

December 5, 2012

From: **Chris Carlson**

To: **Steve Buehrer, CEO/Administrator**  
**Kim Kline**  
**Kendra Kromer**

Re: **Revised Public Employer State Agency Long Term Surplus-Deficit**

Based upon the recent analysis of the five largest state agencies and my initial concern over the process used to develop contribution rates for the state agencies participating in the "pay-as-you-go" program (PES), we performed what has turned out to be a much needed analysis into the calculation of the long term surplus or deficit standing of each agency and the PES program in total. The attached document and exhibit were developed by the Actuarial Division to present our findings.

In performing this analysis, we learned of two major issues regarding the calculation of the long term financial standing of the program. One of these issues impacts only the program standing while the other impacts the overall program financial standing, the state agency standing and the contribution rates developed for the PES participants. The table below summarizes the four components that underlie the major difference.

<b>Public Employer State Agency Program Overall Financial Status Calendar Years 1980 through 2011</b>	
Original long term <b>Deficit</b> at 1-1-2012	<b>-\$5,626,375</b>
Payments/contributions of 5 no longer participating agencies	\$10,883,544
Treatment of pre 1996 Awarded PTD claims	\$14,943,958
Miscellaneous Loss adjustments	\$937,808
Miscellaneous Contribution adjustments	-\$243,089
Revised long term <b>Surplus</b> at 1-1-2012	<b>\$20,895,846</b>

In short, we used the following approach to developing these figures. For each agency, we collected the total amount of benefits paid to (or in the case of PTD and Death claims benefits awarded to) injured workers from calendar year 1980 to 2011. We then compared this amount to the total contributions paid by each agency to the BWC. The contributions have been adjusted to exclude the contribution provision associated with the Safety and Hygiene Division.

Previously, the benefit and contribution figures were collected on a program total basis and thus, an opportunity was created for significant issues not to be directly identified. Only when reviewing the data at a much more granular level did the following very important issues become quite obvious.

The first issue arises from the treatment of the five agencies that no longer participate in the program. The benefit payments for these agencies continued to be included in the overall financial standing of the program after they left the current PES program. These five agencies have paid the BWC directly for the costs of the quarterly claim payments outside of the PES program. The impact of this first issue was to understate the financial position of the PES program by \$10.9 million.

The second issue is more complicated. Prior to 1996, the estimated future costs of medical payments for claimants awarded Permanent Total Disability (PTD) benefits were included using the estimate of the present value of each claim. The present value of these awarded PTD claims was included in the state agency's contribution calculation and basically, paid for over the next 5 years. Therefore, the future medical costs from these claims along with the indemnity costs were paid for. In our research, we discovered that the actual medical claim costs from these claims continued to be included in the data provided to the Actuarial Division for use in developing the contribution rates for the state agencies. We also discovered that lump sum advancement (LSA) costs on these PTD claims were erroneously included in calendar year 2004 data provided to the Actuarial Division. Thus, these medical and LSA costs have been included twice. The impact of this second issue was to generate \$14.9 million in additional contributions and understate the financial position of the PES program by the same \$14.9 million.

Thus, when we combine the two adjustments for the issue described above along with a couple of less substantial adjustments, what was originally a \$5.6 million deficit has now become a surplus of \$20.9 million.

Additional details regarding these issues and miscellaneous adjustments are contained in the attached document.

### Current Long Term Surplus-Deficit Analysis 2012

The Actuarial Division has re-examined the current long term surplus-deficit position of state agencies from calendar year 1980 to 2011 and found large differences that are categorized in the table below.

Original long term <b>Deficit</b> at 1-1-2012	<b>-\$5,626,375</b>
Payments/contributions for agencies paying their own losses	\$10,883,544
Treatment of pre 1996 Awarded PTD claims	\$14,943,958
Loss adjustments	\$937,808
Contribution adjustments	-\$243,089
New long term <b>Surplus</b> at 1-1-2012	<b>\$20,895,846</b>

This document will provide greater detail about the different categories of adjustments.

Exhibit 1 shows the current long term surplus-deficit situation by agency. Exhibit 2 shows a comparison between the current long term surplus-deficit situation of each agency and the latest years' benefit payments and latest years' contributions.

### Adjustments to Long Term Surplus-Deficit

**Payments/Contributions for Agencies Paying Their Own Losses** – There are five agencies that are currently paying the BWC for their own workers' compensation claim costs. The agencies are:

1. Civil Defense,
2. Ohio National Guard,
3. Department of Liquor Control,
4. University of Cincinnati Hospital and
5. Ohio Turnpike Commission.

Since leaving the program, all agencies have paid any historical shortages in contributions as compared to losses or were returned any surplus. We have found that there were significant costs and contributions included in the original long term surplus-deficit file from calendar year 1980 to 2002. The following are highlights from each agency:

- Civil Defense and the Ohio National Guard are billed for any claim costs semi-annually per the Ohio Revised Code.
- The Department of Liquor Control cancelled coverage on April 26, 1997. The Department of Commerce (the successor agency to the Department of Liquor Control) entered into an agreement where they would continue to directly reimburse the BWC for any future claim payments where the date of injury was prior to July 1, 1997. The Department of Commerce also paid the shortage of contributions as compared to losses by the former agency as of July 1, 1997.

- The University of Cincinnati Hospital became self-insured effective January 1, 1997. They entered into an agreement where the UC Hospital continued to reimburse the BWC directly for any future claim payments where the date of injury was prior to the effective date of self-insurance. The BWC and UC Hospital recently entered into a commutation agreement to relieve UC Hospital of any future obligation for any future claim payments where the date of injury was prior to the effective date of self-insurance. UC Hospital also paid the shortage of contributions as compared to losses by the former participating agency as of January 1, 1997.
- The Ohio Turnpike Commission became self-insured on November 1, 1981. At that time, the Commission entered into an agreement to continue to reimburse the BWC directly for any future claim payments where the date of injury was prior to the date of self-insurance.

