



Ohio Bureau of Workers' Compensation

Audit Committee

November 19, 2009

[https://www.bwc.ohio.gov/downloads/blankpdf/OC/2009/
AudMaterials11-09.pdf](https://www.bwc.ohio.gov/downloads/blankpdf/OC/2009/AudMaterials11-09.pdf) (retrieved 12 September 2015)

The Role of Reinsurance

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The Role of Reinsurance

- What is Reinsurance?
- How Does it Work?
- Who are the Participants?
- Reinsurance Application for BWC
- Process and Performance

What is Reinsurance?

- Basically, it is insurance for insurance companies
- Or: "It is a mutual agreement in which, for consideration (premium), the ceding company (insurer) agrees to cede to the reinsurer and the reinsurer agrees to indemnify the ceding company for a portion of the loss or liability on the risk assumed by the ceding company as the insurer"
- Reinsurance in the grand scheme is another form of capital available to an insurer

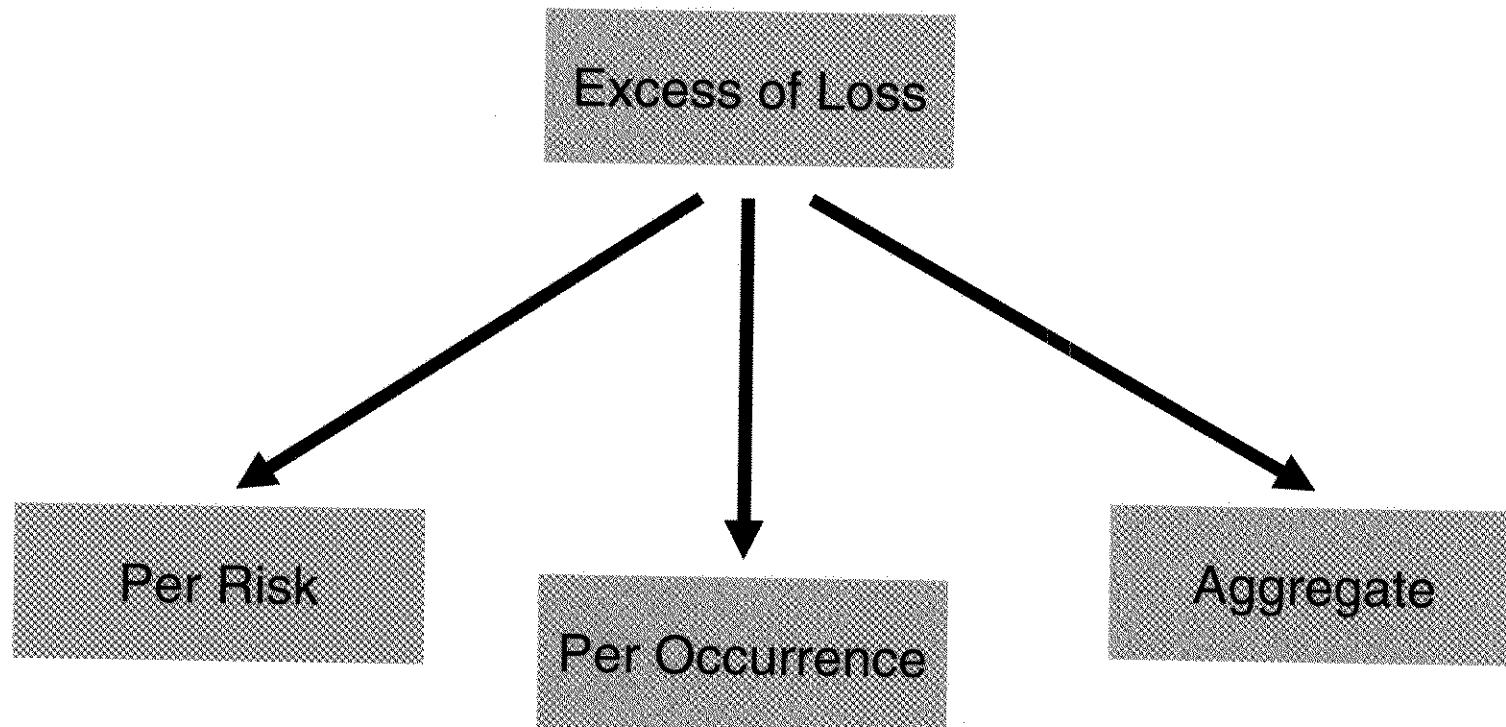
Functions of Reinsurance

- Smooth operating results by reducing unexpected volatility
- Catastrophe protection
- Surplus relief
- Underwriting expertise

Types of reinsurance

- Treaty – all risks within a given class of business are covered. Reinsurer must accept
- Facultative Certificate – covers a specific policy. Reinsurer can refuse or accept
- Facultative Treaty – Requires some action on the parties to cede or accept a specific risk

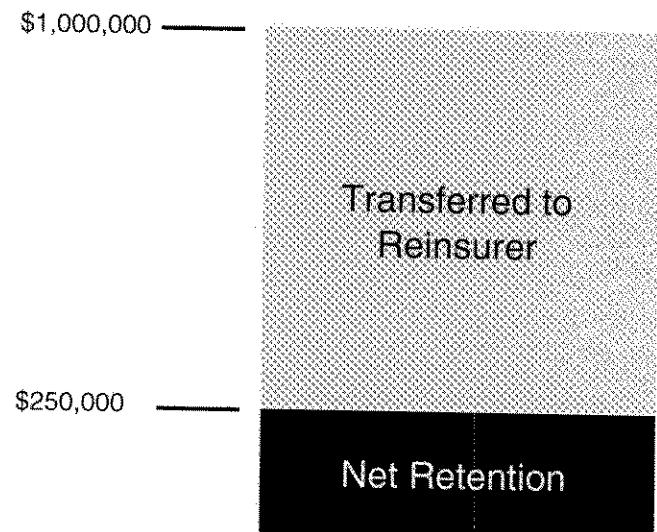
Forms and types of Reinsurance



Excess of Loss

- Coverage is stated as a **limit** above a net **retention**

- Example: \$750,000 Per Occurrence in excess of \$250,000 Per Occurrence



The reinsurance market

Reinsurer	Underwriter	Typical Participation (W - Working, C - Cat, W/C - Both)		AM Best	S&P	Estimated Capacity	Policyholder Surplus (\$000)
		W	C				
ACE Property & Casualty	Tracy Thomson	W / C	A+	A+	A+	20,000,000	1,613,885
ACE Tempest Re-Bermuda	Erik Anderson	C	A+	A	A-	50,000,000	4,475,055
Allied World Assurance	Tracy Gibbons	C	A	A	A-	20,000,000	8,836,999
Arch Re	Tom Devine	W / C	A	A	A-	10,000,000	813,464
Arch Re (Bermuda)	Matt Dragonetti	C	A	A	A-	20,000,000	9,795,429
Aspen UK	Mike Clifton (thru Claytons)	W / C	A	A	A-	20,000,000	1,680,815
Axis Reinsurance Co	Hallina Here	W	A	A	A-	10,000,000	528,695
Axis Specialty	Guil James	C	A	A+	A+	250,000,000	3,783,780
Berkley Ins Co	Gordon Oliver	W	A+	A+	A+	2,000,000	2,132,342
Berkshire Hathaway	Scott Stirling	C	A+	AAA	AAA	500,000,000	28,929,044
Catlin (UK)	(thru Claytons)	W / C	A	A+	A+	15,000,000	
Catlin (Gen)	Paul Sheddron	C	A	A	A-	30,000,000	2,401,692
Chaucer PLC	(thru Claytons)	C	A	A	A-	30,000,000	
DaVinci Re	Apryle Satasi	C	A	A+	A+	30,000,000	
EMC Re	Ron Hallenbeck	C	A	BBB	BBB	5,000,000	1,196,852
Endurance (US)	Steve Dresner	W	A	A	A-	5,000,000	774,423
Endurance (Ber)	Chris Schaper	C	A	A	A-	30,000,000	594,105
Everest Re	Linda Sue Thoman	W / C	A+	A+	A+	100,000,000	2,631,321
Flagstone Re	Gary Rogers (IOA Re)	C	A			75,000,000	2,516,924
Hannover Rück	Axel Freiboth	W / C	A	AA-	AA-	15,000,000	3,973,767
Hannover Re (Bermuda)	Daniel Duesterhaus	C	A	AA	AA	60,000,000	1,312,135
Harbor Point	Bill Penitony	W / C	A	A-	A-	20,000,000	620,460
ICW Group	Shawn Adams	C	A			5,000,000	342,918
JRG Re	Bob King	W	A			5,000,000	
Liberty Mutual	Peter Lacey	C	A	A	A	3,000,000	244,478
Lloyd's of London	(thru Claytons)	W / C	A	A+	A+	150,000,000	10,983,567
Maiden Re	Phil Chee	W	A			5,000,000	253,795
Max at Lloyd's	(thru Claytons)	C	A	A+	A+	20,000,000	
Max Re	Bill Yit	W / C	A			5,000,000	1,289,387
Midwest Employers	Ken Darian	W	A+	A+	A+	10,000,000	131,971
Montpelier Re	Paul Garrett	C	A	A	A-	20,000,000	1,436,680
Munich Re America	Ed Williams	W / C	A+	AA	AA	25,000,000	3,504,605
Odyssey America	Mary Coca	W / C	A	A-	A-	7,500,000	3,163,076
Paris Re							
Panther Re	Giuseppe Ruggieri	W	A+	AA	AA	7,500,000	648,592
Platinum Underwriters	Ted Muenkel	W / C	A			50,000,000	566,935
QBE Re	John Tarpey	W / C	A	A+	A+	2,000,000	567,299
Renaissance Re	Apryle Satasi	C	A+	AA	AA	400,000,000	1,639,728
Safety National	Archie Morash	C	A	A	A-	10,000,000	583,468
Swiss Re	Jeff Wittlich, Paul Japp	W / C	A	A+	A+	500,000,000	4,442,384
Tokio Millennium	Peter Mills	C	A+	AA	AA	15,000,000	1,054,014
Transatlantic Re	Eric Hoppe	W / C	A	A+	A+	7,500,000	3,606,819
White Mountain	Alan Maude	W / C	A	A	A-	20,000,000	589,594
Wind River Re	Troy Santora	C	A			5,000,000	691,008
Vellidus Re	Jeff Clements	C	A			5,000,000	1,779,324
XL Re	John Carson	W / C	A	A	A-	5,000,000	2,090,992

Reinsurers highlighted in yellow are "lead" markets that typically present most competitive terms and support.

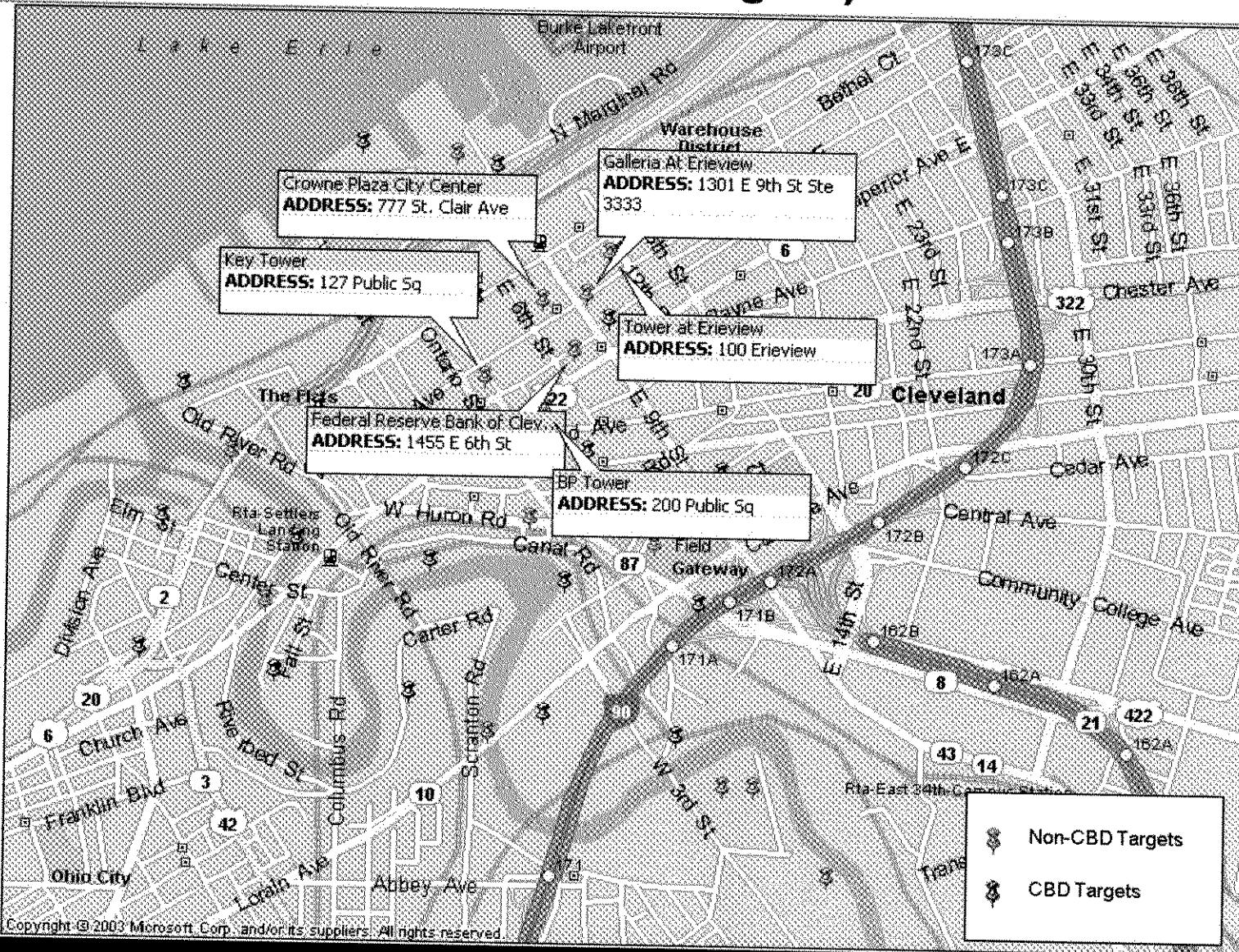
The Role of Reinsurance

Towers Perrin was charged with evaluating the benefit, if any, to BWC of a reinsurance program within the context of its established policy relating to Net Funding and Net Leverage ratios

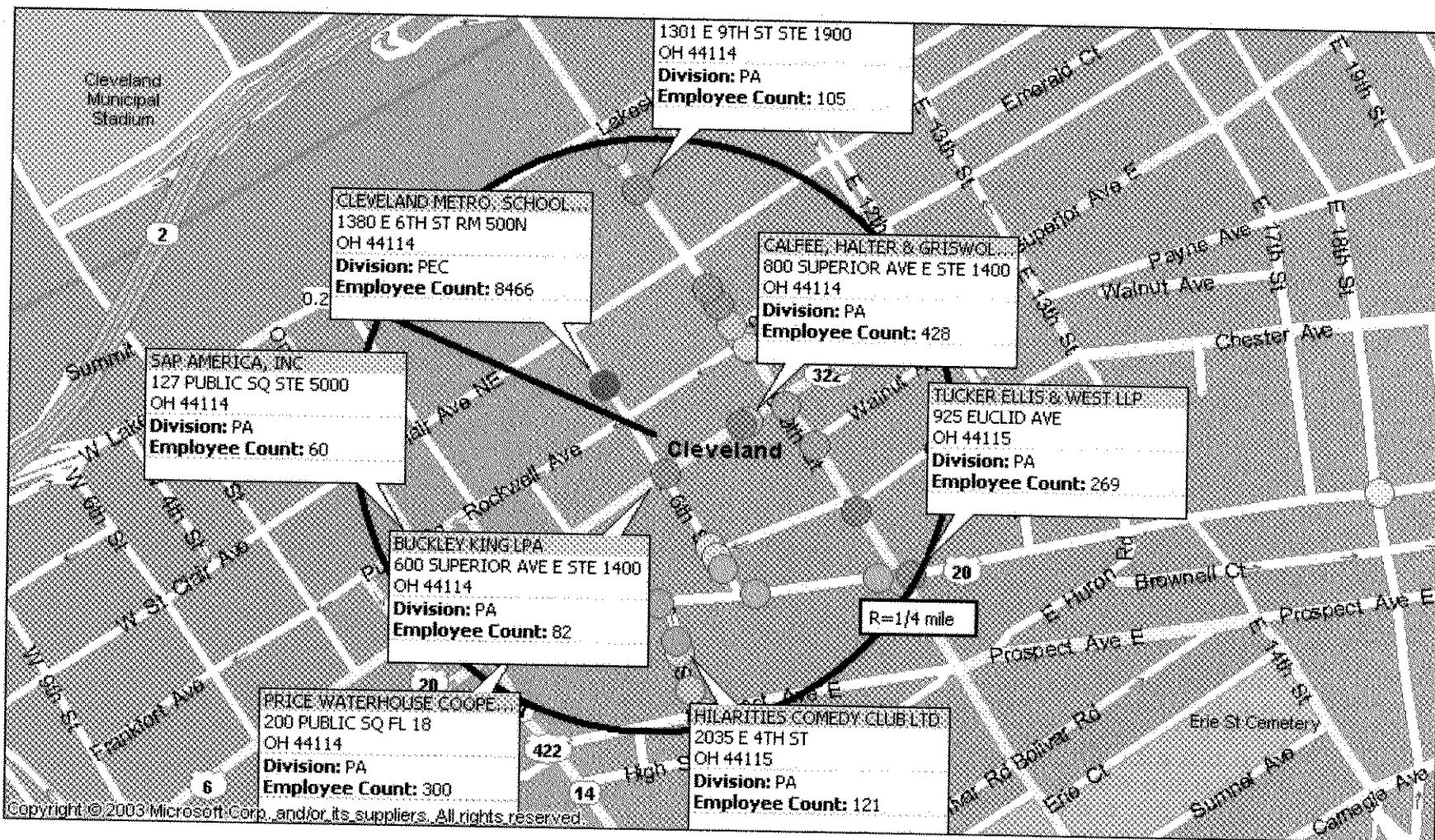
- Three major components of risk:
 - Insurance operating risk
 - Individual large loss frequency and severity
 - Aggregate deterioration of results
 - Catastrophe event
 - Investment risk
 - Substantial and sustained deterioration in value and/or return
 - Political risk
 - BWC assets utilized for unanticipated use

RMS Terrorism Targets in Cleveland (51 named targets, 23 CBD targets)

<https://www.bwc.ohio.gov/downloads/blankpdf/OC/2009/AudMaterials11-09.pdf> (retrieved 12 September 2015)



Employees within 1/4 mile of the Federal Reserve Bank in Cleveland Total employee count = 21,089



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Largest event loss estimate by attack method on RMS targets

Target Name	Attack Method	City	State	Loss	Casualties
Columbus CBD (1)	Nuclear Bomb - Large	Columbus	OH	25,984,147,600	76,556
Columbus CBD (1)	Biological - Anthrax - Large	Columbus	OH	18,683,424,300	139,047
Columbus CBD (19)	Nuclear Bomb - Small	Columbus	OH	15,467,237,900	48,466
Columbus CBD (1)	Biological - Anthrax - Medium	Columbus	OH	9,329,903,310	77,941
Columbus CBD (12)	Biological - Anthrax – Small (N)	Columbus	OH	6,083,711,010	64,005
The Ohio Statehouse	Bomb - 10 Ton	Columbus	OH	2,512,158,420	20,827
The Ohio Statehouse	Bomb - 5 Ton	Columbus	OH	2,020,396,660	18,641
Columbus CBD (19)	Chemical - Sarin Gas - Large	Columbus	OH	1,839,113,670	31,566
Perry	Sabotage - Nuclear Plant (S)	Perry	OH	1,592,467,350	17,473
Columbus CBD (507)	Bomb - 2 Ton	Columbus	OH	1,464,385,890	13,329
Columbus CBD (507)	Bomb - 1 Ton	Columbus	OH	1,061,184,170	11,367
Columbus CBD (18)	Chemical - Sarin Gas - Medium	Columbus	OH	930,553,561	23,706
Columbus CBD (507)	Conflagration	Columbus	OH	473,626,785	1,756
Vitex Corp	Sabotage - Industrial - Toxic Rel	Cleveland	OH	390,017,552	757
Columbus CBD (507)	Bomb - 600 lb.	Columbus	OH	376,414,365	6,839
Chicago Hazmat (1)	Sabotage - Hazmat Transportation	Chicago	IL	212,771,380	1,180
Key Tower	Aircraft Impact	Cleveland	OH	210,675,558	3,447

888 events with losses > \$200 million

Perry nuclear sabotage scenario (west)

loss estimate = \$1.5 billion

<https://www.bwc.ohio.gov/downloads/blankpdf/OC/2009/AudMaterials11-09.pdf> (retrieved 12 September 2015)

Policy Name	Address	City	ZIP	Div	Loss	EE Count	Casualties
CLEVELAND METRO SCH DIST	1380 E 6TH ST RM 500N	Cleveland	44114	PEC	40,505,072	8,466	453
CUYAHOGA COUNTY COMMISSIONER CLEVELAND	1255 EUCLID AVE STE 310A	Cleveland	44115	PEC	40,386,259	8,441	452
MENTOR EXEMPTED LOCAL SCH DIST	601 LAKESIDE AVE E RM 28	Cleveland	44114	PEC	40,270,872	8,417	450
WILLOUGHBY EASTLAKE SCHOOLS	6451 CENTER ST	Mentor	44060	PEC	18,318,687	1,487	205
PAINESVILLE CITY SCHOOLS	37047 RIDGE RD	Willoughby	44094	PEC	14,503,678	1,339	162
TT ELECTRONICS INTEGRATED MFG	58 JEFFERSON ST	Painesville	44077	PEC	12,925,844	562	145
CLEVELAND STATE UNIVERSITY	3700 LANE RD EXT	Perry	44081	PA	12,650,760	220	99
FLIGHT OPTIONS LLC	1983 E 24TH ST # FT201	Cleveland	44115	PES	12,075,323	2,524	135
MENTOR	26180 CURTISS WRIGHT PKWY	Cleveland	44143	PA	8,736,033	1,060	98
EUCLID CITY SCHOOLS	8500 CIVIC CTR BLVD	Euclid	44060	PEC	8,170,002	663	91
PARMA SCHOOLS	651 E 222ND ST	Cleveland	44123	PEC	7,674,301	923	86
LAKELAND COMMUNITY COLLEGE	5311 LONGWOOD AVE	Cleveland	44134	PEC	5,629,817	1,710	63
ARCELORMITTAL CLEVELAND INC	7700 CLOCKTOWER DR	Willoughby	44094	PEC	5,266,692	906	59
ARCELORMITTAL CLEVELAND INC	3100 E 4th St	Cleveland	44127	PA	5,260,123	1,126	59
P.E.T. PROCESSORS LLC	3060 EGGERS AVE	Cleveland	44105	PA	5,260,123	1,126	59
WISECO PISTON COMPANY INC	1350 BACON RD	Painesville	44077	PA	4,768,260	110	48
CITY OF EUCLID	7201 INDUSTRIAL PARK BLVD	Mentor	44060	PA	4,691,188	325	52
OMNICARE ESC LLC	585 E 222ND ST	Euclid	44123	PEC	4,182,761	503	47
CITY OF WILLOUGHBY	8909 EAST AVE	Mentor	44060	PA	4,154,324	358	46
Subtotal		Willoughby	44094	PEC	4,081,756	377	46
Total					259,513,876	40,643	2,854
					1,464,876,129	319,512	16,309

The Role of Reinsurance

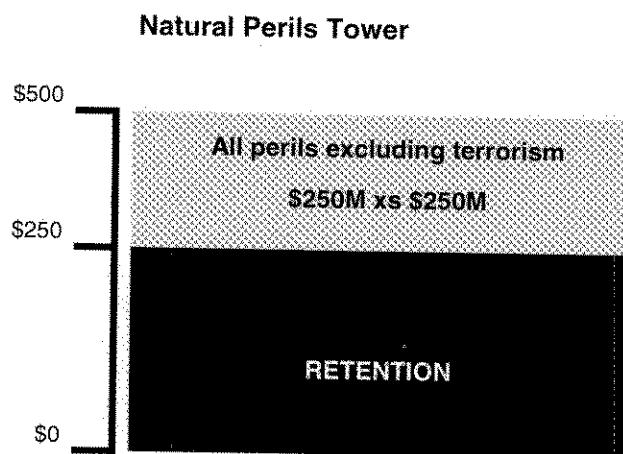
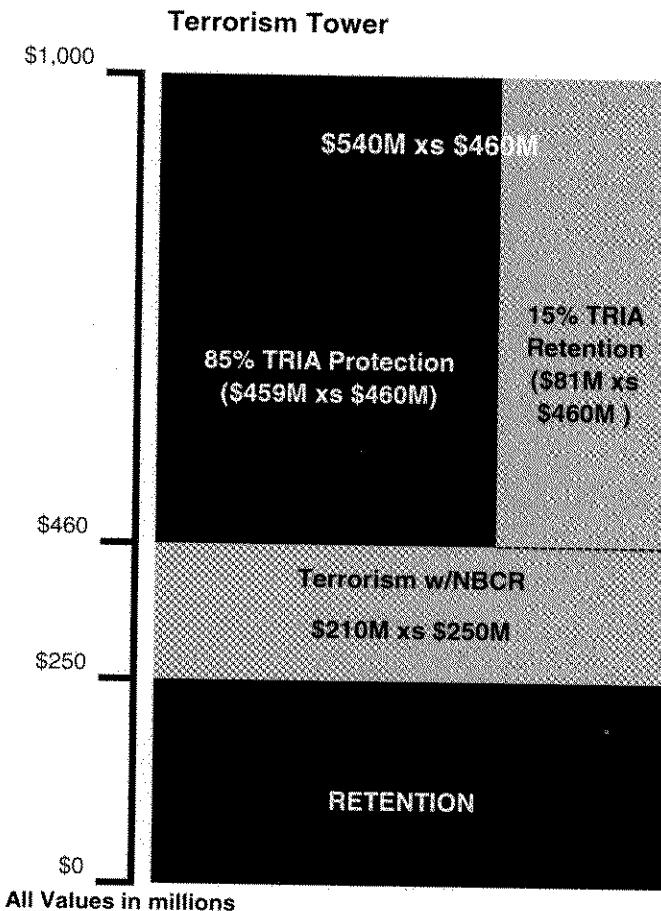
- After assessing all risk factors, we centered focus on reducing the impact of a catastrophe loss on BWC's ratios

	Gross Loss (\$000)	\$250,000	\$500,000	\$1,000,000	\$2,000,000	\$3,000,000
Assets (\$000)	18,027,314	18,027,314	18,027,314	18,027,314	18,027,314	18,027,314
Liab (\$000)	15,835,426	16,085,426	16,335,426	16,835,426	17,835,426	18,835,426
Funding Ratio	1.14	1.12	1.10	1.07	1.01	0.96
Premium (\$000)	1,893,936	1,893,936	1,893,936	1,893,936	1,893,936	1,893,936
Reserves (\$000)	15,397,000	15,647,000	15,897,000	16,397,000	17,397,000	18,397,000
Net Assets (\$000)	2,191,888	1,941,888	1,691,888	1,191,888	191,888	(808,112)
Net Leverage	7.89	9.03	10.52	15.35	100.53	-25.11

- Utilizing employee data provided by BWC, we modeled various man made and natural loss scenarios to evaluate range of possible loss
- Structured program alternatives which, when incorporating protection available to BWC from the Federal Terrorism Risk Insurance Act, would (all other risks held constant) keep Net Leverage ratio below 10:1 with no more than 10% of Net Assets depleted

The Role of Reinsurance

- The proposed program of reinsurance protection is as follows:



Process and Performance

- Program structure, reinsurance contract, and underwriting data all presented to the reinsurance marketplace - November 10
- Questions received from reinsurers - ongoing
- Reinsurance pricing secured - by November 25
- Following discussions with BWC Management on reinsurers' responses, program alternatives - ongoing
- Decisions regarding final program design, authorized pricing terms presented to the market, seeking program authorizations – week of November 30
- Receipt of reinsurers' authorizations, review with BWC for allocations of program shares – week of December 7
- Contracts delivered to all parties for signature – week of December 14

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Evaluation of the value and effectiveness of reinsurance as a part of the net asset management strategy of BWC.

Executive Summary: Introduction

In 2008, BWC commissioned Deloitte Consulting to perform an exhaustive study of various component operations of the BWC. The study, as provided to BWC management in February, 2009, among other recommendations, set in motion a series of deliberations and eventual action by the BWC Board of Directors in the establishment of a Net Asset Policy. This policy sets forth two basic parameters that guide BWC management, Funding Ratio, the relationships of funded assets to funded liabilities, and Net Leverage Ratio, the relationship of premiums and reserves to net assets.

One of the recommendations of the Deloitte study was for BWC to periodically test the reinsurance market to determine whether or not catastrophic reinsurance could be purchased at reasonable terms for a reasonable cost, thereby providing another Risk Management tool to BWC, in managing its Funding and Leverage Ratios in the presence of a catastrophic event.

Towers Perrin was contracted by BWC to provide an analysis and direction in response to the Deloitte recommendation regarding reinsurance purchasing. This analysis presented both challenges and opportunities for our team, given the fact that we were not only evaluating the financial interests and business risks of BWC as an insurer, but also, given the monopolistic position of BWC, evaluating the risks presented by the entirety of the Ohio marketplace.

We took the opportunity provided to us to evaluate a much greater spread of risk than just that of catastrophic events as it is the correlation of events - economic, political and judicial - largely outside of the control of BWC management that provides the greatest risk to BWC's net asset management. Reinsurance applications, based on their prospective nature, are

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limited in the scope of risks to which they can respond.

BWC's monopolistic market position allows for certain latitudes in its short and long-term financial management that are otherwise not afforded an insurer in a competitive market situation. That said, the mandate set forth in BWC's mission, "to provide for the solvency of the fund and to maintain the lowest possible rates for Ohio employers consistent with solvency" provides sufficient rationale for the consideration of reinsurance protection as a viable component of BWC's solvency strategies. One of BWC's performance objectives "to provide stable costs to avoid unexpected financial hardship for employers" is also supported by such a decision.

BWC, as any other insurer, conducts their business activities in two distinct components. The first is the insurance risk component, that being the setting of rates for various industry classifications, the management, resolution, and reserving of claims for all liabilities to be paid into the future and the establishment of certain safety and loss prevention programs. The second is the investment risk component, as BWC invests the premium dollars it collects for the payment in the future of claims and related liabilities stemming from the insurance risk that it undertakes.

Reinsurance by design is prospective in nature. That is, it is engineered with very few exceptions to respond to risks or events that have not yet occurred at the time the transaction is consummated. Further, reinsurance is intended to respond to the risks presented by an insurer's insurance risk, not its investment risk. Reinsurance programs can be designed to reduce volatility in financial results caused by unforeseen events, either on an individual event basis (World Trade Center catastrophe), or on an unforeseen accumulation of smaller events (an unexpected number of individual injured worker claims above an established level). Programs can also be designed to provide protection against a series of unforeseen events (excessive claim frequency, claim severity, rate inadequacy) that results in a given underwriting year's results falling below target.

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Overall, we are impressed with the overall stability of BWC's insurance risk results. On reflection, that should be of little surprise, as it has been the sole provider to the Ohio Workers Compensation market for nearly 100 years. As a result, the book of business, but for the vagaries of the Ohio economy, is quite consistent. BWC has extensive knowledge of the Workers Compensation law, related rules and regulations, and the judicial and administrative components of claims adjudication. Its only "competitive" pressures are those imposed by its mission and purpose for being.

In addition, the financial assets of BWC are substantial with \$2.52B of Net Assets as of June 30, 2009. As a result, BWC's ability to withstand reasonable volatility in its insurance risk portfolio is well-positioned. This ability is threatened, however, when there is volatility in the investment risk component of its business that may be correlated with volatility in the insurance risk portfolio.

We believe that there is value to be derived by BWC in the design and procurement of certain reinsurance protections as a fundamental component of its net asset management. We believe that current market conditions will support such an entry by an insurer of your stature and risk profile.

The Project

Further to Request for Proposal (RFP) #B09007, Towers Perrin entered into a contract with the Ohio Bureau of Workers Compensation (BWC) to provide BWC with certain services normally provided by a reinsurance intermediary.

Specifically, the contract called for the following deliverables:

1. Perform risk exposure analysis, including catastrophe modeling specific to BWC.
2. Develop specifications for market coverage for the purpose of placing workers compensation reinsurance coverage for BWC.

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3. Obtain quotes from at least three reinsurers of the premiums and arrangements for reinsurance and prepare summaries and recommendations of (re)insurers' proposals and deliver proposals and summaries to BWC.
4. Negotiate and place the reinsurance coverage at the direction of BWC.
5. Provide an annual summary of the workers' compensation reinsurance marketplace to aide BWC in making determinations.
6. Coordinate the renewal process of reinsurance, including negotiating renewal terms, conditions and pricing with the assistance of BWC and provide other services that are usual and customary for similar clients of the reinsurance intermediary.

Towers Perrin has received excellent support from the staff at BWC in the development and formatting of data that allowed us to complete the first deliverable of the project, that being the assessment of the value if any to BWC of a reinsurance placement that would improve the ability of BWC to identify risk tolerance and control risk volatility, thereby allowing BWC to manage its business within established Board policy dealing with Net Asset funding.

Risk Assessment

In the conduct of its business, BWC administers and manages several "funds" that to one degree or another present risk to the overall financial condition of BWC.

