.48	71.19	61.98	62.86	61.59
MCO–BWC	6.59	6.24	6.53	5.46	5.82	5.47
BWC–MCO	7.19	7.25	7.16	7.18	7.21	7.15
MCO–Provider	1.95	1.95	1.39	1.39	1.31	1.31
Total regular medical payments (7)	755,797	724.395	682,401	640,525	593,827	559,396
Payments for file reviews and IMEs (8)	20,507	19,687	18,930	17,754	17,569	17,410
MCO fees (9)	166,960	168,403	169,815	169,581	170,688	169,229
Total medical payments, plus MCO fees	943,265	912,485	871,147	827,859	782,084	746,035
Total indemnity payments (10)	1,039,299	1,065,739	1,062,656	1,048,049	1,019,954	1,009,016
Grand total (11) Benefits paid (Total regular medical payments, plus MCO fees, plus total indemnity payments)	1,962,056	1,958,537	1,914,872	1,858,155	1,784,469	1,737,641

(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 FY2012 versus FY2011.

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

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

BWC bases the MCO-Provider information on a desk audit of the MCOs' check issuance timing which was 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. It also includes 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.

Division of Safety and Hygiene Annual Report

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Division of Safety & Hygiene Financials

BWC's Division of Safety and Hygiene (DSH) budget appropriation for Fiscal Year 2016 (FY16) was approximately $22.1 million. This figure excludes safety grants, a Bureau of Labor & Statistics (BLS) federal grant and Occupational Safety and Health Administration (OSHA) On-Site federal grants. 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 about $141,000 and a federal OSHA On-Site grant amounting to about $1.7 million. The total premium assessment for DSH for FY16 was approximately $13.2 million. Table A provides FY16 premium assessments.

Table A: FY16 DSH premium assessments

Employer type	Assessments ($)
Private	$10,262,348
Public taxing districts	$1,550,607
Public state	$634,932
Self insured	$740,846
Total assessments	$13,188,733

As of June 30, 2016, DSH disbursements for safety services and programs amounted to about $19.4 million. This included about $1 million in research grants to Ohio higher education institutions. Grants disbursements amounted to approximately $15 million. Disbursements for the BLS and OSHA On-Site federal grants amounted to about $1.6 million. DSH safety services and programs include:

- Education and training services in 12 statewide locations;
- Eighty-three 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, 2016.

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

Department	Safety admin	Field consultations	Outreach programs and services	Education and training services	Meetings and conventions (safety councils and congress)	Library	Technical advisors	OSHA state fund match (10%)	PERRP	Training overhead (extras)	BLS state fund match (50%)	Totals	Safety grants	BLS federal grant (50%)	OSHA federal grant (90%)	Totals including grants
10-Payroll	$312,979	$10,316,223	$598,675	$594,888	$410,041	$216,003	$961,547	$154,184	$712,382	$0	$99,864	**$14,376,786**	$0	$99,900	$1,387,633	**$15,864,319**
10-Overtime	$0	$745	$1,223	$3,695	$365	$0	$0	$0	$1,684	$0	$240	**$7,952**	$0	$193	$0	**$8,145**
13-Purchased services	$58,368	$536	$83,645	$404,642	$14,875	$25	$25,526	$1,964	$15,146	$0	$0	**$604,727**	$0	$0	$17,679	**$622,406**
15-Other personal services	$24,579	$14,806	$1,124	$2,834	$516	$2,804	$2,707	$69	$150	$3,438	$819	**$53,846**	$0	$819	$661	**$55,326**
Total	**$395,926**	**$10,332,310**	**$684,667**	**$1,006,059**	**$425,797**	**$218,832**	**$989,780**	**$156,217**	**$729,362**	**$3,438**	**$100,923**	**$15,043,311**	**$0**	**$100,912**	**$1,405,973**	**$16,550,196**
20-Edible products	$0	$0	$0	$0	$49,996	$0	$0	$0	$0	$0	$0	**$49,996**	$0	$0	$0	**$49,996**
21-Supplies	$48,813	$24,626	$907	$23,595	$7,102	$120,539	$218,309	$2,141	$19,897	$0	$377	**$466,306**	$0	$377	$19,205	**$485,888**
22-Vehicle maintenance	$975	$61,720	$0	$1,732	$1,197	$0	$3,571	$912	$4,205	$0	$0	**$74,312**	$0	$0	$8,208	**$82,520**
23-Travel	$1,517	$45,360	$401	$11,439	$33,547	$969	$25,999	$1,306	$10,591	$0	$1,618	**$132,747**	$0	$1,618	$25,004	**$159,369**
24-Communications	$20,649	$65	$0	$7	$16,164	$23,931	$5,935	$600	$0	$0	$500	**$67,851**	$0	$500	$5,402	**$73,753**
24-IT Lic Commun	$189,429	$65,484	$1,349	$74,745	$4,475	$1,030	$3,587	$1,271	$6,790	$0	$294	**$348,454**	$0	$294	$11,116	**$359,864**
25-Fuel/Utilities	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	**$0**	$0	$0	$0	**$0**
26-Maintenance/ Repairs	$2,584	$53,288	$1,600	$12,923	$1,526	$21,474	$1,903	$842	$1,764	$0	$0	**$97,904**	$0	$0	$7,574	**$105,478**
27-Rentals	$499,857	$0	$0	$4,800	$270,110	$0	$0	$0	$0	$0	$0	**$774,767**	$0	$0	$0	**$774,767**
27-ISTV/Goods/ Srvs	$56,120	$19,510	$106	$65,546	$12,552	$1,731	$1,764	$513	$3,690	$0	$52	**$161,584**	$0	$352	$9,970	**$171,906**
28-Printing/ Advertising	$216	$285	$0	$24,397	$34,562	$3,557	$0	$0	$0	$0	$0	**$63,017**	$0	$0	$0	**$63,017**
29-General/ Other/ Subsidies	$1,025,089	$7,173	$0	$0	$1,042,350	$0	$500	$328	$462	$7,587	$0	**$2,083,489**	$14,999,977	$0	$2,810	**$17,086,276**
Total	**$1,845,249**	**$277,511**	**$4,363**	**$219,184**	**$1,473,581**	**$173,231**	**$261,568**	**$7,913**	**$47,399**	**$7,587**	**$2,841**	**$4,320,427**	**$14,999,977**	**$3,141**	**$89,289**	**$19,412,834**
30-Food Handling	$0	$0	$0	$0	$0	$0	$ 0	$0	$0	$0	$0	**$0**	$0	$0	$0	**$0**
31-Office Equipment	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	**$0**	$0	$0	$0	**$0**
32-Motor Vehicles	$37,857	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	**$37,857**	$0	$0	$0	**$37,857**
34-Commun Equip	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	**$0**	$0	$0	$0	**$0**
35-Med/Lab/ Therpeut	$0	$0	$0	$0	$0	$0	$0	$0	$35,530	$0	$0	**$35,530**	$0	$0	$0	**$35,530**
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	$0	$0	$0	$0	$0	$2,406	$0	$0	$0	$0	$0	**$2,406**	$0	$0	$0	**$2,406**
38-Copy/Print Equip	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	**$0**	$0	$0	$0	**$0**
39-Other Equip	$0	$0	$0	$0	$0	$0	$0	$0	$3,100	$0	$0	**$3,100**	$0	$0	$0	**$3,100**
Total	**$37,857**	**$0**	**$0**	**$0**	**$0**	**$2,406**	**$0**	**$0**	**$38,630**	**$0**	**$0**	**$78,893**	**$0**	**$0**	**$0**	**$78,893**
Grand Total	**$2,279,032**	**$10,609,821**	**$689,030**	**$1,225,243**	**$1,899,378**	**$394,469**	**$1,251,348**	**$164,130**	**$815,391**	**$11,025**	**$103,764**	**$19,442,631**	**$14,999,977**	**$104,053**	**$1,495,262**	**$36,041,923**

BWC's Occupational Safety and Health Services

DSH provides a 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 FY16.

Education and training services

BWC's safety education and training services include classroom and web-based safety courses. BWC offers classes covering:

- Industrial and construction safety;
- Industrial hygiene;
- Ergonomics;
- Risk and safety management.

Course completions for classroom, web-based and on-site training totaled 18,278 completions by 12,416 students, representing 6,764 employers. BWC offered 88 courses through 372 classes at 12 locations. Field staff conducted 60 additional on-site classes to 997 students representing 260 employers. BWC's learning management system offered 14 online courses, resulting in 9,397 completions by 6,503 students representing 3,978 employers.

Safety Council Program

Through monthly meetings, the Ohio Safety Council Program provides a forum for more than 8,400 Ohio employers for promoting:

- Occupational safety and health;
- Loss prevention;
- Workers' compensation cost control and management;
- Health and wellness;
- Networking.

BWC co-sponsors 83 safety councils throughout the state, organized through chambers of commerce, trade and manufacturing associations, safety education providers and other local community organizations.

BWC provided $1,042,000 in subsidies toward the direct costs of these councils. In addition, BWC paid $9.5 million in premium rebates to employers who met the safety councils' enrollment, active participation and performance requirements. Beyond subsidies and rebates, BWC presented awards to 5,195 employers through a structured program to recognize companies for their efforts in injury and accident prevention. Safety councils held 1,214 meetings during FY16.

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

Table C: FY16 occupational safety and health services statistics by policy type

Service type	Private employers	Public employers	State agencies	Self- insured	Marine fund	Black lung	Undeter-mined	Total
Training and education	6,180	346	25	208	0	0	5	6,764
Safety congress	1,885	251	33	271	0	0	244	2,684
Safety council	7,093	921	6	387	0	1	41	8,449
Safety grants*	517	172	0	0	0	0	0	689
Video library	921	108	15	92	0	0	1	1,137
Specialized field consulting - visit only	3,746	655	35	242	0	0	0	4,678
OSHA On-site	534	0	0	0	0	0	0	534
PERRP field consulting – visit only	55	60	8	8	0	0	0	131

* = 725 grants awarded to 689 employers.

participants, 7,391 individuals, representing 2,684 Ohio businesses. The free, three-day event offered general sessions, workshops, lectures, panel discussions, simulations and demonstrations. Additionally, the event featured an exposition marketplace and a Safety Innovation Awards Program with cash awards for top contenders. The safety congress also co-hosted the first annual Ohio Workers' Compensation Medical & Health Symposium. This program offered educational sessions on pain and neuromusculoskeletal topics for physicians and health-care providers.

A record-setting 250 product and service providers participated in the exposition. They provided $312,219 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 225 educational sessions and workshops.

Of those who attended safety congress, 93 percent indicated they were "completely satisfied" or "satisfied" with the event. In addition, 94 percent indicated the information they learned will impact their organization. Furthermore, 14 types of continuing education credits were available for professional development and professional certifications. These included certified medical education credit for physicians, chiropractors and health-care providers.

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 Grant (SIG) Program, the Drug-Free Safety Program (DFSP) Grants and the Workplace Wellness Grant Program (WWGP). In FY16, BWC awarded 725 grants totaling $14,999,277 to 689 employers.

Safety Intervention Grant Program

The SIG Program, now in its 17th 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 FY16, BWC awarded 528 SIG grants totaling $14,576,707 to 511 employers. In comparison, BWC awarded 539 SIG grants totaling $14,597,282 to 513 employers in FY15. This year, 86 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 (20 percent), construction (17 percent) and service (16 percent) industry sectors.

To establish industry best practices in occupational safety and health, employers receiving grant funds through the SIG program must provide two year-end case studies and 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, 489 companies fulfilled their participation requirements with the SIG program. These companies reported $5,151,567 in annual productivity savings, $2,181,113 in annual claim cost savings and $2,277,170 in other savings (quality, absenteeism, etc.). The return on investment on the cost of the interventions based on this reported information is approximately 2.14 years.

Drug-Free Safety Program Grant

In FY16, BWC awarded 45 DFSP grants amounting to $47,396 to 44 employers. The service industry sector accounted for 37 percent and the commercial sector accounted for 24 percent of the participating employers. The manufacturing and construction sectors also benefited from these grants. In comparison, in FY15, BWC awarded 54 grants amounting to $57,045 awarded to 50 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 fourth year. The program's goal is to control the escalating cost of workers' compensation claims through addressing health-risk factors. The WWGP's collateral goals are to reduce health-care costs for employers and 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 conduct 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 the HRAs and biometric screenings, and providing BWC the aggregate results of the HRAs and biometric screenings of the participating employees.

During FY16, BWC approved 46 employers to participate in the WWGP, bringing the participating employers total to 316. BWC gave $375,175 to 152 employers in the program during FY16.

On-site and field consulting services

BWC's on-site and field consulting safety services include:

- The OSHA On-Site Consultation Program;
- PERRP;
- Specialized field consulting services in these areas;
  - Industrial safety;
  - Construction safety;
  - Ergonomics;
  - 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;
- 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 amounting to $1,697,277. BWC funds the remaining 10 percent ($178,947). The program provides highly specialized services to relatively small employers (fewer than 250 employees) in high hazard/risk private industries. The program also administers the Safety and Health Achievement Recognition Program (SHARP), which is an OSHA cooperative program providing recognition and exemptions for small employers with exemplary safety and health management systems. Nine SHARP participants renewed their participation in the program during state FY16.

Program field consultants conducted 900 visits to workplaces throughout Ohio belonging to 534 employers with 59,822 employees. In addition, the program provided on-site safety training for 2,190 employees. There are 29 employer sites in the SHARP.

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. It also assists the public sector workforce in creating safe and healthful workplaces.

During FY16, PERRP provided 395 compliance assistance services. It also conducted 31 enforcement activities, including five fatality investigations. PERRP issued 45 citations for enforcement visits. Overall, PERRP compliance and enforcement specialists worked with 191 public employers. PERRP compliance assistance and enforcement inspections resulted in public employers voluntarily correcting more than 520 workplace hazards. This resulted in improved working conditions for Ohio public employees.