The difference in the losses and contributions for these five agencies has now been removed:

<b>Agency</b>	<b>Losses- Contributions</b>
Civil Defense	\$217,078
Ohio National Guard	\$570,582
Department of Liquor Control	\$4,210,496
University of Cincinnati Hospital	\$4,686,818
Ohio Turnpike Commission	\$1,198,571
<b>Total</b>	<b>\$10,883,544</b>

**Treatment of Pre 1996 Awarded PTD Claims** – Before calendar year 1996, when claimants were awarded PTD benefits and Actuarial became aware of those claims, a present value estimate for each claim was entered into the rate calculation system. The present value included a provision (loading) for future death and medical benefits. The intention was to not include any future paid costs from these claims in rates. We have found that in fact, medical payments from these pre 1996 PTD claims continued to be included in the information provided to Actuarial in their development of contribution rates. We also discovered that lump sum advancement (LSA) costs in calendar year 2004 on these pre 1996 PTD claims were included in the loss detail. The medical and LSA costs of \$14.9 million from these claims are now removed from the surplus/deficit calculation.

**Loss Adjustments** – This category includes three types of adjustments.

- The summary loss file used in the calculation of agency contribution rates is typically run more than one time. Credits are manually entered into the rates system to account for such things as duplicate payments, cancelled payments, or other errors. We have found that the credits were not always captured in the original long term surplus-deficit file. These credits amounted to \$282,553.
- Some payments in calendar years 2009 and 2010 related to the Ohio Hospital Association and Santos subrogation lawsuits were removed from the original long term surplus-deficit file when they should not have been. Payments from these lawsuits need to be removed for projecting future payments, but should not have been removed from this financial surplus/deficit calculation file. These payments totaled -\$593,195.

- The contribution rate calculation basis changed from using awards to using payments at the beginning of calendar year 2001. Awards continued to be used in calendar year 2001 and 2002 in the original long term surplus-deficit file, when payments should have been used. These awards totaled \$1,248,450.

**Contribution Adjustments** – There were some contribution adjustments that were not included in the original long term surplus-deficit file. These adjustments amounted to -\$48,490. The bulk of the adjustments were due to not using the correct Safety and Hygiene rate when removing that provision from the total amount of contributions. This resulted in another adjustment of -\$194,599.

### Summary

Due to the four adjustments outlined above, the previously estimated long term deficit as of calendar year-end 2011 of \$5.6 million has become a surplus of \$20.9 million.

Original long term <b>Deficit</b> at 1-1-2012	<b>-\$5,626,375</b>
Payments/contributions for agencies paying their own losses	\$10,883,544
Treatment of pre 1996 Awarded PTD claims	\$14,943,958
Loss adjustments	\$937,808
Contribution adjustments	-\$243,089
<b>New long term Surplus</b> at 1-1-2012	<b>\$20,895,846</b>

**Current Long Term Contribution Surplus or (Deficit) Situation  
for State Agencies**

Name	Policy	Revised CY 1980-2011 Surplus or (Deficit)
ADJUTANT GENERAL	██████████	\$106,273
ATTORNEY GENERAL	██████████	\$184,324
AUDITOR OF STATE	██████████	(\$203,869)
* BOWLING GREEN UNIVERSITY	██████████	\$207,172
BWC (DWRP: 3168 & S & H: 3138)	██████████	\$2,181,356
* CENTRAL STATE UNIVERSITY	██████████	\$486,008
CIVIL RIGHTS COMMISSION	██████████	\$39,532
* CLEVELAND STATE UNIVERSITY	██████████	\$310,206
DEPARTMENT OF AGING	██████████	\$1,303
DEPARTMENT OF JOB & FAMILY SERVICES	██████████	\$751,091
DEPT OF ADMINISTRATIVE SERVICES	██████████	(\$264,782)
DEPT OF AGRICULTURE	██████████	(\$97,511)
DEPT OF ALCOHOL & DRUG ADDICTION	██████████	\$5,909
DEPT OF COMMERCE	██████████	\$13,704
DEPT OF DEVELOPMENT	██████████	\$66,171
DEPT OF DEVELOPMENTAL DISABILITIES	██████████	(\$4,785,626)
DEPT OF EDUCATION	██████████	\$197,470
DEPT OF HEALTH	██████████	\$205,601
DEPT OF INSURANCE	██████████	\$112,653
DEPT OF MENTAL HEALTH	██████████	\$6,300,299
DEPT OF NATURAL RESOURCES	██████████	\$677,974
DEPT OF PUBLIC SAFETY	██████████	\$1,774,727
DEPT OF REHAB AND CORRECTIONS	██████████	(\$3,319,410)
DEPT OF TAXATION	██████████	\$25,247
DEPT OF TRANSPORTATION	██████████	\$4,381,805
DEPT OF YOUTH SERVICES	██████████	(\$4,712,152)
ENVIRONMENTAL PROTECTION AGENCY	██████████	\$357,342
INDUSTRIAL COMMISSION OF OHIO	██████████	(\$858,524)
JUDICIARY	██████████	\$1,407,567
* KENT STATE UNIVERSITY	██████████	\$788,305
LIBRARY BOARD	██████████	\$24,933
LOTTERY COMMISSION	██████████	\$383,220

