



**Bureau of Workers'
Compensation**

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Governor John R. Kasich
Administrator/CEO Sarah D. Morrison
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September 29, 2017

Via electronic and hand delivery

Inspector General Randall J. Meyer
Office of the Inspector General
30 East Brad Street, Suite 2940
Columbus, OH 43215

Re: File ID No. 2014-CA00015
Response to the Office of the Inspector General's Report of Investigation
Public Employer State Agencies Employer Group Refunds

Dear Inspector General Meyer:

The Office of the Inspector General's report contained two recommendations for BWC's consideration:

Recommendation #1: Consider the merits of maintaining a fund balance for each employer group to ensure that the rates being set are sufficient to maintain a solvent Ohio State Insurance Fund and payments issued are in accordance with the guidance provided in Ohio Revised Code 4123.40.

Recommendation #2: Consider the benefits of allocating monthly investment income to the employer groups on a prorata basis based on which employer groups' funds were invested to assist in the determination of whether rates established for the employer group are sufficient to maintain a solvent Ohio State Insurance Fund.

BWC's Response:

Thank you for the recommendations. After due consideration, and for the reasons that follow, BWC has determined it will not change how it maintains fund balances or allocates investment income.

The recommendations conflate accounting principles and ratemaking principles. "Fund balances" are an accounting concept reflecting the aggregate payment of premiums, payments of claims, and reserves for the private employer (PA), public employer taxing districts (PEC), and state employer (PES) segments of the State Insurance Fund. These balances, aggregated across rating years, account for all premiums collected and any payments made or expected to be made on a claim regardless of the year the claim occurred.

The PES program is a claim payment funding program. State agency annual contribution rates are set to cover all estimated claim payments to be made for that state agency during the fiscal year, regardless of when the injury occurred. No interest rate assumption is included in the state agency contribution rates due to the pay-as-you-go nature of this employer group. To the extent a state agency's contribution exceeds or is lower than paid claims costs in a given policy year, the difference is considered in developing the following years' contributions.

In contrast, the PA and PEC programs are insurance programs. Each year, BWC sets rates for the PA and PEC programs using traditional actuarial methods and techniques. BWC and outside consulting actuaries

estimate the total future cost of all injuries expected to be incurred by the program in the policy year, regardless of when those payments will occur in the future. Any estimated claims costs not paid in the current year are held as claim reserves. BWC establishes insurance rates that will yield premiums that, when considering expected interest earnings on the expected claim reserves, are sufficient to pay all the claims that occurred during that policy year. The premium rates for private and public taxing district employers also contain an interest rate assumption that takes into consideration the investment income anticipated from the carried reserves. State Insurance Fund monies held as reserves are intermingled for investment purposes.

The solvency of the Ohio State Insurance Fund (SIF) is monitored through the monthly Enterprise Report and the simple funding ratio guidelines approved by the Board of Directors. The simple funding ratio provides an indication of financial strength and security, and is calculated by dividing the SIF's total assets by its total liabilities. Outside firms also conduct periodic asset and liability studies and economic capital modeling studies. These studies allow the Board of Directors and BWC Investment and Fiscal staff to appropriately manage the risk and reward in the investment portfolio based on the risk assumed by the operation of the SIF and the additional capital requirements beyond capital currently held to assure payment of the injuries that occurred in the previous policy periods.

In 2015, the allegations that led to this OIG report were raised with the Ohio Auditor of State (AOS). As part of BWC's annual fiscal audit for the year ending June 30, 2015, the AOS and Schneider Downs & Co., Inc., BWC's independent auditor at the time, reviewed the allegations. Schneider Downs issued no findings against BWC on this matter. In a letter dated November 18, 2015, to Schneider Downs, the AOS stated it had conducted a desk audit of the audit report, the report was acceptable and required no modifications.

Following the issuance of the OIG's report No. 2014 – CA00015, BWC management discussed the report with the Chairman of BWC's Board of Directors, the Chairman of the Board's Audit Committee and Crowe Horwath, (BWC's independent auditor). All of the parties agreed with BWC management's recommendation to continue the rate setting and fiscal practices reviewed in the report without modification.

Sincerely,



Sarah D. Morrison
Administrator/CEO