PERRP's outreach efforts concentrated on assisting public employers in the following areas:

- Mobile crane operator certification;
- Use of the Ohio Manual of Uniform Traffic Control Devices to improve work zone safety;
- Safe tree felling and trimming operations.

PERRP supported other DSH programs by assisting 23 public employers enrolled in the Industry-Specific Safety Program (ISSP). It also provided enrolled employers with risk reduction services that qualified for 37 ISSP activity credits. In addition, PERRP assisted public employers in attaining five 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 workplace ergonomics, environmental and physical hazards;
- Develop and execute hazard abatement plans;
- Establish workplace safety and ergonomics committees;
- Use the SIG and WWGP.

These field activities include thousands of noise measurements, air quality sampling, ergonomic surveys and safety audits in workplaces throughout Ohio. In FY16, BWC's field consultants made 16,708 visits to Ohio workplaces belonging to 4,678 employers. They provided consulting services in industrial hygiene, industrial and construction safety and ergonomics.

Library services

The BWC library offers access to information, training materials and videos, and experienced librarians to help employers with their workplace safety and health activities, workers' compensation and risk management, and rehabilitation. In addition, BWC librarians provide training on researching web-based and media resources for safety and health, rehabilitation and public safety information. BWC's library is the only library of its kind in Ohio and among a few in the nation with such specialized services.

Library 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 750 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 250 titles in electronic format for Ohio employers. This year, the video library served 1,137 Ohio employers. The video library circulated 6,684 DVDs and videotapes. In addition, online safety and health streaming titles were streamed 7,591 times.

Technical advisors unit

BWC's technical advisors unit provides specialized technical support to BWC field consultants and field operations staff in these areas.

- Occupational safety and health;
- Ergonomics;
- 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. These include 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. In addition, they lead special projects and safety initiatives.

This unit also maintains and updates the specific safety requirements codes in the Ohio Administrative Code. In FY16, the unit revised and updated 27 codes that are applicable to all 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;
- Presentation modules.

They also teach several occupational safety, ergonomics and industrial hygiene courses.

Industrial hygiene laboratory

BWC's industrial hygiene laboratory provides a variety of support services to BWC consultants. The laboratory handles the inventory repairs, maintenance and calibration of more than 2,500 measurement devices and tools used by DSH staff. Last year, the laboratory performed certified calibration of 733 devices, with estimated savings of approximately $129,560.

BWC industrial hygienists, working with an accredited external laboratory, coordinated 11,576 specialized tests of air quality samples to measure workers' exposures to a variety of chemicals at 906 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 FY16. The survey is the only comprehensive measure of work-related injuries and illnesses in U.S. 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 2015 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 5,100 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. BWC coded all reported cases 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 FY17 survey cycle, BLS pre-notified 4,648 establishments of their inclusion in the SOII program. The FY17 survey will gather occupational injury and illness data for the 2016 calendar year.

Last year, the program successfully published the survey statistics available from the BLS survey for calendar year 2014 for Ohio. Results from the survey for the past two years show 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 results from the survey.

The department facilitated two educational presentations related to the SOII at the 2016 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. BWC will offer these presentations and more at the upcoming 2017 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. It emphasizes 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 (NORA). 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 four projects from two institutions in FY 16. These included projects involving:

- Cancer incidence among Ohio firefighters;
- Ergonomic solutions designed to reduce the risk of musculoskeletal injury when firefighter-paramedics handle obese patients;
- Developing and validating a low-cost respirator seal integrity monitor for firefighters and other workers wearing elastomeric respirators;
- Examining the relationships between medication risk and the incidence, severity and types of occupational injuries.

In FY16, BWC and NIOSH continued to collaborate on projects and use their respective strengths and resources on projects that will improve public policy. BWC and NIOSH will achieve this goal by using workers' compensation information as part of research that will inform better decisions about occupational safety and health risks and workers' compensation systems.

During FY16, BWC applied for and received a grant from the Centers for Disease Control and Prevention (CDC) to expand efforts to study injury trends using workers' compensation data. The grant awards BWC $200,000 per year during the next three fiscal years to accomplish this objective. The cooperative agreement compiles, analyzes and disseminates workers' compensation data to promote the prevention of occupational injuries, illnesses, fatalities and exposures to hazards within Ohio and throughout the nation.

Current BWC/NIOSH projects include:

- Ohio Bureau of Workers' Compensation Data Historical Trend Analysis;
- Workers' Compensation Claims for Traumatic Brain Injuries — Ohio;
- Evaluation of Claim Rates and Costs for Construction Sector Nail Gun Injuries in Ohio;
- Workers' Compensation Claims for Private Sector Ambulance Services — Ohio;
- Workers' Compensation Claims for Temporary Agency Employers — Ohio;
- Workplace Wellness Grant Program Effectiveness Evaluation.

Additionally, several safety and health experts from BWC serve on NORA sectors and cross-sector councils. NIOSH is the steward of these councils. NORA councils are a national venue for individuals and organizations with common interests in occupational safety and health topics to come together. Councils will soon start their third decade by identifying broad occupational safety and health research objectives for the nation. Based on council member and public input, these research objectives will build from advances in knowledge in the last decade and address emerging issues. Councils will spend the remainder of the decade working together to address the agenda through information exchange, collaboration, and enhanced dissemination and implementation of solutions that work.

Ohio occupational fatalities for calendar years 2011 through July 2016

At the time of this report, BWC had received reports of 89 work-related injury fatalities for calendar year 2015. Of those:

- Fifty-eight workers were injured and died on the day of injury;
- Sixteen workers were injured but died on a later date in calendar year 2015;
- Fifteen workers were injured in a previous calendar year and died in calendar year 2015.

There were also 31 occupational disease (OD) related fatalities in 2015.

On page 55 is an analysis of work-related injury fatalities reported to BWC during calendar years 2011 through July 2016. The focus of this analysis is on fatalities that occurred in 2015. The analysis does not include fatalities that were the result of occupational illnesses/diseases.

Figure 1 provides a general overview of occupational injury fatalities in Ohio (excluding occupational disease fatalities) for calendar years 2011 through July 2016. For each year, the chart depicts the number of fatalities where the worker died on the date of injury. It also shows fatalities where the worker was injured and died on a date after the date of injury during the same year. In addition, it illustrates fatalities where the worker died in that year from injuries sustained in an earlier year.

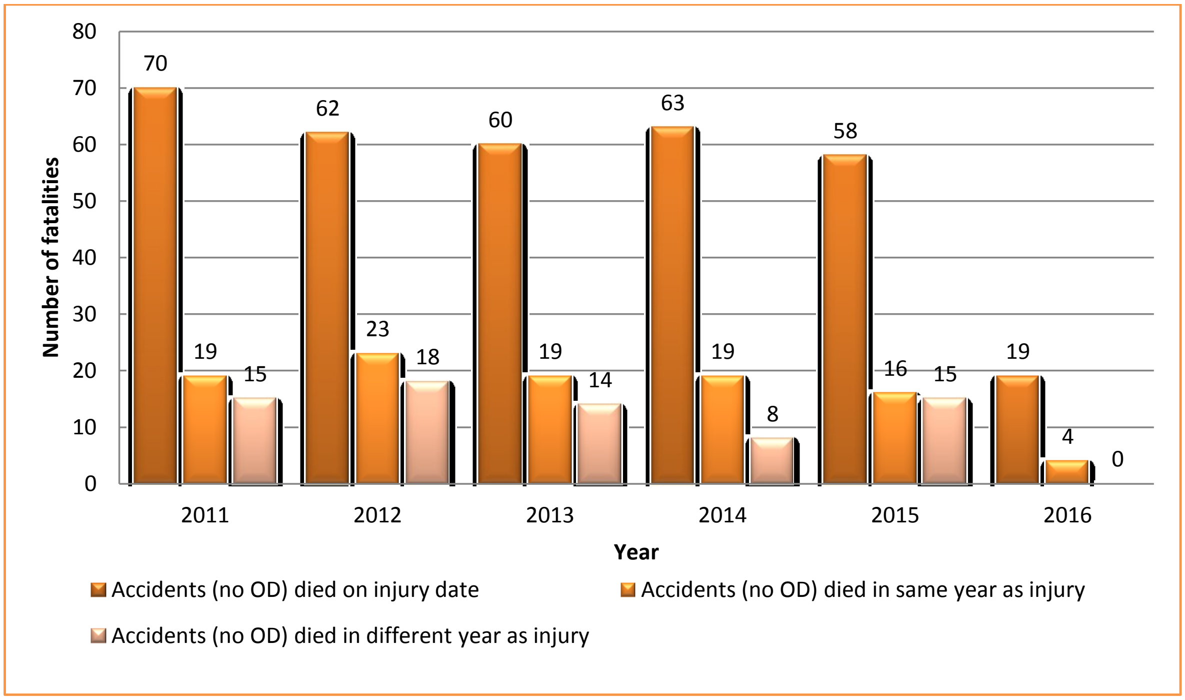

Figure 1: Ohio occupational injury fatalities (excluding occupational disease fatalities) from 2011 through July 2016

Generally, occupational injury fatalities in Ohio have followed a downward trend during the past several years. After about a 10 percent drop from 2012 to 2013, fatalities for 2014 and 2015 have continued to decrease slightly. Fatalities for 2015 are roughly 14 percent lower than in 2011. This decrease is consistent with the national trend. The majority of the fatalities were immediate with injury date and death date being the same.

2015 Fatalities according to source of injury/illness (causation)

Figure 2 provides a summary of the primary causations for the fatalities from both occupational injuries and diseases reported to BWC for calendar year 2015. The chart depicts the number and percentage of fatalities for 2015 grouped by causation.

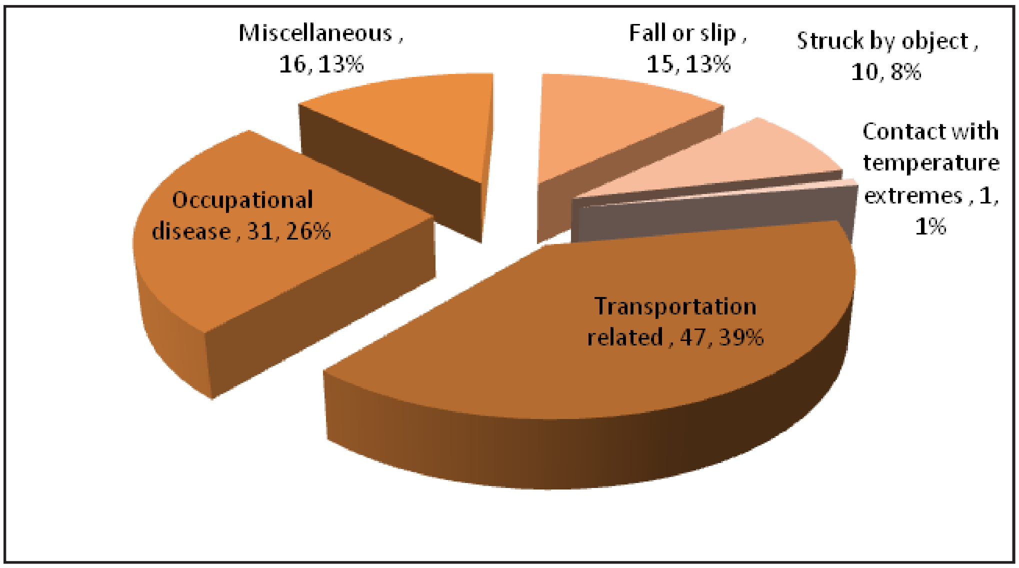

Figure 2: Calendar year 2015 fatalities by causation

Transportation-related accidents continued to be the leading cause of work-related fatalities in 2015, increasing from 41 in 2014 to 47 in 2015. Twenty-nine workers died in motor vehicle accidents as a driver or passenger. Seven workers died when a vehicle struck them while working on or by a roadway. Accidents related to forklifts or construction equipment resulted in six fatalities. Five workers (pedestrians) died in accidents when a motor vehicle struck them.

Occupational disease-related fatalities increased from 25 in 2014 to 31 in 2015.

Compared to 2014, fatalities from slips and/or falls decreased from 22 in 2014 to 15 in 2015. They remained the second leading cause of non-OD work-related fatalities. Other leading causes of fatalities in 2015 included: struck by an object, which increased from three fatalities in 2014 to 10 in 2015, victim of workplace violence (six) and electrocutions (four). There were no fatalities in 2015 from getting caught in or between machines or machine parts, which decreased from six fatalities in 2014.

The remaining coded causations for calendar year 2015 fatalities are as follows:

- Two workers died because of entrapment or engulfment;
- One worker died as a result of a fire or flames;
- One worker died because of an explosion;
- Three workers died from other causations.

2015 Fatalities according to industry sector

Figure 3 depicts the number of fatalities by industry sector from 2011 through July 2016.