Exhibit 1

**Current Long Term Contribution Surplus or (Deficit) Situation  
for State Agencies**

Name	Policy	Revised CY 1980-2011 Surplus or (Deficit)
** MED COLLEGE OF TOLEDO HOSPITAL	██████████	\$632,374
* MEDICAL COLLEGE OF TOLEDO	██████████	\$1,071,061
* MIAMI UNIVERSITY	██████████	\$859,941
* NORTHEASTERN OHIO UNIV COLLEGE OF MED	██████████	\$54,577
OFFICE OF BUDGET AND MANAGEMENT	██████████	\$124,399
OHIO EXPOSITIONS COMMISSION	██████████	\$210,705
* OHIO STATE UNIV COOP EXTENSION	██████████	\$204,013
* OHIO STATE UNIVERSITY	██████████	\$3,661,488
* OHIO UNIVERSITY	██████████	\$729,737
OHIO VETERANS HOME AGENCY	██████████	\$825,575
OHIO VIETNAM VETERANS BONUS COMMISSION-CANCELLED	██████████	\$793
** OSU CANCER RESEARCH HOSPITAL	██████████	\$409,481
PUBLIC UTILITIES COMMISSION OF OHIO	██████████	\$226,924
REHAB SERVICE COMMISSION	██████████	\$100,593
SCHEDULED STATE AGENCIES	██████████	(\$458,074)
SECRETARY OF STATE	██████████	\$6,415
* SHAWNEE STATE UNIVERSITY	██████████	(\$97,902)
TREASURER	██████████	\$185,723
* UNIVERSITY OF AKRON	██████████	\$615,878
* UNIVERSITY OF CINCINNATI	██████████	\$549,179
* UNIVERSITY OF TOLEDO	██████████	\$151,861
** WEXNER MEDICAL CENTER AT OSU	██████████	\$2,785,880
** WEXNER MEDICAL CENTER AT OSU EAST	██████████	\$237,973
* WRIGHT STATE UNIVERSITY	██████████	\$535,840
* YOUNGSTOWN STATE UNIVERSITY	██████████	\$523,129
ROUNDING		(\$38)
		\$20,895,846

NOTES:

- \* STATE UNIVERSITIES
- \*\* STATE UNIVERSITY HOSPITALS

*Agencies paying for their own losses have been removed from this comparison:*

- ██████████ *Civil Defense*
- ██████████ *Ohio National Guard*
- ██████████ *Department of Liquor Control*
- ██████████ *University of Cincinnati Hospital*
- ██████████ *Ohio Turpike Commission*

**Current Long Term Contribution Surplus or (Deficit) Situation  
Calendar Year 2011 BWC Benefit Payments and State Agency Contributions**

Name	Policy	Revised CY 1980-2011 Surplus or (Deficit)	CY 2011 Benefit Payments <sup>(1)</sup>	CY 2011 Contributions <sup>(1) (2)</sup>
ADJUTANT GENERAL		\$106,273	\$160,692	\$95,533
ATTORNEY GENERAL		\$184,324	\$89,354	\$77,520
AUDITOR OF STATE		(\$203,869)	\$360,238	\$167,541
* BOWLING GREEN UNIVERSITY		\$207,172	\$500,622	\$600,623
BWC (DWRP: 3168 & S & H: 3138)		\$2,181,356	\$418,007	\$369,194
* CENTRAL STATE UNIVERSITY		\$486,008	\$52,944	\$114,288
CIVIL RIGHTS COMMISSION		\$39,532	\$4,311	\$7,232
* CLEVELAND STATE UNIVERSITY		\$310,206	\$233,141	\$305,869
DEPARTMENT OF AGING		\$1,303	\$13,849	\$15,992
DEPARTMENT OF JOB & FAMILY SERVICES		\$751,091	\$618,547	\$620,848
DEPT OF ADMINISTRATIVE SERVICES		(\$264,782)	\$497,130	\$460,315
DEPT OF AGRICULTURE		(\$97,511)	\$212,689	\$192,831
DEPT OF ALCOHOL & DRUG ADDICTION		\$5,909	\$9,723	\$15,783
DEPT OF COMMERCE		\$13,704	\$203,986	\$332,500
DEPT OF DEVELOPMENT		\$66,171	\$12,561	\$71,612
DEPT OF DEVELOPMENTAL DISABILITIES		(\$4,785,626)	\$9,989,924	\$8,960,357
DEPT OF EDUCATION		\$197,470	\$115,688	\$290,456
DEPT OF HEALTH		\$205,601	\$225,776	\$266,235
DEPT OF INSURANCE		\$112,653	\$7,536	\$9,994
DEPT OF MENTAL HEALTH		\$6,300,299	\$3,013,818	\$3,277,263
DEPT OF NATURAL RESOURCES		\$677,974	\$1,490,197	\$1,566,081
DEPT OF PUBLIC SAFETY		\$1,774,727	\$2,115,587	\$1,979,593
DEPT OF REHAB AND CORRECTIONS		(\$3,319,410)	\$16,969,313	\$14,255,846
DEPT OF TAXATION		\$25,247	\$158,216	\$128,384
DEPT OF TRANSPORTATION		\$4,381,805	\$6,137,907	\$5,827,698
DEPT OF YOUTH SERVICES		(\$4,712,152)	\$7,090,537	\$5,494,774
ENVIRONMENTAL PROTECTION AGENCY		\$357,342	\$48,642	\$73,036
INDUSTRIAL COMMISSION OF OHIO		(\$858,524)	\$91,604	\$114,244
JUDICIARY		\$1,407,567	\$70,774	\$149,020
* KENT STATE UNIVERSITY		\$788,305	\$858,620	\$578,530
LIBRARY BOARD		\$24,933	\$4,995	\$2,175
LOTTERY COMMISSION		\$383,220	\$133,843	\$50,358

Exhibit 2

**Current Long Term Contribution Surplus or (Deficit) Situation  
Calendar Year 2011 BWC Benefit Payments and State Agency Contributions**