The specific funds to be evaluated are:

1. State Insurance Fund (SIF)
2. Disabled Workers Relief Fund (DWRF)
3. Coal Workers Relief Fund (CWRF)
4. Public Work-Relief Employers Fund (PWREF)
5. Marine Industry Fund (MIF)
6. Self-Insuring Employees' Guaranty Fund (SIEGF)
7. Administrative Cost Fund (ACF)

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The relationship, funding strategies and correlated impact on BWC are discussed thoroughly within the Deloitte study. Several of these funds may be currently “under” or “un” funded. A question then arises as to whether or not in the event of a large catastrophe or state-wide economic depression, if BWC’s assets will be called upon to “fund” these obligations, placing further pressure on BWC’s financial strength.

DWRF is a supplemental fund established to provide relief to an injured worker who is receiving permanent total disability (PTD) compensation benefits by raising the cost of living level. It is by design on a “pay-as-you-go” funding basis, funded by assessments on all employers. The Deloitte study estimates the unfunded liabilities of DWRF to be \$1.5B. In the event of a large scale catastrophe, it is not unreasonable to assume that the number of injured employees eligible for such benefits (prospectively) could increase dramatically, at the same time that the number of employers capable of being assessed would be reduced. While prospective reinsurance cannot respond to an existing unfunded liability, it can clearly respond to all obligations on a prospective basis subject to designed contract parameters.

SIEGF is another “post funded” fund covering liabilities of employers who have operated as a permitted “self-insurer” and who have defaulted on such payments. BWC reports that one-third of all Ohio employees work for employers who are self-insured. While the obligation to finance unfunded liabilities rests with the population of existing self-insured employers, a significant default of one or several large self-insured employers (i.e., Chrysler/General Motors) makes this provision largely impractical. As these liabilities are not directly those of BWC (SIF), they would not be subject to a reinsurance application specific to SIF. The magnitude of such an economic event could, however, require a significant drain on BWC assets as to severely impact the Funding Ratios as established by BWC.

The remaining funds, other than SIF, present much less potential risk to the Funding or Leverage ratios established by BWC on either an independent or correlated basis. As a

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result, we will turn to the risks faced by SIF in the course of BWC's primary insurance business.

State Insurance Fund (SIF)

Without question, the greatest amount of risk, both insurance and investment risk, lies within the SIF account. At the end of fiscal year 2009, SIF's reported Net Assets totaled \$2.2B, representing 87.1% of the combined net assets under management of BWC. At the end of FY09, the SIF Funding Ratio was 1.14, a slight deterioration from the FY08 ratio of 1.15. The SIF Net Leverage Ratio was 8.22, deterioration from the FY08 ratio of 7.93. These results were realized in spite of significant improvements in the insurance combined ratio of nearly 30 points year over year, pointing out the dramatic effect of the investment risk faced by BWC.

As reinsurance applications are designed to respond to insurance risk and are prospective in nature, our points of interest turned to a review of historical information to determine what, if any, volatility could be seen in such results.

There are several fundamental views of reinsurance utilization that warrant discussion. The first is that reinsurance is a proxy for capital. An insurer seeks to gain access to that capital for various operational purposes, and the provider of that capital, the reinsurer, has a cost of capital that must be met, along with an appropriate risk margin. Therefore, there is a cost of securing reinsurance. The net cost of reinsurance is often valued on the premiums paid for such protection, less the recovery of losses subject to the reinsurance contract. As a result, reinsurance should only be purchased for events that are unforeseen, or for events that cannot be practically funded for in the normal cost of rate setting.

We specifically evaluated the following risks that are routinely presented within our state fund client base:

1. Large individual worker claims (severity)

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2. Fluctuation from year to year of large individual worker claims (frequency of severity).
3. Annual Combined Ratio results.
4. Risk of Catastrophic loss from man-made or natural causation.

Large Individual Worker Claims (severity and frequency)

In this analysis, we are looking for the emergence of individual losses that on their own could cause unforeseen volatility on BWC's underwriting results. In Exhibits 1A-1E, we have recreated the large loss data provided by BWC into pictorial "histograms" that allow us to observe where the greatest majority of losses emerge in terms of size of loss, as well as the frequency of such losses over time.

Losses of this magnitude often take several years for the ultimate incurred values to be realized. For that reason, we will rely more completely on accident years 1994-2004 as depictive of "normal" loss emergence.

1. The number of large losses excess of \$1,000,000 in incurred value has been highly predictable.
2. There is a marked reduction in the number of losses with incurred value in excess of \$2,000,000.
3. The number of losses with incurred values over \$5,000,000, while less frequent, is quite predictable on an Accident Year basis.
4. Overall, from a peak in the 1998 Accident Year, the incidence of losses with incurred values in excess of \$1,000,000, \$2,500,000 and \$5,000,000 have trended lower.
5. Current rate levels can and should respond to the annual expected losses.
6. For relativity purposes, we compared BWC's large loss data with a market of similar size and occupational complexity, being Pennsylvania as provided by the Pennsylvania Compensation Rating Bureau. The results when viewed for severity and frequency of similarly sized losses are comparable.

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Conclusion: There is little value to BWC in considering a reinsurance structure to protect either the severity or frequency aspect of large individual worker incurred losses.

Examples

1. It is not unusual for state funds to consider insuring such exposures if, (a) they are not predictable and/or (b) net asset (surplus) levels were otherwise strained.
2. Assume a “normal” loss year with ten claims having incurred values over \$5,000,000 and further that each loss was valued at \$10,000,000.
3. Assume sufficient reinstatement provisions to cover the frequency of losses. The structure would then be represented as \$5,000,000 of limit in excess of a \$5,000,000 retention with aggregate recovery of \$50,000,000.
4. Assume annual reinsurance premium for this protection of \$25,000,000.
5. The “value” to BWC is the recovery (\$50,000,000) less the premium paid (\$25,000,000) or \$25,000,000.
6. Against assumed SIF operating revenues of \$1,800,000,000, the benefit derived from such a program of reinsurance would be to lower the expected loss ratio by 1.5%, which on balance is insignificant when considering the size of the BWC capital position. Exhibits 2A-2I, the Underwriting Income Histograms, provide further evidence of this conclusion

Volatility in Combined Ratio

For an insurer, consistency in underwriting results is one of management’s most important goals. The ability to deliver to your policyholder base a consistent price is critical to their ability to effectively manage their business costs. BWC reports on such results in a manner quite similar to the private insurance industry in the reporting of “Insurance Ratios” to your Audit Committee and Board of Directors.

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The two key ratios are the **Combined Ratio** which portrays the affect of the insurance risk of which we have spoken. The **Operating Ratio** overlays the results of your investment risk on the Combined Ratio. As we have said, reinsurance applications are directed solely at prospective insurance risk, which can, of course, present significant volatility from year to year.

This volatility can best be demonstrated by a review of BWC's own results over recent years.

	Projected FY10	Actual FY09	Projected FY09	Actual FY08
Loss Ratio	84.5%	69.1%	92.6%	97.6%
LAE Ratio	19.9%	17.3%	21.8%	18.2%
Net Loss Ratio	104.4%	86.4%	114.4%	115.8%
Expense Ratio	4.3%	3.8%	4.1%	4.2%
Combined Ratio	108.7%	90.2%	118.5%	120.0%
Net Operating Gain	\$(276M)	\$150M	\$(476M)	\$(521M)

This level of underwriting volatility is quite extreme during such a short operating period. It is, however, normalized when investment income results are factored in.

	Projected FY10	Actual FY09	Projected FY09	Actual FY08
Combined Ratio	108.7%	90.2%	118.5%	120.0%
Net Investment Income Ratio	31.8%	29.9%	37.7%	38.6%
Operating Ratio	76.9%	60.3%	80.8%	81.4%
Operating Result	\$441M	\$888M	\$374M	\$356M

Other state funds that do not enjoy the market control of BWC, and whose investment portfolio as compared to its underwriting portfolio is less leveraged, seek to minimize their underwriting volatility through a reinsurance application referred to as an Annual Aggregate Excess of Loss program. Such a program contemplates an insurer's plan loss ratio, and provides a limit of reinsurance protection above a defined retention, normally set at several points above "plan".



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Conclusion: There is little or no benefit to BWC in incorporating a plan of reinsurance into their business planning for the purpose of normalizing its underwriting results from year to year.

Rationale

1. Despite potential for significant underwriting volatility, the size of investment results virtually guarantee positive operating results.
2. Reserve volatility has been quite controlled, impacted largely by changes in discounting practices.
3. Recent investment practice directives have been geared to reduce volatility.
4. No uniform dividend practices need to be maintained.

Risk of Catastrophic Loss – Natural and Man-Made Events

BWC's position as the only provider of workers compensation for insured employers in Ohio presents significant latitude in its risk tolerance. While the overall financial foundation of BWC is critical in adding confidence and consistency in its long-term performance, and as further directed by the adoption of BWC's Net Asset Funding Policy, it is immune to external competition or regulatory intervention.

At the same time, BWC is subject to significant volatility presented by the sheer size of its business portfolio, most notably presented by employer aggregation in the three business centers of Ohio (Columbus, Cleveland and Cincinnati), the congregation of employers under the State of Ohio direction, as well as employer concentrations in and around the operating nuclear power plant at Perry.

Our Catastrophe modeling group, under the direction of Imelda Powers and Ming Li, did extensive work in the management of data provided by BWC in an effort to estimate the total number of employers in key locations for the purpose of modeling BWC's exposure to catastrophic loss. The details of this effort, including the determination of "proxies" utilized

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during the modeling and the reliance of Dun & Bradstreet information where available are detailed in Exhibits 3A-3M.

The modeling efforts rely on information and logic contained in the Risk Management Solutions (RMS) model. They were geared to identifying the impact of various event types on certain cities where employers' aggregation was most prominent.

RMS identifies 140 "target hot spots" in Ohio. 75 of them are identified as Central Business Districts (CBDs), which are not physical buildings but rather areas of business congregation. Examples of key "hot spots" would be airports, shopping malls, tall buildings, company headquarters, hotels, stadiums, power plants and government buildings.

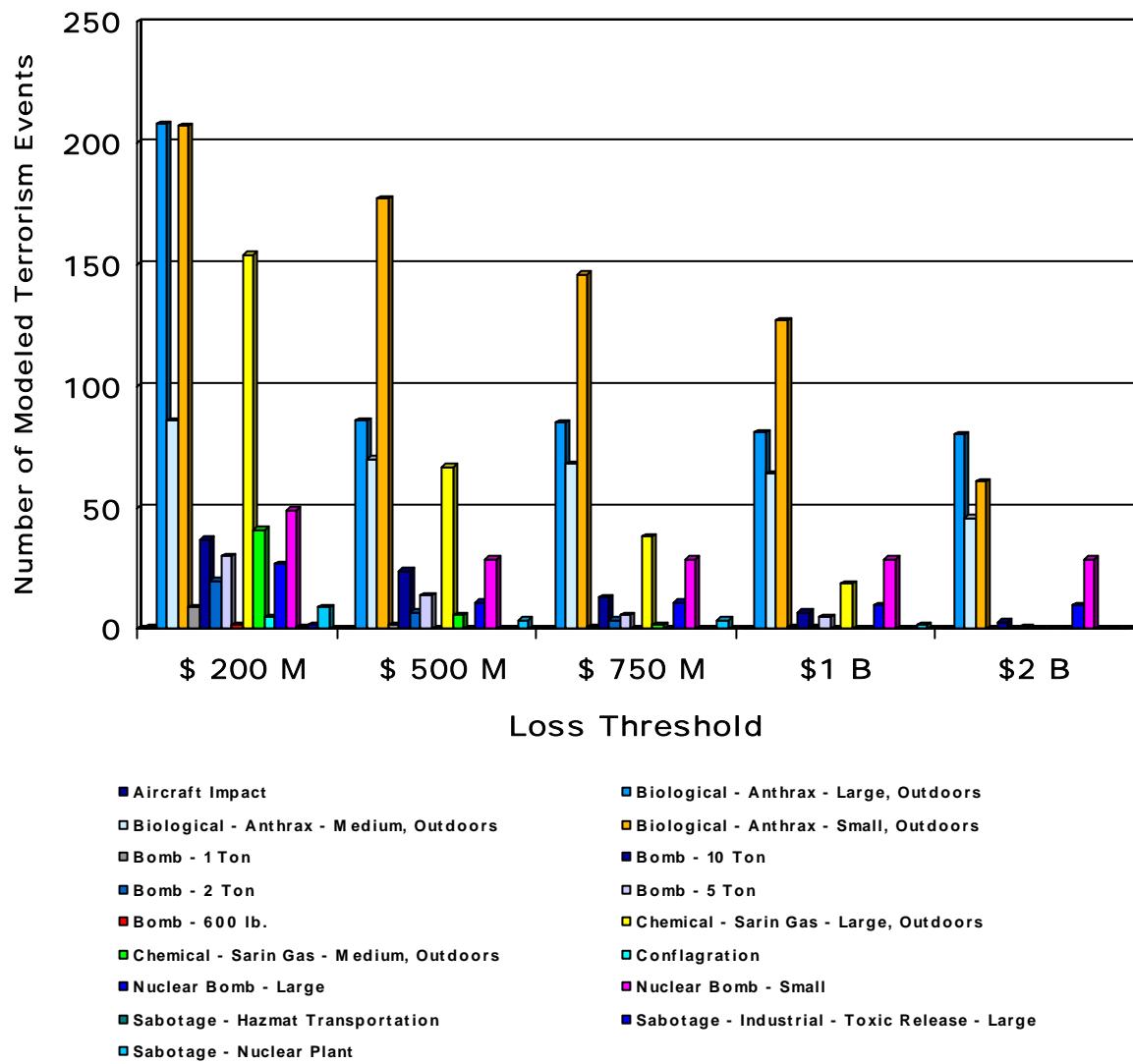
While the model allows for the testing of various type events, we centered on the following for critical evaluation purposes:

1. Bomb Attacks (various sizes – non-nuclear)
2. Nuclear Bomb
3. Anthrax Release
4. Chemical Release
5. Conflagration
6. Earthquakes

The following exhibits demonstrate the type of events modeled, as well as the number of events falling within the various loss thresholds.

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Modeled Terrorism Events with BWC Losses greater than \$200M
by Attack Method





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Attack Type	\$200 M	\$500 M	\$750 M	\$1 B	\$2 B
Aircraft Impact	1	0	0	0	0
Biological - Anthrax - Large, Outdoors	208	86	85	81	80
Biological - Anthrax - Medium, Outdoors	86	70	68	64	46
Biological - Anthrax - Small, Outdoors	207	177	146	127	61
Bomb - 1 Ton	9	2	1	1	0
Bomb - 10 Ton	37	24	13	7	3
Bomb - 2 Ton	20	7	4	1	0
Bomb - 5 Ton	30	14	6	5	1
Bomb - 600 lb.	2	0	0	0	0
Chemical - Sarin Gas - Large, Outdoors	154	67	38	19	0
Chemical - Sarin Gas - Medium, Outdoors	41	6	2	0	0
Conflagration	5	0	0	0	0
Nuclear Bomb - Large	27	11	11	10	10
Nuclear Bomb - Small	49	29	29	29	29
Sabotage - Hazmat Transportation	1	0	0	0	0
Sabotage - Industrial - Toxic Release - Large	2	0	0	0	0
Sabotage - Nuclear Plant	9	4	4	2	0
Total	888	497	407	346	230

It is clear that given BWC's breadth of exposures, covering 270,000 employers across the state, with indirect and potentially correlated exposure to government and self-insured employers, the size of potential loss is significant, but not all will put the financial position of BWC in serious jeopardy.

This analysis further points out that while occupational explosions could have the impact of a five ton bomb, larger fires do occur and chemical releases are an occupational hazard, it is through a terrorist event that such loss scenarios are more easily reasoned.

For this reason, it is necessary to evaluate how the availability of Federal Funds through TRIA fits into the insurance risk assessment of BWC.



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The “proxies” developed to estimate employee count per location, while reasonable, are of course subject to error. We will work with BWC in establishing a more reliable process for securing such data, and suggest as an initial step that BWC begin securing such data for policyholders above \$1M in annual premium, allowing for a more accurate risk assessment.

Federal Protection Against Terrorism Loss

Traditional reinsurance protection against losses brought about by a terrorist event is not the only coverage afforded BWC. In December, 2007, the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA) was signed into law. TRIPRA is the successor legislation to the Terrorism Risk Insurance Act (TRIA) signed into law in 2002 to provide protection to insurers and certain other risk providers for defined losses brought about by terrorist acts.

BWC would have access to protection provided under TRIPRA, in that it meets the definition of insurer, “any entity, including any affiliate thereof (A) that is – (iv) a State residual market insurance entity or State Workers Compensation Fund.”

There are certain provisions that frame the coverage under TRIPRA:

1. The aggregate losses from an occurrence must exceed \$100,000,000.
2. Each insurer will have an annual aggregate retention equal to 20% of its prior year's Direct Earned Premiums.
3. Each insurer will be responsible for 15% of losses otherwise recoverable that exceed its TRIPRA retention.

The language in TRIPRA legislation dealing with an insurer's annual aggregate loss retention contemplates terminology that, while germane to the insurance industry, is nonetheless not consistent with BWC's financial record keeping. Specifically, TRIPRA

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utilizes the term "direct earned premium" as the base against which retention calculations will be performed.

We have discussed this issue with BWC management and have identified those Fund Accounts that contemplate an employer premium or assessment for BWC, with the annual aggregate receipts of such Fund Accounts most closely mirroring "direct earned premium." Those Funds, along with the most recent audited receipts are as follows:

SIF	\$1,807,898,000
DWRF	140,019,000
CWPF	1,678,000
PWREF	150,000
MIF	761,000
ACF	359,760,000
Total	\$2,310,266,000

Based on these premiums and assessments, we would approximate BWC's retention under TRIPRA for terrorism losses occurring during calendar year 2010 to be \$462,053,000, being 20% of \$2,310,266,000.

Given the fact that the potential for catastrophic terrorism losses presents one of the largest financial risks to BWC, this protection must be considered in the overall reinsurance value discussion.

Funding and Leverage Ratios

A review of BWC's historical results against the established Net Asset Funding Ratios and Net Leverage Ratios is quite interesting.

The hydraulics of asset and liability movements from one year to the next provide the expected direction of the ratios, with the degree of movement dictating the magnitude of change.

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During the last ten years, BWC has not fallen below the 1.02 ratio for its net funding ratio floor. The combination of reduced assets and increasing loss reserves for 2001-2003 lead to the most leveraged position of BWC during the last ten years, with the NFR at 1.029.

The same cannot be said for the Net Leverage Ratio which has been outside the policy parameter of 8.0 seven times in the last ten years. Here, virtually all of the volatility has come from dramatic, and, in the period of 2001-2003, prolonged reduction in net assets.

The liabilities, primarily made up of claim reserves and adjustment expenses, have been quite stable, in spite of a 25% change in reserve discount factors. Premium levels have similarly been fairly consistent over time.

SIF
Funding Ratio
Net Leverage Ratio
Historical Assessment

FY	Funding Ratio	Net Leverage	Comments
1998	1.339	3.456	
1999	1.440	2.723	Assets ↑ 3.8%, Reserves ↓ 3.2% Discount @ 6.00%
2000	1.552	2.156	Assets ↑ 3.6%, Reserves ↓ 4.3% Discount @ 6.00%
2001	1.373	3.159	Assets ↓ 8.4%, Reserves ↑ 3.5% Discount @ 6.00%
2002	1.148	8.354	Assets ↓ 12.1%, Reserves ↑ 6.2% Discount @ 5.80%
2003	1.029	39.877	Assets ↓ 7.0%, Reserves ↑ 7.7% Discount @ 5.50%
2004	1.044	26.420	Assets ↑ 3.6%, Reserves ↑ 2.3% Discount @ 5.50%
2005	1.038	34.491	Assets ↓ 3.0%, Reserves ↑ 3.2% Discount @ 5.25%
2006	1.091	13.520	Assets ↑ 3.0%, Reserves ↓ 1.5% Discount @ 5.25%
2007	1.144	8.262	Assets ↑ 4.4%, Reserves ↓ 1.0% Discount @ 5.00%

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2008	1.152	7.932	Assets ↑ 3.1%, Reserves ↑ 1.8% Discount @ 5.00%
2009	1.140	8.220	Assets ↑ 3.9%, Reserves ↓ 1.0% Discount @ 4.50%

The Impact of Catastrophic Loss on BWC's Funding and Leverage Ratios

As we postured in our early comments, it is not only the potential of a catastrophic loss that presents substantial risk to BWC's financial foundation. Consider some of the residual impact on New York City and the entire United States economy following the events of September 11, 2001.

1. Estimated Insured W.C. Loss - \$2.4B
2. Unemployment in New York grew from 4% to 6% with an estimated 200,000 jobs that were eliminated or relocated out of New York City.
3. Stock market disruption – (12.76%) after one trading year.
4. Physical assets destroyed: \$14B private industry, \$1.5B state and local government and \$.7B federal government.

It is clear then that the impact on BWC's financial standing is much broader and perhaps longer lasting than just the size of the generated workers compensation loss brought about by a catastrophe of significant proportion. Since it is both difficult and highly subjective to evaluate the aggregated effect of correlated losses in the event of a catastrophe, we will attempt to identify the impact on BWC's Net Funded Asset Ratio and Net Leverage Ratio in the event of a catastrophe loss holding all other factors constant and using audited 2009 Fiscal Year SIF results as our base line:

Assets	\$18,027,314,000
Liabilities	15,835,426,000
Premium	1,893,936,000
Reserves	15,397,000,000
Net Assets	2,191,888,000

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Holding premium and assets constant through this exercise, the following exhibit demonstrates the movement of the pertinent ratios following gross losses of various magnitudes.

	Gross Loss (\$000)	\$250,000	\$500,000	\$1,000,000	\$2,000,000	\$3,000,000
Assets (\$000)	18,027,314	18,027,314	18,027,314	18,027,314	18,027,314	18,027,314
Liab (\$000)	15,835,426	16,085,426	16,335,426	16,835,426	17,835,426	18,835,426
Funding Ratio	1.14	1.12	1.10	1.07	1.01	0.96
Premium (\$000)	1,893,936	1,893,936	1,893,936	1,893,936	1,893,936	1,893,936
Reserves (\$000)	15,397,000	15,647,000	15,897,000	16,397,000	17,397,000	18,397,000
Net Assets (\$000)	2,191,888	1,941,888	1,691,888	1,191,888	191,888	(808,112)
Net Leverage	7.89	9.03	10.52	15.35	100.53	-25.11

Conclusion: With the increased financial leverage demonstrated above and the potential for further correlated impact on BWC's asset base, we believe that the question of whether or not to evaluate the benefit of a reinsurance application to limit the impact of a catastrophic event on BWC's financial ratios should be answered in the affirmative.

Summary and Recommendations

After a thorough review of the various insurance risk factors presented by BWC and the potential for large scale catastrophic loss, we believe that there is value in the purchase of Workers Compensation Catastrophe Excess of Loss Reinsurance to include coverage for terrorist events, including those stemming from nuclear, chemical, radiological and biological origin. Such protection should be structured to make most efficient use of those protections provided by the Federal government as well as existing assets of BWC.

We present this finding based on the following:

1. While within the boundaries of BWC's Net Asset Funding Ratio policy, net assets are substantially leveraged.
2. The ability of BWC to quickly and efficiently replace existing capital in the event of a catastrophic loss is limited.

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3. There exists a sufficient number of large loss events that, while presenting low potential of occurring, would, when coupled with other correlated financial trauma, cause dramatic and long-term financial distress for BWC.

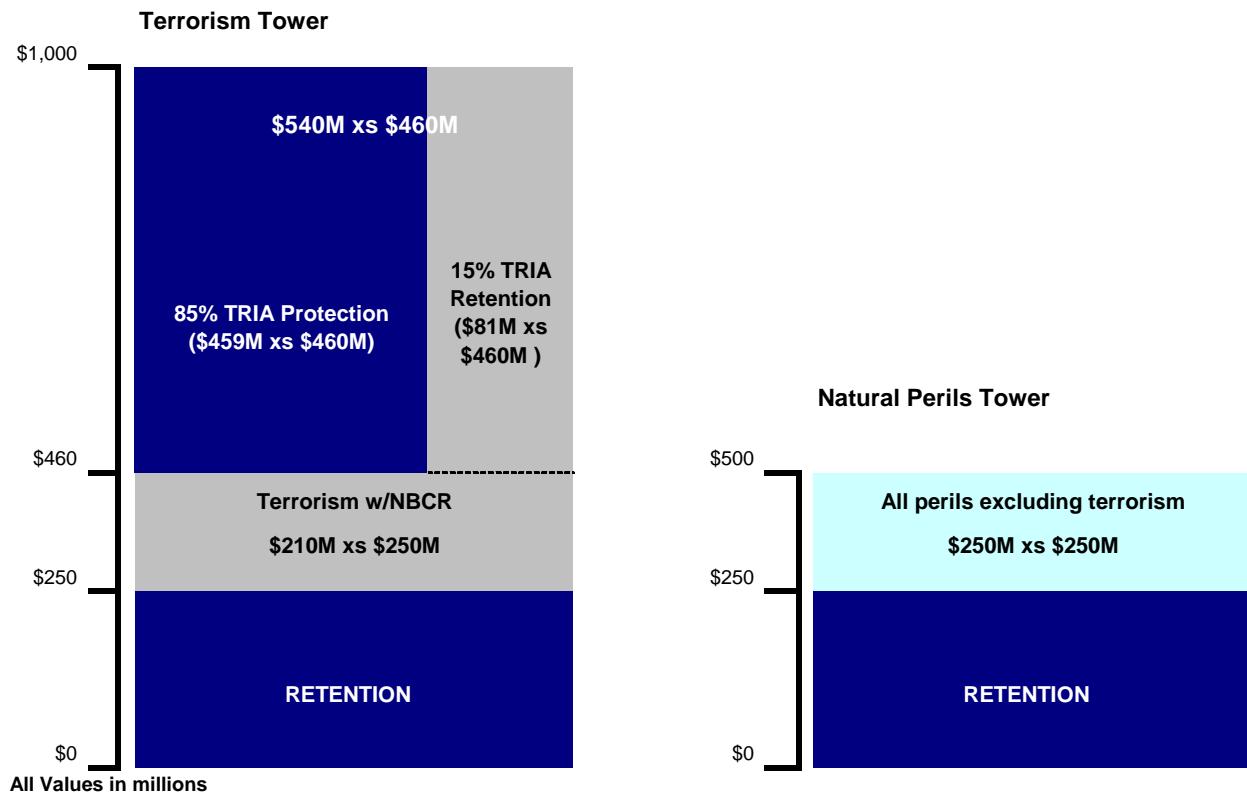
Structural Considerations

1. Maintain net leverage to be no more than 10.
2. Maintain net loss position to no more than 10% of net assets. Based on 2010 financial projections that net loss would be \$314M.
3. Utilize benefits of TRIA coverage excess of calculated retention of approximately \$460M, leaving net loss for a terrorism event to \$460M plus 15% for all covered loss above that level.
4. Protect up to \$1B gross loss for terrorism and \$500M for “natural” events.

Proposed Structure

Retention	\$250M
Limit (A)	\$250M – All non-terrorism events
Limit (B)	\$210M – Terrorism losses up to TRIA retention, plus \$81M being 15% of terror related loss above \$460M

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This structure is simple and straightforward, and responsive to the needs of BWC.

Further to our discussion with BWC management on November 4th, 2009, and subsequent review on their part, Towers Perrin was given authorization to approach a selected group of reinsurers to secure pricing indications for the above reinsurance program structure. The Underwriting Submission in support of this program was provided to reinsurance markets on November 10, 2009. A list of reinsurers who have received this submission is attached in the exhibit section of this report.

A Time Line of future activities is provided as part of the appendix to this report, and will govern our future actions with BWC regarding further review, analysis, and decisions by



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BWC regarding the placement of a reinsurance program. A Draft copy of the proposed reinsurance contract is provided as well.

Once again, we want to take the opportunity to thank all at BWC for their tremendous assistance and support during this phase of our work, and look forward to working with them as we conclude our required work.

OHIO BUREAU OF WORKERS COMPENSATION
COLUMBUS, OHIO

WORKERS' COMPENSATION
EXCESS OF LOSS REINSURANCE CONTRACT

EFFECTIVE JANUARY 1, 2010

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ATTACHMENTS:

APPENDIX 1 - NUCLEAR INCIDENT EXCLUSION CLAUSE - LIABILITY -
REINSURANCE (USA) (BRMA 35A)

EXHIBIT "A" – FIRST WORKERS' COMPENSATION EXCESS OF LOSS

EXHIBIT "B" – SECOND WORKERS' COMPENSATION EXCESS OF LOSS

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OHIO BUREAU OF WORKERS COMPENSATION
COLUMBUS, OHIO

WORKERS' COMPENSATION
EXCESS OF LOSS REINSURANCE CONTRACT

EFFECTIVE JANUARY 1, 2010

ARTICLE 1

BUSINESS COVERED

- A. This Contract applies to all losses that occur with a date of loss during the term of this Contract on all Policies, except as hereinafter excluded, classified by the Company as Workers' Compensation that are in force at the inception of, and written with a Policy Period (new or renewal) effective during the term of this Contract ("Business Covered").
- B. The term "Policies", whenever used herein, shall mean all binders, policies, contracts, certificates and other obligations, whether oral or written, of insurance or reinsurance.
- C. The reinsurance of all Business Covered hereunder shall be subject in all respects to the same risks, terms, clauses, conditions, interpretations, alterations, modifications, cancellations and waivers as the respective insurances (or reinsurances) of the Company's Policies and the Reinsurer shall pay losses as may be paid thereon, and the true intent of this Contract being that in each and every case to which this Contract applies, the Reinsurer shall follow the settlements and fortunes of the Company, subject always to the limits, terms and conditions of this Contract.

ARTICLE 2

COMMENCEMENT AND TERMINATION

- A. This Contract shall incept at 12:01 a.m., Eastern Standard Time, January 1, 2010, and shall remain in force until 12:01 a.m., Eastern Standard Time, January 1, 2011.
- B. At termination, at the Company's option:
1. The Reinsurer(s) shall remain liable for all Policies in force at termination of this Contract; however, the liability of the Reinsurer(s) shall cease with respect to losses occurring subsequent to the first anniversary, natural expiration or cancellation of each Policy, whichever first occurs, but in no event for losses occurring more than twelve (12) months plus odd time, not to exceed eighteen (18) months in all, after each such termination.

In the event the Company elects to exercise this option, the Company shall notify the Reinsurers of its intent to do so in writing by January 1, 2011, and the Company shall calculate and pay to the Reinsurer(s) a reinsurance premium for runoff coverage. Such premium shall be calculated by applying the rates in effect to the Gross Net Unearned Premium for the Business Covered as of the date of termination, less the portion of Unearned Premium for coverage which extends beyond the term of the Run-Off coverage provided herein, if any, and the Company shall remit the reinsurance premium so calculated no later than January 1, 2011; or

2. The Reinsurer(s) shall be relieved of all liability hereunder for any losses occurring subsequent to termination of this Contract.

C. If this Contract is terminated while a loss covered hereunder is in progress, it is agreed that, subject to the other conditions of this Contract, the Reinsurer(s) shall indemnify the Company as if the entire loss had occurred during the term of this Contract, provided no part of such loss shall also be claimed against any renewal or replacement of this Contract or any Run-Off period. This provision shall in no way override any other terms and conditions in this Contract, including but not limited to the hours requirements for Occupational Disease and Cumulative Injury.

ARTICLE 3

REINSURANCE COVERAGE

See Exhibits "A" and "B" attached to and forming part of this Contract.

ANNUITIES AT THE COMPANY'S OPTION

A. Whenever the Company is required or elects to purchase an Annuity or to negotiate a Structured Settlement, either in satisfaction of a judgment or in an out of court settlement or otherwise, the cost of the Annuity or the Structured Settlement, as the case may be, shall be deemed part of the Company's Net Loss.

B. The terms "Annuity" or "Structured Settlement" shall be understood to mean any insurance policy, lump sum payment, agreement or device of whatever nature, resulting in the payment of a lump sum by the Company in settlement of any and all future liabilities which may attach to it as a result of a claim under a Policy covered hereunder.

C. In the event the Company purchases an Annuity which inures in whole or in part to the benefit of the Reinsurers, it is understood that the liability of the Reinsurers to the Company is not released thereby. In the event that the Company is required to provide benefits not provided by the Annuity for whatever reason, the

Reinsurer shall pay its share of any loss. Notwithstanding anything contained herein to the contrary, the Reinsurers' liability shall not exceed the limits provided in this Contract.

ARTICLE 4

EXCLUSIONS

- A. No reinsurance indemnity will be afforded under this Contract for:
1. Employer's Liability.
 2. Occupational Disease, unless arising from a sudden and accidental event of not more than ninety six (96) hours' duration.
 3. Cumulative Trauma, unless arising from a sudden and accidental event of not more than ninety six (96) hours' duration.
 4. Jones Act.
 5. All liability of the Company arising, by contract, operation of law, or otherwise, from its participation or membership, whether voluntary or involuntary, in any Insolvency Fund. "Insolvency Fund" includes any guaranty fund, Insolvency Fund, plan, pool, association, fund or other arrangement, howsoever denominated, established or governed, which provides for any assessment of or payment or assumption by the Company of part or all of any claim, debt, charge, fee or other obligation of an insurer, or its successors or assigns, which has been declared by any competent authority to be insolvent, or which is otherwise deemed unable to meet any claim, debt, charge, fee or other obligation in whole or in part.
 6. Operations employing the process of nuclear fission or fusion or the handling of radioactive material performed under a contract which provides that the contractor will be directly or indirectly reimbursed by the AEC or any governmental agency for all loss costs arising out of such operations.
 7. Loss or liability excluded by the provisions of the Nuclear Incident Exclusion Clause - Liability - Reinsurance – U.S.A. (BRMA 35A), attached to this Contract, or as may be amended hereafter by the Lloyd's Underwriters' Non-Marine Association.
- B. The Company may submit to the Reinsurers in writing, for special acceptance hereunder, business not covered by this Contract. If said business is accepted by the Reinsurers in writing, it will be subject to the terms of this Contract, except as such terms are modified by such acceptance. Any special acceptance business covered under the reinsurance Contract being replaced by this Contract

will be automatically covered hereunder. Further, should Reinsurers become a party to this Contract subsequent to the acceptance of any business not normally covered hereunder, they will automatically accept same as being a part of this Contract.