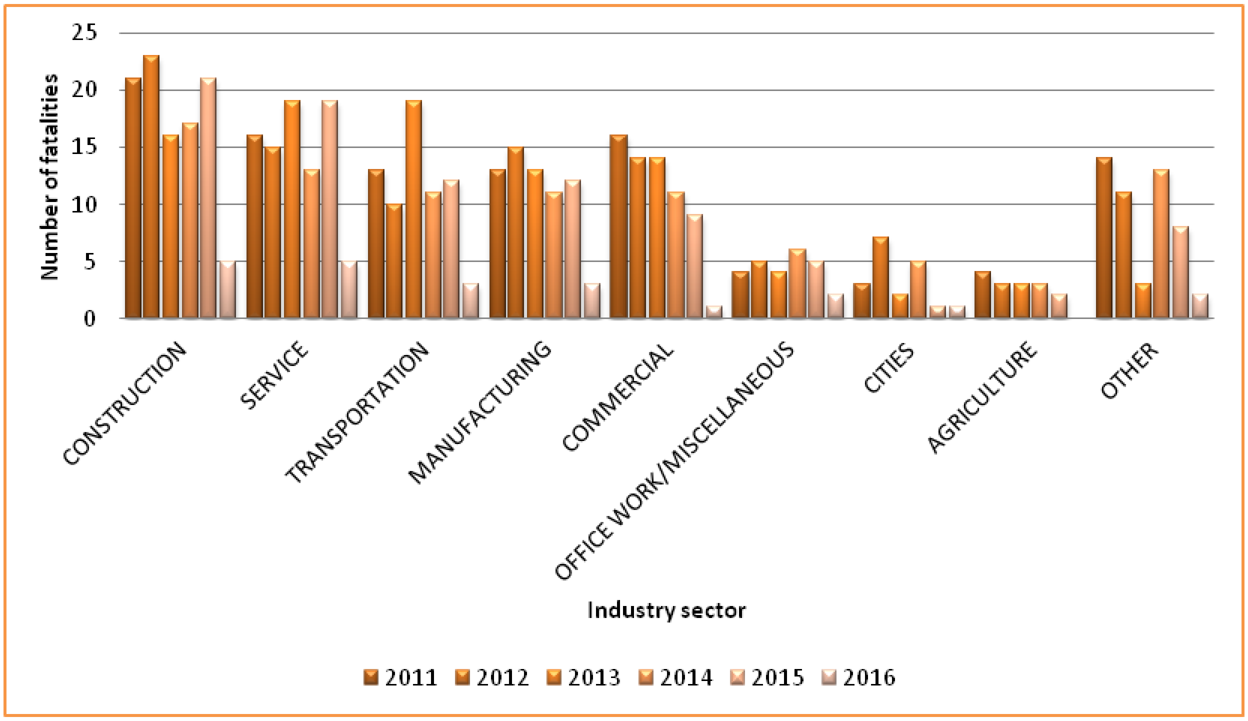

Figure 3: Fatalities by employer industry sector from 2011 through July 2016

The industry sector with the most fatalities in 2015 was the construction sector with 21 fatalities. This is four more fatalities compared to the sector's fatalities in 2014. The primary cause was transportation-related accidents.

The service industry sector had the second highest number of fatalities (19) in 2015, six more fatalities than in 2014. The leading cause of fatalities in the service sector was motor vehicle accidents.

The transportation and manufacturing industry sectors had the third highest number of fatalities in 2015 with 12 fatalities each. The transportation and manufacturing industry sectors experienced a slight increase in fatalities compared to 2014, in which each sector had 11 fatalities.

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 (FY16)

Employer type	Field consulting	Video library	Education and Training	Safety congress	Safety grants	PERRP	On-Site	Total
Private (PA)	$8,745,341	$1,875,397	$1,947,335	$1,781,400	$10,687,424	$54,875	$2,513,125	$27,604,897
Public taxing district (PEC)	$1,754,474	$246,590	$187,915	$288,600	$4,311,853	$261,193		$7,050,625
Public state (PES)	$383,836	$140,781	$214,810	$327,000		$87,141		$1,153,568
Self-insured	$1,205,859	$218,090	$302,545	$537,600		$45,043		$2,309,137
Not defined	$0	$58,419	$15,905	$816,000		$0		$890,324
TOTAL	$12,089,510	$2,539,277	$2,668,510	$3,750,600	$14,999,277	$448,252	$2,513,125	$39,008,551

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.

Industrial Commission of Ohio Annual Report

Letter from the Chairman

It is my pleasure to present the Ohio Industrial Commission's (IC) Annual Report for Fiscal Year (FY) 2016.

The IC continues to be at the forefront of enhancing a customer-centered approach to public service, while lessening the financial burden of those who pay into Ohio's workers' compensation system.

Over the past fiscal year, our agency has worked tirelessly to improve the efficiency of the claims process while staying true to our bottom line. In FY 2016, the IC continued to develop new technologies to benefit the customer experience, and worked to give our office locations a modernized feel. We are constantly reviewing and improving rules and procedures to make navigating the workers' compensation appeals process less daunting. Because of these successes, the IC continues to provide impartial and expedient hearings to Ohio's injured workers and employers.

Fiscal year highlights include:

- Budget stability continued as one of the agency's central goals as expenditures for the FY 2016 budget totaled $45.5 million — marking the fourth year in a row that expenses have remained within a narrow range between $45 million and $46 million;
- Maintained a consistent Administrative Cost Fund rate environment whereby assessed rates remained unchanged for all risk groups;
- Achieved a new benchmark high by directing 47.3 percent of eligible agency expenditures toward certified Minority Business Enterprise (MBE) businesses;
- Implemented changes to allow medical providers to send and receive medical exam reports through our secure website;
- Enhanced the digital signage in the hearing room lobbies in all offices by redesigning the signage to have three times more information than the previous digital signage;
- Improved the hearing calendar on ICON with an ICS tool, which can be used by representatives to add scheduled hearings to their personal calendars on smartphones or desktops via the mobile or the full site;
- Renovated the Cambridge and Logan district offices;
- Installed new hearing room signs and document holders in 10 satellite offices to improve customer traffic outside the hearing rooms;
- Installed new logos and signage inside offices in Columbus, Cleveland, Cincinnati, Logan, Cambridge, Youngstown and Akron;
- Consolidated the hearing rooms and customer service areas into one location in Columbus and renovated the medical examination rooms;
- Reviewed and revised the entire Hearing Officer Manual and changed the title to Adjudications before the Ohio Industrial Commission to include IC commissioners and hearing administrators more appropriately.

These accomplishments affirm our commitment to providing our customers with top-notch service without sacrificing fiscal responsibility to do so. I am proud to lead an agency that values these important goals.

We look forward to providing the first-rate service our customers have come to expect. While we continue to pursue new technological advances and diligently work to make our processes less complex, injured workers and employers can rest assured that they will continue to receive a quick and fair resolution to their claim. The IC will continue to be a model of efficient, responsive and resourceful public service.

Sincerely,

Thomas H. Bainbridge
Chairman
Ohio Industrial Commission

About the IC

The IC conducts more than 127,000 hearings each fiscal year. Most of these hearings take place within 45 days of the original claim appeal. That means customers can expect outstanding customer service as the IC provides a forum for appealing 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 is dedicated to offering 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.

FY 2016 Highlights

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

In FY 2016, the IC heard 127,144 claims. District hearing officers (DHO) heard 89,143 claims. Staff hearing officers (SHO) heard 37,845 claims and the Commission heard 156 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 31 days. Staff level (second level) hearing appeals averaged 33 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 35 days on average. For the staff level, it averaged 36 days.

The Industrial Commission Online Network (ICON) continues to be the reason for our success because it has made it easy to file appeals online. There were 57,591 first-level motions and appeals filed on ICON this fiscal year. There were also 56,916 second level (or above) appeals filed on ICON during the fiscal year.

Customer Service received and responded to 921 Ask IC submissions during this fiscal year. The department also scheduled 1,172 interpreters for injured workers hearings. In addition, the IC's toll-free customer service line and two local customer service lines received 11,432 calls this fiscal year. Staff personally assisted 24,413 people at the IC's Columbus office. Customer Service also processed 137,706 claims-related documents.

Commission Performance Highlights – FY 2016

In FY 2016, the IC made approximately 209,926 decisions on issues arising from workers' compensation claims.

During FY 2016, the IC performed 82,782 administrative reviews and heard 127,144 claims at all adjudicatory levels. Claims heard are inclusive of hearings at the DHO, SHO, Deputy, and Commission venues. Administrative reviews incorporate issues that do not initially require formal adjudication via hearing (Hearing administrator issues, Commission requests, cancellation requests, etc.). These issues receive review and processing at the claims examining, word processing, and hearing officer levels. However, routine production reports under DHO or SHO dockets do not typically reflect them. These issues may subsequently result in a hearing under the normal adjudicatory process. They are reflected accordingly under respective hearing venues.

The DHO hearing volume accounted for 70 percent of the overall hearings during FY 2016 at 89,143 claims heard, while the SHO volume recorded 37,845 claims heard. Deputy venue reported 58 claims heard in FY 2016, while the Commission venue recorded 98 claims heard. Total claims heard are inclusive of continuances, referrals, dismissals and other final determinations made because of a hearing.

Regionally, the distribution of FY 2016 claims heard at district and staff hearing levels is as follows: Columbus, 32 percent; Cleveland, 22 percent; Akron and Cincinnati each 19 percent; and Toledo, 9 percent.

The IC conducted district and staff hearings on 247 days during FY 2016. They heard an average of 514 claims per hearing day at the DHO and SHO hearing levels. District hearing officers averaged 361 claims heard per day while staff hearing officers averaged 153 claims heard per day.

Hearing time frame performance mandates have been set forth in Ohio Revised Code (ORC) 4123.511 for the district, staff, 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 are set at 52 days for each hearing venue. The ORC 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 docket issues fall under time frame requirements outlined in ORC 4123.511.

District hearing officers heard 70,050 allowance docket claims during FY 2016. Of those, 52,506 qualified for inclusion in time studies. On average, the district hearing level process (filing of motion/appeal to mailing of district hearing officers order) was completed within 35 days during FY 2016.

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); and
- Miscellaneous (other issues not designated to a pre-defined docket type).

Only appeal docket issues fall under time frame requirements outlined in ORC 4123.511.

Staff hearing officers heard 31,815 appeal claims during FY 2016. Of those, 26,731 qualified for inclusion in time studies.

ORC 4123.511(D) states the IC must hear staff hearing level appeals within a 45-day period. In FY 2016, staff-level appeal processes averaged 33 days for the statutory filing to hearing period.

BWC Audited Financial Statements

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

FINANCIAL STATEMENTS

June 30, 2016 and 2015

Dave Yost • Auditor of State

Board of Director
Ohio Bureau of Workers Compensation and Industrial Commission
30 West Spring Street
Columbus, Ohio 43215-2256

We have reviewed the *Independent Auditor's Report* of the Ohio Bureau of Workers Compensation and Industrial Commission, Franklin County, prepared by Crowe Horwath LLP, for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Ohio Bureau of Workers Compensation and Industrial Commission is responsible for compliance with these laws and regulations.

Dave Yost

Dave Yost
Auditor of State

October 27, 2016

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

FINANCIAL STATEMENTS
June 30, 2016 and 2015

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Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT

Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio
A Department of the State of 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 year ended June 30, 2016, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance 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 opinion.

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, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

(Continued)

Emphasis of Matters

As discussed in Note 1, the financial statements of the BWC/IC are intended to present the financial position, changes in financial position, and 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, 2016, 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 opinion is not modified with respect to this matter.

Other Matters

The financial statements of BWC/IC as of June 30, 2015, were audited by other auditors whose report dated September 30, 2015, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that 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 3-11, 47-48, 49, and 50, respectively, listed in the table of contents, to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the BWC/IC's basic financial statements. The supplemental schedule of net position and schedule of revenues, expenses and changes in net position are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedule 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 as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated September 29, 2016 on our consideration of BWC/IC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 BWC/IC's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Columbus, Ohio
September 29, 2016

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, 2016, 2015, and 2014. BWC and IC are collectively referred to as BWC/IC. This information is based on BWC/IC's financial statements, which begin on Page 12.

Financial highlights

- BWC/IC's total assets at June 30, 2016 were $27.4 billion, a decrease of $1.6 billion or 5.6 percent compared to June 30, 2015.
- BWC/IC's total liabilities at June 30, 2016 were $18.7 billion, a decrease of $1.1 billion or 5.3 percent compared to June 30, 2015.
- BWC/IC's total operating revenues for fiscal year 2016 were $(48) million, a decrease of $2 billion or 102 percent compared to fiscal year 2015. A reduction to Disabled Workers' Relief Fund (DWRF) II unbilled assessments of $1.5 billion contributes to the significant decrease.
- BWC/IC's total operating expenses for fiscal year 2016 were $1.3 billion, a decrease of $182 million or 12 percent from fiscal year 2015.
- BWC/IC had $15 million in premium rebate expenses, reduced transition credit expenses by $22 million, and recorded $508 million of DWRF I alterative funding expense in fiscal year 2016.
- BWC's non-operating revenues for fiscal year 2016 were $1.4 billion, compared to $510 million for fiscal year 2015.
- BWC/IC's net position decreased by $514 million in fiscal year 2016, compared to a $70 million decrease in fiscal year 2015.

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, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at fiscal year end. Net position represents the amount of total assets and deferred outflows of resources less total liabilities and deferred inflows of resources. 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.

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, 2016, 2015, and 2014, and for the years then ended were as follows (000's omitted):

	2016	2015	2014
Current assets	$ 1,192,575	$ 1,597,941	$ 1,980,409
Noncurrent assets	26,246,679	27,456,171	28,361,299
Total assets	$ 27,439,254	$ 29,054,112	$ 30,341,708
Deferred outflows of resources	63,608	16,679	-
	$ 63,608	$ 16,679	$ -
Current liabilities	$ 3,058,458	$ 3,532,668	$ 3,867,108
Noncurrent liabilities	15,683,834	16,267,360	17,014,387
Total liabilities	$ 18,742,292	$ 19,800,028	$ 20,881,495
Deferred inflows of resources	6,685	2,431	-
	$ 6,685	$ 2,431	$ -
Net investment in capital assets	$ 157,884	$ 142,347	$ 125,998
Unrestricted net position	8,596,001	9,125,985	9,334,215
Total net position	$ 8,753,885	$ 9,268,332	$ 9,460,213
Net premium and assessment income, including provision for uncollectibles	$ 1,439,143	$ 1,954,174	$ 2,085,821
DWRF II unbilled assessment	(1,499,600)	-	-
Other income	12,442	8,413	8,141
Total operating revenues	$ (48,015)	$ 1,962,587	$ 2,093,962
Workers' compensation benefits and compensation adjustment expenses	$ 1,211,609	$ 1,394,939	$ 1,519,175
Other expenses	119,419	118,372	117,277
Total operating expenses	$ 1,331,028	$ 1,513,311	$ 1,636,452
Transition credit expense	$ 22,070	$ (38,781)	$ (1,229,000)
Premium rebate	(15,396)	(1,013,171)	(45)
Legal settlement / loss contingency	-	22,938	439,440
DWRF I alternative funding expense	(507,891)	-	-
Operating transfers out	(425)	(425)	(425)
Net investment income	1,365,464	509,882	3,013,608
Gain on disposal of capital assets	774	71	48
(Decrease) increase in net position	$ (514,447)	$ (70,210)	$ 2,681,136
Prior period adjustment - pension	$ -	$ (121,671)	$ -

(Continued)

BWC/IC's net position decreased by $514 million during fiscal year 2016, compared to a $70 million decrease during fiscal year 2015.