Name	Policy	Revised CY 1980-2011 Surplus or (Deficit)	CY 2011 Benefit Payments <sup>(1)</sup>	CY 2011 Contributions <sup>(1) (2)</sup>
** MED COLLEGE OF TOLEDO HOSPITAL	██████████	\$632,374	\$221,616	\$307,415
* MEDICAL COLLEGE OF TOLEDO	██████████	\$1,071,061	\$41,580	\$70,008
* MIAMI UNIVERSITY	██████████	\$859,941	\$900,848	\$1,200,613
* NORTHEASTERN OHIO UNIV COLLEGE OF MED	██████████	\$54,577	\$10,803	\$26,896
OFFICE OF BUDGET AND MANAGEMENT	██████████	\$124,399	\$0	\$9,499
OHIO EXPOSITIONS COMMISSION	██████████	\$210,705	\$19,330	\$68,895
* OHIO STATE UNIV COOP EXTENSION	██████████	\$204,013	\$41,258	\$30,794
* OHIO STATE UNIVERSITY	██████████	\$3,661,488	\$3,045,394	\$3,874,626
* OHIO UNIVERSITY	██████████	\$729,737	\$1,232,302	\$1,539,238
OHIO VETERANS HOME AGENCY	██████████	\$825,575	\$651,417	\$735,355
OHIO VIETNAM VETERANS BONUS COMMISSION-CANCELLED	██████████	\$793	\$0	\$0
** OSU CANCER RESEARCH HOSPITAL	██████████	\$409,481	\$487,774	\$568,603
PUBLIC UTILITIES COMMISSION OF OHIO	██████████	\$226,924	\$37,973	\$14,723
REHAB SERVICE COMMISSION	██████████	\$100,593	\$293,673	\$227,243
SCHEDULED STATE AGENCIES	██████████	(\$458,074)	\$107,468	\$149,257
SECRETARY OF STATE	██████████	\$6,415	\$41,048	\$19,509
* SHAWNEE STATE UNIVERSITY	██████████	(\$97,902)	\$140,290	\$76,371
TREASURER	██████████	\$185,723	\$18,683	\$10,720
* UNIVERSITY OF AKRON	██████████	\$615,878	\$68,704	\$420,770
* UNIVERSITY OF CINCINNATI	██████████	\$549,179	\$707,899	\$930,259
* UNIVERSITY OF TOLEDO	██████████	\$151,861	\$520,323	\$574,832
** WEXNER MEDICAL CENTER AT OSU	██████████	\$2,785,880	\$2,637,295	\$3,061,093
** WEXNER MEDICAL CENTER AT OSU EAST	██████████	\$237,973	\$555,620	\$766,796
* WRIGHT STATE UNIVERSITY	██████████	\$535,840	\$118,309	\$222,252
* YOUNGSTOWN STATE UNIVERSITY	██████████	\$523,129	\$124,207	\$130,349
ROUNDING		(\$38)		
		\$20,895,846	\$63,934,584	\$61,507,839

## NOTES:

\* STATE UNIVERSITIES

\*\* STATE UNIVERSITY HOSPITALS

Agencies paying for their own losses have been removed from this comparison:

- ██████████ Civil Defense
- ██████████ Ohio National Guard
- ██████████ Department of Liquor Control
- ██████████ University of Cincinnati Hospital
- ██████████ Ohio Turpike Commission

(1) Lump sum settlement payments and contributions are not included in this exhibit for those employers participating in a lump sum settlement program.

(2) Contributions do not include administrative costs, DWRP assessments, MCO fees, or Safety &amp; Hygiene loading.

**BWC Internal Audit Division  
Special Project – PES Funding Analysis Engagement  
5/8/13**

To: Chris Carlson, Chief Actuarial Officer

From: Dennis Vanek, Chief of Internal Audit  
Keith Elliott, Manager, Internal Audit

Re: PES Funding Analysis

Date: 5/8/13

---

Recently, the BWC Actuarial Department performed an analysis of the funding status of the Public Employer State Agency Program (PES) to ascertain the funding status of the program and of individual agencies. This analysis identified several adjustments to the previous funding analysis which resulted in a modification of the overall program funding status from a deficit of over \$5 million to a surplus of slightly greater than \$20 million. The BWC Internal Audit Division performed a review of the approach used in the analysis and worked with the BWC Actuarial Staff to review the supporting documentation, schedules and queries used in this analysis to ascertain the reasonableness of the procedures utilized and the support for the larger adjustments identified therein.

This memorandum documents the procedures performed and the results of our work.

**Procedures Performed**

In performing this engagement, Internal Audit performed the following:

- Reviewed the PES funding memorandum to ascertain the results of the work performed by Actuarial, the significant findings resulting from their analysis and the rationale behind the adjustments which resulted in the adjustment of the previous program deficit to the surplus of over \$20 million;
- Met with the Actuarial staff member that performed the analysis to tie each amount to the supporting worksheets, database queries or other information supporting the adjustments documented in the analysis; and
- Reviewed the rationale for the key adjustments and other information supporting the need for the adjustment in enhancing the accuracy of the funding analysis.

**Results**

Based on the work performed, the audit procedures were performed without exception and we were able to tie the analysis figures to the spreadsheets or other supporting documentation/queries. In addition, the rationale for the need for the various adjustments appears reasonable.

However, in performing our work, we did note several items for consideration:

1. Unrecovered MCO Administrative and Incentive Costs – The PES Funding Analysis performed by Actuarial does not include approximately \$46 million in unrecovered MCOs Administrative and Incentive costs which were inappropriately excluded from the PES rate making process. When these costs are considered, the \$21 million surplus actually reflects a deficit of \$25 million.

**BWC Internal Audit Division  
Special Project – PES Funding Analysis Engagement  
5/8/13**

Since the inception of HPP until approximately 2007, BWC did not include the Administrative and Incentive costs paid to MCOs in determining the amounts to be paid by PES employers, despite including these costs in the rate processes for PA and PEC employers.

In 2006, an analysis was performed which determined that since the inception of HPP, approximately \$46 million in MCO Administrative and Incentive costs should have been included in the PES rate-making process, but were not. BWC began including these costs in 2007 (as well as the unrecovered costs for the previous year). Other unrecovered amounts were not collected based upon a BWC Legal Opinion, which indicated that BWC could only go back one year to resolve unrecovered costs for PES employers.

The unrecovered MCO costs should be included in any evaluation of the overall funding status of the PES program, and of individual PES employers.

2. Time Period Utilized in the Funding Analysis and Prior Legal Opinion – The funding analysis performed includes costs and premiums from 1980 through 2011. Actuarial has indicated that there are various options for addressing the \$21 million surplus resulting from their evaluation of the programs funding status, which include refunding all or a portion of surpluses and/or billing additional amounts to recover deficits from agencies where claims costs exceeded premium payments.

The prior BWC Legal Opinion, which indicated that BWC could not go back further than one year to collect any unrecovered amounts, may impact BWC's ability to refund any over recovered amounts and should be considered in evaluating options for dealing with any surpluses or deficits in the PES program.