C. Should the judicial or regulatory entity having legal jurisdiction invalidate any exclusion on the Policies of the Company, any amount of loss for which the Company is liable because of such invalidation, subject to the terms and conditions of this Contract, will not be excluded hereunder.

ARTICLE 5

REINSURANCE PREMIUM

See Exhibits "A" and "B", attached to and forming part of this Contract.

ARTICLE 6

DEFINITION OF LOSS OCCURRENCE

A. Except as otherwise provided herein, the term "Loss Occurrence" or "Occurrence" means an accident, incident, disaster, casualty, error, omission, wrongful act or happening, or series of accidents, incidents, disasters, casualties, errors, omissions, wrongful acts or happenings arising out of or following on one Event, regardless of the number of interests insured or the number of Policies responding. Except where specifically provided otherwise in this Contract, each Loss Occurrence shall be deemed to take place in its entirety as of the earliest date of loss as determined by any Policy responding to the Loss Occurrence.

B. Occupational Disease or Cumulative Injury. An Occupational Disease or Cumulative Injury suffered by an employee shall also be deemed to be a "Loss Occurrence" within the meaning of this Contract if and only if arising from a sudden and accidental event of not more than ninety six (96) hours' duration. Should the Company sustain two (2) or more Occupational Disease losses of one specific kind or class or Cumulative Injury losses of one specific kind or class suffered by one or more employees of one insured during the same Policy Period, such losses shall be accumulated and shall be deemed to constitute one "Loss Occurrence" to which the retention and limit of this Contract shall be applied.

1. The date of loss on which the Company has sustained an occupational disease or cumulative injury loss, as respects each employee, shall be deemed to be the date of loss under the original Policy as determined by the Company.

2. As respects two (2) or more Occupational Disease losses of one specific kind or class or Cumulative Injury losses of one specific kind or class suffered by one or more employees of one insured during the same

Policy Period, the date of any Loss Occurrence shall be deemed to be the inception, anniversary or renewal date of the Policy under which such loss or losses are covered (or if such losses arise under two (2) or more Policies, the inception, anniversary or renewal date of the Policy chosen by the Company).

C. As respects coverage provided under B(2) above, this Contract shall apply to the total of losses sustained during the Policy Period (or if such losses arise under two (2) or more Policies, the Policy Period of the Policy chosen by the Company) under Policies issued to the same insured, notwithstanding the termination or expiration of this Contract provided the inception, anniversary or renewal date of the Company's Policy (or, if such losses arise under two (2) or more Policies, the inception, anniversary or renewal date of the Policy chosen by the Company) commences during the Contract year.

D. "Occupational Disease" shall mean any bodily injury (including resulting death) or disease suffered by an employee which fulfills all of the following conditions:

1. It is not traceable to a definite compensable accident occurring during the employee's present or past employment;
2. It has been caused by exposure to conditions present in the workers' occupational environment;
3. It has resulted in a disability or death.

E. "Cumulative Injury" means any bodily injury (including resulting death) or disease suffered by an employee which fulfills all of the following conditions:

1. It is not traceable to a definite compensable accident occurring during the employee's present or past employment;
2. It has occurred from, and has been aggravated by, a repetitive employment-related activity;
3. It has resulted in a disability or death.

F. "Event" means a causative incident, Policy adoption or set of related conduct or circumstances limited in time and space that are the common and proximate cause of the accident, disaster, casualty or happening or series of accidents, disasters, casualties or happenings that are a Loss Occurrence.

G. "Loss" means the amount of loss or liability paid or imminently payable by the Company to or on behalf of its policyholder under the Policies.

H. For purposes of this Contract, the term "Policy Period" shall mean a separate Policy Period of twelve (12) months or less commencing at the inception, anniversary or renewal date of a Policy.

I. Nothing in this Article will override the exclusions for Occupational Disease and Cumulative Injury, unless arising from a sudden and accidental event of not more than ninety six (96) hours' duration.

ARTICLE 7

SUNSET

Notwithstanding any other terms and conditions of this Contract, coverage hereunder shall only apply to those losses where the Reinsurers have been provided with written notification of the loss by the Company within ten (10) years from the final day of the Contract year during which the loss occurred. Under all circumstances, the Reinsurers shall remain liable for the subsequent disposition of all losses reported during the ten (10) year reporting period.

ARTICLE 8

COMMUTATION OF WORKERS' COMPENSATION CLAIMS

A. Either the Reinsurer(s) or the Company may request commutation of that portion of the excess portion of any known Workers' Compensation loss hereunder represented by any outstanding claim or claims after ten (10) years from the expiration of this Contract. If both parties desire to commute a claim or claims, then within sixty (60) days after such agreement, the Company shall submit a statement of valuation of the outstanding claim or claims showing the elements considered reasonable to establish the reserves for Net Loss and Loss Adjustment Expenses and the capitalized value of the excess portion thereof, and the Reinsurer(s) shall pay the amount requested. The payment thereof by the Reinsurer(s) shall constitute a full and final release of the Reinsurers of their liability for such claim or claims.

B. If agreement, as outlined in the paragraph above, cannot be reached, the effort can be abandoned by either party or alternately the Company and the Reinsurer(s) may mutually appoint an actuary or appraiser to investigate, determine and capitalize the excess portion of such claim or claims. If both parties then agree, the Reinsurer(s) shall pay the amount so determined to be the capitalized value of the excess portion of such claim or claims.

C. If the parties, as outlined in the paragraphs above, fail to agree, either party may abandon the effort or upon their mutual agreement, they may agree to settle any difference using a panel of three (3) actuaries, one to be chosen by each party and the third by the two (2) so chosen. If either party refuses or neglects to appoint an actuary within sixty (60) days, the other party may appoint two (2) actuaries. If

the two (2) actuaries fail to agree on the selection of a third actuary within sixty (60) days of their appointment, each of them shall name two (2), of whom the other shall decline one and the decision shall be made by drawing lots. All the actuaries shall be regularly engaged in the valuation of Workers' Compensation claims and shall be Fellows of the Casualty Actuarial Society or members of the American Academy of Actuaries. None of the actuaries shall be under the control of either party to this Contract.

D. Each party shall submit its case to its actuary within sixty (60) days of the appointment of the third actuary. The decision in writing of any two (2) actuaries, when filed with the parties hereto, shall be final and binding on both parties. The expense of the actuaries and of the commutation shall be equally divided between the two (2) parties. Said commutation shall take place in Columbus, Ohio, unless some other place is mutually agreed upon by the Company and the Reinsurer(s).

ARTICLE 9

NET RETAINED LINE

See Exhibits "A" and "B" attached to and forming part of this Contract.

ARTICLE 10

REPORTS, LOSS AND LOSS SETTLEMENTS

A. The Company shall advise the Reinsurer(s) promptly of all losses which, in the opinion of the Company, may result in a claim hereunder and of all subsequent developments thereto that may materially affect the position of the Reinsurer(s). Inadvertent omission or oversight in giving such notice shall in no way affect the liability of the Reinsurer(s). However, the Reinsurer(s) shall be informed of such omission or oversight promptly upon its discovery.

B. The Company shall have the right to settle all claims under its Policies. All loss settlements made by the Company, within the terms and conditions of this Contract, and provided that such settlement is not an Ex-gratia settlement made without the prior approval of the Reinsurer(s), shall be unconditionally binding upon the Reinsurer(s), and the Reinsurer(s) agree to pay or allow, as the case may be, their share of each such settlement in accordance with this Contract all amounts for which it is obligated as soon as possible, but not later than ten (10) business days, of being furnished by the Company with reasonable evidence of the amount due. Reasonable evidence of the amount due shall consist of a certification by the Company, accompanied by proof of loss documentation the Company customarily presents with its claims payment requests, that the amount requested to be paid and submitted by the certification, is, upon information and belief, due and payable to the Company by the Reinsurers under the terms and conditions of this Contract.

C. "Ex-gratia Settlements", as used in this Contract, will mean all settlements of losses not covered under the express terms of the Policies that are primarily motivated by the customer business relationship. "Ex-gratia Settlements" will not include settlements of losses which (1) arise from court decisions or other judicial acts or orders, (2) arise from the good faith position of the Company of probable coverage under the Policies, nor (3) settlements made to avoid costs that could be incurred in connection with potential or actual litigation relating to coverage issues arising under the Policies.

D. In addition, the Company shall furnish the Reinsurer(s) a periodic statement showing the unearned premium, the total reserves for outstanding Net Losses including Loss Adjustment Expense, and such other information as may be required by the Reinsurer(s) for completion of their NAIC annual statements.

ARTICLE 11

EXTRA-CONTRACTUAL OBLIGATIONS/LOSS EXCESS OF POLICY LIMITS

A. "Extra-Contractual Obligations" means those liabilities not covered under any other provision of this Contract, other than Loss Excess of Policy Limits, including but not limited to compensatory, consequential, punitive, or exemplary damages together with any legal costs and expenses incurred in connection therewith, paid as damages or in settlement by the Company arising from an allegation or claim of its insured, its insured's assignee, or other third party, which alleges negligence, gross negligence, bad faith or other tortious conduct on the part of the Company in the handling, adjustment, rejection, defense or settlement of a claim under a Policy.

B. "Loss Excess of Policy Limits" means of any amount of loss, together with any legal costs and expenses incurred in connection therewith, paid as damages or in settlement by the Company in excess of its Policy Limits, but otherwise within the coverage terms of the Policy, arising from an allegation or claim of its insured, its insured's assignee, or other third party, which alleges negligence, gross negligence, bad faith or other tortious conduct on the part of the Company in the handling of a claim under a Policy or bond, in rejecting a settlement within the Policy Limits, in discharging a duty to defend or prepare the defense in the trial of an action against its insured, or in discharging its duty to prepare or prosecute an appeal consequent upon such an action. For the avoidance of doubt, the decision by the Company to settle a claim for an amount within the coverage of the Policy but not within the Policy Limit when the Company has reasonable basis to believe that it may have liability to its insured or assignee or other third party on the claim will be deemed a Loss Excess of Policy Limits.

C. An Extra-Contractual Obligation or a Loss Excess of Policy Limits shall be deemed to have occurred on the same date as the loss covered under the Company's original Policy and shall be considered part of the original loss (subject to other terms of this Contract).

D. Neither an Extra-Contractual Obligation nor a Loss Excess of Policy Limits shall include a loss incurred by the Company as the result of any fraudulent or criminal act directed against the Company by any officer or director of the Company acting individually or collectively or in collusion with any other organization or party involved in the presentation, defense, or settlement of any claim under this Contract.

E. Recoveries, whether collectible or not, including any retentions and/or deductibles, from any other form of reinsurance which protect the Company against any loss or liability covered under this Article shall inure to the benefit of the Reinsurer(s) and shall be deducted from the total amount of any Extra-Contractual Obligation and/or Loss Excess of Policy Limits in determining the amount of Extra-Contractual Obligation and/or Loss Excess of Policy Limits that shall be indemnified under this Article.

F. The Company shall be indemnified in accordance with this Article to the extent permitted by applicable law.

ARTICLE 12

ERRORS AND OMISSIONS

Inadvertent delays, errors or omissions made by the Company in connection with this Contract shall not relieve the Reinsurer(s) from any liability which would have attached had such delay, error or omission not occurred, provided always that such delay, error or omission shall be rectified as soon as possible after discovery by the Company's Home Office.

ARTICLE 13

CURRENCY

Whenever the word "Dollars" or the "\$" sign appears in this Contract, they shall be construed to mean United States Dollars and all transactions under this Contract shall be in United States Dollars. Amounts paid or received by the Company in any other currency shall be converted to United States Dollars at the rate of exchange at the date such transaction is entered on the books of the Company.

ARTICLE 14

FEDERAL EXCISE TAX AND OTHER TAXES

A. To the extent that any portion of the reinsurance premium for this Contract is subject to the Federal Excise Tax (as imposed under Section 4371 of the Internal Revenue Code) and the Reinsurer(s) is not exempt therefrom, the Reinsurer(s)

shall allow for the purpose of paying the Federal Excise Tax, a deduction by the Company of the applicable percentage of the premium payable hereon. In the event of any return of premium becoming due hereunder, the Reinsurer(s) shall deduct the applicable same percentage from the return premium payable hereon and the Company or its agent shall take steps to recover the tax from the United States Government. In the event of any uncertainty, upon the written request of the Company, the Reinsurer(s) will immediately file a certificate of a senior corporate officer of the Reinsurer(s) certifying to its entitlement to the exemption from the Federal Excise Tax with respect to one or more transactions.

B. In consideration of the terms under which this Contract is issued, the Company undertakes not to claim any deduction of the premium hereon when making Canadian Tax returns or when making tax returns, other than Income or Profits Tax returns, to any State or Territory of the United States of America or to the District of Columbia.

ARTICLE 15

ACCESS TO RECORDS

A. The Company shall place at the disposal of the Reinsurer at all reasonable times, and the Reinsurer shall have the right to inspect (and make reasonable copies) through its designated representatives, during the term of this Contract and thereafter, all non-privileged books, records and papers of the Company directly related to any reinsurance hereunder, or the subject matter hereof, provided that if the Reinsurer has ceased active market operations, this right of access shall be subject to that Reinsurer being current in all payments owed the Company that are not currently the subject of a dispute. For the purposes of this Article, "non-privileged" refers to books, records and papers that are not subject to the Attorney-client privilege and Attorney-work product doctrine. The term "dispute" shall be as defined consistent with the NAIC Annual Statement Instructions.

B. "Attorney-client privilege" and "Attorney-work product" shall have the meanings ascribed to each by statute and/or the court of final adjudication in the jurisdiction whose laws govern the substantive law of a claim arising under a Policy reinsured under this Contract.

C. Notwithstanding anything to the contrary in this Contract, for any claim or loss under a Policy reinsured under this Contract, should the Reinsurer assert, pursuant to the Common Interest Doctrine ("Doctrine"), that it has the right to examine any document that the Company alleges is subject to the Attorney-client privilege or the Attorney-work product privilege, upon the Reinsurer providing to the Company substantiation of any law which reasonably supports the basis for the Reinsurer's conclusion that the Doctrine applies and the Doctrine will be upheld as applying between the Company and the Reinsurer as against third parties pursuant to the substantive law(s) which govern the claim or loss, the Company shall give the Reinsurer access to such document.

D. Notwithstanding the foregoing, the Company shall permit and not object to the Reinsurer's access to privileged documents in connection with the underlying claim reinsured hereunder following final settlement or final adjudication of the case or cases involving such claim; provided that the Company may defer release of such privileged documents if there are subrogation, contribution, or other third party actions with respect to that claim or case, which might jeopardize the Company's defense by release of such privileged documents. In the event the Company shall seek to defer release of such privileged documents, it will, in consultation with the Reinsurer, take other steps as reasonably necessary to provide the Reinsurer with the information it reasonably requires to evaluate exposure, establish reserves or indemnify the Company without causing a loss of such privileges. The Reinsurer, however, shall not have access to privileged documents relating to any dispute between the Company and the Reinsurer. Furthermore, in the event the Reinsurer demonstrates a need for information contained in privileged documents prior to the resolution of the underlying claim, the Company agrees it will endeavor to undertake steps as reasonably necessary to provide the Reinsurer with the information it reasonably requires to indemnify the Company without causing a loss of such privilege.

ARTICLE 16

RESERVES

A. If, at any time during the period of this Contract and thereafter the reinsurance provided by a Reinsurer participating in this Contract does not qualify for full statutory accounting credit for reinsurance by regulatory authorities having jurisdiction over the Company (whether by reason of lack of license, accreditation or otherwise) such that a financial penalty to the Company would result on any statutory statement or report the Company is required to make or file with insurance regulatory authorities (or a court of law in the event of insolvency), the Reinsurer shall secure the Reinsurer's share of Obligations for which such full statutory credit is not granted by those authorities in a manner, form, and amount acceptable to the Company and to all applicable insurance regulatory authorities in accordance with this Article.

B. The Reinsurer shall secure such Obligations, within thirty (30) days after the receipt of the Company's written request regarding the Reinsurer's share of Obligations under this Contract (but not later than December 31) of each year by either:

1. Clean, irrevocable, and unconditional evergreen letter(s) of credit issued and confirmed, if confirmation is required by the applicable insurance regulatory authorities, by a qualified United States financial institution as defined under the Insurance Law of the Company's domiciliary state and acceptable to the Company and to insurance regulatory authorities;

2. A trust account meeting at least the standards of New York's Insurance Regulation 114 and the Insurance Law of the Company's domiciliary state; or
 3. Cash advances or funds withheld or a combination of both, which will be under the exclusive control of the Company ("Funds Deposit").
- C. The "Obligations" referred to herein means the then current (as of the end of each calendar quarter) sum of:
1. The amount of the ceded unearned premium reserve for which the Reinsurer is responsible to the Company;
 2. The amount of Net Losses and Loss Adjustment Expenses and other amounts paid by the Company for which the Reinsurer is responsible to the Company but has not yet paid;
 3. The amount of ceded reserves for Net Losses and Loss Adjustment Expenses for which the Reinsurer is responsible to the Company, included losses incurred but not reported (as defined as future development on reported Loss Occurrences);
 4. The amount of return and refund premiums paid by the Company for which the Reinsurer is responsible to the Company but has not yet paid.
- D. The Company, or its successors in interest, may draw, at any time and from time to time, upon the:
1. Established letter of credit (or subsequent cash deposit);
 2. Established trust account (or subsequent cash deposit); or
 3. Funds Deposit;
- without diminution or restriction because of the insolvency of either the Company or the Reinsurer for one or more of the following purposes set forth below.
- E. Draws shall be made only for the following purposes:
1. To make payment to and reimburse the Company for the Reinsurer's share of Net Loss and Loss Adjustment Expense and other amounts paid by the Company under its Policies and for which the Reinsurer is responsible under this Contract that is due to the Company but unpaid by the Reinsurer including but not limited to the Reinsurer's share of premium refunds and returns; and

2. To obtain a cash advance of the entire amount of the remaining balance under any letter of credit in the event that the Company:

- a. has received notice of non-renewal or expiration of the letter of credit or trust account;
- b. has not received assurances satisfactory to the Company of any required increase in the amount of the letter of credit or trust account, or its replacement or other continuation of the letter of credit or trust account at least thirty (30) days before its stated expiration date;
- c. has been made aware that others may attempt to attach or otherwise place in jeopardy the security represented by the letter of credit or trust account; or
- d. has concluded that the trustee or issuing (or confirming) bank's financial condition is such that the value of the security represented by the letter of credit or trust account may be in jeopardy; and under any of those circumstances where the Reinsurer's entire Obligations, or part thereof, under this Contract remain un-liquidated and un-discharged at least thirty (30) days prior to the stated expiration date or at the time the Company learns of the possible jeopardy to the security represented by the letter of credit or trust account.

F. If the Company draws on the letter of credit or trust account to obtain a cash advance, the Company will hold the amount of the cash advance so obtained in the name of the Company in any qualified United States financial institution as defined under the Insurance Law of the Company's domiciliary state in trust solely to secure the Obligations referred to above and for the use and purposes enumerated above and to return any balance thereof to the Reinsurer:

1. Upon the complete and final liquidation and discharge of all of the Reinsurer's Obligations to the Company under this Contract; or
2. In the event the Reinsurer subsequently provides alternate or replacement security consistent with the terms hereof and acceptable to the Company.

G. The Company will prepare and forward at annual intervals or more frequently as determined by the Company, but not more frequently than quarterly to the Reinsurer a statement for the purposes of this Article, showing the Reinsurer's share of Obligations as set forth above. If the Reinsurer's share thereof exceeds the then existing balance of the security provided, the Reinsurer will, within fifteen (15) days of receipt of the Company's statement, but never later than December 31 of any year, increase the amount of the letter of credit, (or subsequent cash

deposit), trust account or Funds Deposit to the required amount of the Reinsurer's share of Obligations set forth in the Company's statement, but never later than December 31 of any year. If the Reinsurer's share thereof is less than the then existing balance of the security provided, the Company will release the excess thereof to the Reinsurer upon the Reinsurer's written request. The Reinsurer will not attempt to prevent the Company from holding the cash advance or Funds Deposit so long as the Company is acting in accordance with this Article. The Company shall pay interest earned on the deposited amounts to the Reinsurers as the parties shall have agreed at the time of the deposit.

H. Any assets deposited to a trust account will be valued according to their current fair market value and will consist only of cash (U.S. legal tender), certificates of deposit issued by a qualified United States financial institution as defined under the Insurance Law of the Company's domiciliary state and payable in cash, and investments of the types no less conservative than those specified in Section 1404 (a)(1)(2)(3)(8) and (10) of the New York Insurance Law and which are admitted assets under the Insurance Law of the Company's domiciliary state. Investments issued by the parent, subsidiary, or affiliate of either the Company or the Reinsurer will not be eligible investments. All assets so deposited will be accompanied by all necessary assignments, endorsements in blank, or transfer of legal title to the trustee in order that the Company may negotiate any such assets without the requirement of consent or signature from the Reinsurer or any other entity.

I. All settlements of account between the Company and the Reinsurer will be made in cash or its equivalent. All income earned and received by the amount held in an established trust account will be added to the principal.

J. The Company's "successors in interest" will include those by operation of law, including without limitation, any liquidator, rehabilitator, receiver, or conservator.

K. The Reinsurer will take any other reasonable steps that may be required for the Company to take full credit on its statutory financial statements for the reinsurance provided by this Contract.

ARTICLE 17

SERVICE OF SUIT

A. This Article only applies to a Reinsurer(s) domiciled outside of the United States and/or unauthorized in any state, territory or district of the United States having jurisdiction over the Company. Furthermore, this Article will not be read to conflict with or override the obligations of the parties to arbitrate their disputes as provided for in the Article entitled **ARBITRATION**. This Article is intended as an aid

to compelling arbitration or enforcing such arbitration or arbitral award, not as an alternative to the Article entitled **ARBITRATION** for resolving disputes arising out of this Contract.

B. In the event of any dispute, the Reinsurer(s), at the request of the Company, shall submit to the jurisdiction of a court of competent jurisdiction within the United States. Nothing in this Article constitutes or should be understood to constitute a waiver of any obligation to arbitrate disputes arising from this Contract or the Reinsurer's rights to commence an action in any court of competent jurisdiction in the United States, to remove an action to a United States District Court, or to seek a transfer of a case to another court as permitted by the laws of the United States or of any state in the United States.

C. Service of process in any such suit against the Reinsurer(s) may be made upon Mendes and Mount, 750 Seventh Avenue, New York, New York 10019-6829, or the Firm identified on the Reinsurer's signature page to this Contract, ("Firm") and in any suit instituted, the Reinsurer(s) shall abide by the final decision of such court or of any appellate court in the event of an appeal.

D. The Firm is authorized and directed to accept service of process on behalf of the Reinsurer(s) in any such suit and/or upon the request of the Company to give a written undertaking to the Company that they shall enter a general appearance upon the Reinsurer's behalf in the event such a suit shall be instituted.

E. Further, as required by and pursuant to any statute of any state, territory or district of the United States which makes provision therefore, the Reinsurer(s) hereby designates the Superintendent, Commissioner or Director of Insurance or other officer specified for that purpose in the statute, or his successor or successors in office, as their true and lawful Attorney upon whom may be served any lawful process in any action, suit or proceeding instituted by or on behalf of the Company or any beneficiary hereunder arising out of this Contract, and hereby designates the above-named as the person to whom the said officer is authorized to mail such process or a true copy thereof.

ARTICLE 18

ARBITRATION

A. Any and all disputes between the Company and the Reinsurer arising out of, relating to, or concerning this Contract, whether sounding in contract or tort and whether arising during or after termination of this Contract, shall be submitted to the decision of a board of arbitration composed of two (2) arbitrators and an umpire ("Board") meeting at a site in the city in which the principal headquarters of the Company are located. The arbitration shall be conducted under the Federal Arbitration Act and shall proceed as set forth below.

B. A notice requesting arbitration, or any other notice made in connection therewith, shall be in writing and be sent certified or registered mail, return receipt requested to the affected parties. The notice requesting arbitration shall state in particular all issues to be resolved in the view of the claimant, shall appoint the arbitrator selected by the claimant and shall set a tentative date for the hearing, which date shall be no sooner than ninety (90) days and no later than one hundred fifty (150) days from the date that the notice requesting arbitration is mailed. Within thirty (30) days of receipt of claimant's notice, the respondent shall notify claimant of any additional issues to be resolved in the arbitration and of the name of its appointed arbitrator.

C. The members of the Board shall be impartial, disinterested and not currently representing any party participating in the arbitration, and shall be current or former senior officers of insurance or reinsurance concerns, experienced in the line(s) of business that are the subject of this Contract. The Company and the Reinsurer as aforesaid shall each appoint an arbitrator and the two (2) arbitrators shall choose an umpire before instituting the hearing. As time is of the essence, if the respondent fails to appoint its arbitrator within thirty (30) days after having received claimant's written request for arbitration, the claimant is authorized to and shall appoint the second arbitrator. If the two (2) arbitrators fail to agree upon the appointment of an umpire within thirty (30) days after notification of the appointment of the second arbitrator, within ten (10) days thereof, the two (2) arbitrators shall request ARIAS U.S. ("ARIAS") to apply its procedures to appoint an umpire for the arbitration with the qualifications set forth above in this Article. If the use of ARIAS procedures fails to name an umpire, either party may apply to a court of competent jurisdiction to appoint an umpire with the above required qualifications. The umpire shall promptly notify in writing all parties to the arbitration of his selection and of the scheduled date for the hearing. Upon resignation or death of any member of the Board, a replacement shall be appointed in the same fashion as the resigning or deceased member was appointed.

D. The claimant and respondent shall each submit initial briefs to the Board outlining the facts, the issues in dispute and the basis, authority, and reasons for their respective positions within thirty (30) days of the date of notice of appointment of the umpire. The claimant and the respondent may submit a reply brief to the Board within ten (10) days after filing of the initial brief(s). Initial and reply briefs may be amended by the submitting party at any time, but not later than ten (10) days prior to the date of commencement of the arbitration hearing. Reasonable responses shall be allowed at the arbitration hearing to new material contained in any amendments filed to the briefs but not previously responded to.

E. The Board shall consider this Contract as an honorable engagement and shall make a decision and award with regard to the terms expressed in this Contract, the original intentions of the parties to the extent reasonably ascertainable, and the custom and usage of the insurance and reinsurance

business that is the subject of this Contract. Notwithstanding any other provision of this Contract, the Board shall have the right and obligation to consider underwriting and submission-related documents in any dispute between the parties.

F. The Board shall be relieved of all judicial formalities and the decision and award shall be based upon a hearing in which evidence shall be allowed though the formal rules of evidence shall not strictly apply. Cross examination and rebuttal shall be allowed. The Board may request a post-hearing brief to be submitted within twenty (20) days of the close of the hearing.

G. The Board shall render its decision and award in writing within thirty (30) days following the close of the hearing or the submission of post-hearing briefs, whichever is later, unless the parties consent to an extension. Every decision by the Board shall be by a majority of the members of the Board and each decision and award by the majority of the members of the Board shall be final and binding upon all parties to the proceeding. Such decision shall be a condition precedent to any right of legal action arising out of the arbitrated dispute which either party may have against the other. However, the Board is not authorized to award punitive, exemplary or enhanced compensatory damages.

H. The Board may award (i) interest at a rate not in excess of that set forth in the Article entitled **LATE PAYMENTS**, calculated from the date the Board determines that any amounts due the prevailing party should have been paid to the prevailing party, and (ii) applicable Attorneys' fees and costs.

I. Either party may apply to a court of competent jurisdiction for an order confirming any decision and the award; a judgment of that Court shall thereupon be entered on any decision or award. If such an order is issued, the Attorneys' fees of the party so applying and court costs will be paid by the party against whom confirmation is sought.

J. Except in the event of a consolidated arbitration, each party shall bear the expense of the one arbitrator appointed by or for it and shall jointly and equally bear with the other party the expense of any stenographer requested, and of the umpire. The remaining costs of the arbitration proceedings shall be finally allocated by the Board.

K. Subject to customary and recognized legal rules of privilege, each party participating in the arbitration shall have the obligation to produce those documents and as witnesses at the arbitration those of its employees, and those of its affiliates as any other participating party reasonably requests, providing always that the same witnesses and documents be obtainable and relevant to the issues before the arbitration and not be unduly burdensome or excessive in the opinion of the Board.

L. The parties may mutually agree as to pre-hearing discovery prior to the arbitration hearing and in the absence of agreement, upon the request of any party, pre-hearing discovery may be conducted as the Board shall determine in its sole discretion to be in the interest of fairness, full disclosure, and in furtherance of a prompt hearing, decision and award by the Board.

M. The Board shall be the final judge of the composition of the Board, the procedures of the Board, the conduct of the arbitration, of the rules of evidence, the rules of privilege, discovery and production and of excessiveness and relevancy of any witnesses and documents upon the petition of any participating party. To the extent permitted by law, the Board shall have the authority to issue subpoenas and other orders to enforce their decisions. The Board shall also have the authority to issue interim decisions or awards in the interest of fairness, full disclosure, and a prompt and orderly hearing and decision and award by the Board.

N. Upon request made to the Board not later than ten (10) days after the umpire's appointment, the Board may order a consolidated hearing as respects common issues between the Company and all affected Reinsurers participating in this Contract if the Board is satisfied in its discretion that the issues in dispute affect more than one Reinsurer and a consolidated hearing would be in the interest of fairness, and a prompt and cost effective resolution of the issues in dispute.

O. If the parties mutually agree to or the Board orders a consolidated hearing, all other affected participating Reinsurers shall join and participate in the arbitration under time frames established by the Board and will be bound by the Board's decision and award unless excused by the Board in its discretion. A consolidated hearing shall not result in any change or modification of any Reinsurer's liability for its participation, that is several, but not joint shall remain the same.

P. Any Reinsurer may decline to actively participate in a consolidated arbitration if in advance of the hearing, that Reinsurer shall file with the Board a written agreement in form satisfactory to the Board to be bound by the decision and award of the Board in the same fashion and to the same degree as if it actively participated in the arbitration.

Q. In the event of an order of consolidation by the Board, the arbitrator appointed by the original Reinsurer shall be subject to being, and may be, replaced within thirty (30) days of the decision to have a consolidated arbitration by an arbitrator named collectively by the Reinsurers or in the absence of agreement, by the Lead Reinsurer, or if there is no Lead Reinsurer involved in the dispute, the Reinsurer with the largest participation in this Contract affected by the dispute. In the event two (2) or more Reinsurers affected by the dispute each have the same largest participation, they shall agree among themselves as to the replacement arbitrator, if any, to be appointed. The umpire shall be the final determiner in the event of any dispute over replacement of that arbitrator. All other aspects of the arbitration shall be conducted as provided for in this Article provided that (1) each party actively participating in the consolidated arbitration will have the right to its

own Attorney, position, and related claims and defenses; (2) each party will not, in presenting its position, be prevented from presenting its position by the position set forth by any other party; and (3) the cost and expense of the arbitration, exclusive of Attorneys' fees (which will be borne exclusively by the respective retaining party unless otherwise determined by the Board) but including the expense of any stenographer by each party actively participating in the consolidated arbitration or as the Board shall determine to be fair and appropriate under the circumstances.

R. Nothing in this Article shall preclude any of the parties engaged in an arbitration from settling the dispute and withdrawing from an arbitration established to resolve that dispute.

ARTICLE 19

INSOLVENCY

A. In the event of insolvency and the appointment of a conservator, liquidator, or statutory successor of the Company, the portion of any risk or obligation assumed by the Reinsurer(s) shall be payable to the conservator, liquidator, or statutory successor on the basis of claims allowed against the insolvent Company by any court of competent jurisdiction or by any conservator, liquidator, or statutory successor of the Company having authority to allow such claims, without diminution because of that insolvency, or because the conservator, liquidator, or statutory successor has failed to pay all or a portion of any claims.

B. Payments by the Reinsurer(s) as above set forth shall be made directly to the Company or to its conservator, liquidator, or statutory successor, except where the contract of insurance or reinsurance specifically provides another payee of such reinsurance or except as provided by applicable law and regulation (such as subsection (a) of section 4118 of the New York Insurance Laws) in the event of the insolvency of the Company.

C. In the event of the insolvency of the Company, the liquidator, receiver, conservator or statutory successor of the Company shall give written notice to the Reinsurer(s) of the pendency of a claim against the insolvent Company on the Policy or Policies reinsured within a reasonable time after such claim is filed in the insolvency proceeding and during the pendency of such claim any Reinsurer may investigate such claim and interpose, at its own expense, in the proceeding where such claim is to be adjudicated any defense or defenses which it may deem available to the Company or its liquidator, receiver, conservator or statutory successor. The expense thus incurred by the Reinsurer(s) shall be chargeable subject to court approval against the insolvent Company as part of the expense of liquidation to the extent of a proportionate share of the benefit which may accrue to the Company solely as a result of the defense undertaken by the Reinsurer(s).