- Premium and assessment income exceeded workers' compensation benefits and compensation adjustment expenses by $228 million in fiscal year 2016 and $559 million in fiscal year 2015.
- Fiscal year 2016 premium and assessment income reflects a 10.8 percent reduction in overall premium rates for the majority of Ohio's private employers for the policy period beginning July 1, 2015, and a 9 percent reduction for public employer taxing districts (PECs) for the policy period beginning January 1, 2016. Fiscal year 2015 premium and assessment income reflects a 6.3 percent reduction in rates for private employers for the policy period July 1, 2014, and a 9.1 percent reduction for PECs for the policy period beginning January 1, 2015. PECs include cities, counties, townships, villages, schools, libraries, and special taxing districts.
- Beginning in fiscal year 2016, premiums are collected under a prospective payment system, which allows employers more flexible payment options. Private employers transitioned to prospective billing on July 1, 2015 and PECs transitioned on January 1, 2016.
- 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 million in fiscal years 2016 and 2015 for the accrual of the ceded reinsurance premiums.
- Beginning in fiscal year 2016, BWC began providing optional additional insurance coverage for Ohio companies who have employees who temporarily work in other states and are in need of coverage for workers' compensation gaps and protection from penalties and stop-work orders in other states. Zurich American Insurance Company acts as the insurer of the Other States Coverage policies.
- During fiscal year 2016, the assumptions used to estimate DWRF II unbilled receivables were updated. As a result, assessment income and unbilled receivables have been reduced by $1.5 billion. Previously, DWRF II unbilled receivables were recorded in amounts equal to the DWRF II discounted reserves for compensation and compensation adjustment expenses. Beginning in fiscal year 2016, cash and investment balances are included in estimating DWRF II unbilled receivables. At June 30, 2016, the DWRF II cash and investment balances exceed DWRF II discounted reserves for compensation and compensation adjustment expenses. Accordingly, there is no need to assess employers in future periods to fund the current DWRF II estimated liabilities.
- Workers' compensation benefits and compensation adjustment expenses were as follows in fiscal years 2016, 2015, and 2014.

($ in millions)	2016	2015	2014
Change in reserves for compensation and compensation adjustment expenses	$ (702)	$ (527)	$ (468)
Net benefit payments	1,539	1,551	1,626
Payments for compensation adjustment expenses	206	200	191
Managed Care Organization administrative payments	169	171	170
	$ 1,212	$ 1,395	$ 1,519

- The discounted liabilities for workers' compensation benefits and compensation adjustment expenses as of June 30, 2016 are $702 million lower than the June 30, 2015 discounted liabilities. These liabilities are discounted using an annual interest rate of 4 percent.

(Continued)

- SIF benefit payments for all accident years were $156 million or 9.7 percent lower than expected during fiscal year 2016. Approximately $92 million of the lower than expected paid development is associated with medical benefits, while indemnity benefits were $64 million lower than expected. During the past 15 years, SIF annual payments have remained reasonably steady, ranging from a low of $1.4 billion in fiscal year 2016 to a high of $1.9 billion in fiscal year 2008. Fiscal year 2016 payments are lower than fiscal year 2015 payments and are the lowest annual payments during the last 15 fiscal years.

- 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 rebate of one percent of premium up to a maximum rebate of $1,000 per six month reporting cycle. In fiscal year 2016, almost 47 percent of the employer population chose to Go Green, earning rebates of $5.7 million compared to $4.4 million in fiscal year 2015. To reward timely premium payers, employers with no lapses in coverage during the past 60 months can receive a premium rebate of one percent up to a maximum of $1,000 per six month reporting cycle. Employers earned lapse-free rebates of $3.2 million in fiscal year 2016 and $6.1 million in fiscal year 2015. Due to the recent change to prospective billing in which this rebate is earned annually instead of semi-annually, rebates for lapse-free employers were earned for only the last semi-annual period during fiscal year 2016. Employers earned rebates of $3.8 million in fiscal year 2016 and $3.6 million in fiscal year 2015 by completing requirements of the Industry-Specific Safety Program. Completing the requirements of the Transitional Work Bonus Program earned employers $7 million in fiscal year 2016 compared to $5.7 million in fiscal year 2015.

- Ohio has 83 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 $8.9 million in fiscal year 2016 and $9.2 million in fiscal year 2015.

- On April 23, 2014, the BWC Board of Directors (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 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. The transition credit expense was reduced by $22 million in fiscal year 2016 based on the reporting of actual payroll by public taxing district employers for the January 1, 2015 policy year and the reporting of actual payroll by private employers for the policy year beginning July 1, 2015.

(Continued)

- 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 Board. A 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.
- In May 2016, the Board approved a one-time $15 million policy holder rebate to Ohio's 88 county governments from the Public Work-Relief Employee's Fund as a result of strong investment returns. Payments were issued to the counties in June 2016.
- During fiscal year 2014, the parties in the San Allen group rating litigation agreed to a $420 million settlement for damages awarded to the plaintiff class. 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. 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. An additional $3.7 million and $504 thousand were paid to class members and to the class administrator and special master, respectively, during fiscal year 2016. A liability of $4.1 million has been recognized in the fiscal year 2016 financial statements for anticipated payments to class members during fiscal year 2017.
- 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. DWRF I assessment rates were reduced to zero for public taxing district employers for the policy year beginning January 1, 2016 and the policy year beginning July 1, 2016 for private employers. ORC 4123.419 was also amended to allow the Administrator with the advice and consent of the Board 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, which the Board approved in September 2015. A funding commitment of $508 million, based on the estimated DWRF I discounted reserves for compensation and compensation adjustment expenses, has been recognized in the fiscal year 2016 financial statements.
- In fiscal year 2016, BWC/IC recorded net investment income of $1.4 billion, compared to $510 million in fiscal year 2015. The investment portfolio earned a net return of 5.8 percent, after management fees, during fiscal year 2016 compared to 2.2 percent in fiscal year 2015.

(Continued)

- During fiscal year 2015, the Board approved an increase in the real estate allocation for the SIF investment portfolio from a 6 percent allocation to a targeted 12 percent asset allocation. As of June 30, 2016, the real estate allocation for the SIF investment portfolio is comprised of the following:

(000's omitted)

	Targeted % of portfolio	Number of funds	Committed	Invested	Fair value
Core real estate	7%	8	$ 1,546,531	$ 1,496,531	$ 1,983,720
Core plus real estate	3%	1	700,000	125,000	127,481
Value - added real estate	2%	6	250,000	126,013	130,408
	12%	15	$ 2,496,531	$ 1,747,544	$ 2,241,609

- For the fiscal year ending June 30, 2015, 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 standards require BWC/IC to record a proportionate share of the net pension liability of OPERS. Pension expense is 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 GASB pronouncements.

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 8.6 percent for the July 1, 2016 policy year. This latest reduction means that private employers will pay $463 million less annually than they did at the beginning of 2011. Private employer rate levels are 28.2 percent lower than rates in 2011 and are the lowest average rate levels in 39 years.

- 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. In fiscal year 2016, 731 grants totaling $15 million were awarded to employers for safety intervention, wellness, and drug-free programs. BWC has committed $15 million for fiscal year 2017 to continue these programs. BWC invested approximately $2 million in fiscal year 2015 to fund 9 advanced research projects from 6 Ohio universities to promote innovation in areas of workplace safety and health. In fiscal year 2016, approximately $1 million was provided to fund 4 additional advanced research projects. Financial resources have been committed to implement and fund safety programming as part of required training in high-risk specialties such as carpentry, welding, and plumbing. BWC is working 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.

- The annual actuarial unpaid loss and loss adjustment expense analysis includes a $4.5 billion discounted liability for unpaid medical costs which represents 32.4 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 2.5 percent from 2004 through 2015. 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 addressing return-to-work trends by focusing on triaging of claims, vocational rehabilitation, pharmacy programs, settlements, and the transitional work bonus program.

- For the past year, BWC has been working with a team of stakeholders representing business, labor, managed care organizations, and the medical community to modernize the Bureau's healthcare delivery system. The first step was the creation of a pilot called the Enhanced Care Program (ECP). The ECP began on July 1, 2015, and continues into fiscal year 2017 to identify injured workers who are at risk for not receiving optimal outcomes in their claims. This program looks 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 were designed to encourage the coordination of care among workers' compensation medical providers, primary care physicians, and managed care organizations. In September 2016, BWC contracted with a healthcare consultant to evaluate the ECP and to provide guidance and recommendations regarding modifications and improvements to the overall quality of the Bureau's healthcare delivery system.
- 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 $28.1 million with prescriptions for opiates down by 38 percent. Future projects include implementation of an automated process to identify high risk medication regimens and trigger direct clinical staff contact with the prescriber and establishment of a retail pharmacy based medication therapy management program to coordinate medications in high risk claims. In May 2016, the Board approved an opioid prescribing rule based on best clinical practices for prescribing and discontinuing these drugs.
- 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 $56.6 million in savings for the State Insurance Fund after closing 1,503 cases during fiscal year 2016.
- Several new value-added real estate funds are currently under review. It is anticipated that three to four new value-added real estate funds will be recommended for approval by the Board over each of the next two fiscal years in order to build towards the 2 percent target ownership objective in the SIF portfolio. At the July 2016 Board meeting, a new value-added real estate fund with a capital investment of up to $50 million was approved.
- Work continues on the Core Project to modernize BWC's technology architecture to better serve Ohio's injured workers and employers. This project will replace outdated claims, policy, and employer billing systems with a commercial product called PowerSuite. PowerSuite is scheduled to go into production in November 2016.

(Continued)

- 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 expense divided by net position). Over the past three years, primarily as a result of excess investment 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 cash rebates and the $1.2 billion transition credit, in conjunction with the move to a prospective billing system. While these rebates and transition credits did not immediately bring the ratios to within the policy guideline ranges, BWC followed this more conservative approach until a more comprehensive study was completed regarding the risks associated with BWC's estimated reserves for compensation and compensation adjustment expenses and the correlation of this risk with investment risk, pricing risk, and catastrophe risk. The economic capital modeling project was recently completed. This information will be used to develop recommendations for low end and high end funding ratio guidelines based on the probability the SIF net position could be reduced to zero in the next five years. These are the ratios at fiscal year ended 2016, 2015, and 2014:

	2016	2015	2014	Guideline
Funding Ratio	1.69	1.58	1.57	1.15 to 1.35
Net Leverage Ratio	1.65	1.98	2.02	3.0 to 7.0

- 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.

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

STATEMENTS OF NET POSITION

June 30, 2016 and 2015

(000's omitted)

	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$514,565	$796,803
Collateral on loaned securities (Note 2)	484	2,250
Premiums recorded not yet due	62,467	-
Assessments recorded not yet due	7,385	-
Premiums in course of collection	9,581	49,648
Assessments in course of collection	13,691	20,482
Accounts receivable, net of allowance for uncollectibles of $1,155,892 in 2016; $1,158,399 in 2015	266,403	105,985
Investment trade receivables	180,690	486,154
Accrued investment income	134,594	134,504
Other current assets	2,715	2,115
Total current assets	1,192,575	1,597,941
Noncurrent assets:		
Fixed maturities, at fair value (Note 2)	14,734,640	14,278,096
Domestic equity securities, at fair value - common stock (Note 2)	5,610,839	5,669,220
Domestic equity securities, at fair value - preferred stock (Note 2)	1,309	1,198
Non-U.S equity securities, at fair value - common stock (Note 2)	2,226,546	2,480,758
Investments in real estate funds (Note 2)	2,241,609	1,481,070
Unbilled premiums receivable	1,122,313	3,188,200
Retrospective premiums receivable	151,272	215,057
Capital assets (Notes 3)	157,884	142,347
Net pension asset (Note 8)	267	225
Total noncurrent assets	26,246,679	27,456,171
Total assets	$ 27,439,254	$ 29,054,112
DEFERRED OUTFLOW OF RESOURCES (Note 8)	63,608	16,679
Total assets and deferred outflow of resources	$ 27,502,862	$ 29,070,791

	2016	2015
LIABILITIES		
Current liabilities:		
Reserve for compensation (Note 4)	$ 1,636,037	$ 1,752,249
Reserve for compensation adjustment expenses (Note 4)	384,004	379,156
Unearned premium and assessments	513,089	137
Transition credit liability (Note 11)	35,437	351,902
Legal settlement (Note 10)	4,507	2,368
Premium payment security deposits	-	86,088
Warrants payable	36,219	278,363
Investment trade payables	387,057	637,652
Accounts payable	38,660	21,226
Obligations under securities lending (Note 2)	484	2,250
Other current liabilities (Note 5)	22,964	21,277
Total current liabilities	3,058,458	3,532,668
Noncurrent liabilities:		
Reserve for compensation (Note 4)	14,034,563	14,637,151
Reserve for compensation adjustment expenses (Note 4)	1,438,596	1,426,448
Transition credit liability (Note 11)	-	46,000
Net pension liability (Note 8)	187,038	134,479
Other noncurrent liabilities (Note 5)	23,637	23,282
Total noncurrent liabilities	15,683,834	16,267,360
Total liabilities	$ 18,742,292	$ 19,800,028
DEFERRED INFLOW OF RESOURCES (Note 8)	6,685	2,431
Total liabilities and deferred inflow of resources	$ 18,748,977	$ 19,802,459
NET POSITION		
Net investment in capital assets	157,884	142,347
Unrestricted net position	8,596,001	9,125,985
Total net position (Note 13)	$ 8,753,885	$ 9,268,332