614 293 5118

T-940 P.002/304 F-635

# BWC

BUREAU OF  
WORKERS' COMPENSATION

34 West Spring Street, Columbus OH 43215-3254

GEORGE V. VOINOVICH, GOVERNOR

JAMES CONRAD, ADMINISTRATOR

November 4, 1996

Doug Kreiselman  
Department of Administrative Services  
106 N. High Street, 3rd Floor  
Columbus, Ohio 43215

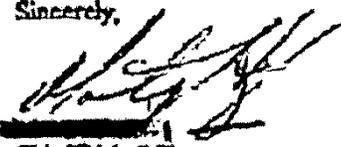
Dear Mr. Kreiselman:

With the upcoming implementation of the Health Partnership Program (HPP), we realize there has been much discussion among the coalition membership regarding the charges for Managed Care Organizations (MCO). The BWC would like to clarify the position regarding this policy.

All payments to the MCO's will be paid out of the Ohio State Insurance Fund (OSIF). No employers, including private, public and state agency/universities, will be charged additional premiums due to the implementation of HPP. We anticipate that the savings associated with the implementation of managed care in Ohio's workers' compensation system will offset the cost associated with the MCO's. We anticipate the managed care will provide a significant savings to the employers of Ohio while increasing the quality of service to the injured workers in Ohio.

We hope that this letter serves to answer this question for the coalition. We will continue to address any other questions and look forward to working together with the coalition on any other issues.

Sincerely,

  
Doug Mizer  
Chief Risk Officer

cc: Steve Isaac, Chief Operations Officer  
Doug Mizer, Chief Medical Management/Cost Containment Officer

Office of Employee Svcs  
APR 21 PM 4:15

Memorandum

TO: MEMBERS OF THE GOVERNOR'S CABINET

FROM: James Conrad, Administrator  
Ohio Bureau of Workers' Compensation

SUBJECT: Premium rates beginning July 1, 2004

DATE: April 15, 2004

As we discussed at the last Cabinet meeting, BWC has noted a decrease in the frequency of claims filed by state agency employees. While certainly good news, I must also point-out that claims are falling at a faster rate for private employers and all other public employers. Claims have been decreasing in all employer types, but declines among cabinet agencies are short of those seen in the private sector. Furthermore, the percentage of lost time claims make up 31% of all cabinet agency claims. As you know these are the expensive claims and this is above average when comparing private and other public employer indemnity claims. At the same time, benefits paid to injured workers are increasing, as are the costs of medical care. Benefits paid among cabinet agencies in 2003 were 31% higher than in 1998. Among non-cabinet state agencies, the increase was only 13.7%

Unfortunately, health care costs are rising dramatically throughout the nation. In order to respond to this trend, BWC brought a group of key stakeholders together in January of 2003 to discuss how to hold down these rising costs. The good news is this proactive approach to the issue has led to medical expenses for the last quarter dropping about 10% below what was expected. While we are encouraged by these initial results, we clearly know one quarter does not equal a stable trend.

As you know, the State has a unique payment system which allows BWC to collect the amount actually spent on medical and indemnity costs the previous year plus any under-collection incurred. An administrative cost is then added to complete the total. This approach allows for the collection of premium in a dollar-for-dollar approach rather than being required to calculate and collect a reserve for each claim (saving you significant money).

Based on the claims frequency and medical costs, I have no choice but to recommend to the Workers' Compensation Oversight Commission an average rate increase of 10% for this coming premium year. This does not take into account under-collections for the past year, which the Governor and I agree will be addressed in the next biennium budget cycle. This should allow everyone time to budget appropriately for the costs.

Although the rates will be increased, I am pleased to note that for the second year in a row, the administrative cost will be reduced. A small consolation, but one that will save some money. In addition, the Bureau will offer those agencies that have signed up with DAS and are following the 10 step program a reduction of 10% off your premium rates.

Once the Oversight Commission has established the overall premium rate next month, BWC will be communicating with the Cabinet on agency specific rates—which are based on individual severity and frequency rates. The most important step we can each take for the future is to remain committed to establishing and maintaining effective and focused workplace safety programs; we must continue to work closely with DAS as they lead the administration's efforts on workplace safety.

*Let us know  
can we help*

**From:** Herf Marty  
**To:** Darlage William E.  
**Cc:** Romig John; Conrad James; Gasper Terry; Bravender Elizabeth G. (Liz)  
**Subject:** RE: State Agency MCO Administrative Fees  
**Date:** Friday, May 08, 1998 1:15:00 PM

---

I think option #2 below, treating the MOC fees similar to the way we handle the administrative assessment, would be the best approach.

I would be happy to work with you or have someone from Risk be involved in the process. Let me know when you want to get together.

-----  
From: Darlage William E.  
Sent: Friday, May 08, 1998 8:33AM  
To: Herf Marty  
Cc: Romig John; Conrad James; Gasper Terry; Bravender Elizabeth G. (Liz)  
Subject: State Agency MCO Administrative Fees

The Actuarial Section has begun reviewing the subject of Public Employer State Agencies (PES) and the funding of MCO administrative fees. As you are aware, MCO Administrative fees are paid from the Ohio State Insurance Fund . PES employers are rated on a pay-as-you-go system where all costs attributable to the employer are included in those calculated rates. Law requires that premiums and claims costs of State Agencies must be kept separate from other employer types. It is the opinion of the Actuarial Section that the cost of the state agency MCO fees should be charged back to the PES community.

We have not yet determined the best methodology for assessing PES employers these costs. However, some of the options under consideration are:

1. Include MCO fees in rate calculations as though it is a medical expense.
2. Include MCO fees in premium rate assessments similar to administrative cost assessment.
3. Direct bill MCO fees to agency as BWC pays the MCO (perhaps quarterly).
4. Decrease PES employer premium balance as used in the adjustment portion of the rate calculation (where it exists for each employer or as an employer group).

I would appreciate any comments you may have on this subject so that Actuarial may proceed with this task.

The next steps will include obtaining the Actuarial Consultant's recommendations on the options and presenting the issue to the PES Coalition committee for stakeholder discussion and finally, include the change in the next rate rule recommendation in April 1999.