D. Where two (2) or more Reinsurers are involved in the same claim and a majority in interest elects to interpose defense to such claim, the expense shall be apportioned in accordance with the terms of this Contract as though such expense had been incurred by the Company.

ARTICLE 20

CLAIMS COOPERATION

When so requested in writing, the Company shall afford the Reinsurer(s) or its representatives an opportunity to be associated with the Company, at the expense of the Reinsurer(s), in the defense of any claim, suit or proceeding involving this reinsurance, and the Company and the Reinsurer(s) shall cooperate in every respect in the defense of such claim, suit or proceeding, provided the Company shall have the right to make any decision in the event of disagreement over any matter of defense or settlement.

ARTICLE 21

CONFIDENTIALITY

A. The information, data, statements, representations and other materials provided by the Company or the Reinsurer(s) to the other arising from consideration and participation in this Contract whether contained in the reinsurance submission, this Contract, or in materials or discussions arising from or related to this Contract, may contain confidential or proprietary information as expressly indicated by the Disclosing Party ("Disclosing Party") in writing from time to time to the other party of the respective parties ("Confidential Information"). This Confidential Information is intended for the sole use of the parties to this Contract (and their retrocessionaires, respective auditors and legal counsel) as may be necessary in analyzing and/or accepting a participation in and/or executing their respective responsibilities under or related to this Contract. Disclosing or using Confidential Information disclosed under this Contract for any purpose beyond (i) the scope of this Contract, (ii) the reasonable extent necessary to perform rights and responsibilities expressly provided for under this Contract, (iii) the reasonable extent necessary to administer, report to and effect recoveries from retrocessional Reinsurers, or (iv) the reporting to regulatory or other governmental authorities as may be legally required or (v) persons with a need to know the information, all of whom are obligated to maintain the confidentiality of the Confidential Information or who have agreed in writing to maintain the confidentiality of the Confidential Information is expressly forbidden without the prior written consent of the disclosing party. Copying, duplicating, disclosing, or using Confidential Information for any purpose beyond this expressed purpose is forbidden without the prior written consent of the Disclosing Party.

B. Should a party ("Receiving Party") receive a third party demand pursuant to subpoena, summons, or court or governmental order, to disclose Confidential Information that has been provided by another party to this Contract, the Receiving Party shall provide the Disclosing Party with written notice of any subpoena, summons, or court or governmental order, at least ten (10) days prior to such release or disclosure. Unless the Disclosing Party has given its prior permission to release or disclose the Confidential Information, the Receiving Party shall not comply with the subpoena prior to the actual date required by the subpoena. If a protective order or appropriate remedy is not obtained, the Receiving Party may disclose only that portion of the Confidential Information that it is legally obligated to disclose. However, notwithstanding anything to the contrary in this Contract, in no event, to the extent permitted by law, shall this Article require the Receiving Party not to comply with the subpoena, summons, or court or governmental order.

ARTICLE 22

LATE PAYMENTS

A. Payments from the Reinsurer to the Company have a due date as expressed in the Article entitled **REPORTS, LOSS AND LOSS SETTLEMENTS**. Payment not received within fifty (50) days of the due date shall be deemed overdue (the "Overdue Date"). Payments due from the Reinsurer to the Company will not be considered overdue if the Reinsurer requests, in writing, that such payment be made by drawing on a letter of credit or other similar method of funding that has been established for this Contract, provided that there is an adequate balance in place, and further provided that such advice to draw is received by the Company by the Overdue Date. Payments from the Company to the Reinsurer will have a due date as the date specified in this Contract and will be overdue sixty (60) days thereafter. Premium adjustments will be overdue fifty (50) days from the Contract due date or one hundred twenty (120) days by the expiration or renewal date, whichever is greater.

B. If payment is made of overdue amounts within thirty (30) days of the Overdue Date, overdue amounts will bear simple interest from the due date at a rate determined by the annualized one month London Interbank Offered Rate for the first business day of the calendar month in which the amount becomes overdue, as published in The Wall Street Journal, plus two hundred (200) basis points to be calculated weekly. If payment is made of overdue amounts more than thirty (30) days after the Overdue Date, overdue amounts will bear simple interest from the due date at a rate determined by the annualized one month London Interbank Offered Rate for the first business day of the calendar month in which the amount becomes overdue, as published in The Wall Street Journal, plus four hundred (400) basis points to be calculated on a weekly basis, but in no event less than eight percent (8%) simple interest. If the sum of the compensating additional amount computed in respect of any overdue payment is less than one quarter of one percent (0.25%) of the amount overdue, or one thousand dollars (\$1,000), whichever is greater, and/or the overdue period is one week or less, then the

interest amount shall be waived. The basis point standards referred to above shall be doubled if the payment is due from a Reinsurer who is no longer an active reinsurance market, that is, a Run-Off Reinsurer. Interest shall cease to accrue upon the party's payment of an overdue amount to the Intermediary.

ARTICLE 23

OFFSET

The Company and the Reinsurer(s) shall have the right to offset any balance or amounts due from one party to the other under the terms of this Contract. The party asserting the right of offset may exercise such right any time whether the balances due are on account of premiums or losses or otherwise and immediately inform the Intermediary accordingly. In the event of the insolvency of any party, offset shall be as permitted by applicable law.

ARTICLE 24

PRIVACY & PROTECTION OF DATA

A. The Company and the Reinsurer represent that they are aware of and in compliance with their responsibilities and obligations under applicable laws and regulations pertaining to Non-Public Personal Information and Protected Health Information (hereinafter "NPPI" and "PHI", respectively). For the purpose of this Contract, "Non-Public Personal Information" and "Protected Health Information" shall mean financial or health information that identifies an individual, including claimants under Policies reinsured under this Contract, and which information is not otherwise available to the public. Data conveyed through the Intermediary may include NPPI and/or PHI that is protected under applicable laws and regulations and shall be used only in the performance of rights, obligations and duties in connection with this Contract.

B. The Intermediary is authorized to receive and convey NPPI and PHI data that it has received from the parties to this Contract or others for the sole purpose of carrying out the respective obligations of the parties under this Contract. To the extent that this Contract is placed in conjunction with one or more corresponding Intermediaries other than Towers Perrin, the parties hereby authorize the transmission of the relevant data through the corresponding Intermediaries whether located in the United States or any other country. The parties agree to use any NPPI and PHI data received from another party or the Intermediary only as may be necessary to satisfy their respective obligations under this Contract. Furthermore, the parties shall maintain appropriate safeguards to protect any data received from accidental loss or unauthorized access, use or disclosure.

ARTICLE 25

SPECIAL TERMINATION

A. The Company may terminate this Contract upon the happening of any one of the following circumstances at any time by the giving of fifteen (15) days prior written notice to the Reinsurer:

1. The Reinsurer ceases active underwriting operations or a State Insurance Department or other legal authority orders the Reinsurer to cease writing business in all jurisdictions; or
2. The Reinsurer has filed a plan to enter into a Scheme of Arrangement or similar procedure. "Scheme of Arrangement" is defined as a legislative or regulatory process that provides a solvent Reinsurer the opportunity to settle its obligations with the Company either (i) without the Company's unrestrained consent or (ii) prior to the Company having the ability to determine, with exact certainty, the actual amount of the obligations still outstanding and ultimately due to the Company; or
3. The Reinsurer has: a) become insolvent, b) been placed under supervision (voluntarily or involuntarily), c) been placed into liquidation or receivership, or d) had instituted against it proceedings for the appointment of a supervisor, receiver, liquidator, rehabilitator, conservator or trustee in bankruptcy, or other agent known by whatever name, to take possession of its assets or control of its operations; or
4. A reduction in the Reinsurer's surplus, risk-based capital or financial strength rating occurs:
 - a. As respects Reinsurers domiciled in the United States of America, (i) the Reinsurer's policyholders' surplus ("PHS") has been reduced by, whichever is greater, twenty five percent (25%) of the amount of PHS at the inception of this Contract or twenty five percent (25%) of the amount of PHS stated in its last filed quarterly or annual statutory statement with its state of domicile; or (ii) the Reinsurer's total adjusted capital is less than two hundred percent (200%) of its authorized control level risk-based capital; or (iii) the Reinsurer's A.M. Best's insurer financial strength rating becomes less than "A-".
 - b. As respects Reinsurers domiciled outside the United States of America, (i) the Reinsurer's Capital & Surplus ("C&S") has been reduced by, whichever is greater, twenty five percent (25%) of the published currency amount of C&S at the inception of this Contract or twenty five percent (25%) of the published currency amount of

C&S stated in its last filed financial statement with its local regulatory authority; or (ii) the Reinsurer's A.M. Best's insurer financial strength rating becomes less than "A-" or the Reinsurer's Standard & Poor's Insurance Rating becomes less than "A-"; or

5. The Reinsurer has entered into a definitive agreement to (a) become merged with, acquired or controlled by any company, corporation or individual(s) not controlling or affiliated with the party's operations previously; or (b) directly or indirectly assign all or essentially all of its entire liability for obligations under this Contract to another party, other than with affiliated companies with substantially the same or greater net worth, without the Company's prior written consent; or

6. There is either:

a. a severance or obstruction of free and unfettered communication and/or normal commercial or financial intercourse between the United States of America and the country in which the Reinsurer is incorporated or has its principal office as a result of war, currency regulations or any circumstances arising out of political, financial or economic uncertainty; or

b. a severance from active employment (of any kind) of any two (2) or more executives, by whatever title, of the Reinsurer during the most recent forty five (45) day period who perform the following functions: chief executive officer, chief underwriting officer, chief actuary or chief financial officer. This condition does not apply whenever the severance in employment is for the publicly announced purpose of the individual's assuming within thirty (30) days a known position with another identified firm in the (re)insurance or financial services industry.

B. In the event that notice of termination is given by reason of an event described in A(3) above (the "Termination Notice") and prior to the effective date of the termination (the "Termination Date"), the chief financial officer of the Reinsurer represents and certifies in writing to the Company that (i) the deterioration of the Reinsurer's financial condition is the direct and sole result of a recent major property catastrophe(s) or the result of an Act(s) of Terrorism (either the "Event") and (ii) that it is actively seeking and has a high probability of successfully obtaining additional capital to substantially replace the capital loss because of the Event (the "Extension Notice"), the Termination Date shall be extended an additional thirty (30) days from the Termination Date (the "Extended Termination Date"). If prior to the Extended Termination Date, the chief financial officer of the Reinsurer represents and certifies in writing to the Company that (a) it has raised sufficient capital so as to return its PHS to within five percent (5%) of the Reinsurer's PHS last filed with its domiciliary regulatory authorities prior to the Event, (b) raised its adjusted capital to at least two hundred fifty percent (250%) of its authorized control

level risk-based capital and (c) obtained reinstatement of its rating agency grade(s) to the level as existed immediately prior to the Event, the Termination Notice shall be null and void. Otherwise, this Contract shall terminate on the Extended Termination Date in the manner described in the Termination Notice.

C. In the event the Company elects termination, the Company shall with the notice of termination specify that termination will be on a Run-Off basis or a Cut-Off basis. In the event that the Company elects to Cut-Off and thus relieve the Reinsurer for losses occurring subsequent to the Reinsurer's specified Termination Date, the Reinsurer shall within fifteen (15) days of the Termination Date return the liability for the unearned portion of any ceded premium paid hereunder, calculated as of the Termination Date, and cash in that amount (less any applicable ceding commission allowed thereon) and the minimum premium provisions, if any, shall be waived. If the Company elects "Run-Off", the Reinsurer shall remain liable to the Company under this Contract with respect to losses arising from Policies placed into effect and ceded hereunder with effective dates (new or renewal Policy Period) prior to the Termination Date until those Policies naturally expire, are cancelled or non-renewed or their next annual anniversary.

ARTICLE 26

WORKERS' COMPENSATION SECURITY DEPOSIT

(This Article applies only with respect to the Company's Workers' Compensation Business on risks located in the State of California and reinsured by admitted Reinsurer(s) in the State of California).

A. Subject to the Reinsurer's right to determine the validity of California workers' compensation claims and obligations (and contest the payment thereof) under and subject to the other provisions of this Contract, in the event of a delinquency proceeding, receivership or insolvency, the Commissioner of Insurance for the State of California ("Commissioner") shall have the right to draw upon the funds the Reinsurer(s) shall have deposited as security pursuant to California Insurance Code §11691 and that are necessary for the Commissioner to pay those reinsured claims and obligations, or to ensure their payment by the California Insurance Guarantee Association, deemed by the Commissioner due under the reinsurance agreement, upon failure of the Reinsurer(s) for any reason to make payments under the Policy of reinsurance, all in accordance with Section 11691 and Section 11693 of the California Insurance Code ("Security Deposit").

B. The Commissioner shall provide the Reinsurer(s) a minimum of thirty (30) days prior notice of (1) its intent to draw upon the Security Deposit of the Reinsurer(s) to pay claims and obligations owed to claimants under the Company's Policies covered hereunder and that are reinsured under this Contract and (2) an explanation of such claims and obligations that may be covered and the procedures the Reinsurer(s) may use to explain why payment of such claim or claims is not appropriate.

C. This Article shall be read in conjunction with the provisions of the Article entitled **INSOLVENCY**.

D. Any amount drawn by the Commissioner from the Security Deposit shall constitute and be deemed to the extent of payment, to be full payment of the Reinsurer's Obligations to the Company under this Contract for such claim(s) or obligation(s) and will discharge the Reinsurer(s) of all further liability with respect to those affected claim(s) covered under this Contract.

E. The Company shall keep the Reinsurer(s) reasonably apprised of the amount of Loss and Loss Adjustment Expense reserves ceded under this Contract arising from injuries (including death) to California employees of risks insured for workers' compensation by the Company.

F. Nothing in this Article shall be construed to override the Reinsurer's obligation to follow the fortunes and settlements of the Company.

ARTICLE 27

VARIOUS OTHER TERMS

A. This Contract shall be binding upon and inure to the benefit of the Company and Reinsurer and their respective successors and assigns provided, however, that this Contract may not be assigned by either party without the prior written consent of the other which consent may be withheld by either party in its sole unfettered discretion. This provision shall not be construed to preclude the assignment by the Company of reinsurance recoverables to another party for collection.

B. The territorial limits of this Contract shall be identical with those of the Company's Policies.

C. This Contract shall constitute the entire agreement between the parties with respect to the Business Covered hereunder. There are no understandings between the parties other than as expressed in this Contract. Any change or modification of this Contract shall be null and void unless made by amendment to the Contract and signed by both parties.

D. Except as may be provided in the Article entitled **ARBITRATION**, this Contract shall be governed by and construed according to the laws of the State of Ohio, exclusive of that state's rules with respect to conflicts of law.

E. The headings preceding the text of the Articles and paragraphs of this Contract are intended and inserted solely for the convenience of reference and shall not affect the meaning, interpretation, construction or effect of this Contract.

F. This Contract is solely between the Company and the Reinsurer, and in no instance shall any insured, claimant or other third party have any rights under this Contract.

G. If any provision of this Contract should be invalid under applicable laws, the latter shall control but only to the extent of the conflict without affecting the remaining provisions of this Contract.

H. The failure of the Company or Reinsurer to insist on strict compliance with this Contract or to exercise any right or remedy shall not constitute a waiver of any rights contained in this Contract nor estop the parties from thereafter demanding full and complete compliance nor prevent the parties from exercising any remedy.

I. Each party shall be excused for any reasonable failure or delay in performing any of its respective obligations under this Contract, if such failure or delay is caused by Force Majeure. "Force Majeure" shall mean any act of God, strike, lockout, act of public enemy, any accident, explosion, fire, storm, earthquake, flood, drought, peril of sea, riot, embargo, war or foreign, federal, state or municipal order or directive issued by a court or other authorized official, seizure, requisition or allocation, any failure or delay of transportation, shortage of or inability to obtain supplies, equipment, fuel or labor or any other circumstance or event beyond the reasonable control of the party relying upon such circumstance or event; provided, however, that no such Force Majeure circumstance or event shall excuse any failure or delay beyond a period exceeding ten (10) days from the date such performance would have been due but for such circumstance or event.

J. This Contract should be construed as a separate Contract between each ceding company, part of the Company, and each participating Reinsurer, provided that if coverage is afforded without reference to the number of Policies involved in a single Occurrence loss, the retention and limit of the Contract shall be calculated as if all involved ceding companies were one and recovery due hereunder shall be due each ceding company in direct proportion to its portion of the total loss.

K. All Articles of this Contract shall survive the termination of this Contract until all Obligations between the parties have been finally settled.

L. This Contract may be executed by the parties hereto in any number of counterparts, and by each of the parties hereto in separate counterparts, each of which counterparts, when so executed and delivered, shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

M. Whenever the word "Company" is used in this Contract, such term shall mean each and all affiliated companies which are or may hereafter be under common control provided notice be given to the Reinsurers of any such newly affiliated companies which may hereafter come under common control as soon as practicable with full particulars as to how such affiliation is likely to affect this

Contract. In the event that either party maintains that such affiliation calls for altering the terms of this Contract and an agreement for alteration not being arrived at, then the Business Covered of such newly affiliated company is covered at existing terms for a period of not to exceed forty five (45) days after notice by either party that it does not wish to cover the business of the newly affiliated company at the existing terms.

N. The term "Reinsurer" shall refer to each Reinsurer participating severally and not jointly in this Contract. The subscribing (Re)insurers' obligations under contracts of (re)insurance to which they subscribe are several and not joint and are limited solely to the extent of their individual subscriptions. The subscribing (Re)insurers are not responsible for the subscriptions of any co-subscribing (Re)insurer who for any reason does not satisfy all or part of its obligations.

O. Whenever the word "Company" is used in this Contract, such term shall mean "Reinsured", "Reassured" or whatever other term is used in the document to designate the reinsured company or companies.

P. For purposes of sending and receiving notices and payments required by this Contract other than in respect of the Articles entitled **SERVICE OF SUIT** and **RESERVES** herein, the reinsured company that is set forth first in the definition of "Company" is deemed the agent of all other reinsured companies referenced herein. In no event, however, shall any reinsured company be deemed the agent of another with respect to the terms of the Article entitled **INSOLVENCY**.

Q. Whenever the content of this Contract requires, the gender of all words shall include the masculine, feminine and neuter, and the number of all words shall include the singular and the plural.

R. As required by NAIC Property and Casualty Statement of Statutory Accounting Principles 62(8)(d), the Company shall furnish the Reinsurers a periodic statement showing a report of the premium, the unearned premium, the total loss and loss expense ceded under this Contract, and such other information as may be required by regulatory authorities for completion of financial statements.

S. Whenever the term "Run Off Reinsurer" is used in this contract, such term shall mean a Reinsurer that is no longer an "active reinsurance market." A Reinsurer will no longer be an "active reinsurance market" if said Reinsurer becomes insolvent, placed into liquidation or receivership or if said Reinsurer ceases all underwriting operations to the extent it no longer accepts new and renewal business.

T. This Contract shall be construed without regard to any presumption or other rule requiring construction against the party causing this Contract to be drafted.

ARTICLE 28

INTERMEDIARY

A. Towers Perrin Forster & Crosby, Inc. ("Towers Perrin") is hereby recognized as the Intermediary negotiating this Contract for all business hereunder. All communications (including but not limited to notices, statements, premium, return premium, commissions, taxes, losses, loss adjustment expense, salvages and loss settlements) relating thereto shall be transmitted to the Company or the Reinsurer through Towers Perrin, Centre Square East, 1500 Market Street, Philadelphia, Pennsylvania 19102-4790. Payments by the Company to the Intermediary shall be deemed to constitute payment to the Reinsurer. Payments by the Reinsurer to the Intermediary shall be deemed to constitute payment to the Company only to the extent that such payments are actually received by the Company. In acting as Intermediary for this Contract, the Intermediary shall (i) comply with all aspects of New York Regulation 98 and shall (ii) be entitled to withdraw funds in accordance with section 32.3(a)(3) of that Regulation including commissions, excise tax and interest received on its premium and loss accounts.

B. Whenever notice is required within this Contract, such notice may be given by certified mail, registered mail, or overnight express mail. Notice shall be deemed to be given on the date received by the receiving party.

APPENDIX 1
NUCLEAR INCIDENT EXCLUSION CLAUSE - LIABILITY - REINSURANCE U.S.A.
(BRMA 35A)

A. This reinsurance does not cover any loss or liability accruing to the Reassured as a member of, or subscriber to, any association of insurers or reinsurers formed for the purpose of covering nuclear energy risks or as a direct or indirect reinsurer of any such member, subscriber or association.

B. Without in any way restricting the operation of paragraph 1 of this Clause, it is understood and agreed that for all purposes of this reinsurance all the original policies of the Reassured (new, renewal and replacement) of the classes specified in Clause II of this paragraph 2 from the time specified in Clause III in this paragraph 2 shall be deemed to include the following provision (specified as the Limited Exclusion Provision):

Limited Exclusion Provision*

a. It is agreed that the policy does not apply under any liability coverage, to *(injury, sickness, disease, death or destruction
(bodily injury or property damage)*

with respect to which an insured under the policy is also an insured under a nuclear energy liability policy issued by Nuclear Energy Liability Insurance Association, Mutual Atomic Energy Liability Underwriters or Nuclear Insurance Association of Canada, or would be an insured under any such policy but for its termination upon exhaustion of its limit of liability.

b. Family Automobile Policies (liability only), Special Automobile Policies (private passenger automobiles, liability only), Farmers Comprehensive Personal Liability Policies (liability only), Comprehensive Personal Liability Policies (liability only) or policies of a similar nature; and the liability portion of combination forms related to the four classes of policies stated above, such as the Comprehensive Dwelling Policy and the applicable types of Homeowners Policies.

c. The inception dates and thereafter of all original policies as described in II above, whether new, renewal or replacement, being policies which either

i. become effective on or after 1st May, 1960, or

ii. become effective before that date and contain the Limited Exclusion Provision set out above;

provided this paragraph 2 shall not be applicable to Family Automobile Policies, Special Automobile Policies, or policies or combination policies of a similar nature, issued by the Reassured on New York risks, until 90 days following approval of the Limited Exclusion Provision by the Governmental Authority having jurisdiction thereof.

C. Except for those classes of policies specified in Clause II of paragraph 2 and without in any way restricting the operation of paragraph 1 of this Clause, it is understood and agreed that for all purposes of this reinsurance the original liability policies of the Reassured (new, renewal and replacement) affording the following coverages:

Owners, Landlords and Tenants Liability, Contractual Liability, Elevator Liability, Owners or Contractors (including railroad), Protective Liability, Manufacturers and Contractors Liability, Product Liability, Professional and Malpractice Liability, Storekeepers Liability, Garage Liability, Automobile Liability (including Massachusetts Motor Vehicle or Garage Liability)

shall be deemed to include, with respect to such coverages, from the time specified in Clause V of this paragraph 3, the following provision (specified as the Broad Exclusion Provision):

Broad Exclusion Provision*

It is agreed that the policy does not apply:

a. Under any Liability Coverage, to *(injury, sickness, disease, death or destruction
(bodily injury or property damage)*

i. with respect to which an insured under the policy is also an insured under a nuclear energy liability policy issued by Nuclear Energy Liability Insurance Association, Mutual Atomic Energy Liability Underwriters or Nuclear Insurance Association of Canada, or would be an insured under any such policy but for its termination upon exhaustion of its limit of liability; or

ii. resulting from the hazardous properties of nuclear material and with respect to which (1) any person or organization is required to maintain financial protection pursuant to the Atomic Energy Act of 1954, or any law amendatory thereof, or (2) the insured is, or had this policy not been issued would be, entitled to indemnity from the United States of America, or any agency thereof, under any agreement entered into by the United States of America, or any agency thereof, with any person or organization.

- b. Under any Medical Payments Coverage, or under any Supplementary Payments Provision relating to *(immediate medical or surgical relief)*
(first aid)
 to expenses incurred with respect to *(bodily injury, sickness, disease or death)*
(bodily injury) resulting from the hazardous properties of nuclear material and arising out of the operation of a nuclear facility by any person or organization.
- c. Under any Liability Coverage, to *(injury, sickness, disease, death or destruction)*
(bodily injury or property damage) resulting from the hazardous properties of nuclear material, if
- i. the nuclear material (1) is at any nuclear facility owned by, or operated by or on behalf of, an insured, or (2) has been discharged or dispersed therefrom;
 - ii. the nuclear material is contained in spent fuel or waste at any time possessed, handled, used, processed, stored, transported or disposed of by or on behalf of an insured; or
 - iii. the *(injury, sickness, disease, death or destruction)*
(bodily injury or property damage) arises out of the furnishing by an insured of services, materials, parts or equipment in connection with the planning, construction, maintenance, operation or use of any nuclear facility, but if such facility is located within the United States of America, its territories, or possessions or Canada, this *(injury to or destruction of property at such nuclear facility)*
(property damage to such nuclear facility and any property thereat).
- d. As used in this endorsement:
- "Hazardous properties" include radioactive, toxic or explosive properties; "nuclear material" means source material, special nuclear material or byproduct material; "source material", "special nuclear material", and "byproduct material" have the meanings given them in the Atomic Energy Act of 1954 or in any law amendatory thereof; "spent fuel" means any fuel element or fuel component, solid or liquid, which has been used or exposed to radiation in a nuclear reactor; "waste" means any waste material (1) containing byproduct material other than tailings or wastes produced by the extraction or concentration of uranium or thorium from any ore processed primarily for its source material content, and (2) resulting from the operation by any person or organization of any nuclear facility included under the first two paragraphs of the definition of nuclear facility; "nuclear facility" means:
- i. any nuclear reactor,
 - ii. any equipment or device designed or used for (1) separating the isotopes of uranium or plutonium, (2) processing or utilizing spent fuel, or (3) handling, processing or packaging waste,
 - iii. any equipment or device used for the processing, fabricating or alloying of special nuclear material if at any time the total amount of such material in the custody of the insured at the premises where such equipment or device is located consists of or contains more than 25 grams of plutonium or uranium 233 or any combination thereof, or more than 250 grams of uranium 235,
 - iv. any structure, basin, excavation, premises or place prepared or used for the storage or disposal of waste,

and includes the site on which any of the foregoing is located, all operations conducted on such site and all premises used for such operations; "nuclear reactor" means any apparatus designed or used to sustain nuclear fission in a self-supporting chain reaction or to contain a critical mass of fissionable material;

(With respect to injury to or destruction of property, the word "injury" or "destruction"
("property damage" includes all forms of radioactive contamination of property.
(includes all forms of radioactive contamination of property.

- e. The inception dates and thereafter of all original policies affording coverages specified in this paragraph 3, whether new, renewal or replacement, being policies which become effective on or after 1st May, 1960, provided this paragraph 3 shall not be applicable to:
- i. Garage and Automobile Policies issued by the Reassured on New York risks, or
 - ii. statutory liability insurance required under Chapter 90, General Laws of Massachusetts,
- until 90 days following approval of the Broad Exclusion Provision by the Governmental Authority having jurisdiction thereof.
- D. Without in any way restricting the operation of paragraph 1 of this Clause, it is understood and agreed that paragraphs 2 and 3 above are not applicable to original liability policies of the Reassured in Canada and that with respect to such policies this Clause shall be deemed to include the Nuclear Energy Liability Exclusion Provisions adopted by the Canadian Underwriters' Association or the Independent Insurance Conference of Canada.

*NOTE: The words printed in italics in the Limited Exclusion Provision and in the Broad Exclusion Provision shall apply only in relation to original liability policies which include a Limited Exclusion Provision or a Broad Exclusion Provision containing those words.

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- i. the nuclear material is contained in spent fuel or waste at any time possessed, handled, used, processed, stored, transported or disposed of by or on behalf of an insured; or

ii. the *(injury, sickness, disease, death or destruction
(bodily injury or property damage)*

arises out of the furnishing by an insured of services, materials, parts or equipment in connection with the planning, construction, maintenance, operation or use of any nuclear facility, but if such facility is located within the United States of America, its territories, or possessions or Canada, this exclusion (c) applies only to *(injury to or destruction of property at such nuclear facility
(property damage to such nuclear facility and any property thereof)*.

b. As used in this endorsement:

"Hazardous properties" include radioactive, toxic or explosive properties; "nuclear material" means source material, special nuclear material or byproduct material; "source material", "special nuclear material", and "byproduct material" have the meanings given them in the Atomic Energy Act of 1954 or in any law amendatory thereof; "spent fuel" means any fuel element or fuel component, solid or liquid, which has been used or exposed to radiation in a nuclear reactor; "waste" means any waste material (1) containing byproduct material other than tailings or wastes produced by the extraction or concentration of uranium or thorium from any ore processed primarily for its source material content, and (2) resulting from the operation by any person or organization of any nuclear facility included under the first two paragraphs of the definition of nuclear facility; "nuclear facility" means:

- i. any nuclear reactor,
- ii. any equipment or device designed or used for (1) separating the isotopes of uranium or plutonium, (2) processing or utilizing spent fuel, or (3) handling, processing or packaging waste,
- iii. any equipment or device used for the processing, fabricating or alloying of special nuclear material if at any time the total amount of such material in the custody of the insured at the premises where such equipment or device is located consists of or contains more than 25 grams of plutonium or uranium 233 or any combination thereof, or more than 250 grams of uranium 235,
- iv. any structure, basin, excavation, premises or place prepared or used for the storage or disposal of waste,

and includes the site on which any of the foregoing is located, all operations conducted on such site and all premises used for such operations; "nuclear reactor" means any apparatus designed or used to sustain nuclear fission in a self-supporting chain reaction or to contain a critical mass of fissionable material;

(With respect to injury to or destruction of property, the word "injury" or "destruction"

("property damage" includes all forms of radioactive contamination of property.

(includes all forms of radioactive contamination of property.)

c. The inception dates and thereafter of all original policies affording coverages specified in this paragraph 3, whether new, renewal or replacement, being policies which become effective on or after 1st May, 1960, provided this paragraph 3 shall not be applicable to:

- i. Garage and Automobile Policies issued by the Company on New York risks, or
- ii. statutory liability insurance required under Chapter 90, General Laws of Massachusetts,

until 90 days following approval of the Broad Exclusion Provision by the Governmental Authority having jurisdiction thereof.

E. Without in any way restricting the operation of paragraph 1 of this Clause, it is understood and agreed that paragraphs 2 and 3 above are not applicable to original liability policies of the Company in Canada and that with respect to such policies this Clause shall be deemed to include the Nuclear Energy Liability Exclusion Provisions adopted by the Canadian Underwriters' Association or the Independent Insurance Conference of Canada.

***NOTE:** The words printed in italics in the Limited Exclusion Provision and in the Broad Exclusion Provision shall apply only in relation to original liability policies which include a Limited Exclusion Provision or a Broad Exclusion Provision containing those words.

EXHIBIT "A"

FIRST WORKERS' COMPENSATION PER OCCURRENCE
EXCESS OF LOSS REINSURANCE CONTRACT

EFFECTIVE JANUARY 1, 2010

ARTICLE 3

REINSURANCE COVERAGE

Exhibit "A" shall apply to all Net Loss other than for the peril of Terrorism. The term "Terrorism" shall mean a violent act that is dangerous to human life, property or infrastructure that is committed by an individual or individuals that appears to be part of an effort to coerce a civilian population or to influence the policy or affect the conduct of any government by coercion.

Part One - LIMIT OF COVERAGE

A. The Reinsurer(s) shall be liable to, shall indemnify and reinsure the Company for each and every Loss Occurrence for one hundred percent (100%) of the excess Net Loss above an initial Net Loss to the Company of two hundred fifty million dollars (\$250,000,000) each and every Loss Occurrence; but the Reinsurer(s) shall not be liable for more than two hundred fifty million dollars (\$250,000,000) of Net Loss each and every Loss Occurrence.

B. The Company warrants that the maximum loss in respect of any one person ground up shall be five million dollars (\$5,000,000), inclusive of Loss Adjustment Expenses, ninety percent (90%) of Extra-Contractual Obligation, and ninety percent (90%) of Loss Excess of Policy Limit.

Part Two - REINSURANCE LOSS

A. The term "Net Loss" shall mean the actual loss incurred by the Company under Business Covered hereunder including (i) sums paid in settlement of claims and suits and in satisfaction of judgments, (ii) prejudgment interest when added to a judgment, (iii) Loss Adjustment Expenses, (iv) ninety percent (90%) of any Extra-Contractual Obligations, and (v) ninety percent (90%) of Loss Excess of Policy Limits, less (vi) recoveries.

B. "Loss Adjustment Expenses" shall mean: (i) expenses sustained in connection with adjustment (including defense, settlement and litigation) of specific claims and suits, satisfaction of judgments, resistance to or negotiations concerning a loss which shall include the expenses and the pro rata share of the salaries of the

Company's employees according to the time occupied in adjusting such specific claims and loss but shall not include any salaries of executive officers or normal overhead expenses of the Company, (ii) Declaratory Judgment Expenses, (iii) all interest on judgments except when included in Net Loss, and (iv) expenses sustained to obtain recoveries, salvages or other reimbursements, or to secure the reversal or reduction of a verdict or judgment.

C. All salvages, recoveries, payments and reversals or reductions of verdicts or judgments (net of the cost of obtaining such salvage, recovery, payment or reversal or reduction of a verdict or judgment) whether recovered, received or obtained prior or subsequent to loss settlement under this Contract, including amounts recoverable under other reinsurance whether collected or not, shall be applied as if recovered, received or obtained prior to the aforesaid settlement and shall be deducted from the actual losses sustained to arrive at the amount of the Net Loss. Nothing in this Article shall be construed to mean losses are not recoverable until the final Net Loss to the Company finally has been ascertained.