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, 2016 and 2015

(000's omitted)

	2016	2015
Operating revenues:		
Premium income net of ceded premium (Note 6)	$1,456,855	$ 1,993,706
DWRF II unbilled assessment (Note 12)	(1,499,600)	-
Provision for uncollectibles	(17,712)	(39,532)
Other income	12,442	8,413
Total operating revenues	(48,015)	1,962,587
Operating expenses:		
Workers' compensation benefits (Note 4)	819,733	1,071,689
Compensation adjustment expenses (Note 4)	391,876	323,250
Personal services	69,923	61,606
Other administrative expenses	49,496	56,766
Total operating expenses	1,331,028	1,513,311
Net operating (loss) income before transition credits, premium rebates, legal settlement and DWRF I alternative	(1,379,043)	449,276
Transition credit expense (Note 11)	(22,070)	38,781
Premium rebate (Note 7)	15,396	1,013,171
Legal settlement	-	(22,938)
DWRF I alternative funding expense	507,891	-
Total transition credits, premium rebates, legal settlement and DWRF I alternative	501,217	1,029,014
Net operating loss	(1,880,260)	(579,738)
Non-operating revenues:		
Net investment income (Note 2)	1,365,464	509,882
Gain on disposal of capital assets	774	71
Total non-operating revenues	1,366,238	509,953
Transfers out	(425)	(425)
Decrease in net position	(514,447)	(70,210)
Net position, beginning of year, as originally stated	9,268,332	9,460,213
Cumulative effect of GASB68 and GASB71 Implementation (Note 8)	-	(121,671)
Net position, beginning of year, as restated	9,268,332	9,338,542
Net position, end of year	$ 8,753,885	$ 9,268,332

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, 2016 and 2015

(000's omitted)

	2016	2015
Cash flows from operating activities:		
Cash receipts from premiums and assessments net of reinsurance	$ 1,739,145	$ 2,041,203
Cash receipts - other	28,526	36,652
Cash disbursements for claims	(1,754,292)	(1,773,525)
Cash disbursements to employees for services	(196,053)	(189,767)
Cash disbursements for other operating expenses	(94,314)	(90,224)
Cash disbursements for employer refunds	(496,628)	(1,310,018)
Net cash used for operating activities	(773,616)	(1,285,679)
Cash flows from noncapital financing activities:		
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	(23,665)	(25,139)
Net cash used in capital and related financing activities	(23,665)	(25,139)
Cash flows from investing activities:		
Investments sold	11,698,441	18,697,992
Investments purchased	(11,816,206)	(17,766,017)
Interest and dividends received	(51,614)	655,585
Investment expenses	684,847	(42,767)
Net cash provided by investing activities	515,468	1,544,793
Net (decrease) increase in cash and cash equivalents	(282,238)	233,550
Cash and cash equivalents, beginning of year	796,803	563,253
Cash and cash equivalents, end of year	$ 514,565	$ 796,803

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

(Continued)

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, 2016 and 2015

(000's omitted)

	2016	2015
Reconciliation of net operating loss to net cash used for operating activities:		
Net operating loss	$ (1,880,260)	$ (579,738)
Adjustments to reconcile net operating loss to net cash used for operating activities:		
Provision for uncollectible accounts	17,712	39,532
Depreciation	8,902	8,861
Pension	9,841	(1,665)
(Increases) decreases in assets and increases (decreases) in liabilities:		
Premiums and assessments recorded not yet due	(69,852)	-
Premiums and assessments in course of collection	46,858	865,365
Unbilled premiums receivable	2,065,888	(108,720)
Accounts receivable	(178,130)	(34,637)
Retrospective premiums receivable	63,785	36,865
Other assets	(600)	5,418
Reserves for compensation and compensation adjustment expenses	(701,804)	(526,696)
Unearned premiums and assessments	512,952	-
Transition credit liability	(362,465)	(831,098)
Legal settlement	2,139	(417,632)
Premium payment security deposits	(86,088)	(393)
Warrants payable	(242,144)	253,966
Accounts payable	17,434	7,117
Other liabilities	2,216	(2,224)
Net cash used for operating activities	$ (773,616)	$ (1,285,679)
Noncash investing, capital, and financing activities		
Change in fair values of investments	$ 731,967	$ (93,020)

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)

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.

For the fiscal year ended June 30, 2016, the BWC/IC implemented the provisions of

- GASB No. 72, "Fair Value Measurement and Application."
- GASB No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments."

GASB 72 enhances reporting of certain assets and liabilities by requiring fair value measurement that is based on a consistent and more detailed definition of fair value and accepted valuation techniques. The provisions of GASB 72 have been implemented as required in BWC/IC's financial statements and footnotes (see Note 2).

GASB 76 amends previous accounting standards to define the revised categories of authoritative generally accepted accounting principles (GAAP) and addresses the use of authoritative and nonauthoritative literature for transactions and events that are not specified within a source of authoritative GAAP. BWC/IC has applied these revised GAAP requirements for reporting financial statement balances, activities, and note disclosures. There were no changes to the fiscal year 2016 BWC/IC financial statements or note disclosures as a result of the implementation of this standard.

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. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" (effective fiscal year 2018)
- GASB No. 82, "Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73" (effective fiscal year 2017)

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

Cash and Cash Equivalents

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

Investments

BWC/IC's investments consist of fixed maturities, domestic equity securities, commingled bond index funds, commingled U.S. equity index funds, commingled non-U.S equity index funds, U.S. real estate funds, bond mutual funds and collateral on securities lending.

Investments are reported at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fixed income securities, domestic equity 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 assets of the fund. Dividends, interest earnings, the net increase (decrease) in the fair value of investments (which includes both the change in fair value and realized gains and losses), and investment expenses are aggregated and reported as net investment income in the statements of revenues, expenses and changes in net 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

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.

Beginning in fiscal year 2016, SIF and PWREF premiums are collected under a prospective payment system. Private employers transitioned to prospective billing on July 1, 2015 while public employer taxing districts transitioned on January 1, 2016. Premium income for SIF, CWPF, PWREF, and MIF is recognized over the coverage period. It is billed in advance of the coverage period, except for CWPF, which is collected in subsequent periods. Prior to fiscal year 2016, SIF and PWREF premiums were also collected in subsequent periods. Premiums earned but not yet invoiced are reflected as premiums in course of collection in the statement of net position.

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

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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 who operate similar businesses to group together to potentially achieve lower premium rates than they could individually.

The Code permits State employers to pay into SIF on a terminal funding (pay-as-you-go) basis. Additionally, certain benefits are paid from the SIF Surplus Fund (see Note 13) 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) assessments are based on employers' payroll and rates approved by the Board within a statutory range. DWRF II (DWRF benefits awarded for injuries incurred on or after January 1, 1987) and ACF assessments are based on rates that are approved by the Board and on employers' premiums, 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.

Beginning in fiscal year 2016, assessments are collected under a prospective payment system for DWRF and ACF. Private employers transitioned to prospective billing on July 1, 2015 while public employer taxing districts transitioned on January 1, 2016. Assessment income is recognized over the coverage period and is billed in advance of the coverage period. DWRF I and ACF assessment income is recognized over the period for which the assessment applies. Prior to fiscal year 2016, assessment income was collected in subsequent periods. These assessments earned but not yet invoiced were reflected as assessments in course of collection in the statements of net position.

In September 2015, the Board approved the funding of DWRF I benefits from SIF investment income for private and public taxing district employers rather than levying assessments against these employers. The funding commitment, based on the estimated DWRF I discounted reserves for compensation and compensation adjustment expenses, has been recorded in SIF as DWRF I alternative funding expense in the statements of revenue, expenses, and changes in net position.

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 I public state employers and SIEGF, less BWC/IC's portion of the discounted reserve, is reflected in the statements of net position. SIEGF assessments received or in the course of collection, but not yet recognized, are reflected as a reduction to unbilled premiums receivable.

During fiscal year 2016, assumptions used to estimate DWRF II unbilled receivables have been updated. DWRF cash and investment balances are considered in the determination of the unbilled premium receivables. At June 30, 2016, the total DWRF II cash and investment balances exceeded the DWRF II discounted reserve for compensation and compensation adjustment expenses, thereby eliminating the DWRF II unbilled premiums receivable in the statement of net position at June 30, 2016.

Premium Payment Security Deposits

Prior to fiscal year 2016, premium payment security deposits were collected in advance from private employers to reduce credit risk for premiums collected in subsequent periods. A deposit was submitted upon application for coverage and generally represented 30% of an estimated eight-month premium, with a maximum deposit of $1 thousand. The deposit was applied to outstanding premiums or refunded to the employer upon cancellation of coverage. Since these deposits are no longer required under prospective billing, each employer's deposit was applied to the initial prospective billing installment during fiscal year 2016.

Allowance for Uncollectible Accounts

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

Capital Assets

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

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

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

Expenditures for the design, software configuration, software interfaces, coding, hardware, hardware installation, data conversion to the extent necessary for the operation of the new software, testing, and licensure on internally generated software exceeding $1 million are

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capitalized as an intangible asset. Intangible assets are depreciated upon implementation of the software. The useful lives of intangible assets varies and is 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, 2016 and 2015 to reflect the present value of future benefit payments. The selected discount rate approximates an average yield on United States government securities with a duration similar to the expected claims underlying BWC/IC's reserves.

Management believes that the recorded reserves for compensation and compensation adjustment expenses make for a reasonable and appropriate provision for expected future losses. While management uses available information to estimate the reserves for compensation and compensation adjustment expenses, future changes to the reserves for compensation and compensation adjustment expenses may be necessary based on claims experience and changing claims frequency, severity, persistency, and inflationary trends for medical claim reserves.

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

For purposes of measuring the net pension liability and net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Ohio Public Employee's Retirement System's (OPERS) Plans and additions to / deductions from the OPERS Plans' fiduciary net position have been determined on the same basis as they are reported by OPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. OPERS investments are reported at fair value. BWC/IC records its proportionate share of OPERS net pension liability and discloses additional information regarding the net pension liability, net pension asset, deferred outflows and inflows of resources, and pension expense in the footnotes and required supplementary information sections of this 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 public monies on deposit at the institution. At June 30, 2016 and 2015, the carrying amount of BWC/IC's cash deposits were $57.9 million and $20.6 million, respectively, and the bank balances were $12.8 million and $12.4 million, respectively. Differences between the carrying amount and bank balances are primarily due to in transit credit card and online payments. Of the June 30, 2016 and 2015 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 sufficient market value 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.

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Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that, in the event of a failure of a counterparty 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. Fixed maturities held in commingled bond funds in the custody of State Street were $1.4 billion at June 30, 2016 and 2015. At June 30, 2016 and 2015, investments in open ended bond mutual funds were $21.4 million and $25.3 million, respectively, and investments in bank loans were $27.1 million and $60.5 million, respectively, and were not held by the custodian. The remaining balance presented as of June 30, 2016 was held by the custodian on behalf of BWC/IC.

The composition of investments held at June 30, 2016 and 2015 is presented below (000's omitted):

	2016 Fair Value	2015 Fair Value
Fixed maturities		
U.S. corporate bonds	$ 5,890,039	$ 5,193,347
U.S. treasury inflation protected securities	2,214,285	2,695,040
U.S. government obligations	1,898,132	1,677,093
Non-U.S. corporate bonds	1,264,891	1,252,518
Commingled U.S. aggregate indexed fixed income	693,903	660,718
Commingled U.S. treasury inflation protected securities	683,192	654,957
U.S. state and local government agencies	564,120	544,152
U.S. government agency mortgages	496,469	492,498
Asset backed securities	352,953	275,136
Commercial mortgage backed securities	254,820	242,596
Non-U.S. government and agency bonds	175,919	192,694
U.S. government agency bonds	117,672	206,777
Commingled U.S. intermediate duration fixed income	40,682	53,389
Preferred securities	36,030	48,744
Bank loans	27,098	60,484
Bond mutual fund	21,401	25,263
Supranational issues	3,034	2,690
Total fixed maturities	14,734,640	14,278,096
Domestic equity securities - common stocks	5,228,914	5,264,151
Domestic equity securities - preferred stocks	1,309	1,198
Commingled domestic equity securities - common stocks	381,925	405,069
Commingled Non-U.S. equity securities - common stocks	2,226,546	2,480,758
Commingled investments in real estate	2,241,609	1,481,070
Securities lending short-term collateral	484	2,250
Cash and cash equivalents		
Cash	57,889	20,585
Repurchase agreements	6,900	3,000
Short-term money market fund	449,776	773,218
Total cash and cash equivalents	514,565	796,803
	$ 25,329,992	$ 24,709,395

(Continued)

Net investment income for the years ended June 30, 2016 and 2015 is summarized as follows (000's omitted):

	2016	2015
Fixed maturities	$ 507,341	$ 482,060
Equity securities	101,232	107,633
Real estate	75,949	57,391
Cash equivalents	414	67
	684,936	647,151
Increase (decrease) in fair value of investments	731,967	(93,020)
Investment expenses	(51,439)	(44,249)
	$ 1,365,464	$ 509,882

Fair Value Measurements

BWC/IC's investments measured and reported at fair value are classified according to the following hierarchy:

Level 1 - Investments reflect prices quoted in active markets.

Level 2 - Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active.

Level 3 - Investments reflect prices based upon unobservable sources.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

Fixed maturities and equities classified in Level 1 of the fair value hierarchy are valued directly from a primary external pricing vendor. Assets classified in Level 2 are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor. Asset backed and commercial mortgage backed securities, bank loans, and commingled investments in real estate classified in Level 3 are valued using an internal fair value as provided by the investment manager or other unobservable pricing source.