**Ohio Bureau of Workers' Compensation**

30 W. Spring St.  
Columbus, OH 43215-2256

**Ted Strickland**

Governor

[ohioabc.com](http://ohioabc.com)**Marsha P. Ryan**

Administrator/CEO

1-800-OHIOBWC

June, 2007

Policy No. «Policy»

«Cab\_Mem\_Buget\_Mgr»«Cab\_Budget\_Mgr\_Title»

«Agency»

«Address\_Line\_1»

«Address\_Line\_2»

«Address\_Line\_3»

«City», «State» «ZIP\_Code»

Dear «Dear\_Budget\_Mgr»:

As the Ohio Bureau of Workers' Compensation (BWC) continues to scrutinize and improve upon its operations, we have identified several billing inequities between services received and payments made for your coverage. The BWC, in consultation with the Office of Budget and Management and the Ohio Department of Administrative Services, has thoroughly reviewed the legal considerations and the actuarial impact of these inequities.

The resulting decision is that premiums for public employer state agencies will now include costs for the medical management services of their workers' compensation claims. These services are provided by managed care organizations (MCO's), and the costs associated for these services are calculated at a rate of 7.25 percent of an employer's total premium. Going forward, your workers' compensation premium will include a fee for this service.

Of additional importance are your upcoming premium rates. Previously, discounts and caps to premiums have resulted in artificially low rates for state agencies and universities. Going forward, the BWC must ensure that all rating decisions are actuarially sound and it will now collect premiums appropriate to the actual claims costs. Enclosed you will find your new rate, which includes this change and the additional assessment of the MCO fee mentioned above.

We recognize the addition of the MCO fee and the new premium rate may cause an unexpected impact to your budget, which is why we have attempted to contact you in advance of this correspondence. We have also dedicated several staff members to specifically answer your questions and provide a greater explanation of these changes. If you have not already spoken to someone, or if you have additional questions, please contact Dave Patti at (614)-466-8516.

As a fellow public entity, we understand the significance of budget constraints and the challenges of unforeseen costs. We also, however, recognize our responsibility to provide sound, actuarial based workers' compensation insurance to all Ohio employers and we are committed to continued transparency in all matters going forward. Thank you and please contact Dave Patti for more information.

Sincerely,

Marsha P. Ryan, Administrator/CEO  
The Ohio Bureau of Workers' Compensation

# Exhibit 5

Policy No. «Policy»

Your Agency's rates effective July 1, 2007:

(a)	(b)	(c)	(d)	(e)	(f)
Premium Rate	MCO Fee [(7.25)*(a)]/100	Administrative Cost [(15.57)*(a)]/100	DWRF (0.05)	Additional DWRF (.001)* (a)	Total Premium Rate per \$100 of payroll [(a)+(b)+(c)+(d)+(e)]
«Premium_Rate»	«MCO_Fees»	«Admin_Rate»	.05	«DWRF_II»	«Total_Rate_w_MCO_Fees»

To calculate the total premium and assessments, multiply your agency's budgeted payroll by the rate found in column (f) then divide by 100.

**Definitions:**

MCO Fee: Managed Care Organization (MCO) Fee provides reimbursement of medical management costs paid to MCO's on behalf of Public Employer State Agencies by the BWC.

Administrative Cost: The policy year 2007 assessment rate that is applied to the premium rate that funds the operations of the Ohio Bureau of Workers' Compensation (12.43 percent) and the Industrial Commission (3.14 percent) is 15.57 percent.

DWRF: The Disabled Workers' Relief Fund was created to provide cost of living increases to permanently and totally disabled workers with injury dates prior to 1987.

Additional DWRF: The additional Disabled Workers' Relief Fund was created to provide cost of living increases to permanently and totally disabled injured workers with injury dates in 1987 or after.

Total Premium Rate: The total premium rate is the sum of the premium rate, MCO fee, administrative cost, DWRF and additional DWRF per \$100 of payroll.

**From:** Elliott, Keith  
**Sent:** Tuesday, February 19, 2013 2:53 PM  
**To:** Vanek, Dennis  
**Subject:** FW: Meeting with DAS notes and follow up

Another e-mail from Liz

---

**From:** Bravender, Liz  
**Sent:** Tuesday, February 19, 2013 2:35 PM  
**To:** Elliott, Keith  
**Subject:** FW: Meeting with DAS notes and follow up

Another interesting tidbit.

Liz

*Elizabeth Bravender, CPCU*

Actuarial Director  
Ohio Bureau of Workers' Compensation  
614-466-1926

---

**From:** Moseley Cathy  
**Sent:** Tuesday, October 10, 2006 4:24 PM  
**To:** Bravender Liz; Valentino Tracy  
**Cc:** Rush Brenda; Childress David; Smeltzer Nancy  
**Subject:** RE: Meeting with DAS notes and follow up

Thanks Liz

- please send an e-mail to James
- Yes please call Nancy as we got some clarification from Bill as to the draft letters - (we left you a voice mail)

My notes in addition to yours-

- Question of when did we start charging the MCO fee to all the other employers?
- Legal review:: four parties; governor's office, OBM, DAS and BWC
- Legal issues to include, but not limited to .....
- ? When you say state agencies - do you mean all of PES?
- Joint Communication (DAS and BWC) to the Cabinet
- Actuarial Review of the numbers
- Brainstorm with the Coalition Group - going forward - as Bill and Carol are the chairs.

Thanks  
Cathy M.

---

**From:** Bravender Liz  
**Sent:** Tuesday, October 10, 2006 1:27 PM

**To:** Moseley Cathy; Valentino Tracy  
**Cc:** Rush Brenda; Childress David  
**Subject:** Meeting with DAS notes and follow up  
**Importance:** High

Cathy,

Below is a list of the "to-do" items I recorded for the BWC as a result of our meeting with DAS and OBM on Friday, October 6, 2006. If you would like to meet to review these items, please let me know. I will work with Theresa Arms in getting the data in number 2 below. Do you want me to send an email to James or will you? I have seen a couple of draft letters in emails, do you want me to follow up with Nancy Smeltzer?