D. The Reinsurer(s) shall be subrogated, as respects any loss for which the Reinsurer(s) shall actually pay or become liable, but only to the extent of the amount of payment by or the amount of liability to the Reinsurer(s), to all the rights of the Company against any person or other entity who may be legally responsible for damages as a result of said loss. Should the Company elect not to enforce such rights, the Reinsurer(s) are hereby authorized and empowered to bring any appropriate action in the name of the Company or its policyholders, or otherwise to enforce such rights. The Reinsurer(s) shall promptly remit to the Company the amount of any judgment awarded in such an action in excess of the amount of payment by, or the amount of liability to, the Reinsurer(s) hereunder.

ARTICLE 5

REINSURANCE PREMIUM

Part One - BASIC ANNUAL PREMIUM

A. As premium for the reinsurance provided hereunder, the Company shall pay the Reinsurer(s) _ percent (TBD%) of its Net Subject Earned Premium for the Contract Period.

B. The Company shall pay the Reinsurer(s) a deposit premium of _ dollars (\$TBD) in four (4) equal installments of _ dollars (\$TBD) on January 1, April 1, July 1 and October 1, 2010.

C. As promptly as possible after the end of the Contract Period, the Company shall provide a report to the Reinsurer(s) setting forth the premium due hereunder, computed in accordance with the first paragraph. The payment of any adjustment

due between the parties shall be made immediately. In no event, however, will the Reinsurer's premium be less than a minimum of _ dollars (\$TBD).

D. "Net Subject Earned Premium" as used in this Contract shall mean the gross earned premium of the Company for the Business Covered hereunder, less the earned portion of premium for reinsurance that inures to the benefit of this Contract.

Part Two – REINSTATEMENT PREMIUM

A. Each claim hereunder shall reduce the amount of the Reinsurer's liability from the time of the occurrence of the loss by the sum paid, but the sum so exhausted shall be reinstated immediately from the time of the occurrence of the loss.

B. For each amount so reinstated, the Company agrees to pay an additional premium calculated by multiplying one hundred percent (100%) of the reinsurance premium hereon earned by the Reinsurer(s) by the percentage that the amount reinstated bears to the limit (i.e., two hundred fifty million dollars (\$250,000,000)) of this Contract. Nevertheless, the liability of the Reinsurer(s) shall never be more than two hundred fifty million dollars (\$250,000,000) in respect of any one Loss Occurrence, nor more than five hundred million dollars (\$500,000,000) in all in respect of all losses occurring during the Contract Period, including any applicable Run-Off period of the Contract Period.

C. A provisional statement of reinstatement premium due the Reinsurer(s) shall be prepared by the Company and submitted to the Reinsurer(s) as soon as practicable after payment of a claim hereunder. The provisional reinstatement premium shall be based on one hundred percent (100%) of the estimated reinsurance premium earned by the Reinsurer(s) hereunder. The amount of reinstatement premium due Reinsurer(s) shall be offset against the loss payment due the Company with only the net amount due to be remitted by the debtor party.

D. As promptly as possible after the reinsurance premium earned by the Reinsurer(s) hereunder for the just completed coverage year has been finally determined, the Company shall prepare and submit to the Reinsurer(s) a final statement of reinstatement premium due. Any reinstatement premium shown to be due the Reinsurer(s) (less prior payments, if any) shall be remitted by the Company with its statement. Any return reinstatement premium shown to be due the Company shall be remitted by the Reinsurer(s) as promptly as possible after receipt of the Company's final statement.

ARTICLE 9

NET RETAINED LINE

A. This Contract applies only to that portion of any Policy which the Company retains net for its own account, and in calculating the amount of any loss hereunder and also in computing the amount or amounts in excess of which this Contract attaches, only loss or losses in respect of that portion of any Policy which the Company retains net for its own account shall be included.

B. The amount of the Reinsurers' liability hereunder in respect of any loss or losses shall not be increased by reason of the inability of the Company to collect from any other Reinsurer(s), whether specific or general, any amounts which may have become due from such Reinsurer(s), whether such inability arises from the insolvency of such other Reinsurer(s) or otherwise.

C. Inter-company reinsurance among the companies collectively called the "Company" shall be entirely disregarded for all purposes of this Contract.

D. Permission is hereby granted the Company to carry underlying reinsurance and recoveries made thereunder shall be disregarded for all purposes of this Contract and shall inure to the sole benefit of the Company.

EXHIBIT "B"

SECOND WORKERS' COMPENSATION PER OCCURRENCE
EXCESS OF LOSS REINSURANCE CONTRACT

EFFECTIVE JANUARY 1, 2010

ARTICLE 3

REINSURANCE COVERAGE

Exhibit "B" shall apply to all Net Loss only for the peril of Terrorism. The term "Terrorism" shall mean a violent act that is dangerous to human life, property or infrastructure that is committed by an individual or individuals that appears to be part of an effort to coerce a civilian population or to influence the policy or affect the conduct of any government by coercion.

Part One - LIMIT OF COVERAGE

A. The Reinsurer(s) shall be liable to, shall indemnify and reinsure the Company for each and every Loss Occurrence for one hundred percent (100%) of the excess Net Loss above an initial Net Loss to the Company of two hundred fifty million dollars (\$250,000,000) each and every Loss Occurrence; but the Reinsurer(s) shall not be liable for more than two hundred ten million dollars (\$210,000,000) of Net Loss each and every Loss Occurrence.

B. The Reinsurer(s) shall also be liable to, shall indemnify and reinsure the Company for each and every Loss Occurrence for fifteen percent (15%) of the excess Net Loss above an initial Net Loss to the Company of four hundred sixty million dollars (\$460,000,000) each and every Loss Occurrence; but the Reinsurer(s) shall not be liable for more than fifteen percent (15%) of five hundred forty million dollars (\$540,000,000) of Net Loss each and every Loss Occurrence.

C. The Company warrants that the maximum loss in respect of any one person ground up shall be five million dollars (\$5,000,000), inclusive of Loss Adjustment Expenses, ninety percent (90%) of Extra-Contractual Obligation, and ninety percent (90%) of Loss Excess of Policy Limit.

Part Two - REINSURANCE LOSS

A. The term "Net Loss" shall mean the actual loss incurred by the Company under Business Covered hereunder including (i) sums paid in settlement of claims and suits and in satisfaction of judgments, (ii) prejudgment interest when added to a judgment, (iii) Loss Adjustment Expenses, (iv) ninety percent (90%) of any Extra-

Contractual Obligations, and (v) ninety percent (90%) of Loss Excess of Policy Limits, less (vi) recoveries.

B. "Loss Adjustment Expenses" shall mean and include but not be limited to expenses sustained in connection with adjustment, defense, settlement and litigation of claims and suits, satisfaction of judgments, resistance to or negotiations concerning a loss (which shall include the expenses and the pro rata share of the salaries of the Company's field employees according to the time occupied in adjusting such loss and the expenses of the Company's other employees while diverted from their normal duties to the service of field adjustment but shall not include any salaries of officers or normal overhead expenses of the Company) and any interest on judgments other than prejudgment interest when added to a judgment.

C. All salvages, recoveries, payments and reversals or reductions of verdicts or judgments (net of the cost of obtaining such salvage, recovery, payment or reversal or reduction of a verdict or judgment) whether recovered, received or obtained prior or subsequent to loss settlement under this Contract, including amounts recoverable under other reinsurance whether collected or not, shall be applied as if recovered, received or obtained prior to the aforesaid settlement and shall be deducted from the actual losses sustained to arrive at the amount of the Net Loss. Nothing in this Article shall be construed to mean losses are not recoverable until the final Net Loss to the Company finally has been ascertained.

D. The Reinsurer(s) shall be subrogated, as respects any loss for which the Reinsurer(s) shall actually pay or become liable, but only to the extent of the amount of payment by or the amount of liability to the Reinsurer(s), to all the rights of the Company against any person or other entity who may be legally responsible for damages as a result of said loss. Should the Company elect not to enforce such rights, the Reinsurer(s) are hereby authorized and empowered to bring any appropriate action in the name of the Company or its policyholders, or otherwise to enforce such rights. The Reinsurer(s) shall promptly remit to the Company the amount of any judgment awarded in such an action in excess of the amount of payment by, or the amount of liability to, the Reinsurer(s) hereunder.

ARTICLE 5

REINSURANCE PREMIUM

Part One - BASIC ANNUAL PREMIUM

A. As premium for the reinsurance provided hereunder, the Company shall pay the Reinsurer(s) _ percent (TBD%) of its Net Subject Earned Premium for the Contract Period.

B. The Company shall pay the Reinsurer(s) a deposit premium of _ dollars (\$TBD) in four (4) equal installments of _ dollars (\$TBD) on January 1, April 1, July 1 and October 1, 2010.

C. As promptly as possible after the end of the Contract Period, the Company shall provide a report to the Reinsurer(s) setting forth the premium due hereunder, computed in accordance with the first paragraph. The payment of any adjustment due between the parties shall be made immediately. In no event, however, will the Reinsurer's premium be less than a minimum of _ dollars (\$TBD).

D. "Net Subject Earned Premium" as used in this Contract shall mean the gross earned premium of the Company for the Business Covered hereunder, less the earned portion of premium for reinsurance that inures to the benefit of this Contract.

ARTICLE 9

NET RETAINED LINE

A. This Contract applies only to that portion of any Policy which the Company retains net for its own account, and in calculating the amount of any loss hereunder and also in computing the amount or amounts in excess of which this Contract attaches, only loss or losses in respect of that portion of any Policy which the Company retains net for its own account shall be included.

B. The amount of the Reinsurers' liability hereunder in respect of any loss or losses shall not be increased by reason of the inability of the Company to collect from any other Reinsurer(s), whether specific or general, any amounts which may have become due from such Reinsurer(s), whether such inability arises from the insolvency of such other Reinsurer(s) or otherwise.

C. Inter-company reinsurance among the companies collectively called the "Company" shall be entirely disregarded for all purposes of this Contract.

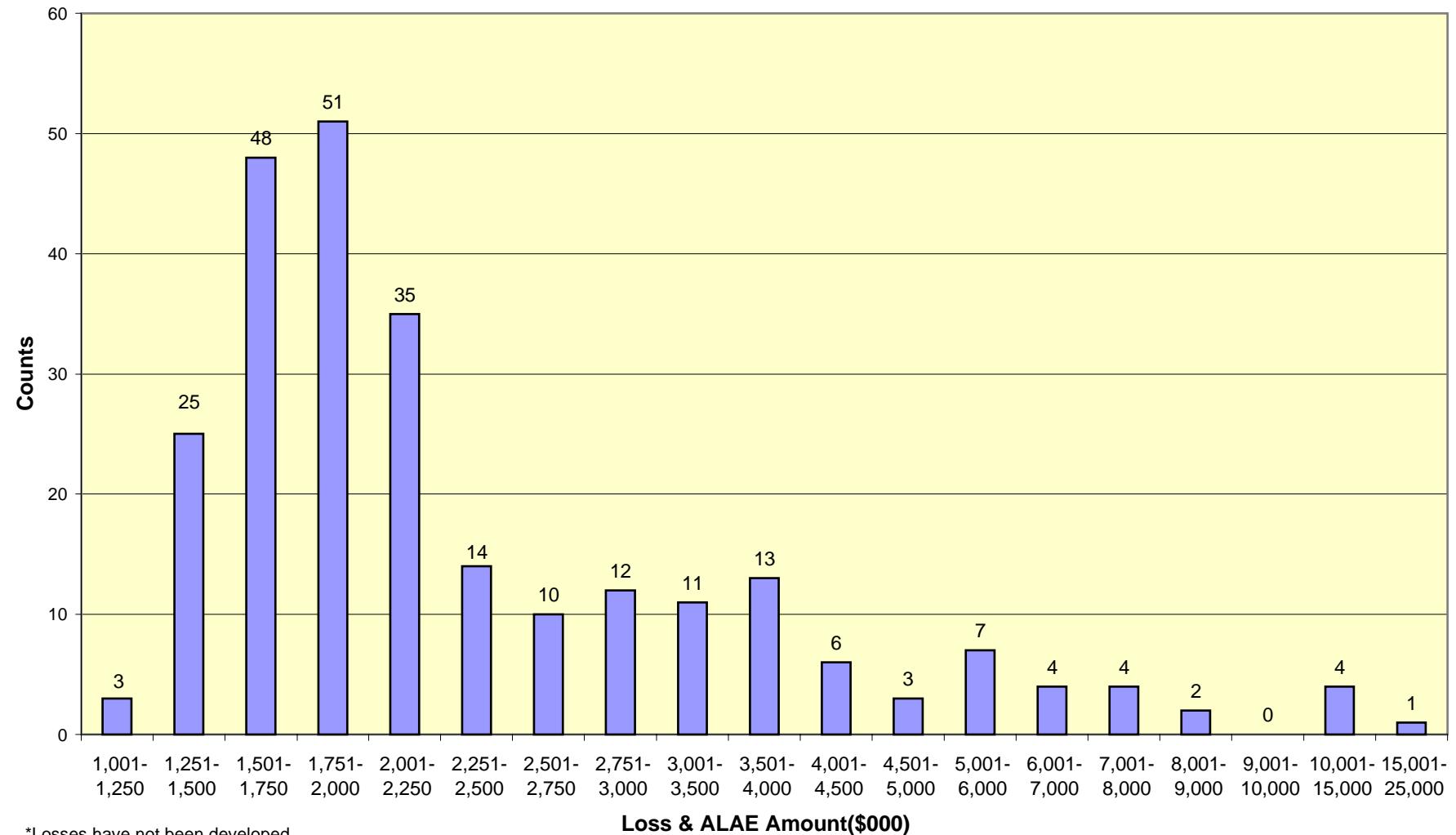
D. Permission is hereby granted the Company to carry underlying reinsurance and recoveries made thereunder shall be disregarded for all purposes of this Contract and shall inure to the sole benefit of the Company.



TOWERS
PERRIN

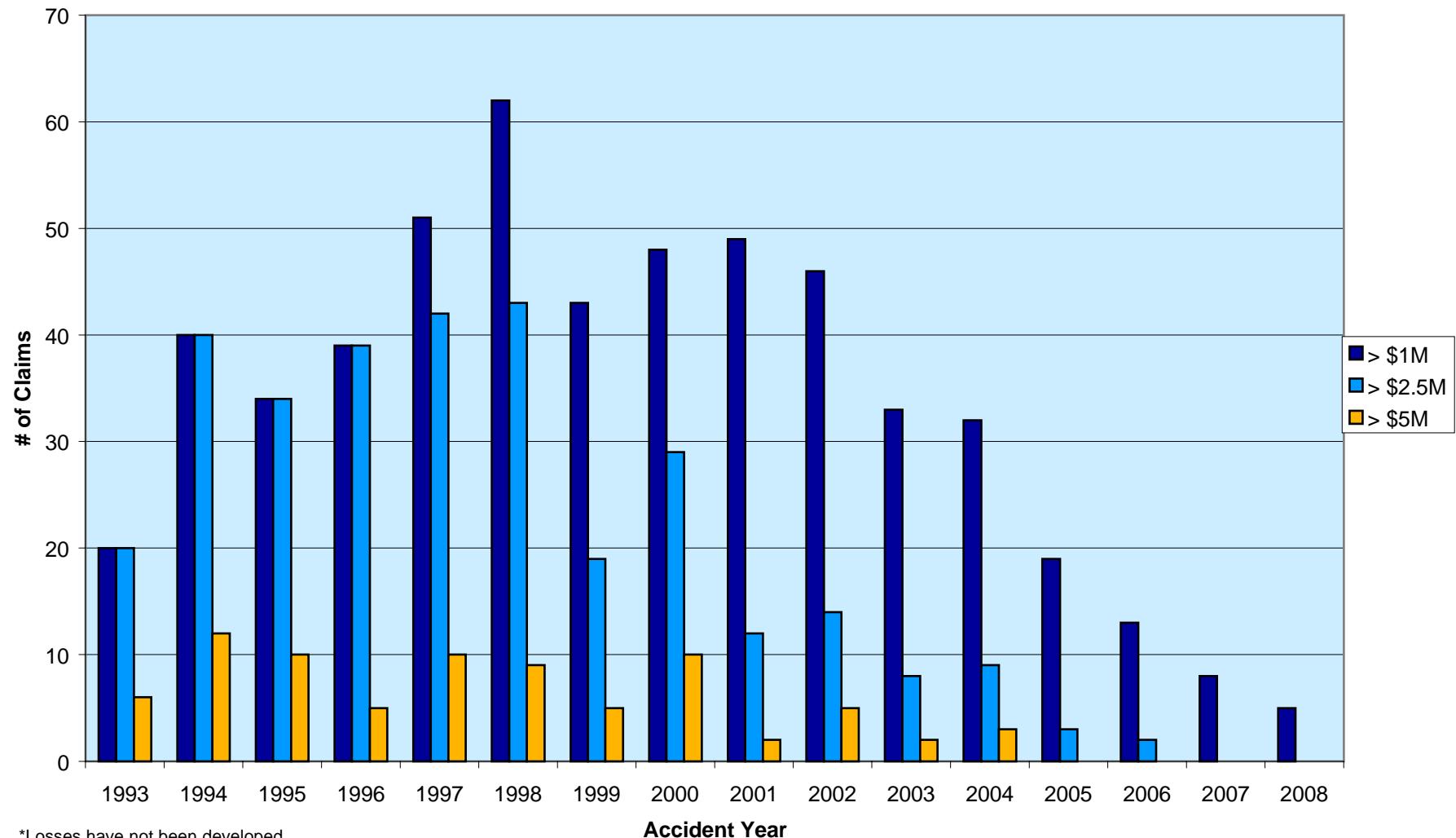
Supporting Exhibits and Appendix

Exhibit 1A: Trended Loss & ALAE for Accident Yrs 2000 to 2009



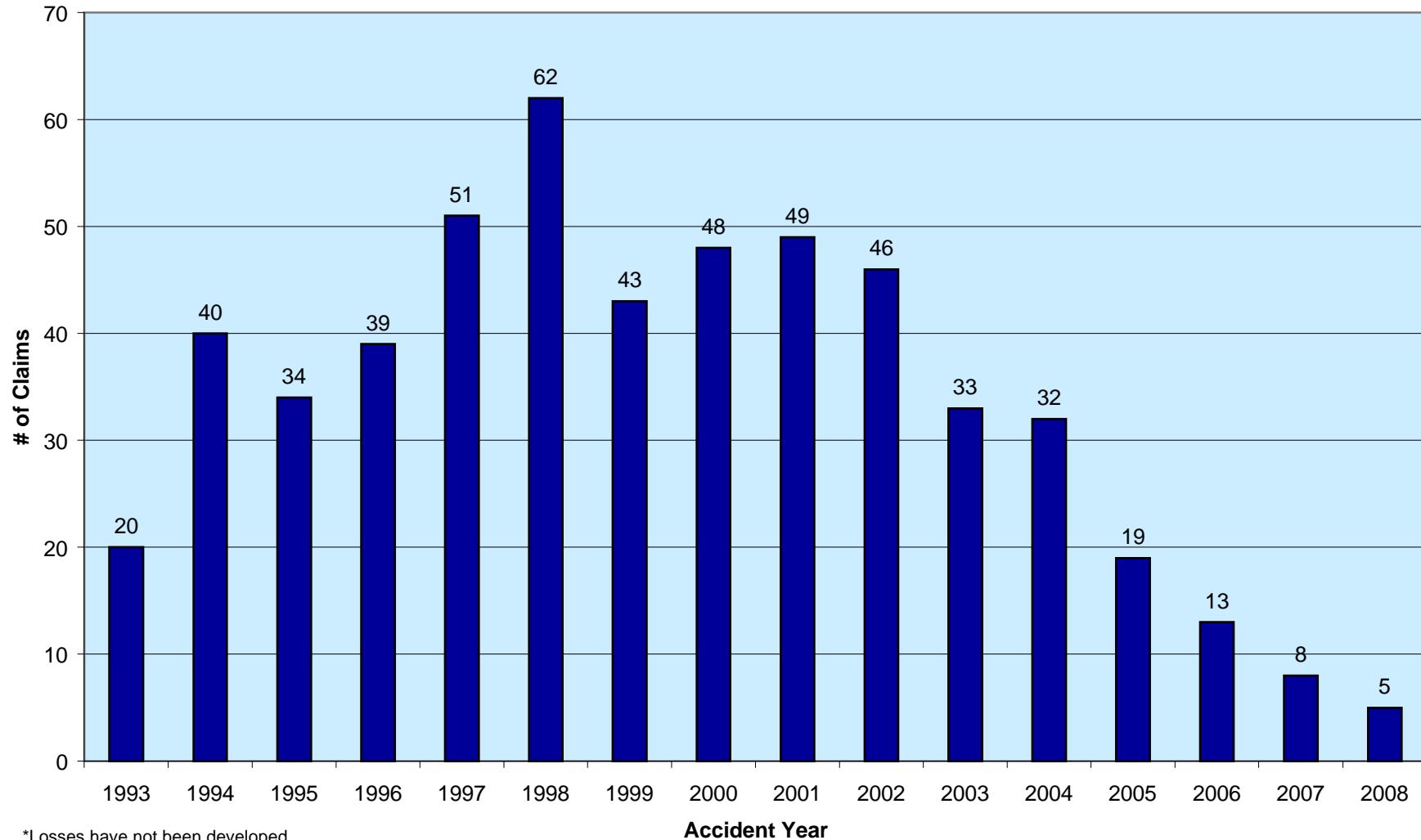
*Losses have not been developed

Exhibit 1B: Claim Counts for Trended Loss & ALAE over \$1M, \$2.5M, & \$5M



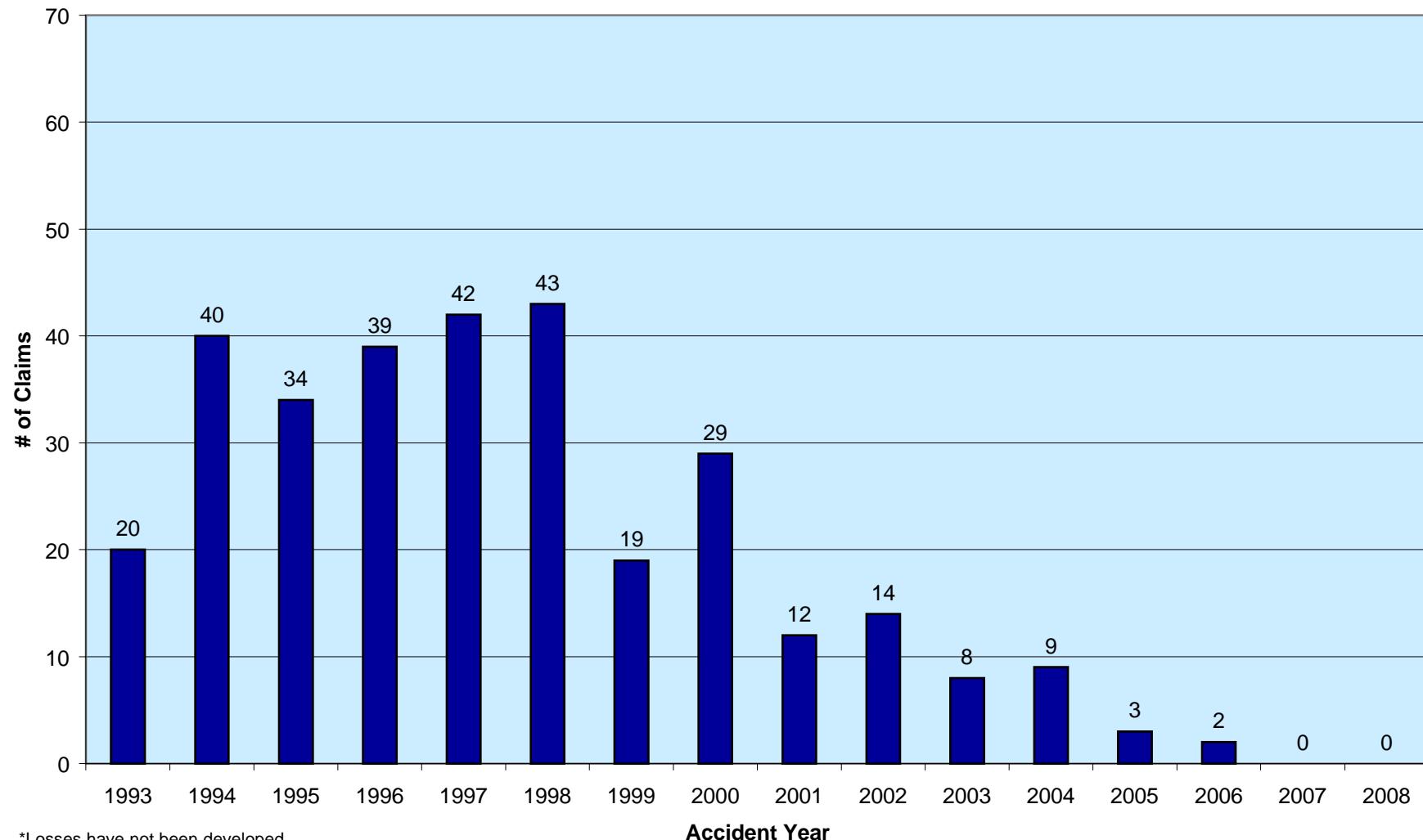
*Losses have not been developed

Exhibit 1C: Claim Counts for Trended Loss & ALAE over \$1,000,000



*Losses have not been developed

Exhibit 1D: Claim Counts for Trended Loss & ALAE over \$2,500,000



*Losses have not been developed

Exhibit 1E: Claim Counts for Trended Loss & ALAE over \$5,000,000

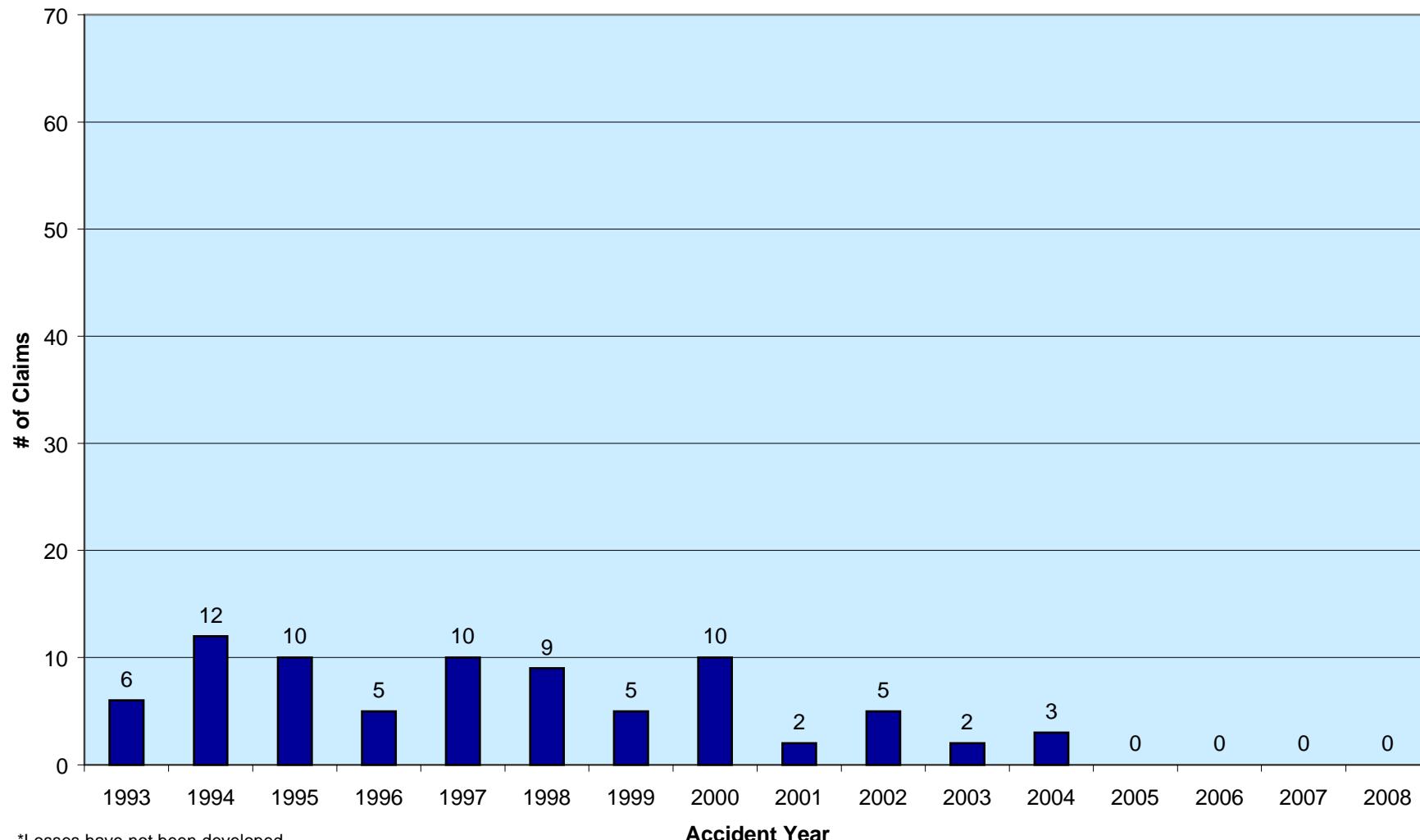


Exhibit 2A-I: Disclaimer

NOTICE

The attached analysis provided by Towers Perrin is intended solely for the purpose of Ohio BWC's internal evaluation of their prospective reinsurance program, and shall not be disclosed by Ohio BWC to any third party without the prior written consent of Towers Perrin.

It is not intended to be a complete actuarial communication. The analysis represents our best professional judgment, though the results are subject to significant variability and it is probable that actual results will differ from those projected. There are many limitations on actuarial analysis, including the significant use of estimates and assumptions as well as reliance on the data of others. This analysis is based upon data provided by Ohio BWC or obtained from external sources, the accuracy of which Towers Perrin has not independently verified.

Accordingly, Towers Perrin is providing this work product "as is" and Towers Perrin and its officers, directors, agents, modelers or subcontractors ("providers") do not guarantee or warrant the accuracy, correctness, completeness, currentness, merchantability, or fitness for a particular purpose of the work product and its analysis.

Exhibit 2A: Pricing - Summary of Experience Rates

Ohio BWC

WC Experience Summary

Data Valued as of 12/31/2008

Discount @ 3.1% WC

Trend @ NCCI rates

ALAE included in the limit

2010 Projected Payroll (000)	121,625,652
2010 Projected Premium (000)	2,240,000

Limit	Retention	Claim Count	XS	Loss Cost	Final Disc Rate	Final Disc Rate
			to Payroll	to Payroll	to Premium	
1,000,000	1,000,000	296	0.03736%	0.03801%	2.06%	
1,000,000	2,000,000	167	0.01429%	0.01415%	0.77%	
1,000,000	3,000,000	67	0.00864%	0.00839%	0.46%	
1,000,000	4,000,000	38	0.00533%	0.00514%	0.28%	
5,000,000	5,000,000	27	0.01294%	0.01239%	0.67%	
10,000,000	10,000,000	8	0.00762%	0.00729%	0.40%	
10,000,000	20,000,000	1	0.00021%	0.00020%	0.01%	

Premium Projection from 2009 Annual Report

Exhibit 2B: Pricing – XOL \$5M xs \$5M

WC	Losses, Payroll, and Premium shown in (000)							Limit Retention	5,000	
	Accident Year	Payroll (1)	On-Level Payroll (2)	Trended XS Loss&ALAE (3)	XS Claim Count (4)	LDFs (5)	Ult. L&ALAE LDF Method (6)		Selected BF Ratio (8)	Ult. L&ALAE BF Method (9)
1999	105,834,000	139,146,343	17,361	5	1.307	22,688	0.0163%	0.0163%	22,688	0.0163%
2000	105,834,000	141,074,614	18,456	10	1.450	26,759	0.0190%	0.0190%	26,759	0.0190%
2001	105,834,000	142,624,434	1,048	2	1.668	1,748	0.0012%	0.0012%	1,748	0.0012%
2002	105,834,000	140,830,334	15,451	5	2.047	31,631	0.0225%	0.0225%	31,631	0.0225%
2003	107,331,000	131,674,597	2,685	2	2.578	6,924	0.0053%	0.0116%	12,006	0.0091%
2004	110,221,000	124,757,176	12,168	3	3.336	40,588	0.0325%	0.0116%	22,269	0.0179%
2005	112,884,000	120,918,372	0	0	4.336	0	0.0000%	0.0116%	10,758	0.0089%
2006	117,430,000	119,344,373	0	0	5.817	0	0.0000%	0.0116%	11,428	0.0096%
2007	121,231,000	118,331,874	0	0	7.950	0	0.0000%	0.0116%	11,962	0.0101%
2008	121,423,000	118,691,319	0	0	23.850	0	0.0000%	0.0116%	13,149	0.0111%
	1,113,856,000	1,297,393,435	67,168	27		130,336	0.0100%		164,397	0.0127%

Arithmetic Avg (99-08)	0.0126%	(a) Selected	0.0129%
Excl. Hi/Lo (99-08)	0.0127%	(b) ALAE Load	1.00
Wghtd Avg (01-08)	0.0113%	(c) Reinsurer Load	1.33
Wghtd Avg (02-08)	0.0129%	(d) Nominal Rate	0.0173%
Emerged Payroll (99-08)	0.0136%	(e) Inv. Inc.	71.8%
Emerged Payroll (01-08)	0.0110%	(f) Final Disc. Rate	0.0124%
SB-ELR (99-08)	0.0130%	(g) Proj 2010 Payroll	121,625,652
SB-ELR (01-08)	0.0101%	(h) Proj Reins. Prem	15,064

(1) Payroll received directly from the client. (000)

(2) Payroll was placed on level according to company rate level change history and renewal summary (000)

(3) Losses were trended according to NCCI benchmark; then layered into the appropriate excess of loss layer. (000)

(4) Excess claim counts reflect trended claims that pierce the retention.