The fair value measurement of investments held at June 30, 2016 and 2015 is presented below (000's omitted):

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	2016 Fair Value Total
Fixed Maturities				
U.S. corporate bonds	$ -	$ 5,890,039	$ -	$ 5,890,039
U.S. treasury inflation protected securities	2,214,285	-	-	2,214,285
U.S. government obligations	1,820,020	78,112	-	1,898,132
Non-U.S. corporate bonds	-	1,264,891	-	1,264,891
U.S. state and local government agencies	-	564,120	-	564,120
U.S. government agency mortgages	-	496,469	-	496,469
Asset backed securities	-	347,876	5,077	352,953
Commercial mortgage backed securities	-	245,283	9,537	254,820
Non-U.S. government and agency bonds	-	175,919	-	175,919
U.S. government agency bonds	1,266	116,406	-	117,672
Preferred securities	-	36,030	-	36,030
Bank loans	-	-	27,098	27,098
Bond mutual fund	21,401	-	-	21,401
Supranational issues	-	3,034	-	3,034
Domestic equity securities - common stocks	5,228,914	-	-	5,228,914
Domestic equity securities - preferred stocks	1,309	-	-	1,309
Securities lending short-term collateral	-	484	-	484
	$ 9,287,195	$ 9,218,663	$ 41,712	$ 18,547,570

Investments measured at net asset value:	
Commingled U.S. aggregate indexed fixed income	693,903
Commingled U.S. treasury inflation protected securities	683,192
Commingled U.S. intermediate duration fixed income	40,682
Commingled domestic equity securities - common stocks	381,925
Commingled Non-U.S. equity securities - common stocks	2,226,546
Commingled investments in real estate	2,241,609
	$ 6,267,857
Cash and Cash Equivalents:	$ 514,565
Total Investments:	$ 25,329,992

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	2015 Fair Value Total
Fixed Maturities				
U.S. corporate bonds	$ -	$ 5,193,347	$ -	$ 5,193,347
U.S. treasury inflation protected securities	2,695,040	-	-	2,695,040
U.S. government obligations	1,625,495	51,598	-	1,677,093
Non-U.S. corporate bonds	-	1,252,518	-	1,252,518
U.S. state and local government agencies	-	544,152	-	544,152
U.S. government agency mortgages	-	492,498	-	492,498
Asset backed securities	-	275,136	-	275,136
Commercial mortgage backed securities	-	242,596	-	242,596
U.S. government agency bonds	1,159	205,618	-	206,777
Non-U.S. government and agency bonds	-	192,694	-	192,694
Bank loans	-	-	60,484	60,484
Preferred securities	-	48,744	-	48,744
Bond mutual fund	25,263	-	-	25,263
Supranational issues	-	2,690	-	2,690
Domestic equity securities - common stocks	5,264,151	-	-	5,264,151
Domestic equity securities - preferred stocks	1,198	-	-	1,198
Securities lending short-term collateral	-	2,250	-	2,250
	$ 9,612,306	$ 8,503,841	$ 60,484	$ 18,176,631

Investments measured at net asset value:	
Commingled U.S. aggregate indexed fixed income	660,718
Commingled U.S. treasury inflation protected securities	654,957
Commingled U.S. intermediate duration fixed income	53,389
Commingled domestic equity securities - common stocks	405,069
Commingled Non-U.S. equity securities - common stocks	2,480,758
Commingled investments in real estate	1,481,070
	$ 5,735,961
Cash and Cash Equivalents:	$ 796,803
Total Investments:	$ 24,709,395

(Continued)

The valuation method for investments measured at the net asset value (NAV) per share, or equivalent, is presented in the tables below (000's omitted):

Investments Measured at the NAV
FY 2016

Investment Strategy	Fair Value	Unfunded Commitments	Redemption Frequency (If currently eligible)	Redemption Notice Period
Commingled U.S. aggregate indexed fixed income	693,903		Daily	5 days
Commingled U.S. treasury inflation protected securities	683,192		Daily	5 days
Commingled U.S. intermediate duration fixed income	40,682		Daily	5 days
Commingled domestic equity securities - common stocks	381,925		Daily	5 days
Commingled Non-U.S. equity securities - common stocks	2,226,546		Daily	5 days
Commingled investments in real estate:				
Core Real Estate	1,983,720	50,000	Quarterly	1 quarter
Core Plus Real Estate	127,481	575,000	Quarterly	1 quarter
Value Added Real Estate	130,408	123,987	Illiquid	
Total Commingled investments in real estates:	2,241,609	748,987		

Investments Measured at the NAV
FY 2015

Investment Strategy	Fair Value	Unfunded Commitments	Redemption Frequency (If currently eligible)	Redemption Notice Period
Commingled U.S. aggregate indexed fixed income	660,718		Daily	5 days
Commingled U.S. treasury inflation protected securities	654,957		Daily	5 days
Commingled U.S. intermediate duration fixed income	53,389		Daily	5 days
Commingled domestic equity securities - common stocks	405,069		Daily	5 days
Commingled Non-U.S. equity securities - common stocks	2,480,758		Daily	5 days
Commingled investments in real estate:				
Core Real Estate	1,434,743	200,000	Quarterly	1 quarter
Value Added Real Estate	46,327	105,852	Illiquid	
Total Commingled investments in real estates:	1,481,070	305,852		

Commingled Fixed Maturities, Domestic Equity, and Non-U.S. Equity Accounts

Two commingled U.S. aggregate indexed fixed income accounts, two commingled U.S. treasury inflation protected securities accounts, two commingled U.S. intermediate duration fixed income accounts, two commingled domestic equity securities – common stock accounts, and three commingled non-U.S. equity securities – common stock accounts are considered to be commingled in nature. Each are valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments.

Commingled Real Estate Investments

BWC/IC invests in real estate through limited partnerships, commingled funds, and real estate investment trusts. Core and Core Plus 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

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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.

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, 2016 and 2015, the BWC/IC held \$6.9 million and \$3 million, respectively, in repurchase agreements fully collateralized by U.S. Treasuries held in the custody of JP Morgan.

Interest Rate Risk – Fixed-Income Securities

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

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

(Continued)

At June 30, 2016 and 2015, the effective duration of BWC's fixed-income portfolio is as follows (000's omitted):

	June 30, 2016		June 30, 2015	
Investment Type	Fair Value	Effective Duration	Fair Value	Effective Duration
Supranational issues	$ 3,034	16.14	$ 2,690	15.86
U.S. government obligations	1,898,132	15.08	1,677,093	14.08
U.S. state and local government agencies	564,120	13.35	544,152	13.03
U.S. corporate bonds	5,890,039	12.81	5,193,347	12.03
Non-U.S. government and agency bonds	175,919	12.13	192,694	12.31
Non-U.S. corporate bonds	1,264,891	10.92	1,252,518	10.34
U.S. government agency bonds	117,672	9.07	206,777	5.34
U.S. treasury inflationary protected securities	2,214,285	7.96	2,695,040	7.81
Commingled U.S. treasury inflationary protected securities	683,192	7.96	654,957	7.81
Commingled U.S. aggregate indexed fixed income	693,903	5.48	660,718	5.64
Commingled U.S. intermediate duration fixed income	40,682	4.09	53,389	3.95
Preferred securities	36,030	3.18	48,744	4.82
U.S. government agency mortgages	496,469	2.94	492,498	4.16
Commercial mortgage backed securities	254,820	2.73	242,596	4.12
Bond mutual fund	21,401	1.13	25,263	0.60
Asset backed securities	352,953	0.83	275,136	0.97
Bank loans	27,098	0.75	60,484	0.79
Total fixed maturities	$ 14,734,640		$ 14,278,096	

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. 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 2016 and 2015. 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).

Quality Rating	2016 Fair Value	2015 Fair Value
Credit risk debt quality		
AAA	$ 420,286	$ 383,409
AA	1,759,226	1,690,939
A	2,528,659	2,299,931
BBB	3,959,245	3,530,343
BB	470,569	499,353
B	170,629	133,070
CCC	16,244	14,686
D	32	-
Total credit risk debt securities	9,324,890	8,551,731
U.S. government agency bonds		
AAA	14,927	23,559
AA	102,745	183,218
Total U.S. government agency bonds	117,672	206,777
U.S. government agency mortgages		
AAA	16,132	28,463
AA	471,158	464,035
A	2,307	-
BBB	5,211	-
B	1,661	-
Total U.S. government agency mortgages	496,469	492,498
U.S. government obligations (AA)	1,898,132	1,677,093
U.S. treasury inflation protected securities (AA)	2,214,285	2,695,040
Commingled U.S. treasury inflation protected securities (AA)	683,192	654,957
Total fixed maturities	$ 14,734,640	$ 14,278,096

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 2016 and 2015, there is no single issuer that comprises 5% or more of the overall portfolio with the exception of BWC/IC's investments in the U.S. government.

(Continued)

Foreign Currency Risk – Investments

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. BWC's exposure to foreign currency risk as of June 30, 2016 and 2015 is as follows (000's omitted):

Currency	2016 Fair Value	2015 Fair Value
Australian Dollar	$ 114,013	$ 121,250
Bermudian Dollar	955	-
Brazilian Real	36,153	40,663
British Pound	264,880	367,200
Canadian Dollar	151,103	163,995
Caymanian Dollar	29	-
Chilean Peso	6,186	6,586
Chinese Renminbi	105,992	503
Colombian Peso	2,416	3,164
Czech Koruna	792	959
Danish Krone	30,974	29,414
Egyptian Pound	797	1,098
Euro	509,101	531,152
Hong Kong Dollar	72,874	191,038
Hungarian Forint	1,304	1,135
Indian Rupee	41,867	41,331
Indonesian Rupiah	13,584	12,557
Israeli Shekel	12,124	10,609
Japanese Yen	366,519	402,618
Macau Pataca	1,566	-
Malaysian Ringgit	14,776	17,073
Manx Pound	344	-
Mexican Peso	21,130	24,328
New Zealand Dollar	2,978	2,266
Norwegian Krone	10,075	11,231
Peruvian Nuevo Sol	1,684	-
Philippines Peso	7,859	7,312
Polish Zloty	5,639	7,879
Qatari Rial	4,468	5,139
Russian Ruble	18,686	10,003
Singapore Dollar	20,984	25,079
South African Rand	34,322	42,594
South Korean Won	73,114	77,341
Swedish Krona	42,706	51,598
Swiss Franc	151,197	162,383
Taiwan Dollar	60,478	68,239
Thailand Baht	11,269	12,232
Turkish Lira	6,744	7,827
United Arab Emirates Dirham	4,417	3,992
Exposure to foreign currency risk	2,226,099	2,461,788
United States Dollar	447	18,970
Total international securities	$ 2,226,546	$ 2,480,758

(Continued)

Securities Lending

At June 30, 2016 and 2015, BWC/IC had no securities out on loan. BWC/IC has been allocated with cash collateral of $484 thousand in 2016 and $2.3 million in 2015 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, 2016 and 2015 are summarized as follows (000's omitted):

	Balance at 6/30/2014	Increases	Decreases	Balance at 6/30/2015	Increases	Decreases	Balance at 6/30/2016
Capital assets not being depreciated							
Land	$ 11,994	$ -	$ -	$ 11,994	$ -	$ (2,528)	9,466
Subtotal	11,994	-	-	11,994	-	(2,528)	9,466
Capital assets being depreciated							
Buildings	205,771	59	-	205,830	1	-	205,831
Building improvements	3,542	-	-	3,542	37	-	3,579
Furniture and equipment	29,922	2,617	(4,757)	27,782	3,687	(1,243)	30,226
Land improvements	66	-	-	66	-	(66)	-
Subtotal	239,301	2,676	(4,757)	237,220	3,725	(1,309)	239,636
Accumulated depreciation							
Buildings	(158,960)	(6,786)	-	(165,746)	(6,787)	-	(172,533)
Building improvements	(575)	(178)	-	(753)	(177)	-	(930)
Furniture and equipment	(26,817)	(1,896)	4,733	(23,980)	(1,830)	1,218	(24,592)
Land improvements	(59)	(1)	-	(60)	(1)	61	-
Subtotal	(186,411)	(8,861)	4,733	(190,539)	(8,795)	1,279	(198,055)
Capital assets being amortized							
Intangible assets - definite useful lives	61,114	22,558	-	83,672	23,272	-	106,944
Accumulated amortization	-	-	-	-	(107)	-	(107)
Subtotal	61,114	22,558	-	83,672	23,165	-	106,837
Net capital assets	$ 125,998	$ 16,373	$ (24)	$ 142,347	$ 18,095	$ (2,558)	$ 157,884

BWC has not started amortizing the intangible asset associated with the internally generated software project yet as it has not been placed in to service as of June 30, 2016. It is anticipated this asset will be placed in service during the second quarter of fiscal year 2017.

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, 2016 and 2015. A decrease in the discount rate to 3.0% would result in the reserves for compensation and compensation adjustment expenses increasing to $19.5 billion at June 30, 2016, while an increase in the rate to 5.0% would result in the reserves for compensation and compensation adjustment expenses

(Continued)

decreasing to $15.9 billion. The undiscounted reserves for compensation and compensation adjustment expenses were $29.3 billion at June 30, 2016 and $30.7 billion at June 30, 2015.