- 1) Begin the legal interpretation process with BWC and DAS legal representative to explore the following legal issues:
  - a) Are state agencies required to pay MCO fees?
  - b) If yes to (a), are state agencies required to pay past years' MCO fees not previously billed by the BWC?
  - c) If yes to (a), are state agencies required to pay future MCO fees?
  - d) Is there any statute of limitations that may apply to past years MCO fees due?
  - e) Does the BWC have legal authority to pursue past years MCO fees due?
  - f) Does the BWC have legal authority to forgive any part of the past years MCO fees due?
- 2) Obtain MCO fees by agency actually paid (need to go to MCO business unit – Theresa Arms)
- 3) Communication of issue
  - a) Letter to agencies under the DAS umbrella jointly created by BWC and DAS describing the MCO fee situation
  - b) Letter to Universities, University Hospitals and Board of Regents from BWC describing the MCO fee situation.
- 4) Create learning opportunity for all state agencies in understanding the PES rate making methodology including the BWC's consulting actuary.
- 5) Take a NEW look at the overall process of providing medical management of workers' compensation claims

Please let me know if I have omitted any salient points made in the meeting.

Liz

***Elizabeth Bravender***, CPCU

Director of Actuarial  
Ohio Bureau of Workers' Compensation  
Phone: 614-466-1926  
Fax: 614-752-8427

Ohio Bureau of Workers' Compensation  
30 W. Spring St.  
Columbus, OH 43215-2256



Bob Taft  
Governor  
[ohiobwc.com](http://ohiobwc.com)

William E. Mabe  
Administrator/CEO  
1-800-OHIOBWC

October, 2006

Policy: [REDACTED]

Fred Dailey, Director  
Department of Agriculture

8995 East Main Street

Reynoldsburg, Ohio 43068-3399

Dear Mr. Dailey:

This letter is to advise you of a situation that recently came to light during a review of the Ohio Bureau of Workers' Compensation's (BWC's) prior years' internal audit reports. It appears that state agencies have not been required to pay managed care organizations (MCOs) medical management fees since the inception of the Health Partnership Program in 1997.

The Department of Administrative Services (DAS), the Office of Budget and Management (OBM) and BWC are working together to determine what liability, if any, exists for each agency. We have agreed upon the following action plan to bring this issue to resolution.

First, BWC has agreed to do an actuarial audit to review the policies of all state agencies to determine the accuracy of all outstanding liabilities associated with MCO fees. Also, the general counsels of the Office of Budget and Management, DAS and the bureau will determine what, if any, legal documents (agreement or memorandum of understanding), statutes, or common law exist that could either clearly define or limit liability for the affected parties.

If, after this review, we determine there is a liability, BWC and OBM will work with you to establish a payment methodology that minimizes the impact on your respective budgets.

Finally, this provides us with an opportunity to review the managed care programs now in place. If changes are needed, this would be the opportune time to make those changes.

The above activities will take several months to complete, and we ask you to be actively involved in the process to the extent you wish to be. Liz Bravender, BWC's director of actuarial, can answer questions regarding this issue. She will keep you apprised of the situation as it develops. Please contact her at [liz.bravender@bwc.state.oh.us](mailto:liz.bravender@bwc.state.oh.us) or call (614) 752-8318.

We appreciate your help and support in taking care of this important matter.

Regards,

William Mabe  
Administrator/CEO  
Bureau of Workers' Compensation

Carol Nolan Drake  
Director  
Department of Administrative Services

DIALOG(R)File 725: (Cleveland)Plain Dealer  
(c) 2012 The Plain Dealer. All rights reserved.

13777069 (THIS IS THE FULLTEXT)

**Agencies haven't paid fees since '97 BWC audit finds state offices owe over \$46 million**

Ted Wendling; Credits, Plain Dealer Bureau Chief  
Plain Dealer (Cleveland) , Final ED , p A1  
WEDNESDAY , October 04, 2006

JOURNAL CODE: PD **Language:** ENGLISH  
**Record Type:** FULLTEXT **Section Heading:** National  
**Word Count:** 676

**Text:**

Columbus - Bureau of Workers' Compensation auditors have determined that state agencies have failed to pay medical management fees since the inception of the managed care program in 1997, and that they now owe the state insurance fund more than \$46 million.

BWC Administrator William Mabe said he doesn't understand why 120 state agencies, universities and university hospitals weren't assessed the annual 8 percent fee for managing medical claims, because a 1999 internal audit specifically cited BWC for not collecting the fees in 1997.

"We're doing the archaeology to figure that out, but I have yet to find that piece of information or that document that says, 'Do this, don't do that,' " he said.

Mabe said he doesn't relish having to demand money from state employers that already feel financially pinched. However, he sent a letter on Monday to Carol Nolan Drake, administrator of the Department of Administrative Services, informing her that state employers owe the insurance fund a total of \$46.1 million.

The letter promised "a more detailed breakdown by agency in the very near future."

Ohio's workers' compensation system is financed by premiums paid by public and private employers, who use managed care organizations, or MCOs, to manage claims filed by injured workers and to contain medical costs.

Although employers are supposed to pay an 8 percent management fee to MCOs for those services, Mabe said in an interview that it appears that BWC paid the fees instead of the state agencies.

"We paid the money on behalf of the state agencies, but it appears that we haven't collected the money from the state agencies, so that's what I'm going back and doing," he said.

# Exhibit 8

Page 2 of 2

"I certainly don't like to deliver this kind of news to anybody, but I do want to make sure we got it right," Mabe added. "It is the proper thing to do."

Mabe was appointed last November to succeed James Conrad, who was forced to resign amid disclosures that BWC lost more than \$300 million on risky investments, including Republican fund-raiser Tom Noe's \$50 million rare coin fund. Noe is charged with siphoning more than \$2 million from the fund, and eight other people have been charged criminally for illegal dealings with Noe or for fleecing the BWC.