(5) LDF's are based on Benchmark patterns from 2007 RAA data.

(6) = (3) * (5)

(7) = (6) / (2)

(8) The loss cost based on the Standard Buhlman method was selected as the apriori expected loss ratio input for the Bornheutter-Ferguson Method: [sum of (3)] / [sumproduct (2), 1.0/(5)].

(9) = (3) + (2) * (8) * (1.0-(1.0/(5))) Bornheutter-Ferguson Method.

(10) = (9) / (2)

(a) Selected loss cost is based on the weighted average from 2002-2008.

(b) ALAE is included within the definition of loss in (3) and subsequent.

(c) Reinsurance Load is 100/75ths.

(d) = (a) * (b) * (c)

(e) Discount factor is based on benchmark payment pattern at a 3.1% annual interest rate.

(f) = (a) * (b) * (c) * (e)

(g) Projected payroll was received directly from the client. (000)

(h) = (g) * (f)

Exhibit 2C: Pricing – XOL \$10M xs \$10M

(1) Payroll received directly from the client. (000)

(2) Payroll was placed on level according to company rate level change history and renewal summary (000)

(3) Losses were trended according to NCCI benchmark; then layered into the appropriate excess of loss layer. (000)

(4) Excess claim counts reflect trended claims that pierce the retention.

(5) IDE's are based on Benchmark patterns from 2007 BAA data.

$$(6) = (3) * (5)$$

$$(7) = (6) / (2)$$

(8) The loss cost, based on the Standard Buhlman method was selected as the apriori expected loss ratio input for the Bornheutter-Ferguson Method; [sum of (3)] / [sumproduct (2), 1.0/(5)].

(8) The loss cost based on the Standard Burmiller Method was \$
(9) = (3) + (2) * (8) * (1.0-(1.0/(5))) Bornheutter-Ferguson Method

$$(10) = (9) / (2)$$

(a) Selected loss cost is based on the weighted average from 2002-2008

(b) All AAE is included within the definition of loss in (3) and subsequent

- (c) Reinsurance Load is 100/75ths

(d) = (a) * (b) * (c)

(d) (a) (b) (c)

(e) Discount factor is based on benchmark payment pattern at a 3.1% annual interest rate.

(f) = (a) * (b) * (c) * (e)

(g) Projected payroll w
(h) - (j) & (k)

$$(h) = (g)^* (f)$$

Exhibit 2D: Pricing – Key Assumptions

- Payroll as exposure base
- NCCI Trend
- TP Reinsurance Benchmark Loss Development Factors
- Payroll onleveled with BWC rate history

Exhibit 2E: 15M x 5M and 10M x 10M XOL Programs have no significant effect on the Net UW Income Distribution

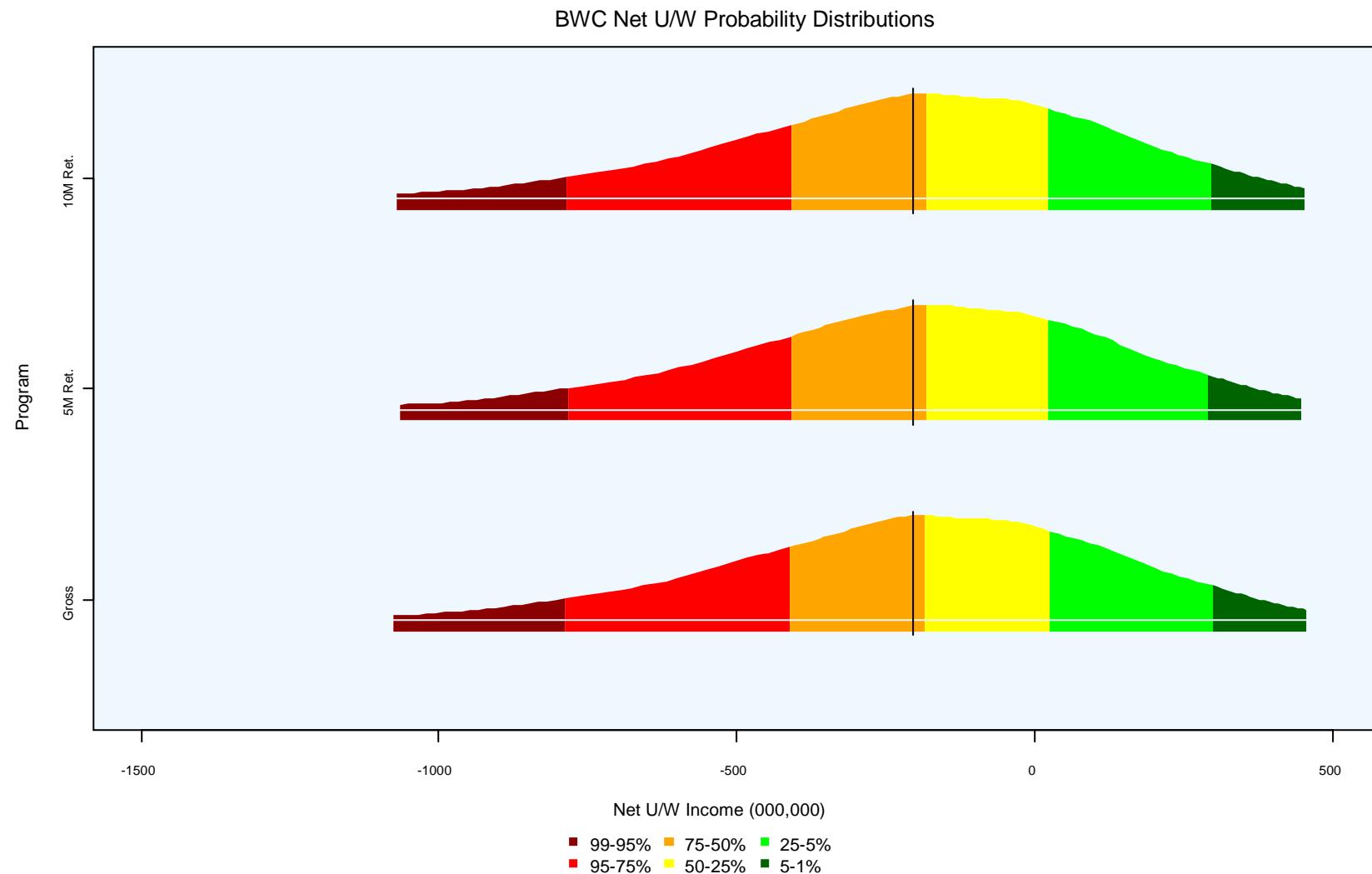


Exhibit 2F: 15M x 5M and 10M x 10M XOL Programs have no significant effect on the Net U/W Income Distribution

Net Underwriting Income Exceeding Probabilities

	Gross	5M Ret.	10M Ret.
99%	(1,077,718)	(1,065,514)	(1,072,351)
95%	(789,387)	(782,458)	(786,353)
75%	(410,334)	(408,047)	(409,060)
50%	(184,042)	(182,240)	(183,159)
25%	24,793	23,510	23,726
5%	298,607	291,217	296,132
1%	457,079	447,687	452,851
mean	(205,125)	(204,170)	(204,704)
std	329,866	325,433	328,078

Exhibit 2G: Gross Ceded Net Exhibit

	Ohio BWC - Gross	Ohio BWC - 5M Retention	Ohio BWC - 10M Retention
(000)			
Gross Premium	2,240,000	2,240,000	2,240,000
Gross Loss & LAE Non-Cat	2,346,542	2,346,542	2,346,542
Gross Loss & LAE Cat	2,998	2,998	2,998
Gross Expense	96,320	96,320	96,320
Gross U/W Income	(205,861)	(205,861)	(205,861)
Ceded Premium	0	23,933	8,869
Ceded Loss & LAE Non-Cat	0	24,868	9,225
Ceded Loss & LAE Cat	0	0	0
Ceded Expense	0	0	0
Interest Expense on Funds Withheld	0	0	0
Ceded U/W Income	0	(935)	(355)
Net Premium	2,240,000	2,216,067	2,231,131
Net Loss & LAE Non-Cat	2,346,542	2,321,674	2,337,318
Net Loss & LAE Cat	2,998	2,998	2,998
Net Expense	96,320	96,320	96,320
Net U/W Income	(205,861)	(204,925)	(205,505)

Exhibit 2H: DRM - Average Ceded Premium, Loss and Margin by Contract

	Average Ceded (000) Premium	Average Ceded Loss	Average Ceded Margin	Ratio of Average Ceded Loss to Average Ceded Premium
XOL 5xs5	15,064	15,644	(580)	104%
XOL 10xs10	8,869	9,225	(355)	104%

Exhibit 2I: DRM – Key Assumptions

- Expected Loss and LAE Ratio = 104.4%
- Expense Ratio 4.3%
- Individually Modeled Large Losses based on pricing work
- Aggregate Modeled Small Losses calibrated to bring total ELR to 104.4% and 15% Standard Deviation
- Reinsurance Prices based on pricing work

Exhibit 3A: Top Private Employers - Employee count estimate and dispersion methodology

- The private employers data received from OHBWC are in a format that each employer has only one registered address. The payroll is provided by class code and there is no employee count.
- Employee count was first estimated from provided payroll and class code information using RMS's industry database that has average payroll by zip code by occupancy type.
- Top employers were selected for further data refinement using Dun & Bradstreet (D&B) data. They were selected based on the registered addresses and employee count estimates from RMS. We chose all employers with more than 500 estimated employees with registered addresses in Cincinnati, Columbus or Cleveland, plus employers in other cities with estimated employee count > 1,000. 99 employers were selected this way.
- The Dun & Bradstreet (D&B) data contains employer branch locations. D&B's global commercial database contains more than 140 million business records that have been validated and kept up-to-date using sophisticated tools. For each of the top employers, their business records in Ohio were pulled from D&B database, which are shown on the "details" tab. Sometimes, D&B has office locations with no employee information, and that is because D&B only populates employee count if its sources provide that information.
- We examined the detailed records from D&B for the top employers and compared their employee counts with RMS estimated employee counts. We used our knowledge of each company to determine whether D&B employee counts or RMS employee count should be used for that company. The results are shown on the "summary" tab. The highlighted employee counts are the ones to be used in our analysis. Please provide your comments to the right, as you see fit.
- We are working on getting better employee locations for areas around Perry and Davis-Besse to estimate the loss potential for a nuclear event.
- We plan to do our terrorism analyses based on this first stage of location disaggregation. We recognize that the RMS employee estimates need improvement, and the D&B database refinement has its shortcomings. We can continue to improve the data over time, but in the interest of time, we believe this provide a good first step in disaggregating the employees, and would like to have your approval to proceed.

Exhibit 3B: Summary of top private employers by estimated employee count

Data from OHBWC								EE count from RMS Model	Data from Dun & Bradstreet (D&B)	
Policy	Company Name	Address	ZIP	CITY	ST	Premium	Payroll	Employee Count (RMS)	Employee Count (D&B)	Location Count (D&B)
292807	STATE FARM MUTUAL AUTOMOBILE INS CO	1440 GRANVILLE RD	43055	NEWARK	OH	265,348	117,801,130	2,881	3,132	25
1155559	SEQUENT INC	4700 LAKEHURST CT STE 200	43016	DUBLIN	OH	926,531	131,906,177	2,840	90	3
83515	ERNST & YOUNG	925 EUCLID AVE	44115	CLEVELAND	OH	60,789	126,891,081	2,493	746	8
87404	COMPASS GROUP USA, INC.	10500 CHESTER RD	45215	CINCINNATI	OH	1,501,396	46,121,389	2,345	125	20
1084333	GROUP MANAGEMENT SERVICES	3296 COLUMBIA RD STE 101	44286	RICHFIELD	OH	1,908,890	90,318,372	2,308	34	3
1374602	ARCELORMITTAL CLEVELAND INC	360 EGGERS AVE	44105		OH	3,342,182	124,896,289	2,252	60	2
200151	DELOTTE LLP	250 E 5TH ST STE 1900	45202	CINCINNATI	OH	56,213	119,014,066	2,210	151	2
204478	HEWLETT PACKARD CO CORP	15885 W SPRAGUE RD	44136	STRONGSVILLE	OH	242,654	111,898,423	2,198		
656938	OHIO STATE UNIVERSITY PHYSICIANS INC	700 ACKERMAN RD STE 630	43202	COLUMBUS	OH	240,980	100,408,529	1,978	30	1
156686	UBS FINANCIAL SERVICES INC	1000 HARBOR BLVD FL 10TH	07087		NJ	195,185	142,367,025	1,910	737	25
1455095	ASTAR AIR CARGO INC	1200 BRICKELL AVE FL 16	33131	MIAMI	FL	583,729	91,208,485	1,709	923	3
109978	GRANGE MUT CASUALTY CO	671 S HIGH ST	43206	COLUMBUS	OH	162,247	77,777,443	1,539	1,207	25
1424847	LUCENT TECHNOLOGIES INC	3400 W PLANO PKWY	75075	PLANO	TX	125,995	95,489,376	1,495		
1114668	O'CHARLEY'S INC	500 WILSON PIKE CIR STE 34	37027	BRENTWOOD	TN	607,236	21,381,544	1,494		21
14310	BOARD OF TRUSTEES OF OBERLIN COLLEGE	173 W LORAIN ST	44074	OBERLIN	OH	464,012	55,717,193	1,452	1,339	15
1146412	CLEAR CHANNEL BROADCASTING, INC.	1906 HIGHLAND AVE	45219	CINCINNATI	OH	286,229	75,288,742	1,398	40	1
13899	HOLZER CLINIC INC	90 JACKSON PIKE	45631	GALLIPOLIS	OH	262,088	58,241,854	1,378	1,571	10
86885	THE MUSICAL ARTS ASSOC	11001 EUCLID AVE	44106	CLEVELAND	OH	129,941	21,889,327	1,372	190	1
1169409	NETJETS SERVICES INC	PO BOX 369099	43236		OH	96,789	69,134,706	1,362	200	1
1370125	BEHR DAYTON THERMAL PRODUCTS LLC	1600 WEBSTER ST	45404	DAYTON	OH	6,209,773	67,037,745	1,328	20	1
26303	PARK NATIONAL BANK	PO BOX 3500	43058		OH	113,941	54,043,901	1,317	532	36
1018825	ACCENTURE LLP	180 N LA SALLE ST	60601	CHICAGO	IL	138,209	82,450,890	1,309	800	5
803058	BAE SYSTEMS SURVIVABILITY SYSTEMS LLC	9113 LE SAINT DR	45014	FAIRFIELD	OH	980,250	37,881,677	1,308	250	1
790337	CHECKFREE SERVICES CORPORATION	4411 E JONES BRIDGE RD	30092	NORCROSS	GA	83,453	63,438,690	1,304	1,000	1

Highlight indicates employee count selected for analysis

Exhibit 3C: Top 20 employee concentrations within a radius of ¼ mile

Rank	Latitude	Longitude	City	ZIP	EECount	PA	PEC	PES
1.	39.9632	-83.0003	Columbus	43215	43,436	7,240	9,904	26,292
2.	41.5011	-81.6870	Cleveland	44114	29,494	12,548	16,945	-
3.	39.7600	-84.1957	Dayton	45402	17,643	6,343	11,300	-
4.	39.1015	-84.5127	Cincinnati	45202	17,005	16,530	475	-
5.	40.0074	-83.0133	Columbus	43210	16,225	226	-	15,999
6.	39.9964	-83.0052	Columbus	43201	14,748	593	10	14,145
7.	39.9615	-82.9909	Columbus	43215	13,911	4,098	9,017	796
8.	41.5020	-81.6965	Cleveland	44193	13,425	4,986	8,439	-
9.	41.6529	-83.5366	Toledo	43604	12,529	4,342	8,182	5
10.	39.9695	-83.0050	Columbus	43215	11,311	5,850	7	5,453
11.	41.0830	-81.5157	Akron	44308	10,936	3,723	7,213	-
12.	39.9515	-83.0002	Columbus	43215	9,109	3,341	5,700	68
13.	39.1087	-84.5117	Cincinnati	45202	8,861	3,871	4,990	-
14.	39.1293	-84.5180	Cincinnati	45219	8,417	307	-	8,111
15.	41.0996	-80.6503	Youngstown	44503	7,751	2,978	4,773	-
16.	39.3287	-82.1106	Athens	45701	7,359	1,164	-	6,194
17.	41.1508	-81.3597	Kent	44240	6,959	480	319	6,160
18.	39.5037	-84.7459	Oxford	45056	6,450	240	386	5,824
19.	39.9712	-83.0283	Columbus	43212	6,349	821	-	5,528
20.	39.3999	-84.5598	Hamilton	45011	6,319	1,394	4,924	-

Exhibit 3D: RMS Terrorism Targets in Columbus (4 named targets, 29 CBD targets)

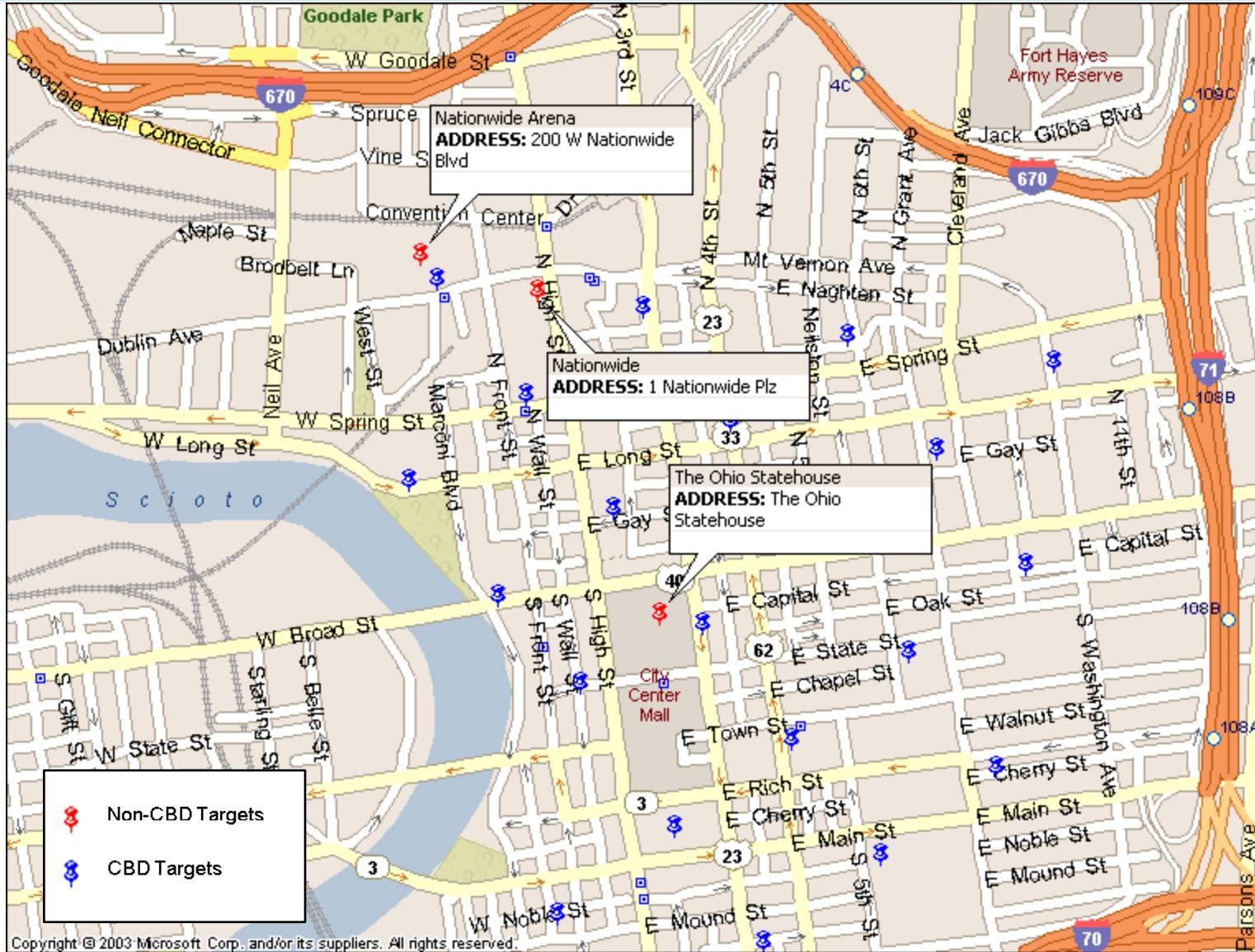


Exhibit 3E: RMS Terrorism Targets in Cleveland (51 named targets, 23 CBD targets)

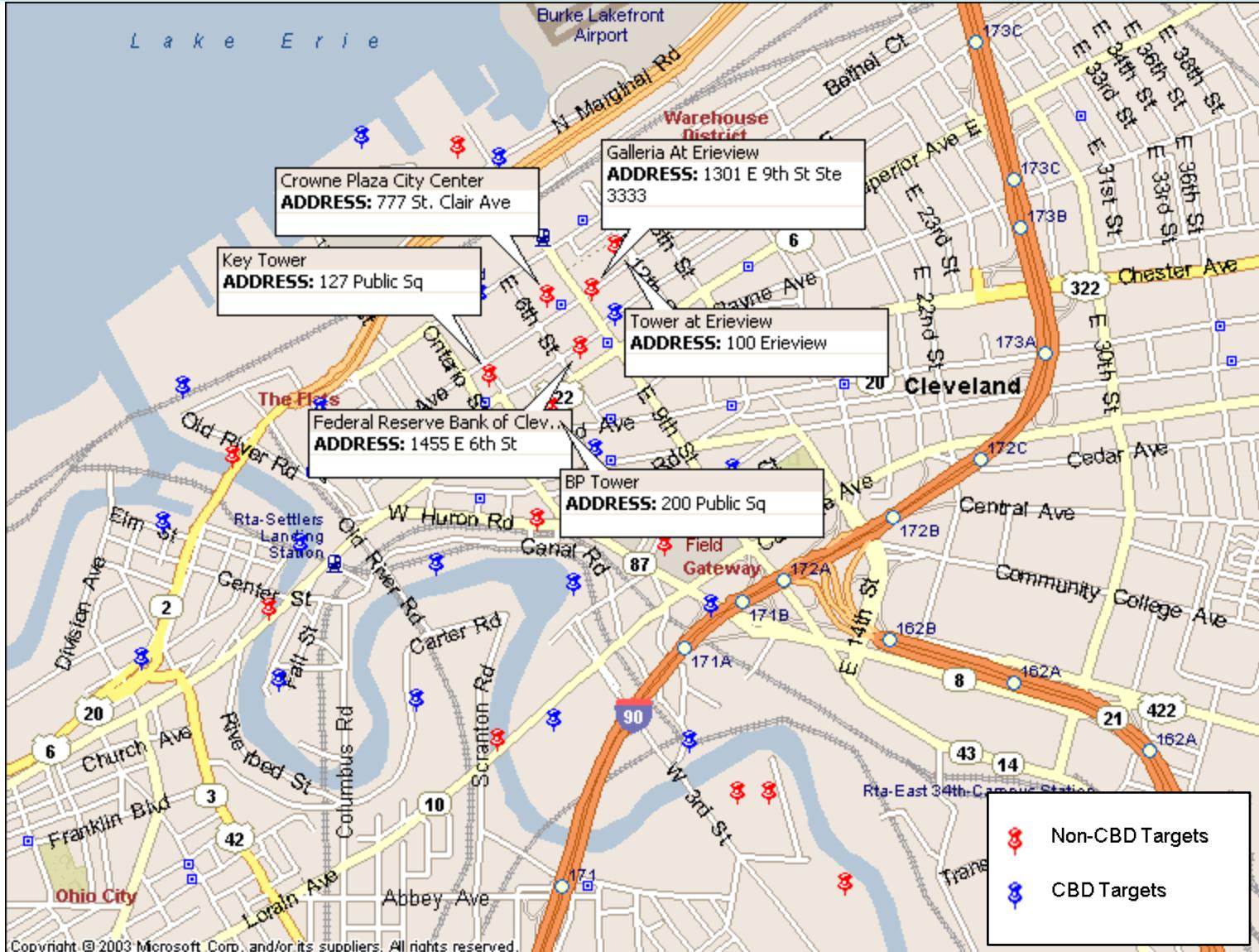


Exhibit 3F: RMS Terrorism Targets in Cincinnati (7 named targets, 23 CBD targets)

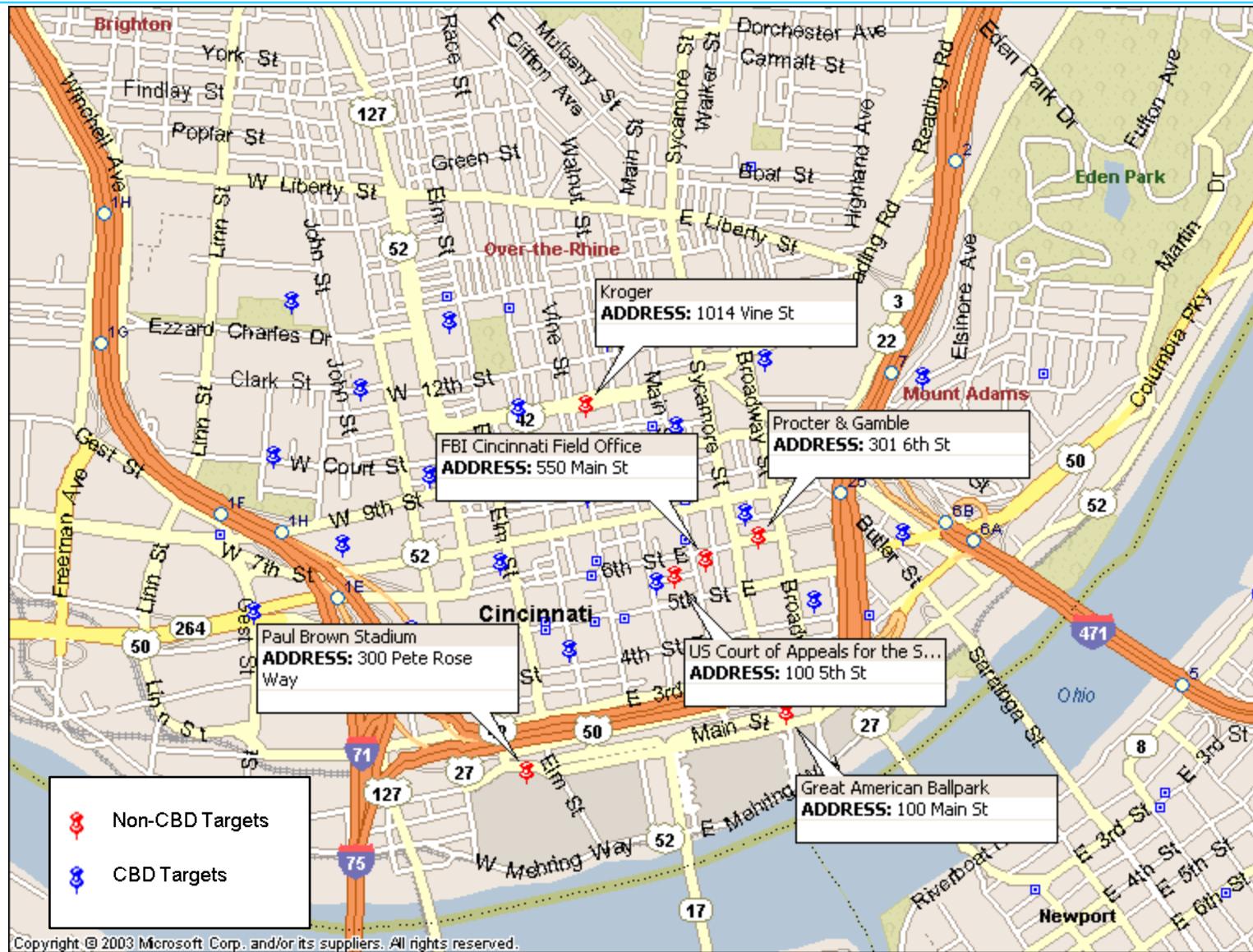


Exhibit 3G: Top 20 employee concentrations within ¼ mile of 65 RMS named targets in Ohio

Target Name	Address	City	EE Count	PA	PEC	PES
1. The Ohio Statehouse	The Ohio Statehouse	Columbus	31,518	8,006	-	23,512
2. Galleria At Erieview	1301 E 9th St Ste 3333	Cleveland	27,466	9,900	17,566	-
3. Crowne Plaza City Center	777 St. Clair Ave	Cleveland	26,617	9,029	17,588	-
4. Key Tower	127 Public Sq	Cleveland	23,849	6,299	17,550	-
5. Federal Reserve Bank of Cleveland	1455 E 6th St	Cleveland	21,089	11,940	9,149	-
6. BP Tower	200 Public Sq	Cleveland	19,376	10,265	9,111	-
7. FBI Cincinnati Field Office	550 Main St	Cincinnati	15,033	15,033	-	-
8. US Court of Appeals for the Sixth Circuit	100 5th St	Cincinnati	14,915	14,915	-	-
9. Nationwide Arena	200 W Nationwide Blvd	Columbus	10,914	5,453	7	5,453
10. Nationwide	1 Nationwide Plz	Columbus	10,435	5,079	7	5,348
11. Kroger	1014 Vine St	Cincinnati	9,994	4,571	5,423	-
12. Renaissance Cleveland Hotel	24 Public Square	Cleveland	9,706	8,674	645	387
13. Terminal Tower	50 Public Sq	Cleveland	9,063	8,031	645	387
14. Tower at Erieview	100 Erieview	Cleveland	8,245	8,207	38	-
15. Procter & Gamble	301 6th St	Cincinnati	6,900	6,900	-	-
16. Tower City-Public Square Station	Canal Rd	Cleveland	4,883	4,883	-	-
17. Great American Ballpark	100 Main St	Cincinnati	3,341	3,341	-	-
18. Gund Arena	1 Center Ct	Cleveland	3,326	3,326	-	-
19. Paul Brown Stadium	300 Pete Rose Way	Cincinnati	3,289	3,289	-	-
20. Jacobs Field	2401 Ontario St	Cleveland	1,251	1,251	-	-

Exhibit 3H: Employees within 1/4 mile of the Federal Reserve Bank in Cleveland Total employee count = 21,089

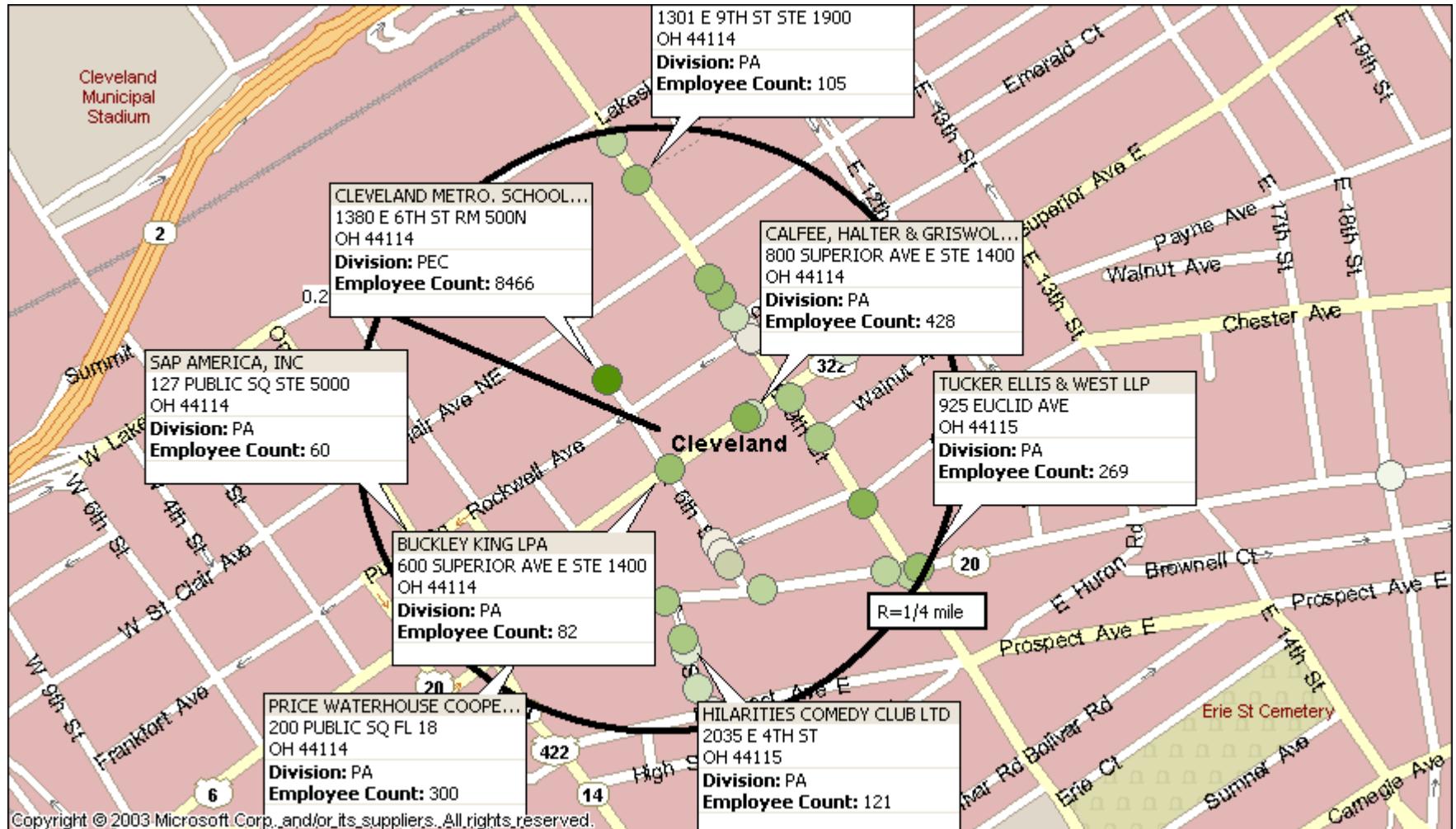


Exhibit 3I: Largest event loss estimate by attack method on RMS targets

Target Name	Attack Method	City	State	Loss	Casualties
Columbus CBD (1)	Nuclear Bomb - Large	Columbus	OH	25,984,147,600	76,556
Columbus CBD (1)	Biological - Anthrax - Large	Columbus	OH	18,683,424,300	139,047
Columbus CBD (19)	Nuclear Bomb - Small	Columbus	OH	15,467,237,900	48,466
Columbus CBD (1)	Biological - Anthrax - Medium	Columbus	OH	9,329,903,310	77,941
Columbus CBD (12)	Biological - Anthrax – Small (N)	Columbus	OH	6,083,711,010	64,005
The Ohio Statehouse	Bomb - 10 Ton	Columbus	OH	2,512,158,420	20,827
The Ohio Statehouse	Bomb - 5 Ton	Columbus	OH	2,020,396,660	18,641
Columbus CBD (19)	Chemical - Sarin Gas - Large	Columbus	OH	1,839,113,670	31,566
Perry	Sabotage - Nuclear Plant (S)	Perry	OH	1,592,467,350	17,473
Columbus CBD (507)	Bomb - 2 Ton	Columbus	OH	1,464,385,890	13,329
Columbus CBD (507)	Bomb - 1 Ton	Columbus	OH	1,061,184,170	11,367
Columbus CBD (18)	Chemical - Sarin Gas - Medium	Columbus	OH	930,553,561	23,706
Columbus CBD (507)	Conflagration	Columbus	OH	473,626,785	1,756
Vitex Corp	Sabotage - Industrial - Toxic Rel	Cleveland	OH	390,017,552	757
Columbus CBD (507)	Bomb - 600 lb.	Columbus	OH	376,414,365	6,839
Chicago Hazmat (1)	Sabotage - Hazmat Transportation	Chicago	IL	212,771,380	1,180
Key Tower	Aircraft Impact	Cleveland	OH	210,675,558	3,447