The changes in the reserves for compensation and compensation adjustment expenses for the years ended June 30, 2016, 2015, and 2014 are summarized as follows (000,000's omitted):

	2016	2015	2014
Reserves for compensation and compensation adjustment expenses, beginning of period	$ 18,195	$ 18,722	$ 19,190
Incurred:			
Provision for insured events of current period	1,731	1,853	1,854
Net decrease in provision for insured events of prior periods net of discount accretion of $728 in 2016, $749 in 2015 and $768 in 2014.	(528)	(458)	(338)
Total incurred	1,203	1,395	1,516
Payments:			
Compensation and compensation adjustment expenses attributable to insured events of current period	327	331	337
Compensation and compensation adjustment expenses attributable to insured events of prior period	1,578	1,591	1,647
Total payments	1,905	1,922	1,984
Reserves for compensation and compensation adjustment expenses, end of period	$ 17,493	$ 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, 2016 and 2015 is summarized as follows (000's omitted):

	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	-
Other liabilities	45,330	85,999	(86,770)	44,559	21,277
	$ 1,274,330	$ 220,478	$ (917,868)	$ 576,940	$ 373,179

	Balance at 6/30/2015	Increases	Decreases	Balance at 6/30/2016	Due Within One Year
Transition credit payable	$ 397,902	$ -	$ (362,465)	$ 35,437	$ 35,437
Net pension liability	134,479	52,559	-	187,038	-
Other liabilities	44,559	96,760	(94,718)	46,601	22,964
	$ 576,940	$ 149,319	$ (457,183)	$ 269,076	$ 58,401

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 2015 (TRIPRA). 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. This minimum increases $20 million per year from 2016 to 2020.
- 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. This percentage increases 1% per year from 2016 to 2020.

Coverage for policies is provided under the following terms:

Policy Period: April 1, 2016 to March 31, 2018

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 $10 million of any one person
- Section Two – Only for Acts of Terrorism including NBCR Terrorism - $100 million in excess of $350 million per Loss Occurrence - Maximum loss of $10 million of any one person

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

(Continued)

The following premiums ceded for reinsurance coverage have been recorded in the accompanying basic financial statements for the years ended June 30, 2016 and 2015 (000's omitted):

	2016	2015
Premium and assessment income	$ 1,460,755	$ 1,997,601
Ceded premiums	(3,900)	(3,895)
Total premium and assessment income net of ceded premiums	$ 1,456,855	$ 1,993,706

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, 2016 and 2015:

Reinsurer	2016	2015
Allied World Assurance Company	A	A
Alterra Zurich Branch of Alterra UK Underwriting Services Limited	*	A
Axis Specialty LTD	A+	A+
Hannover Re (Bermuda) LTD	A+	A+
Markel Bermuda Ltd.	A	*
Tokio Millennium Re Limited	A++	A++
Underwriters at Lloyd's	A	A

* Reinsurer not under contract

Other States Coverage

Beginning in fiscal year 2016, BWC is providing optional additional insurance coverage for Ohio companies who have employees who temporarily work in other states. This additional policy offers coverage for workers' compensation gaps and protects employers from penalties and stop-work orders in other states. Zurich American Insurance Company acts as the insurer of the Other States Coverage policies. United States Insurance Services Inc. administers the process for issuing claim payments.

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. 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% 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% 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 $223 thousand in fiscal year 2016.

In fiscal year 2016, BWC's Board approved a three hundred percent rebate of billed premiums from the January 1, 2005 through December 31, 2014 policy years for PWREF employers. This action resulted in premium rebate expense of $15.2 million in fiscal year 2016.

These policy holder rebates reduce the SIF and PWREF net positions, but preserve prudent net positions while maintaining the ability to meet future obligations for these funds.

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/financial/reports.shtml#CAFR, 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, 2016, the most recent report issued by OPERS is as of December 31, 2015.

Chapter 145 of the Ohio Revised Code provides OPERS statutory authority for employee and employer contributions. For 2016, member and employer contribution rates were consistent across all three plans. For the years ended December 31, 2015 and 2014, the employee contribution rate was 10% and the employer contribution rate was 14% of covered payroll. For fiscal years 2016 and 2015, BWC/IC's employer contributions were $19.8 million and $19.7 million, respectively.

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

At June 30, 2016 and 2015, BWC/IC reported a liability of $187 million and $134 million, respectively, for its proportionate share of the Traditional Plan's net pension liability and $267 thousand and $225 thousand, respectively, for its proportionate share of the Combined Plan's net pension asset. The net pension liability and asset were measured as of December 31, 2015 and 2014, and the total pension liability used to calculate the net pension liability and asset was determined by an actuarial valuation as of these dates. BWC/IC's proportion of the net pension liability and asset was based on BWC/IC's share of contributions to the pension plan relative to the total employer contributions from all participating OPERS employers. Member and employer contributions included in OPERS' Statement of Changes in Fiduciary Net Position are used to calculate the proportionate share. At December 31, 2015 and 2014, Ohio BWC/IC's proportions were as follows:

	December 2015		December 2014	
	BWC	IC	BWC	IC
Traditional Plan	0.888733%	0.191082%	0.920909%	0.194073%
Combined Plan	0.469899%	0.078951%	0.501246%	0.084752%

For the years ended June 30, 2016 and 2015, Ohio BWC/IC recognized pension expense of $29.5 million and $18.2 million, respectively.

At June 30, 2016 and 2015, Ohio BWC/IC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (000's omitted):

	June 2016		June 2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 3,780	$ -	$ 2,431
Net difference between projected and actual earnings on pension plan investments	55,263	-	7,189	-
Changes in proportion and differences between BWC/IC contributions and proportionate share of contributions	117	2,905	-	-
BWC/IC contributions subsequent to the measurement date	8,228	-	9,490	-
Total	$ 63,608	$ 6,685	$ 16,679	$ 2,431

(Continued)

In 2016 and 2015, deferred outflows of resources related to pensions resulting from Ohio BWC/IC's contributions subsequent to the measurement date of $8.2 million and $9.5 million will be recognized as a reduction of net pension liability in the years ended June 30, 2017 and 2016, respectively. 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):

	Fiscal Year 2016			Fiscal Year 2015		
Year ended June 30:						
	2017	$	10,770	2016	$	699
	2018		11,678	2017		699
	2019		13,850	2018		1,607
	2020		12,453	2019		1,789
	2021		(14)	2020		(8)
	Thereafter	$	(42)	Thereafter	$	(28)

Actuarial Assumptions

The total pension liability in the December 31, 2015 and 2014 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

	Traditional Pension Plan	Combined Plan
Actuarial Assumptions:		
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	Pre-1/7/2013 Retirees: 3.00% Simple Post-1/7/2013 Retirees: 3.00% Simple through 2018, then 2.80% Simple	Pre-1/7/2013 Retirees: 3.00% Simple Post-1/7/2013 Retirees: 3.00% Simple through 2018, then 2.80% 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 mortiliaty 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, 2015 and 2014 valuations were based on the results of an actuarial experience study for the 5 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.

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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 best estimates of arithmetical 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 December 2015 and 2014 and the expected real rates of return.

	December 2015		December 2014	
Asset Class	Target Allocation	Weighted Average Expected Real Rate of Return	Target Allocation	Weighted Average Expected Real Rate of Return
Fixed income	23.00%	2.31%	23.00%	2.31%
Domestic equity	20.70%	5.84%	19.90%	5.84%
International equity	18.30%	7.40%	19.10%	7.40%
Real estate	10.00%	4.25%	10.00%	4.25%
Private equity	10.00%	9.25%	10.00%	9.25%
Other Investments	18.00%	4.59%	18.00%	4.59%
Total	100.00%	5.27%	100.00%	5.28%

Discount Rate

The discount rate used to measure the total pension liability for both 2016 and 2015 was 8% 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 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%, 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):

December 2015

	1% Decrease - 7%	Current Discount Rate - 8%	1% Increase - 9%
Traditional Plan:			
BWC	$ 245,264	$ 153,940	$ 76,911
IC	52,733	33,098	16,536
Total Net Pension Liability	297,997	187,038	93,447
Combined Plan:			
BWC	(5)	(229)	(409)
IC	(1)	(38)	(69)
Total Net Pension (Asset)	$ (6)	$ (267)	$ (478)

December 2014

	1% Decrease - 7%	Current Discount Rate - 8%	1% Increase - 9%
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. 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 $606 thousand and $496 thousand in pension expense for defined contribution

(Continued)

plans in fiscal years 2016 and 2015, respectively. 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.

Change in Accounting Principle

In fiscal year 2015, BWC/IC adopted GASBs 68 and 71 and net position was restated at July 1, 2014. Previously, pension expense was reported equal to the amount remitted as statutory contributions. Information describing the retirement plans, contribution rates and where to find information about the plans was included in the notes to the financial statements. With the adoption of GASBs 68 and 71, BWC/IC is required to report a proportionate share of the retirement system's net pension liability and asset (or unfunded liability) and other activity, including pension expense on the BWC/IC's financial statements and also provide disclosures in the notes to the financial statements. This standard only impacts financial reporting and does not affect the amount that BWC/IC is required to fund under Ohio law. Under Ohio law, employers are not required to pay more than the current statutory contribution. The effect of this change resulted in a net decrease in net position of BWC/IC at July 1, 2014 of $121.7 million.

Post-Retirement Health Care

OPERS maintains two cost-sharing multiple employer defined benefit post-employment healthcare trusts, which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement, and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the Traditional and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage. To qualify for post-retirement health care coverage, age and service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disabled recipients and qualified 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 require, OPERS to provide the OPEB Plan to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code. The Ohio Revised Code provides statutory authority requiring public employers to fund health care through their contributions to

(Continued)

OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2015, state employers contributed at a rate of 14.0% of earnable salary. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

OPERS maintains three health care trusts. The two cost-sharing multiple employer trusts, the 401(h) Health Care Trust and the 115 Health Care Trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a Retiree Medical Account for Member-Directed Plan members. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0% during calendar year 2015. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2016 remained at 2.0% for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for 2015 was 4.5%. 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, 2016 and 2015 allocated to OPEB was approximately $2.7 million and $2.8 million, respectively.

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 2016 or 2015. 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 judgment. On July 19, 2013, BWC filed its appeal brief. The decision from the Eighth 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. As of June 30, 2016 approximately $4 million remains to be paid.

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 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 judgment. The court denied this motion on January 13, 2016 and stated that Parma may assert a claim for unjust enrichment as early as 2001. Discovery is on-going and the parties are in the midst of lay witness depositions. The court has not yet set a trial date for Parma. A trial date has been set in January 2017 for Cleveland. While adverse decisions are possible for these lawsuits, the financial exposure cannot be estimated at this time. 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% 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 provided more information in 2015 to support the agency relationship between the BWC and JP Morgan Chase. On January 13, 2016, the court granted the plaintiff's motion for class certification and denied BWC’s motion for summary judgment. BWC appealed to the Eighth District Court of Appeals on February 11, 2016 and the appeal has been fully briefed. Oral arguments are scheduled for October 5, 2016. 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.

(Continued)

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 was established at June 30, 2015 for this amount. This class action settlement was paid in fiscal year 2016.

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. On April 13, 2016, the Franklin County Court of Common Pleas granted summary judgment in BWC's favor and no class was certified. Plaintiff appealed to the Tenth District Court of Appeals and the matter is being briefed. No date has been scheduled for oral arguments. Management does not anticipate an adverse conclusion and 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 claiming that BWC has included certain costs in its subrogation lien, thereby inflating the lien, and then recovering those costs through subrogation, in contravention of Ohio Revised Code. Plaintiff asserts that BWC's practices constitute an equal protection violation and that BWC has been unjustly enriched. Plaintiff seeks equitable restitution, injunctive relief, and a declaratory judgment that BWC's subrogation practices are unlawful. BWC filed a motion to dismiss the complaint on May 25, 2016 to which Plaintiff filed a memo in opposition and BWC filed a response. The court held a case management conference on September 14, 2016, and permitted the plaintiff to amend the complaint. Management does not anticipate an adverse conclusion and intends to vigorously defend this 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 occurred 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 received 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 was decreased to zero in 2015. Actual employer transition credits for this period were approximately $39 million more than the estimated credits resulting in transition credit expense in 2015.

For the policy period beginning July 1, 2015, a transition credit equal to one sixth of the estimated annual premiums was granted to private employers. This credit was estimated to be $262 million and was reflected as a current liability in the Statement of Net Position for the year ended June 30, 2015 and is now relieved as of June 30, 2016.

Final accrual to actual transactions for both impacted private employer policy periods were approximately $22 million less than the estimated credits resulting in negative transition credit expense in 2016.

Public taxing district employers received 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 was estimated to be $46 million and was relieved in 2015. The estimated transition credit related to the July 1, 2015 through December 31, 2016 period is $136 million and $101 million was relieved in fiscal year 2016. The remaining $35 million is reflected as a current liability in the statement of net position for the year ended June 30, 2016.

12. DWRF Assessments and Unbilled Receivables

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. DWRF I assessment rates were reduced to zero for public taxing district employers for the policy year beginning January 1, 2016 and the policy year beginning July 1, 2016 for private employers. ORC 4123.419 was also amended to allow the Administrator with the advice and consent of the Board the authority to transfer investment income from the SIF to cover the cost of DWRF I benefits for private and public taxing district employers rather than levying assessments against these employers. The Board approved this alternative funding in September 2015. A liability of $508 million was 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. This commitment is based on the estimated DWRF I discounted reserves for compensation and compensation adjustment expenses less the unspent balance of private and public taxing district employer DWRF I assessments. A receivable was recorded in DWRF to recognize the long-term commitment from SIF to cover these benefits. This receivable replaces 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.

During fiscal year 2016, the assumptions used to estimate DWRF II unbilled receivables were updated. Previously, DWRF II unbilled receivables were recorded in amounts equal to the DWRF II discounted reserves for compensation and compensation adjustment expenses. Cash and investment balances are now included in estimating DWRF II unbilled receivables. At June 30, 2016, the total DWRF II cash and investment balances exceed DWRF II discounted reserves for compensation and compensation adjustment expenses. At this time, there is no need to assess employers in future periods to fund the current DWRF II estimated liabilities. Accordingly unbilled receivables and assessment income have been reduced by $1.5 billion in the statements of net position and the statements of revenues, expenses, and changes in net position.