Mabe said BWC auditors have determined that, while state agencies have not been paying the 8 percent management fee to managed care organizations since 1997, private employers and public employers such as cities and counties have.

A chart prepared by Mabe's staff shows that the 10 years of unpaid MCO fees range from a low of \$3.6 million in 2002 to a high of \$5.7 million this year. The chart notes that MCOs actually collected an average of 11.2 percent in fees during that period, with the excess, Mabe said, representing performance bonuses MCOs received if they processed claims more efficiently.

A March 1999 audit of state employer workers' compensation rates shows that auditors recommended the recovery of \$2.8 million in MCO management fees and bonuses because they had been improperly excluded when calculating agencies' insurance premiums in 1997.

The audit was widely disseminated, with then Chief Financial Officer Terry Gasper at the top of the distribution list. Gasper pleaded guilty in June to racketeering, money laundering and ethics violations for doling out investment business in exchange for tens of thousands of dollars in gratuities.

Mabe said he doesn't know why there was no follow-up to the audit.

Discovery of the unpaid fees was unexpected, Mabe said, because he thought all of the agency's financial problems were more recent.

"Generally, after two or three years you don't expect to find anything; that's why I was greatly surprised," he said. "I thought, 'Let's keep going back, as far as we can go,' not really expecting to find anything, but we did.

"I keep hoping I don't find any more," he added. "There's lots of room for improvement. We've done a lot of good work, and there's more to do."

To reach this Plain Dealer reporter: [twendling@plains.com](mailto:twendling@plains.com), 1-800-228-8272

Copyright, 2006, The Plain Dealer.

**Ohio Bureau of Workers' Compensation**  
30 W. Spring St.  
Columbus, OH 43215-2256



**Bob Taft**  
Governor  
ohiobwc.com

**William E. Mabe**  
Administrator/CEO  
1-800-OHIOBWC

Carol Drake  
Director/CEO  
Ohio Department of Administrative Services  
30 East Broad Street  
Columbus, Ohio 43215

Dear Carol,

The BWC will be establishing an accounts receivable balance of \$46.1 million dollars on behalf of all Public Employer State Agencies (PES). This bill represents the repayment of Managed Care Organization (MCO) fees that have accrued since the inception of the Health Partnership Plan in March 1997.

Since 1997, the BWC has not included any assessment for MCO fees within the PES employer rate calculations as directed by the previous administration. The payment of these MCO fees has been continuously paid from the State Insurance Fund (SIF). No additional charges were collected from any other employer group, nor has any other entity bore the burden to fund this expense.

For the policy year beginning July 1, 2007, we will include future and ongoing MCO fees into the PES employer's rates. We also have the ability and option to include the MCO fees beginning January 1, 2007 in a separate billing form.

To return this money paid for past MCO fees to the SIF, the BWC will offer repayment options that may include a discounted payment in full or a scheduled payment plan over several years similar to an installment loan.

We are looking forward to resolving this concern jointly.

Best regards,

William Mabe  
Administrator/CEO  
Ohio Bureau of Workers' Compensation

# Exhibit 9

The screenshot shows a dialog box titled "MCOPEs repay Properties" with a help icon and a close button in the title bar. The dialog has five tabs: "General", "Summary", "Statistics", "Contents", and "Custom". The "Statistics" tab is selected and displays the following information:

Created: Friday, September 29, 2006 2:40:00 PM  
Modified: Friday, September 29, 2006 1:47:16 PM  
Accessed: Wednesday, April 20, 2011 11:54:51 AM  
Printed: Thursday, December 03, 2015 9:25:00 AM

Last saved by: BWC  
Revision number: 5  
Total editing time: 20 Minutes

Below this information is a table with the following data:

Statistic name	Value
Pages:	1
Paragraphs:	24
Lines:	55
Words:	247
Characters:	1297
Characters (with spaces):	1527

At the bottom of the dialog are "OK" and "Cancel" buttons.

**Current Long Term Contribution Surplus or (Deficit) Situation  
for State Agencies @ 12/31/2011**

Calendar Year	Revised CY 1980-2011 Surplus or (Deficit)	Cumulative Surplus or (Deficit)
1980	\$1,056,631	\$1,056,631
1981	(\$1,006,576)	\$50,056
1982	(\$1,605,050)	(\$1,554,994)
1983	(\$5,798,047)	(\$7,353,041)
1984	(\$7,189,824)	(\$14,542,865)
1985	(\$4,203,792)	(\$18,746,657)
1986	(\$1,508,274)	(\$20,254,932)
1987	\$4,016,996	(\$16,237,936)
1988	\$4,797,978	(\$11,439,958)
1989	\$3,759,094	(\$7,680,864)
1990	(\$174,149)	(\$7,855,012)
1991	(\$1,662,487)	(\$9,517,500)
1992	(\$7,550,451)	(\$17,067,951)
1993	\$498,897	(\$16,569,054)
1994	\$14,539,494	(\$2,029,560)
1995	\$12,108,481	\$10,078,920
1996	\$12,516,143	\$22,595,063
1997	\$12,103,738	\$34,698,802
1998	\$2,105,779	\$36,804,581
1999	(\$6,696,450)	\$30,108,131
2000	(\$5,677,990)	\$24,430,140
2001	(\$7,923,797)	\$16,506,343
2002	(\$11,580,596)	\$4,925,747
2003	(\$8,532,078)	(\$3,606,331)
2004	(\$1,480,681)	(\$5,087,012)
2005	\$4,850,844	(\$236,168)
2006	\$6,605,306	\$6,369,138
2007	\$12,556,850	\$18,925,988
2008	\$7,339,278	\$26,265,266
2009	\$2,037,043	\$28,302,309
2010	(\$5,351,130)	\$22,951,179
2011	(\$2,055,333)	\$20,895,846
	\$20,895,846	

## NOTES:

\* STATE UNIVERSITIES

\*\* STATE UNIVERSITY HOSPITALS

*Agencies paying for their own losses have been removed from this comparison:*

- - Civil Defense
- - Ohio National Guard
- - Department of Liquor Control
- - University of Cincinnati Hospital
- - Ohio Turpike Commission