888 events with losses > \$200 million

Exhibit 3J: Perry nuclear sabotage scenario (west) loss estimate = \$1.5 billion

Policy Name	Address	City	ZIP	Div	Loss	EE Count	Casualties
CLEVELAND METRO SCH DIST	1380 E 6TH ST RM 500N	Cleveland	44114	PEC	40,505,072	8,466	453
CUYAHOGA COUNTY COMMISSIONER	1255 EUCLID AVE STE 310A	Cleveland	44115	PEC	40,386,259	8,441	452
CLEVELAND	601 LAKESIDE AVE E RM 28	Cleveland	44114	PEC	40,270,872	8,417	450
MENTOR EXEMPTED LOCAL SCH DIST	6451 CENTER ST	Mentor	44060	PEC	18,318,687	1,487	205
WILLOUGHBY EASTLAKE SCHOOLS	37047 RIDGE RD	Willoughby	44094	PEC	14,503,678	1,339	162
PAINESVILLE CITY SCHOOLS	58 JEFFERSON ST	Painesville	44077	PEC	12,925,844	562	145
TT ELECTRONICS INTEGRATED MFG	3700 LANE RD EXT	Perry	44081	PA	12,650,760	220	99
CLEVELAND STATE UNIVERSITY	1983 E 24TH ST # FT201	Cleveland	44115	PES	12,075,323	2,524	135
FLIGHT OPTIONS LLC	26180 CURTISS WRIGHT PKWY	Cleveland	44143	PA	8,738,033	1,060	98
MENTOR	8500 CIVIC CTR BLVD		44060	PEC	8,170,002	663	91
EUCLID CITY SCHOOLS	651 E 222ND ST	Euclid	44123	PEC	7,674,301	923	86
PARMA SCHOOLS	5311 LONGWOOD AVE	Cleveland	44134	PEC	5,629,817	1,710	63
LAKELAND COMMUNITY COLLEGE	7700 CLOCKTOWER DR	Willoughby	44094	PEC	5,266,692	906	59
ARCELORMITTAL CLEVELAND INC	3100 E 4th St	Cleveland	44127	PA	5,260,123	1,126	59
ARCELORMITTAL CLEVELAND INC	3060 EGGERS AVE	Cleveland	44105	PA	5,260,123	1,126	59
P.E.T. PROCESSORS LLC	1350 BACON RD	Painesville	44077	PA	4,768,260	110	48
WISECO PISTON COMPANY INC	7201 INDUSTRIAL PARK BLVD	Mentor	44060	PA	4,691,188	325	52
CITY OF EUCLID	585 E 222ND ST	Euclid	44123	PEC	4,182,761	503	47
OMNICARE ESC LLC	8909 EAST AVE	Mentor	44060	PA	4,154,324	358	46
CITY OF WILLOUGHBY	1 PUBLIC SQ	Willoughby	44094	PEC	4,081,756	377	46
Subtotal					259,513,876	40,643	2,854
Total					1,464,876,129	319,512	16,309

Exhibit 3K: Galleria at Erieview, Cleveland, 44114
 5-ton bomb scenario - loss estimate = \$722 million

Policy Name	Address	Division	Loss	EE Count	Casualties
CLEVELAND METROPOLITAN SCHOOL DISTRICT	1380 E 6TH ST RM 500N	PEC	219,016,469	8,466	3,122
FIDELITY NATIONAL MANAGEMENT SVCS INC	1360 E 9TH ST STE 500	PA	54,250,913	274	217
JAMES B OSWALD CO	1360 E 9TH ST STE 600	PA	44,272,250	224	177
IMG WORLDWIDE INC	1360 E 9TH ST STE 100	PA	37,414,265	189	149
CLEVELAND RESEARCH COMPANY LLC	1375 E 9TH ST STE 600	PA	34,870,104	180	141
PR NEWSWIRE ASSOCIATION INC	1375 E 9TH ST STE 3100	PA	27,262,560	141	111
CLEVELAND	601 LAKESIDE AVE E RM 28	PEC	21,772,693	8,417	969
CGI INFORMATION TECHNOLOGY SERVICES INC	1301 E 9TH ST STE 3000	PA	19,250,447	359	197
MCKINSEY & COMPANY INC	1301 E 9TH ST STE 2400	PA	15,353,711	286	157
MAI WEALTH ADVISORS	1360 E 9TH ST STE 100	PA	10,718,601	54	43
DOLLAR BANK F S B CONTINENTAL DIVISION	1301 E 9TH ST	PA	10,229,129	191	104
MIDWEST RESEARCH CORPORATION	1301 E 9TH ST	PA	9,765,702	182	100
CALFEE, HALTER & GRISWOLD LLP	800 SUPERIOR AVE E STE 1400	PA	8,772,282	428	136
SUN LIFE ASSU CO CANADA	1375 E 9TH ST	PA	8,481,853	44	34
CLEVELAND CUYAHOGA CO PORT AUT	1375 E 9TH ST STE 2300	PEC	7,381,068	38	30
PROJECT & CONSTRUCTION SERVICES	1360 E 9TH ST STE 910	PA	7,294,067	38	29
FARRELLY BUILDING SERVICES INC	1375 E 9TH ST	PA	6,952,194	38	28
LAWRENCE J ROACH	1375 E 9TH ST	PA	6,865,167	35	28
AECOM TECHNOLOGY CORPORATION	1300 E 9TH ST STE 1215	PA	5,836,145	97	54
HWH ARCHITECTS ENGINEERS PLANNERS INC	1300 E 9TH ST STE 900	PA	5,755,438	95	53
Subtotal			561,515,059	19,775	5,879
Total			721,690,528	59,031	9,315

Exhibit 3L: Columbus Central Business District 12 anthrax small outdoors scenario (south), loss estimate = \$354 million

Policy Name	Address	ZIP	Division	Losses	EE Count	Casualties
GRANGE MUT CASUALTY CO	650 S FRONT ST	43206	PA	82,976,362	1,084	760
DEPARTMENT OF REHABILITATION/CORRECTION	1990 HARMON AVE	43223	PES	9,440,649	274	118
OHIO EQUITIES LLC	605 S FRONT ST STE 200	43215	PA	8,965,386	124	82
INSIGHT DIRECT USA INC	375 S FRONT ST	43215	PA	7,497,460	98	69
COVANSYS CORPORATION	111 LIBERTY ST	43215	PA	6,992,928	91	64
TITLE FIRST AGENCY,INC.	555 S FRONT ST STE 400	43215	PA	6,179,581	81	57
RED ROOF INNS INC	605 S FRONT ST	43215	PA	5,997,316	101	55
FITCH INC	585 S FRONT ST # 50	43215	PA	5,574,368	73	51
ANDERSON CONCRETE CORP	400 FRANK RD # 398	43207	PA	5,238,422	156	65
GRANGE MUT CASUALTY CO	650 S FRONT ST	43206	PA	5,076,201	66	46
NAVIGATOR MANAGEMENT PARTNERS LLC	450 S FRONT ST	43215	PA	4,684,642	61	43
OHIO EQUITIES LLC	605 S FRONT ST STE 200	43215	PA	4,632,982	61	42
FITCH INC	585 S FRONT ST # 50	43215	PA	4,369,700	57	40
INSIGHT DIRECT USA INC	375 S FRONT ST	43215	PA	4,243,002	55	39
HANSON PIPE & PRODUCTS OHIO INC	1500 HAUL RD	43207	PA	4,233,410	82	45
RADIOHIO INCORP	605 S FRONT ST STE 300	43215	PA	3,749,975	49	34
TUITION TRUST AUTHORITY	580 S HIGH ST STE 208	43215	PES	3,510,162	46	32
WORLY PLUMBING SUPPLY INC	400 GREENLAWN AVE	43223	PA	3,412,529	45	31
RADIOHIO INCORP	605 S FRONT ST STE 300	43215	PA	3,360,297	44	31
HIRSCHVOGEL INCORPORATED	2230 S 3RD ST	43207	PA	3,246,635	93	40
Subtotal				183,382,006	2,741	1,743
Total				353,582,248	6,349	3,549

Exhibit 3M: WC following EQ event loss maximum loss by magnitude (mag > = 5.0)

Event ID	Rate	Magnitude	Loss
2084977	0.0000000019	7.70	2,839,928,706
2084978	0.0000000041	7.60	2,489,321,520
2085074	0.0000001092	7.40	2,037,071,025
2076977	0.0000000040	7.20	24,465,614,294
2073260	0.0000000175	7.10	8,996,049,750
2076978	0.0000000856	7.00	21,221,879,277
2073176	0.0000012269	6.90	15,697,272,983
2076979	0.0000005484	6.60	13,709,938,234
2073269	0.0000011428	6.50	3,777,501,450
2073177	0.0000041130	6.40	7,037,390,110
2076980	0.0000013360	6.10	5,068,654,661
2073270	0.0000027248	6.00	1,348,053,429
2072212	0.0000038080	5.90	1,714,570,893
2072815	0.0000102962	5.60	794,757,789
2077178	0.0000037911	5.50	156,897,501
2072213	0.0000095225	5.40	131,256,678
2072816	0.0000128699	5.20	97,200,570
2072214	0.0000032758	5.10	27,522,713
2073230	0.0000023237	5.00	13,093,659

There are over 1,000 events that generate losses for this portfolio.

Marketing List

Reinsurer	Underwriter	AM Best	S&P	Policyholder Surplus (\$000)
ACE Tempest Re Bermuda	Paula Lewin	A+	A+	4,475,055
Allied World Assurance	Tracy Gibbons	A	A-	2,886,999
Arch Re	Tom Devine	A	A	813,464
Axis Specialty	Gui James	A	A+	3,783,780
Catlin (Ber)	Paul Shadden	A	A-	2,401,692
Endurance (Ber)	Chris Schaper	A	A	2,631,321
Flagstone Re	Bill Reichert (IOA Re)	A-		1,264,412
Hannover Re (Bermuda)	Daniel Duesterhaus	A	AA-	1,312,135
Harbor Point	Bill Pentony	A	A-	520,480
London markets	Keith Harrison - Claytons	A	A+	
Montpelier Re	Paul Larrett	A-	A-	1,435,690
Munich Re America	Michelle Glass	A+	AA-	3,504,505
Odyssey America	Mary Coca	A	A-	3,163,076
Paris Re	Saartaz Mokaddam	A-	A-	876,298
Partner Re Ltd.	Cathy Lombardi	A+	AA-	2,911,196
Partner Re	Giusseppe Ruggieri	A+	AA-	648,592
Platinum Underwriters	Chris Capinegro	A		556,935
Renaissance Re	Bianca Dyer	A+	AA-	1,639,728
Swiss Re	Paul Japp	A	A+	4,442,384
Tokio Millenium	Peter Mills	A+	AA	1,054,014
Transatlantic Re	Eric Hoppe	A	A+	3,606,819
White Mountains	Alan Maude	A-	A-	589,594
Wind River Re	Troy Santora	A		691,008
Validus Re	Jeff Clements	A-		1,779,324

Draft Reinsurance Placement Timeline

Note	Action	2009		2010	
		November	December	January	February
A	Meeting with BWC to discuss cat modeling results, reinsurance alternatives, finalize contract wording and underwriting submission, marketing strategy, and identify markets	■ November 4			
B	Underwriting submission and contracts to reinsurers	■ November 10			
C	Reinsurer phone-in Q&A day	■ November 19/20			
D	Obtain market quotes	■ November 25			
E	Meet with BWC to discuss quotes and finalize reinsurance purchasing decision ("firm order" to market)		■ Week of November 30		
F	Reinsurer decisions and authorizations		■ Week of December 7		
G	Sign lines and deliver contracts to BWC		■ December 15		
H	Contracts signed by all parties			■ December 23	
I	Post – renewal meeting with BWC				■ Week of January 11 or 18

OBWC Board of Directors Audit Committee Charter

Purpose

The Audit Committee has been established to assist the Board of Directors of the Ohio Bureau of Workers' Compensation in fulfilling its fiduciary oversight responsibilities through:

- providing oversight of the integrity of financial reporting process;
- ensuring compliance with legal and regulatory requirements;
- monitoring the design and effectiveness of the system of internal control;
- confirming external auditor's qualifications and independence
- reviewing performance of the internal audit function and independent auditors.

In order to constitute the will of the Board of Directors, Committee actions must be ratified or adopted by the Board of Directors to become effective.

Membership

The Committee shall be composed of a minimum of five (5) members. One member shall be the member of the Board who is a certified public accountant. The Board, by majority vote, shall appoint at least four additional members of the Board to serve on the Audit Committee and may appoint additional members, who are not Board members, as the Board determines necessary. Bureau management personnel cannot serve as a committee member.

The Chair and Vice Chair are designated by the Board, based on the recommendation of the Board Chair. If the Board Chair is not a member of the Committee, he/she shall be an ex-officio member. As an ex-officio member, he/she shall not vote if his/her vote will create a tie vote.

The Committee Chair will be responsible for scheduling all meetings of the Committee and providing the Committee with a written agenda for each meeting. In the absence of the Committee Chair, the Committee Vice-Chair will assume the Chair's responsibilities. The Committee will have a staff liaison designated to assist it in carrying out its duties.

Members of the Audit Committee serve at the pleasure of the Board, and the Board, by majority vote, may remove any member except the member of the committee who is the certified public accountant member of the Board.

Meetings

The Committee shall meet at least nine (9) times annually. The Committee chair will provide a meeting report at the next subsequent Board meeting. Additional meetings may be requested by the Committee Chair, 2 or more members of the Committee, or the Chair of the Board.

A quorum shall consist of a majority of Committee members. Committee meetings will be conducted according to Robert's Rules of Order. All Directors are encouraged to attend the Committee meetings.

The Committee will invite members of management, external auditors, internal auditors and/or others to attend meetings and provide pertinent information as necessary.

Minutes for all meetings of the Committee will be prepared to document all actions of the Committee in the discharge of its responsibilities.

Duties and responsibilities

1. The Audit Committee shall be responsible for the following statutory requirements:

- Recommend to the Board an accounting firm to perform the annual audit required under RC 4123.47. (RC 4121.129 (A)(1))
- Recommend an auditing firm for the Board to use when conducting audits under RC 4121.125. (RC 4121.129 (A)(2))
- Review results of each annual audit and management review; if problems exist, assess appropriate course of action to correct, and develop action plan. (RC 4121.129 (A)(3))
- Monitor implementation of any action plans created to correct problems noted in each annual audit. (RC 4121.129 (A)(4))
- Review management's biennial appropriation requests and recommend approval to the Board. (RC 4121.121 (B)(10)).
- Review and recommend to the Board the proposed annual fiscal year Administrative Cost budget prepared by management. Also, advise the Board of any adjustments made to the proposed budget. (RC 4121.121 (B)(10)).
- Review all internal audit reports as summarized in the Quarterly Executive Summary document on a regular basis. (RC 4121.129(A)(5))
- At least once every 10 years, have an independent auditor conduct a fiduciary performance audit of BWC's investment program, policies and procedures. Provide a copy of audit to the Auditor of State. (RC 4121.125(I))

- Provide input to the Board when the Administrator seeks the advice and consent of the Board on the appointment and/or removal of the Chief of Internal Audit. (RC 4121.125 (J))
2. Oversight of the integrity of the financial information reporting process:
 - a. Review with management and the external auditor significant financial reporting issues and judgments made in connection with the preparation of the financial statements.
 - b. Review with management and the external auditor the results of the audit.
 3. Serve as the primary liaison for Bureau of Workers' Compensation Board of Directors and provide a forum for handling all matters related to audits, examinations, investigations or inquiries of the Auditor of State and other appropriate State or Federal agencies.
 4. Develop an oversight process to assess the adequacy and effectiveness of internal controls and provide the mechanisms for periodic assessment of system of internal controls on an ongoing basis.
 5. Oversee the assessment of internal administrative and accounting controls by both the external independent financial statement auditor and internal auditor.
 6. Ensure the independence of the external auditor and approve all auditing, other attestations services and pre-approve non-audit services performed by the external auditor.
 7. Review the internal financial statements upon the request of a committee member or BWC staff.
 8. Receive and review reports from management regarding the status of appropriations bills.
 9. At least annually, meet with General Counsel and Chief of Internal Audit to review BWC Code of Ethics to ensure that it is adequate and up-to-date. Report on review and recommended changes, if necessary, to the Board.
 10. Retain and oversee consultants, experts, independent counsel, and accountants to advise the Committee on any of its responsibilities.
 11. Seek any information it requires from employees—all of whom are directed to cooperate with the Committee's requests, or the requests of internal or external parties working for the Committee. These parties include, but are not limited to internal auditors, all external auditors, consultants, investigators and any other specialists working for the Committee.
 12. Coordinate with the other Board Committees on items of common interest, especially discussions and decisions concerning the net asset policy and the annual review of guidelines for a funding ratio and a net leverage ratio.
 13. At least annually, review the Audit Committee charter and submit any proposed changes to the Governance Committee and to the Board for approval.
 14. The Committee by majority vote may create a subcommittee consisting of one or more Directors on the Committee. In consultation with the chair, other board members may be appointed to the subcommittee as appropriate. The subcommittee shall have a specific purpose. Each

subcommittee shall keep minutes of its meetings. The subcommittee shall report to the Committee. The Committee by majority vote may dissolve the subcommittee at any time.

15. Perform such other duties required by law or otherwise as are necessary or appropriate to further the Committee's purposes, or as the Board may from time to time assign to the Committee.

Audit Committee Charter.doc
Draft 092607
Review & Approved 112107, Ken Haffey, Chair
Revised 012408
Revised 012508
Revised 092408
Annual Review and Revision 112108
Annual Review and Revision 112009

12-Month Audit Committee Calendar

Date	November 2009	Notes
11/19/2009	1. Annual Financials MD&A Review 2. Approve Committee Charter Changes (2 nd read) 3. Reinsurance Education session	
Date	December 2009	
12/16/2009	1. Enterprise Report Review 2. Internal Audit QES Review	
Date	January 2010	
1/21/2010	1. Enterprise Report Review 2. Quarterly Litigation Update	
Date	February 2010	
2/25/2010	1. Annual Disaster Recovery/Business Continuity Plan	
Date	March 2010	
3/25/2010	1. Inspector General Annual Report 2. Internal Audit QES Review	
Date	April 2010	
4/29/2010	1. Discussion of External Audit 2. Quarterly Litigation Update	
May 2010		
5/27/2010	1. FY 2011 Administrative Budget (1 st Reading)	
June 2010		
6/17/2010	1. FY 2011 Financial Projections (1 st Reading) 2. FY 2011 Administrative Budget (2 nd Reading) 3. FY 2011 Audit Plan 4. Internal Audit QES Review 5. External Audit Update	
July 2010		
7/29/2010	1. External Audit Update 2. Quarterly Litigation Update	
August 2010		
8/26/2010		

12-Month Audit Committee Calendar

	September 2010	Notes
9/23/2010		
Date	October 2010	
10/21/2010		

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

Financial Statements
and
Supplementary Financial Information
For the years ended June 30, 2009 and 2008

And Independent Auditors' Report Thereon

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's discussion and analysis of the Ohio Bureau of Workers' Compensation's (BWC's) and the Industrial Commission of Ohio's (IC's) financial performance for fiscal years ended June 30, 2009, 2008, and 2007. BWC and IC are collectively referred to as BWC/IC. This information is based on BWC/IC's financial statements, which begin on Page 8.

Financial highlights

- BWC/IC's total assets at June 30, 2009 were \$22.4 billion, an increase of \$38 million or 0.2 percent compared to June 30, 2008.
- BWC/IC's total liabilities at June 30, 2009 were \$19.9 billion, an increase of \$26 million or 0.1 percent compared to June 30, 2008.
- BWC/IC's operating revenues for fiscal year 2009 were \$2.4 billion, an increase of \$217 million or 10.1 percent compared to fiscal year 2008.
- BWC/IC's operating expenses for fiscal year 2009 were \$2.2 billion, a decrease of \$516 million or 19.2 percent from fiscal year 2008.
- BWC/IC's total net assets increased by \$12 million in fiscal year 2009, compared to a \$198 million increase in fiscal year 2008.

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 Assets - This statement presents information reflecting BWC/IC's assets, liabilities and net assets. Net assets represent the amount of total assets less total liabilities. The statement is categorized by current and noncurrent assets and liabilities. For the purpose of the accompanying financial statements, current assets and liabilities are generally defined as those assets and liabilities with immediate liquidity or those that are collectible or will be due within 12 months of the statement date.
- Statement of Revenues, Expenses and Changes in Net Assets - This statement reflects the operating revenues and expenses, as well as non-operating revenues and expenses, for the fiscal year. Major sources of operating revenues are premium and assessment income. Major sources of operating expenses are workers' compensation benefits and compensation adjustment expenses. Revenues and expenses related to capital and investing activities are reflected in the non-operating component of this statement.
- Statement of Cash Flows - The statement of cash flows is presented using the direct method of reporting, which reflects cash flows from operating, noncapital financing, capital and related financing, and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash and cash equivalents for the fiscal year.
- Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of BWC/IC's financial position and results of operations presented in the financial statements.
- Supplemental Information - This section includes supplemental schedules presenting the statement of net assets and the statement of revenues, expenses and changes in net assets for the individual accounts administered by BWC/IC. This section also includes required supplemental information that presents 10 years of revenue and reserve development information.

Continued

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial analysis

Components of BWC/IC's Statements of Net Assets and Statements of Revenues, Expenses and Changes in Net Assets as of June 30, 2009, June 30, 2008, and June, 30, 2007, and for the years then ended were as follows (000's omitted):

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current assets	\$ 2,260,793	\$ 1,921,520	\$ 1,953,056
Noncurrent assets	<u>20,159,556</u>	<u>20,460,454</u>	<u>20,187,730</u>
Total assets	<u>\$22,420,349</u>	<u>\$22,381,974</u>	<u>\$22,140,786</u>
Current liabilities	\$ 2,791,337	\$ 2,625,578	\$ 2,697,850
Noncurrent liabilities	<u>17,113,670</u>	<u>17,253,107</u>	<u>17,137,390</u>
Total liabilities	<u>\$19,905,007</u>	<u>\$19,878,685</u>	<u>\$19,835,240</u>
Net assets invested in capital assets, net of related debt	\$ 24,058	\$ 18,368	\$ 5,179
Unrestricted net assets	<u>2,491,284</u>	<u>2,484,921</u>	<u>2,300,367</u>
Total net assets	<u>\$ 2,515,342</u>	<u>\$ 2,503,289</u>	<u>\$ 2,305,546</u>
Net premium and assessment income, including provision for uncollectibles	\$2,360,930	\$2,138,402	\$ 2,395,421
Assessment income due to statutory change	-	-	1,875,512
Other income	<u>17,197</u>	<u>22,247</u>	<u>17,703</u>
Total operating revenues	<u>\$2,378,127</u>	<u>\$2,160,649</u>	<u>\$ 4,288,636</u>
Workers' compensation benefits and compensation adjustment expenses	\$2,073,534	\$2,587,483	\$ 2,667,148
Other expenses	<u>92,536</u>	<u>94,364</u>	<u>100,527</u>
Total operating expenses	<u>\$2,166,070</u>	<u>\$2,681,847</u>	<u>\$ 2,767,675</u>
Operating transfers out	\$ (5,049)	\$ -	\$ -
Net investment income (loss)	(194,735)	719,160	911,430
Loss on disposal of capital assets	<u>(220)</u>	<u>(219)</u>	<u>(224)</u>
Increase in net assets	<u>\$ 12,053</u>	<u>\$ 197,743</u>	<u>\$ 2,432,167</u>

BWC/IC's total net assets increased by \$12 million during fiscal year 2009, compared to a \$198 million increase during fiscal year 2008.

- Net premium and assessment income exceeded workers' compensation benefits and compensation adjustment expenses by \$287 million in fiscal year 2009. In fiscal year 2008, workers' compensation benefits and compensation adjustment expenses exceeded net premium and assessment income by \$449 million.
- Workers' compensation benefits and compensation adjustment expenses were \$2.1 billion in fiscal year 2009, compared to \$2.6 billion in fiscal year 2008. This decrease is primarily attributable to continuing favorable improvements in medical payments, lump sum settlements, and loss development during the last 12 months. An offset to these decreases is an increase in liability due to the lowering of the discount rate from 5.0 percent to 4.5 percent.

Continued

**OHIO BUREAU OF WORKERS' COMPENSATION
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MANAGEMENT'S DISCUSSION AND ANALYSIS

- The favorable trends in medical payments resulted in a change to the medical inflation assumptions used in the fiscal year 2009 actuarial evaluation. Medical inflation is assumed to be 6.0 percent in the first year of development, increasing by 1.0 percent in each of the next two years, with a long-term inflation assumption of 9.0 percent. The fiscal year 2008 actuarial evaluation used a long term medical inflation assumption of 9.0 percent beginning in the first year of development. Medical reserves for claims occurring on or before June 30, 2008 declined by \$732 million in fiscal year 2009. In fiscal year 2008, the medical reserves for claims occurring on or before June 30, 2007 declined by \$701 million.
- In fiscal year 2009, BWC/IC recorded net investment losses of \$195 million, compared to net investment income of \$719 million in fiscal year 2008. The decline in net investment income was primarily attributable to a \$928 million decline in the fair value of the investment portfolio in fiscal year 2009.
- A total of 67 private equity partnerships have been sold by BWC/IC since June 2007 for total proceeds of \$400 million. All proceeds from the private equity sales were reinvested in the passively managed large-cap domestic equity portfolio. At June 30, 2009, there remains one private equity fund investment owned by BWC/IC, that is being liquidated via its own portfolio asset sales and resulting distributions to its investors. Cash distributions totaling \$13.1 million were received in fiscal year 2009 from the coin fund liquidation firm contracted by the State to oversee the liquidation of the remaining coin fund related assets.
- Ohio House Bill 100 passed in June 2007, granting BWC/IC the authority to assess employers in future periods for amounts needed to fund the Disabled Workers' Relief Fund (DWRF). BWC/IC recorded an unbilled receivable equal to DWRF's discounted reserve for compensation and compensation adjustment expenses in the statement of net assets. This statutory change resulted in premium and assessment income increasing by \$1.9 billion in fiscal year 2007.

As of June 30, 2009 and June 30, 2008, BWC/IC had debt in special obligation bonds of \$80.7 million and \$97.3 million, respectively. These bonds were issued in 2003, through the Ohio Building Authority (OBA) to refund the 1993 William Green Building Series A bonds. The bonds are collateralized by lease rental payments pledged by BWC/IC to OBA. These bonds were rated Aa3 by Moody's Investors Service, Inc.

Continued

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Conditions expected to affect financial position or results of operations

BWC/IC has identified four areas of focus for comprehensive improvements to the workers' compensation system:

- Provide stable costs to avoid unexpected financial hardship for employers;
- Develop better services to clearly demonstrate BWC/IC's value and enhance Ohio's quality of life;
- Establish accurate rates to fairly match rates with risks and to ensure proper distribution of costs among all employers; and
- Create safe workplaces by promoting safety awareness to prevent claims that cause loss.

Private employer base rates decreased an average of 12 percent for premiums effective July 1, 2009 preceded by a 5 percent premium rate decrease effective July 1, 2008. BWC/IC decreased public employer taxing district premiums by an average of 5 percent for the January 1, 2009 policy year. Premium rates for state agencies, universities, and university hospitals decreased by 10 percent effective July 1, 2008 followed by a 3.75 percent reduction for July 1, 2009.

The BWC Board of Directors approved a comprehensive rate reform plan to set rates more accurately and equitably. The maximum discount for group rated employers has been reduced to 77 percent and a 100 percent cap has been placed on increases to an employer's experience modifier to limit extreme premium swings for many employers. The deductible program and group retrospective plans are two new insurance options designed to lower out-of-pocket costs for employers and to improve safety for workers.

BWC/IC will continue to work with internal and external customers to create new, responsive rating plans that promote employer/employment growth in Ohio, including implementing a split-experience rating plan and the development of a properly priced group-rating structure.

Paid medical costs for workers' compensation claims were almost \$45 million, or 5.2 percent, lower than expected medical costs for fiscal year 2009. The reduced costs continue a positive trend by BWC/IC and other Ohio stakeholders to implement containment measures designed to curb increasing medical costs. Medical costs now account for approximately 50.3 percent of the total benefits for private employers and almost 58 percent for public taxing district employers, compared to approximately 48.7 percent for private employers and 50.6 percent for public taxing district employers for injuries occurring during 1997.

Injured worker access to high-quality medical care is accomplished by establishing appropriate benefit plans and terms of service with competitive fee schedules which, in turn, enhances the medical provider network. BWC/IC has begun to improve the medical, vocational rehabilitation and pharmaceutical benefits plans by revising the benefit plan and corresponding fee schedules. This includes instituting annual reviews, expanding prior authorization drug categories for those drugs not typically used to treat workers' compensation injuries, and limiting coverage of certain drugs to their FDA approved uses. Medical resources and research will be expanded through a partnership with The Ohio State University's College of Public Health.

The State Insurance Fund Investment Policy Statement (IPS) has been updated to provide further diversification within both fixed income and equity investments. The portfolio will remain passively managed and will be comprised of 70 percent fixed income and 30 percent equities. The IPS aims to reduce portfolio risk and lessen the impact of market volatility while ensuring there are sufficient assets to support the liabilities.

Continued

**OHIO BUREAU OF WORKERS' COMPENSATION
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MANAGEMENT'S DISCUSSION AND ANALYSIS

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 we will be successful in our defense. During fiscal year 2008, BWC/IC settled a lawsuit with the Ohio Hospital Association disputing fee schedules that were not adopted through the Ohio Revised Code Chapter 119 rules process. A total of \$63 million has been paid in settlement of this lawsuit with an approximately \$10 million liability accrued and remaining to be paid as of June 30, 2009.



INSIGHT • INNOVATION • EXPERIENCE

INDEPENDENT AUDITORS' REPORT

Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio
(A Department of the State of Ohio)
Columbus, Ohio

We have audited the accompanying statements of net assets of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio (BWC/IC), a department of the State of Ohio (State), as of June 30, 2009 and 2008 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the BWC/IC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of BWC/IC are intended to present the financial position and changes in financial position and cash flows of only that portion of the governmental activities, business-type activities, major funds and remaining fund information of the State that is attributable to the transactions of BWC/IC. They do not purport to, and do not, present fairly the financial position and changes in financial position and cash flows, where applicable, of the State in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material aspects, the financial position of the BWC/IC as of June 30, 2009 and 2008 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2009 on our consideration of the BWC/IC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of

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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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis and required supplemental revenue and reserve development information on Pages 1 through 5 and 30 through 31, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise BWC/IC's basic financial statements. The supplemental schedule of net assets and schedule of revenues, expenses, and changes in net assets included in Pages 32 through 34 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This supplemental information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Schneider, Downs & Co., Inc.