13. Net Position

Individual fund net position (deficit) balances at June 30, 2016 and 2015 were as follows (000's omitted):

	2016	2015
SIF	$ 8,945,894	$ 7,872,340
SIF Surplus Fund Account	33,091	26,383
SIF Premium Payment Security Fund	158,049	151,720
Total SIF Net Position	9,137,034	8,050,443
DWRF	(5,472)	1,569,115
CWPF	262,792	259,762
PWREF	13,125	25,653
MIF	22,701	20,851
SIEGF	29,937	29,488
ACF	(706,232)	(686,980)
Total Net Position	$ 8,753,885	$ 9,268,332

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.

(Continued)

The SIF PPSF is established by the Code and is financed by a percentage of all premiums paid by private employers. Amounts are charged to the PPSF when the employer's premium due for a payroll period is determined to be uncollectible by the Attorney General of Ohio.

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.

DWRF is operated on a terminal funding basis in accordance with the Code, however, the actuarially estimated liabilities are recognized in accordance with accounting principles generally accepted in the United States of America. While BWC has the statutory authority to assess employers in future periods for amounts needed to fund DWRF II cost of living benefits, cash and investment balances are currently sufficient to fund the estimated DWRF II liabilities.

SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTAL REVENUE AND RESERVE DEVELOPMENT INFORMATION
(See Accompanying Independent Auditors' Report)
June 30, 2016 and 2015

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, 2006 through 2016.

(Continued)

OHIO BUREAU OF WORKERS' COMPENSATION
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REQUIRED SUPPLEMENTAL REVENUE AND RESERVE DEVELOPMENT INFORMATION, Continued
(See Accompanying Independent Auditors' Report)
(In Millions of Dollars)

	Fiscal Years Ended June 30										
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
1. Required premiums, assessments, and investment income earned	$ 1,378	$ 2,552	$ 5,194	$ 2,453	$ 4,044	$ 4,356	$ 4,206	$ 2,296	$ 2,968	$ 5,251	$ 3,015
Ceded premiums	4	4	4	6	6	6	1	-	-	-	-
Net earned	1,374	2,548	5,190	2,447	4,038	4,350	4,205	2,296	2,968	5,251	3,015
2. Unallocated expenses	170	163	150	140	129	131	139	97	108	109	170
3. Estimated incurred compensation and compensation adjustment expense, end of period	1,731	1,853	1,854	1,720	1,800	1,863	1,870	2,139	2,219	2,327	2,270
Discount	806	874	872	830	968	974	985	1,472	1,892	2,099	2,147
Gross liability as originally estimated	2,537	2,727	2,726	2,549	2,767	2,837	2,854	3,611	4,111	4,426	4,417
4. Net paid (cumulative) as of :											
End of period	327	331	337	380	386	400	384	458	415	423	417
One year later		548	563	600	620	641	639	711	755	747	743
Two years later			689	731	756	773	775	868	920	926	927
Three years later				822	857	879	883	979	1,056	1,048	1,066
Four years later					935	964	973	1,083	1,163	1,155	1,172
Five years later						1,040	1,055	1,179	1,256	1,251	1,268
Six years later							1,124	1,263	1,350	1,336	1,355
Seven years later								1,327	1,426	1,411	1,428
Eight years later									1,486	1,478	1,496
Nine years later										1,534	1,560
Ten years later											1,615
5. Re-estimated incurred compensation and compensation adjustment expenses (gross):											
One year later		2,346	2,476	2,494	2,501	2,680	2,701	2,865	3,607	3,946	4,087
Two years later			2,265	2,397	2,450	2,471	2,596	2,794	2,948	3,460	3,879
Three years later				2,234	2,361	2,438	2,425	2,730	2,909	2,909	3,410
Four years later					2,226	2,340	2,426	2,585	2,862	2,877	2,899
Five years later						2,236	2,342	2,668	2,748	2,812	2,877
Six years later							2,246	2,586	2,846	2,738	2,839
Seven years later								2,485	2,760	2,784	2,776
Eight years later									2,668	2,715	2,813
Nine years later										2,656	2,761
Ten years later											2,706
6. Decrease in gross estimated incurred compensation and compensation adjustment expenses from end of period		(381)	(461)	(315)	(541)	(601)	(608)	(1,126)	(1,443)	(1,770)	(1,711)

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, 2016 active miners nominal and discounted liability is approximately $202.9 million and $76.0 million, respectively.

OHIO BUREAU OF WORKERS' COMPENSATION
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Required Supplementary Information
Schedule of BWC/IC's Proportionate Share of the Net Pension Liability (Asset)
Last 2 fiscal years*
(000's omitted)

	2016	2015
BWC/IC's Proportion of the net pension liability (asset)	1.629%	1.701%
BWC/IC's Proportionate share of the net pension liability (asset)	186,771	134,254
BWC/IC's covered employee payroll	196,276	197,260
Proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	95.157%	68.059%
Plan fiduciary net position as a percentage of the total pension liability		
Traditional Pension Plan	81.08%	86.45%
Combined Plan	116.90%	114.83%

* - 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
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Required Supplementary Information
Schedule of Employer Contributions and Contributions Subsequent to Measurement Date
(See Accompanying Independent Auditors' Report)
Last 2 fiscal years*
(000's omitted)

	2016	2015
BWC/IC's Statutorily Required Employer Contributions	$ 19,752	$ 19,688
Amount of contributions recognized by the pension plan in relation to the statutory contributions	19,752	19,688
Contribution deficiency (excess)	-	-
Employer's covered employee payroll	197,500	194,884
Amount of contributions recognized by the pension plan as a percentage of employers' covered employee payroll	10.00%	10.10%

* - 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
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SUPPLEMENTAL SCHEDULE OF NET POSITION
(See Accompanying Independent Auditors' Report)
June 30, 2016
(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	$ 426,912	$ 8,131	$ 326	$ 15,327	$ 638	$ 57,850	$ 5,381	$ -	$ 514,565
Collateral on loaned securities	-	-	-	-	-	-	484	-	484
Premiums recorded not yet due	62,357	-	-	110	-	-	-	-	62,467
Assessments recorded not yet due	-	-	-	-	-	-	7,385	-	7,385
Premiums in course of collection	9,581	-	-	-	-	-	-	-	9,581
Assessments in course of collection	-	559	-	-	-	-	13,132	-	13,691
Accounts receivable, net of allowance for uncollectibles	218,170	20,739	3	-	1	388	27,102	-	266,403
Interfund receivables	30,062	648,961	1	197	30	243	249,196	(928,690)	-
Investment trade receivables	180,690	-	-	-	-	-	-	-	180,690
Accrued investment income	134,578	3	-	-	-	13	-	-	134,594
Other current assets	2,715	-	-	-	-	-	-	-	2,715
Total current assets	1,065,065	678,393	330	15,634	669	58,494	302,680	(928,690)	1,192,575
Non-current assets:									
Fixed maturities	13,316,863	1,111,390	265,705	16,682	24,000	-	-	-	14,734,640
Domestic equity securities:									
Common stock	5,228,914	331,579	50,346	-	-	-	-	-	5,610,839
Preferred stocks	1,309	-	-	-	-	-	-	-	1,309
Non-U.S equity securities - common stock	2,053,597	150,214	22,735	-	-	-	-	-	2,226,546
Investments in real estate funds	2,241,609	-	-	-	-	-	-	-	2,241,609
Unbilled premiums receivable	603,005	17,075	-	-	-	433,051	69,182	-	1,122,313
Retrospective premiums receivable	151,272	-	-	-	-	-	-	-	151,272
Capital assets	19,853	22	-	-	-	-	138,009	-	157,884
Net pension asset	-	-	-	-	-	-	267	-	267
Total noncurrent assets	23,616,422	1,610,280	338,786	16,682	24,000	433,051	207,458	-	26,246,679
Total assets	24,681,487	2,288,673	339,116	32,316	24,669	491,545	510,138	(928,690)	27,439,254
DEFERRED OUTFLOW OF RESOURCES	-	-	-	-	-	-	63,608	-	63,608
Total assets and deferred outflow of resources	$ 24,681,487	$ 2,288,673	$ 339,116	$ 32,316	$ 24,669	$ 491,545	$ 573,746	$ (928,690)	$ 27,502,862

(Continued)

OHIO BUREAU OF WORKERS' COMPENSATION
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SUPPLEMENTAL SCHEDULE OF NET POSITION, Continued
(See Accompanying Independent Auditors' Report)
June 30, 2016
(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	$ 1,496,815	$113,098	$ 1,651	$ 275	$ 505	$23,693	$ -	$ -	$ 1,636,037
Reserve for compensation adjustment expenses	168,924	57	93	-	59	909	213,962	-	384,004
Unearned premium and assessments	337,603	131,634	-	95	246	-	43,511	-	513,089
Transition credit liability	35,437	-	-	-	-	-	-	-	35,437
Legal settlement	4,507	-	-	-	-	-	-	-	4,507
Warrants payable	36,219	-	-	-	-	-	-	-	36,219
Investment trade payables	387,057	-	-	-	-	-	-	-	387,057
Accounts payable	23,010	-	20	-	-	-	15,630	-	38,660
Interfund payables	896,798	12,721	153	15,192	17	3,808	1	(928,690)	-
Obligations under securities lending	-	-	-	-	-	-	484	-	484
Other current liabilities	10,222	90	51	4	5	-	12,592	-	22,964
Total current liabilities	3,396,592	257,600	1,968	15,566	832	28,410	286,180	(928,690)	3,058,458
Noncurrent liabilities:									
Reserve for compensation	11,497,685	2,034,902	69,149	3,625	1,095	428,107	-	-	14,034,563
Reserve for compensation adjustment expenses	650,176	1,643	5,207	-	41	5,091	776,438	-	1,438,596
Net pension liability	-	-	-	-	-	-	187,038	-	187,038
Other noncurrent liabilities	-	-	-	-	-	-	23,637	-	23,637
Total noncurrent liabilities	12,147,861	2,036,545	74,356	3,625	1,136	433,198	987,113	-	15,683,834
Total liabilities	15,544,453	2,294,145	76,324	19,191	1,968	461,608	1,273,293	(928,690)	18,742,292
DEFERRED INFLOW OF RESOURCES	-	-	-	-	-	-	6,685	-	6,685
Total liabilities and deferred inflow of resources	15,544,453	2,294,145	76,324	19,191	1,968	461,608	1,279,978	(928,690)	18,748,977
NET POSITION (DEFICIT)									
Net investment in capital assets	19,853	22	-	-	-	-	138,009	-	157,884
Surplus fund	33,091	-	-	-	-	-	-	-	33,091
Premium payment security fund	158,049	-	-	-	-	-	-	-	158,049
Unrestricted net position (deficit)	8,926,041	(5,494)	262,792	13,125	22,701	29,937	(844,241)	-	8,404,861
Total net position (deficit)	$ 9,137,034	$ (5,472)	$ 262,792	$ 13,125	$ 22,701	$ 29,937	$ (706,232)	$ -	$ 8,753,885

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, 2016
(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	$1,267,718	$(99,411)	$729	$137	$876	$13,447	$273,359	$ -	$1,456,855
DWRF II unbilled assessment	-	(1,499,600)	-	-	-	-	-	-	(1,499,600)
Provision for uncollectibles	(19,550)	3,941	(3)	-	-	36	(2,136)	-	(17,712)
Other income	8,324	-	-	-	-	-	4,118	-	12,442
Total operating revenues	1,256,492	(1,595,070)	726	137	876	13,483	275,341	-	(48,015)
Operating expenses:									
Workers' compensation benefits	775,204	24,561	8,280	(1,203)	(81)	12,972	-	-	819,733
Compensation adjustment expenses	174,098	(75)	839	-	50	132	216,832	-	391,876
Personal services	-	54	89	-	23	-	69,757	-	69,923
Other administrative expenses	17,717	1	1	-	22	-	31,755	-	49,496
Total operating expenses	967,019	24,541	9,209	(1,203)	14	13,104	318,344	-	1,331,028
Net operating income (loss) before transition credits, premium rebates and DWRF I alternative	289,473	(1,619,611)	(8,483)	1,340	862	379	(43,003)	-	(1,379,043)
Transition credit expense	(22,070)	-	-	-	-	-	-	-	(22,070)
Premium rebate	223	-	-	15,173	-	-	-	-	15,396
DWRF I alternative funding expense	507,891	-	-	-	-	-	-	-	507,891
Total transition credits, premium rebates and DWRF I alternative	486,044	-	-	15,173	-	-	-	-	501,217
Net operating (loss) income	(196,571)	(1,619,611)	(8,483)	(13,833)	862	379	(43,003)	-	(1,880,260)
Non-operating revenues:									
Net investment income	1,297,475	45,024	11,513	1,305	988	70	9,089	-	1,365,464
Gain on disposal of capital assets	687	-	-	-	-	-	87	-	774
Total non-operating revenues	1,298,162	45,024	11,513	1,305	988	70	9,176	-	1,366,238
Net transfers out	(15,000)	-	-	-	-	-	14,575	-	(425)
Increase (decrease) in net position (deficit)	1,086,591	(1,574,587)	3,030	(12,528)	1,850	449	(19,252)	-	(514,447)
Net position (deficit), beginning of year	8,050,443	1,569,115	259,762	25,653	20,851	29,488	(686,980)	-	9,268,332
Net position (deficit), end of year	$9,137,034	$(5,472)	$262,792	$13,125	$22,701	$29,937	$(706,232)	$ -	$8,753,885

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio
A Department of the State of Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio (BWC/IC), a department of the State of Ohio, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the BWC/IC's basic financial statements and have issued our report thereon dated September 29, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered BWC/IC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of BWC/IC's internal control. Accordingly, we do not express an opinion on the effectiveness of BWC/IC's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether BWC/IC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Columbus, Ohio
September 29, 2016

OHIO BUREAU OF WORKERS COMPENSATION

FRANKLIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
NOVEMBER 10, 2016