Columbus, Ohio
September 30, 2009

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

STATEMENTS OF NET ASSETS

June 30, 2009 and 2008

(000's omitted)

	ASSETS		LIABILITIES	
	2009	2008	2009	2008
Current assets:				
Cash and cash equivalents (Note 2)	\$ 504,313	\$ 378,078	\$ 1,823,493	\$ 1,892,226
Collateral on loaned securities (Note 2)	6,076	2,933	Reserve for compensation (Note 4)	
Premiums in course of collection	812,831	858,949	Reserve for compensation adjustment	
Assessments in course of collection	186,906	212,562	expenses (Note 4)	
Accounts receivable, net of allowance for uncollectibles of \$988,162 in 2009; \$882,730 in 2008	211,042	184,583	Warrants payable	
Investment trade receivables	346,239	81,315	Bonds payable (Notes 5 and 6)	
Accrued investment income	186,206	200,414	Investment trade payables	
Other current assets	7,180	2,686	Accounts payable	
Total current assets	<u>2,260,793</u>	<u>1,921,520</u>	Obligations under securities lending (Note 2)	
			Other current liabilities (Note 6)	
			Total current liabilities	
			<u>29,706</u>	<u>58,637</u>
			<u>2,791,337</u>	<u>2,625,578</u>
Noncurrent assets:				
Fixed maturities, at fair value (Note 2)	13,050,126	13,723,521	Noncurrent liabilities:	
Domestic equity securities:			Reserve for compensation (Note 4)	
Common stocks, at fair value (Note 2)	3,512,366	3,158,589	Reserve for compensation adjustment	
Preferred stocks, at fair value (Note 2)	3,841	5,794	expenses (Note 4)	
International securities, at fair value (Note 2)		78	Premium payment security deposits (Note 6)	
Investments in limited partnerships, at fair value (Note 2)	161	15,427	Bonds payable (Notes 5 and 6)	
Unbilled premiums receivable	3,205,975	3,157,579	Other noncurrent liabilities (Note 6)	
Retrospective premiums receivable	282,372	283,720	Total noncurrent liabilities	
Capital assets (Notes 3 and 5)	103,737	114,530	Total liabilities	
Restricted cash (Note 2)	978	1,216		
Total noncurrent assets	<u>20,159,556</u>	<u>20,460,454</u>	Commitments and contingencies (Note 9)	
Total assets	<u>\$ 22,420,349</u>	<u>\$ 22,381,974</u>		
NET ASSETS				
Invested in capital assets, net of related debt			24,058	18,368
Unrestricted net assets			<u>2,491,284</u>	<u>2,484,921</u>
Total net assets (Note 10)			<u>\$ 2,515,342</u>	<u>\$ 2,503,289</u>

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 ASSETS**

For the years ended June 30, 2009 and 2008

(000's omitted)

	2009	2008
Operating revenues:		
Premium income	\$ 1,896,525	\$ 1,851,763
Assessment income	573,025	383,329
Provision for uncollectibles	(108,620)	(96,690)
Other income	17,197	22,247
Total operating revenues	<u>2,378,127</u>	<u>2,160,649</u>
Operating expenses:		
Workers' compensation benefits (Note 4)	1,667,092	2,180,823
Compensation adjustment expenses (Note 4)	406,442	406,660
Personal services	44,284	50,564
Other administrative expenses	48,252	43,800
Total operating expenses	<u>2,166,070</u>	<u>2,681,847</u>
Net operating income (loss)	<u>212,057</u>	<u>(521,198)</u>
Non-operating (loss) revenues:		
Net investment (loss) income (Note 2)	(194,735)	719,160
Loss on disposal of capital assets	(220)	(219)
Total non-operating (loss) revenues	<u>(194,955)</u>	<u>718,941</u>
Net transfers out	<u>(5,049)</u>	<u>-</u>
Increase in net assets	12,053	197,743
Net assets, beginning of year	<u>2,503,289</u>	<u>2,305,546</u>
Net assets, end of year	<u>\$ 2,515,342</u>	<u>\$ 2,503,289</u>

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, 2009 and 2008

(000's omitted)

	2009	2008
Cash flows from operating activities:		
Cash receipts from premiums and assessments	\$ 2,510,392	\$ 2,538,165
Cash receipts - other	35,611	32,489
Cash disbursements for claims	(2,128,360)	(2,237,987)
Cash disbursements to employees for services	(246,428)	(244,568)
Cash disbursements for other operating expenses	(77,746)	(83,005)
Cash disbursements for employer refunds	(102,196)	(127,142)
Net cash used for operating activities	<u>(8,727)</u>	<u>(122,048)</u>
Cash flows from noncapital financing activities:		
Operating transfers in	3,289	3,179
Operating transfers out	(8,338)	(3,179)
Net cash used by noncapital financing activities	<u>(5,049)</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets, net of retirements	(2,013)	(9,401)
Principal and interest payments on bonds	(20,601)	(20,346)
Net cash used in capital and related financing activities	<u>(22,614)</u>	<u>(29,747)</u>
Cash flows from investing activities:		
Investments sold	3,561,024	7,017,302
Investments matured	-	6,037
Investments purchased	(4,145,874)	(7,667,843)
Interest and dividends received	752,293	859,795
Investment expenses	(4,818)	(13,333)
Net cash provided by investing activities	<u>162,625</u>	<u>201,958</u>
Net increase in cash and cash equivalents	126,235	50,163
Cash and cash equivalents, beginning of year	<u>378,078</u>	<u>327,915</u>
Cash and cash equivalents, end of year	<u>\$ 504,313</u>	<u>\$ 378,078</u>

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

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

STATEMENTS OF CASH FLOWS, Continued

For the years ended June 30, 2009 and 2008

(000's omitted)

	<u>2009</u>	<u>2008</u>
Reconciliation of net operating (loss) to net cash used for operating activities:		
Net operating income (loss)	\$ 212,057	\$ (521,198)
Adjustments to reconcile net operating income (loss) to net cash used for operating activities:		
Provision for uncollectible accounts	108,620	96,690
Depreciation	12,586	11,579
Amortization of discount and issuance costs on bonds payable	3,972	4,556
Unclaimed Intentional Tort Fund premiums	-	(5,687)
(Increases) decreases in assets and increases (decreases) in liabilities:		
Premiums and assessments in course of collection	71,774	1,448
Unbilled premiums receivable	(48,396)	203,197
Accounts receivable	(135,079)	(110,392)
Retrospective premiums receivable	1,348	6,330
Other assets	(4,494)	450
Restricted cash	238	348
Reserves for compensation and compensation adjustment expenses	(188,967)	164,145
Premium payment security deposits	(444)	1,110
Warrants payable	(4,793)	(8,375)
Accounts payable	(4,038)	(1,778)
Other liabilities	(33,111)	35,529
Net cash used for operating activities	<u>\$ (8,727)</u>	<u>\$ (122,048)</u>
Noncash investing, capital and financing activities		
Change in fair values of investments	\$ (928,019)	\$ (143,510)

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)

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2009 and 2008

1. Background and Summary of Significant Accounting Policies

Organization

The Ohio Bureau of Workers' Compensation (BWC) and the Industrial Commission of Ohio (IC) were created in 1912 and 1925, respectively, and are the exclusive providers of workers' compensation insurance to private and public employers in Ohio that have not been granted the privilege of paying compensation and medical benefits directly (self-insured employers). BWC and IC are collectively referred to herein as BWC/IC. BWC/IC was created and is operated pursuant to Chapters 4121, 4123, 4127, and 4131 of the Ohio Revised Code (the Code).

The Governor of the State of Ohio (the State) appoints the BWC Administrator and the three members of the IC. In June 2007, House Bill 100 created a new 11-member BWC Board of Directors (Board), which replaced the Workers' Compensation Oversight Commission. All members have full voting rights. On July 31, 2007, the Governor named the members to the Board, effectively abolishing the Workers' Compensation Oversight Commission. The BWC Administrator, with the advice and consent of the Board, is responsible for the operations of the workers' compensation system, while the IC is responsible for administering claim appeals.

BWC/IC is a department of the primary government of the State and is a proprietary operation for purposes of financial reporting. The accompanying financial statements include all accounts, activities and functions of BWC/IC and are not intended to present the financial position, results of operations or cash flows of the State taken as a whole. The financial information presented herein for BWC/IC will be incorporated within the State's financial statements.

Basis of Presentation

BWC/IC has prepared its financial statements in accordance with accounting principles generally accepted in the United States of America. Accordingly, these financial statements were prepared using the accrual basis of accounting and the economic resources measurement focus. For internal reporting purposes, BWC/IC maintains separate internal accounts as required by the Code. For external financial reporting purposes, BWC/IC has elected to report as a single column business-type activity, since the individual accounts do not have external financial reporting accountability requirements. All significant interaccount balances and transactions have been eliminated.

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Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," BWC/IC follows GASB guidance as applicable to proprietary funds and Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. As permitted by Generally Accepted Accounting Standards, BWC/IC has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 10, 1989.

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 and related administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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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. 51, "Accounting and Financial Reporting for Intangible Assets"
- GASB No. 54, "Fund Balance Reporting"

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

Cash and Cash Equivalents

Cash and cash equivalents in the accompanying statements of net assets 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, international securities, collateral on securities lending, investments in limited partnerships, investments in a commingled bond index fund, and investments in a commingled equity index fund.

Investments in fixed maturities, domestic equity securities, commingled equity funds, and commingled bond index funds are stated at fair value. Fair values of fixed maturities are based on quotations from national security exchanges. Fair values of domestic and international equity securities are based on quotations from national or international exchanges and are valued at the last reported sales price at current exchange rates. The fair value of the commingled bond index funds and commingled equity 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 assets. The cost of securities sold is determined using the average cost method. Purchases and sales of investments are recorded as of the trade date.

Prior to fiscal year 2008, BWC/IC, through the use of 68 outside money managers, participated as a limited partner in partnerships investing in equities, bonds, notes and other assets. Investments in limited partnerships were stated at fair value. Limited partnerships are generally valued-based on March 31 net asset values plus or minus purchases, sales and cash flows from April 1 through June 30 of the reporting year. During fiscal year 2009, one limited partnership was sold and a \$752 thousand loss was recognized. During fiscal year 2008, 66 of the 68 private equity partnerships were sold. Net losses of \$51.2 million from the private equity partnerships were recognized during fiscal year 2008. BWC/IC had no unfunded commitments to the limited partnerships at June 30, 2009 or 2008.

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Restricted Cash

Restricted cash balances are maintained in accordance with the 2003 bond agreement for special obligation bonds issued through the Ohio Building Authority.

Premium Income

SIF, CWPF, PWREF and MIF premium income is recognized over the coverage period and is collected in subsequent periods for all accounts except MIF, which collects premiums in advance of the coverage period. Premiums earned but not yet invoiced are reflected as premiums in course of collection in the statements of net assets. 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 automatically based on their own claims experience.

Retrospective rating plans and group rating plans are offered to qualified employers. SIF recognizes estimated ultimate premium income on retrospectively rated businesses during the coverage period. Retrospective rating adjustments related to the coverage period are collected in subsequent periods, as experience develops on injuries incurred during the coverage period. The estimated future retrospective rating adjustments are reflected in the statements of net assets as retrospective premiums receivable.

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 10) for self-insured employers. Because 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 statements of net assets.

Assessment Income

DWRF I (DWRF benefits awarded for injuries incurred prior to January 1, 1987) and ACF assessment income is recognized over the period for which the assessment applies and is collected in subsequent periods. These amounts are reflected as assessments in course of collection in the statements of net assets. DWRF II (DWRF benefits awarded for injuries incurred on or after January 1, 1987) and SIEGF assessments received or in the course of collection, but not yet recognized, are reflected as a reduction to unbilled premiums receivable.

The Code permits employers to pay into DWRF and SIEGF on a terminal funding (pay-as-you-go) basis. Because BWC has the statutory authority to assess employers in future periods, an unbilled premiums receivable equal to the discounted reserve for compensation and compensation adjustment expenses for DWRF and SIEGF, less BWC/IC's portion of the discounted reserve, is reflected in the statements of net assets.

DWRF I assessments are based on employers' payroll and a statutorily determined rate. DWRF II and ACF assessments are based on rates that are approved by the Board and on

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employers' payroll, except for ACF assessments of self-insured employers, which are based on paid workers' compensation benefits. SIEGF assessments are based on the financial strength of self-insured employers and paid workers' compensation benefits with the exception of new self-insured employers, which are based on a percentage of base-rated premium.

Premium Payment Security Deposits

Premium payment security deposits are collected in advance from private employers to reduce credit risk for premiums collected in subsequent periods. A deposit is submitted upon application for coverage and generally represents 30% of an estimated eight-month premium, with a maximum deposit of \$1 thousand. The deposit is applied to outstanding premiums or refunded to the employer upon cancellation of coverage.

Allowance for Uncollectible Accounts

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

Capital Assets

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

<u>Description</u>	<u>Estimated Useful Lives (Years)</u>
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 assets. The cost of maintenance and repairs is charged to operations as incurred; significant renewals and betterments are capitalized.

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

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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 4.5% at June 30, 2009 and 5.0% at June 30, 2008 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 and severity conditions.

Income Taxes

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

Use of Estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates.

Reclassification

Certain 2008 financial statement amounts have been reclassified in order to conform to their 2009 presentation.

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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 may not be recovered. Banks must provide security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in addition to amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities valued at least 105% of the total value of public monies on deposit at the institution. At June 30, 2009 and 2008, the carrying amount of BWC/IC's cash deposits were \$15.133 million and \$13.263 million, respectively, and the bank balances were \$12.213 million and \$12.085 million, respectively. The entire bank balance is insured through December 31, 2009 by FDIC as BWC's financial institution is participating in the Temporary Liquidity Guarantee Program. Additionally, the bank deposits are covered by collateral held in the name of BWC/IC's pledging financial institution, as required by state statute. BWC/IC is not exposed to custodial credit risk for these bank deposits.

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that, in the event of a failure of a counter party to a transaction, BWC/IC will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2009, BWC/IC has \$304 million held by the investments' counterparty and thus exposed to custodial credit risk. The Board approved the use of commingled passively managed equity and bond index funds for portions of the specialty account investment portfolios. These commingled funds are held in BWC's name at the respective counterparty. At June 30, 2008, BWC/IC's investments were not exposed to custodial credit risk, as all investments were held in the name of BWC/IC by the Treasurer of the State of Ohio as custodian.

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The composition of investments held at June 30, 2009 and 2008 is presented below.

	2009 Fair Value	2008 Fair Value
Fixed maturities:		
Corporate bonds	\$ 4,136,273	\$ 4,406,190
U.S. government agency obligations	545,146	777,250
Corporate mortgage backed securities	-	246
U.S. government obligations	3,968,766	4,061,015
U.S. state and local government agency	283,375	226,004
Treasury inflationary index notes	3,455,575	3,663,090
Yankee bonds	238,765	207,874
Sovereign bonds	347,744	340,162
Supranational issues	34,288	41,690
Commingled bond index	<u>40,194</u>	<u>-</u>
 Total fixed maturities	 <u>13,050,126</u>	 <u>13,723,521</u>
Domestic equity securities:		
Common stocks	3,512,366	3,158,589
Preferred stocks	3,841	5,794
International securities:		
Securities lending short-term collateral	-	78
Investments in limited partnerships	6,076	2,933
Cash and cash equivalents:		
Cash	15,133	13,263
Short-term money market fund	489,180	364,815
 Total cash and cash equivalents	 <u>504,313</u>	 <u>378,078</u>
	 <u>\$ 17,076,883</u>	 <u>\$ 17,284,420</u>

Net investment (loss) income for the years ended June 30, 2009 and 2008 is summarized as follows (000's omitted):

	2009	2008
Fixed maturities	\$ 648,265	\$ 779,549
Commingled bond index fund	382	11,603
Equity securities	84,060	63,525
Investments in limited partnerships	-	4,621
Cash equivalents	<u>5,378</u>	<u>17,493</u>
 Total interest and dividends	 <u>738,085</u>	 <u>876,791</u>
 Decrease in fair value of investments	 <u>(928,019)</u>	 <u>(143,510)</u>
 Investment expenses	 <u>(4,801)</u>	 <u>(14,121)</u>
 \$ (194,735)	 <u>\$ 719,160</u>	

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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.

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 from a maximum duration equal to the Barclays Capital Long U.S. Government/Credit Index to a minimum duration equal to the Barclays Capital Intermediate U.S. Government/Credit Index.

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

At June 30, 2009 and 2008, the effective duration of BWC's fixed-income portfolio is as follows (\$ in thousands):

Investment Type	June 30, 2009		June 30, 2008	
	Fair Value	Effective Duration	Fair Value	Effective Duration
Corporate bonds	\$ 4,136,273	11.22	\$ 4,406,190	11.33
Yankee bonds	238,765	11.04	207,874	11.00
U.S. government agency obligations	545,146	8.77	777,250	8.59
Corporate mortgage backed securities	-	-	246	4.14
U.S. government obligations	3,968,766	11.32	4,061,015	10.58
Sovereign bonds	347,744	7.75	340,162	8.24
Supranational issues	34,288	11.51	41,690	11.64
Commingled bond index	40,194	3.86	-	-
U.S. state and local government agencies	283,375	11.57	226,004	12.05
Treasury inflationary index notes	3,455,575	4.00	3,663,090	7.33
Total Fixed Maturities	\$ 13,050,126		\$ 13,723,521	

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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. BWC/IC manages the exposure to investment credit risk by requiring an average credit quality no lower than an A rating. Government agency obligations have an implied AAA rating. Obligations of the U.S. government are explicitly guaranteed by the U.S. government and are not considered to have credit risk.

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). In fiscal year 2009, \$40 million in fixed maturities is held in a commingled bond index fund in the custody of counterparty, while the remaining balance presented as of June 30, 2009 was held by the custodian on behalf of BWC/IC. In fiscal year 2008, all fixed maturity holdings were held by the custodian on behalf of BWC/IC.

Quality Rating	2009 Fair Value	2008 Fair Value
AAA	\$ 193,956	\$ 311,321
AA	619,068	545,132
A	2,188,753	2,306,172
BBB	2,001,417	2,000,690
BB	74,812	58,851
Not rated	2,633	-
Total credit risk debt securities	<u>5,080,639</u>	<u>5,222,166</u>
Government agency obligations	545,146	777,250
U.S. government obligations	3,968,766	4,061,015
Treasury inflationary index notes	3,455,575	3,663,090
Total fixed maturities	<u>\$ 13,050,126</u>	<u>\$ 13,723,521</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issuer. In 2009 and 2008, there is no single issuer that comprises 5% or more of the overall portfolio.

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, 2009 and 2008 is as follows (000's omitted):

Currency	2009 Fair Value	2008 Fair Value
Euro	-	\$ 78

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Securities Lending

At June 30, 2009 and 2008, BWC/IC had no securities out on loan. BWC/IC has been allocated with cash collateral of \$6 million in 2009 and \$3 million in 2008 from the securities lending program administered through the Treasurer of State's Office based on the amount of cash equity 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, 2009 and 2008 are summarized as follows (000's omitted):

	Balance at 6/30/2007	Increases	Decreases	Balance at 6/30/2008	Increases	Decreases	Balance at 6/30/2009
Capital assets not being depreciated							
Land	\$ 11,994	-	-	\$ 11,994	-	-	\$ 11,994
Capital assets being depreciated							
Buildings	205,189	\$ 373	-	205,562	\$ 209	-	205,771
Furniture and equipment	54,686	\$ 9,148	\$ (18,680)	45,154	\$ 1,829	\$ (12,258)	34,725
Land improvements	66	-	-	66	-	-	66
Subtotal	<u>259,941</u>	<u>9,521</u>	<u>(18,680)</u>	<u>250,782</u>	<u>2,038</u>	<u>(12,258)</u>	<u>240,562</u>
Accumulated depreciation							
Buildings	(111,450)	(6,787)	-	(118,237)	(6,787)	-	(125,024)
Furniture and equipment	(43,506)	(4,791)	18,341	(29,956)	(5,798)	12,013	(23,741)
Land improvements	(52)	(1)	-	(53)	(1)	-	(54)
Subtotal	<u>(155,008)</u>	<u>(11,579)</u>	<u>18,341</u>	<u>(148,246)</u>	<u>(12,586)</u>	<u>12,013</u>	<u>(148,819)</u>
Net capital assets	<u>\$ 116,927</u>	<u>\$ (2,058)</u>	<u>\$ (339)</u>	<u>\$ 114,530</u>	<u>\$ (10,548)</u>	<u>\$ (245)</u>	<u>\$ 103,737</u>

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 4.5% at June 30, 2009 and 5.0% at June 30, 2008. A decrease in the discount rate to 3.5% would result in the reserves for compensation and compensation adjustment expenses increasing to \$21.2 billion at June 30, 2009, while an increase in the rate to 5.5% would result in the reserves for compensation and compensation adjustment expenses decreasing to \$17.6 billion. A decrease in the discount rate to 4.0% would result in the reserves for compensation and compensation adjustment expenses increasing to \$21.4 billion at June 30, 2008, while an increase in the rate to 6.0% would result in the reserves for compensation and compensation adjustment expenses decreasing to \$17.8 billion. The undiscounted reserves for compensation and compensation adjustment expenses were \$33.7 billion at June 30, 2009 and \$36.4 billion at June 30, 2008. The net operating income would have been \$190 million lower in fiscal year 2009 and \$697 million

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lower in fiscal year 2008, if the reserves for compensation and compensation adjustment expenses were not discounted.

The changes in the reserves for compensation and compensation adjustment expenses for the years ended June 30, 2009 and 2008 are summarized as follows (in millions):

	<u>2009</u>	<u>2008</u>
Reserves for compensation and compensation adjustment expenses, beginning of period	\$ <u>19,435</u>	\$ <u>19,271</u>
 Incurred:		
Provision for insured events of current period	2,064	2,219
Net (decrease) increase in provision for insured events of prior periods net of discount accretion of \$875 in 2009 and \$964 in 2008	(790)	368
Decrease in discount rate	859	-
Total incurred	<u>2,133</u>	<u>2,587</u>
 Payments:		
Compensation and compensation adjustment expenses attributable to insured events of current period	458	415
Compensation and compensation adjustment expenses attributable to insured events of prior periods	1,864	2,008
Total payments	<u>2,322</u>	<u>2,423</u>
Reserves for compensation and compensation adjustment expenses, end of period	\$ <u>19,246</u>	\$ <u>19,435</u>

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5. Bonds Payable

On April 22, 2003, BWC/IC issued special obligation bonds through the Ohio Building Authority (OBA) to refund the 1993 William Green Building Series A bonds. The 2003 bonds bear predetermined interest rates ranging from 1.61% to 3.95%, compared to interest rates ranging from 3.25% to 5.125% on the 1993 bonds. The reacquisition price exceeded the net carrying amount of the old debt by \$5.1 million. This amount is netted against the new debt and amortized over the life of the new debt. As a result of the refunding, BWC/IC reduced its total debt service requirements by \$9.8 million, which resulted in an economic gain of \$8.9 million.

The bonds are collateralized by lease rental payments pledged by BWC/IC to OBA. The lease period coincides with the State's biennial budget and is renewable for successive two-year periods until the bonds are retired. Lease payments are based on the estimated debt service of the bonds, but are limited to an amount appropriated by the Ohio General Assembly in BWC/IC's biennial budget. Lease rental payments totaled \$20.6 million and \$20.4 million for the years ended June 30, 2009 and 2008, respectively. These payments included interest of \$4.6 million and \$5.3 million for the years ended June 30, 2009 and 2008, respectively.

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

Fiscal Year	Principal	Interest	Total
2010	\$ 15,930	\$ 3,867	\$ 19,797
2011	15,865	3,109	18,974
2012	15,890	2,326	18,216
2013	15,915	1,543	17,458
2014	15,200	751	15,951
Deferred loss on refunding	(875)	-	(875)
Unamortized bond premium and issuance costs	2,732	-	2,732
Total	<u>\$ 80,657</u>	<u>\$ 11,596</u>	<u>\$ 92,253</u>

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6. Long-Term Obligations

Activity for long-term obligations (excluding the reserves for compensation and compensation adjustment expenses – see Note 4) for the years ended June 30, 2009 and 2008, is summarized as follows (000's omitted):

	Balance at 6/30/2007	Increases	Decreases	Balance at 6/30/2008	Due Within One Year
Premium payment security deposits	\$ 87,808	\$ 4,007	\$ (2,897)	\$ 88,918	-
Bonds payable	113,076	5,848	(21,638)	97,286	\$ 16,005
Other liabilities	48,832	113,937	(83,307)	79,462	58,637
	<hr/> <u>\$ 249,716</u>	<hr/> <u>\$ 123,792</u>	<hr/> <u>\$ (107,842)</u>	<hr/> <u>\$ 265,666</u>	<hr/> <u>\$ 74,642</u>

	Balance at 6/30/2008	Increases	Decreases	Balance at 6/30/2009	Due Within One Year
Premium payment security deposits	\$ 88,918	\$ 1,826	\$ (2,270)	\$ 88,474	-
Bonds payable	97,286	4,994	(21,623)	80,657	\$ 15,930
Other liabilities	79,462	44,571	(77,699)	46,334	29,706
	<hr/> <u>\$ 265,666</u>	<hr/> <u>\$ 51,391</u>	<hr/> <u>\$ (101,592)</u>	<hr/> <u>\$ 215,465</u>	<hr/> <u>\$ 45,636</u>

7. Benefit Plans

Pension Plans

BWC/IC contributes to the Ohio Public Employees Retirement System of Ohio (OPERS). OPERS administers three separate pension plans:

- The Traditional Plan - a cost-sharing, multiple-employer defined benefit pension plan.
- The Member-Directed Plan – a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under this plan, members accumulate retirement assets equal to the value of member and vested employer contributions plus any investment earnings thereon.
- The Combined Plan – a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to 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

Continued

**OHIO BUREAU OF WORKERS' COMPENSATION
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Member-Directed Plan do not qualify for ancillary benefits. Benefits are established and may be amended by State statute. OPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642. As of June 30, 2009, the most recent report issued by OPERS is as of December 31, 2008.

Chapter 145 of the Ohio Revised Code provides OPERS statutory authority for employee and employer contributions. For the year ended December 31, 2008, the employee contribution rate was 10%, and the employer contribution rate was 14% of covered payroll. For the year ended December 31, 2007, the employee contribution rate was 9.5%, and the employer contribution rate was 13.77% of covered payroll. BWC/IC's contributions, representing 100% of the dollar amount billed, are as follows (000's omitted):

Twelve months ended June 30, 2009	\$24,113
Twelve months ended June 30, 2008	\$23,606
Twelve months ended June 30, 2007	\$23,179

Post-Retirement Health Care

OPERS provides retirement, disability, survivor and post-retirement health care benefits, which include a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional and the Combined Plans; however, health care benefits are not statutorily guaranteed. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. To qualify for post-retirement health care coverage, age and service retirees must have 10 or more years of qualifying Ohio service credit. Health care coverage for disabled recipients and primary survivor recipients is available. The Code provides statutory authority for employer contributions and requires public employers to fund post-retirement health care through their contributions to OPERS.

The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pension." The Code provides statutory authority for employer contributions and requires public employers to fund post-retirement health care through their contributions to OPERS.

OPERS's Post-Employment Health Care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post employment health care benefits. The portion of the employer's contribution to OPERS set aside for the funding of OPEB was 7.0% for calendar year 2008, compared to 5.0% from January 1 through June 30, 2007, and 6.0% from July 1 through December 31, 2007. Active members do not make contributions to the OPEB Plan. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

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**OHIO BUREAU OF WORKERS' COMPENSATION
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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, 2009 allocated to OPEB was approximately \$12.1 million and \$10.3 million for the 12 months ended June 30, 2008.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, 2007 and 2008, which allowed additional funds to be allocated to the health care plan.

8. Risk Management

BWC/IC is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To cover these risks, BWC/IC maintains commercial insurance and property insurance. There were no reductions in coverage in either fiscal year 2009 or 2008. 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.

9. Contingent Liabilities

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

A class action complaint pending in the 8th District Court of Appeals contends that subrogation allowed under Ohio Revised Code 4123.931 is unconstitutional. The Ohio Supreme Court in Holeton v. Crouse Cartage declared the subrogation statute unconstitutional. The trial court certified the class, granted summary judgment to the plaintiffs, and awarded attorney fees. A liability of \$50 million was accrued as of June 30, 2005. This case was settled in July 2006, with payments of \$46.9 million being made during fiscal year 2007, \$1.9 million during fiscal year 2008 and \$1.1 million during fiscal year 2009. Management does not expect the ultimate payments to be materially different than the amount accrued.

A class action case was filed alleging that BWC/IC identifies PTD recipients not represented by counsel and encourages them to settle their PTD claims for substantially less than their actuarial present value. The plaintiffs contend that BWC/IC refuses to conduct good-faith settlement negotiations with PTD recipients represented by counsel. The trial court denied BWC/IC's motion to dismiss and/or change of venue, and granted class certification. The 8th District Court of Appeals issued a ruling affirming the trial court's rulings. BWC/IC appealed to the Ohio Supreme Court. In May 2008, the Ohio Supreme Court reversed the Court of Appeals' decision and held that, because this matter is a claim against the state for money due under a contract, and not a claim of equitable restitution, it must be brought before the Ohio Court of Claims. To date, plaintiffs have not filed action in the Court of Claims. Accordingly, no provision for any liability has been reported in the financial statements for this matter.

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**OHIO BUREAU OF WORKERS' COMPENSATION
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June 30, 2009 and 2008

BWC/IC was also involved in litigation in which the plaintiff argued that BWC/IC can only change reimbursement rates by promulgating a rule under ORC Chapter 119. The trial court issued a declaration that BWC/IC improperly reduced reimbursement fees to the hospitals. BWC appealed to the 10th District Court of Appeals. A decision was issued in March 2007 affirming the decision of the trial court. BWC/IC did not appeal the decision to the Ohio Supreme Court. BWC/IC has offered to settle with hospitals that may be impacted by this case. In February 2008, BWC/IC sent settlement release agreements to 274 affected hospitals. An estimated liability of \$73.7 million was accrued with payments of \$33.1 million made during fiscal year 2008 and \$30.3 million during fiscal year 2009.

BWC/IC is involved in litigation challenging policies related to lump-sum advancements made to PTD recipients. This action alleges that BWC/IC has improperly recouped monies from PTD recipients by continuing to deduct monies from the plaintiff's benefits in an amount greater than the advance plus interest. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability has been reported in the financial statements for this matter. Management is vigorously defending this case.

A class action case was filed against BWC/IC alleging that non-group-rated employers subsidize group-rated employers, and that this bias in premiums violates various provisions of the Ohio Constitution. Plaintiffs have asked the court to declare the group rating plan unconstitutional and require BWC/IC to repay to the class members all excessive premiums collected by BWC/IC, with interest and attorney fees. In April 2008, plaintiffs filed a motion for a preliminary injunction enjoining BWC/IC from enforcing the group rating statutes during pendency of the action (beginning July 1, 2008). A hearing was held on the injunction request in August 2008. In December 2008 the court issued the requested preliminary injunction restraining BWC from continuing its current group rating plan for the policy year beginning July 1, 2009. At the same time, they ordered that BWC enact a group retrospective rating plan for the policy year beginning July 1, 2009. BWC filed an appeal and a motion for stay with the common pleas court. On December 17, 2008, the General Assembly passed House Bill 79 clarifying that Ohio's group rating program was not intended to be retrospective only. On January 6, 2009 the Governor signed the bill making it effective immediately. On January 7, 2009 BWC filed a motion to dissolve the preliminary injunction and in March 2009 the court issued an order vacating the preliminary injunction. Plaintiff has filed a motion for class certification and BWC filed a response in opposition. The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability has been reported in the financial statements for this matter. Management is vigorously defending this case.

Although the outcome of these cases is not quantifiable or determinable at this time, an unfavorable outcome in any one of them could have a material effect on the financial position of BWC/IC.

BWC/IC is also involved in other claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with the Attorney General, the ultimate disposition of these matters is not likely to have a material adverse effect on BWC/IC's financial position.

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**OHIO BUREAU OF WORKERS' COMPENSATION
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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2009 and 2008

10. Net Assets

Individual fund net asset (deficit) balances at June 30, 2009 and 2008 were as follows (000's omitted):

	<u>2009</u>	<u>2008</u>
SIF	\$ 3,986,476	\$ 3,799,897
SIF Surplus Fund	(1,918,671)	(1,708,959)
SIF Premium Payment Security Fund	<u>124,083</u>	<u>115,984</u>
Total SIF Net Assets	<u>2,191,888</u>	<u>2,206,922</u>
DWRF	835,859	848,727
CWPF	166,383	179,339
PWREF	19,406	19,350
MIF	15,570	13,431
SIEGF	6,935	8,919
ACF	(720,699)	(773,399)
Total Net Assets (Deficit)	<u>\$ 2,515,342</u>	<u>\$ 2,503,289</u>

As mandated by the Code, SIF net assets are separated into three separate funds; the main fund, the Surplus Fund, and the Premium Payment Security Fund (PPSF).

The SIF Surplus Fund is established by the Code and is financed by a percentage of all SIF premiums paid by private, self-insured and public employers (excluding State employers). The SIF 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 SIF Surplus Fund may also be charged on a discretionary basis as ordered by BWC/IC, as permitted by the Code. The Code limits contributions to the SIF Surplus Fund to 5% of premiums. This allocation of premiums is insufficient to fund the charges to the SIF Surplus Fund.

The SIF PPSF is established by the Code and is financed by a percentage of all premiums paid by private employers. Amounts are charged to the PPSF when the employer's premium due for a payroll period is determined to be uncollectible by the Attorney General of Ohio and the employer's premium payment security deposit is not sufficient to cover the premiums due for the payroll period.

The ACF fund deficit is a result of recognizing the actuarially estimated liabilities in accordance with accounting principles generally accepted in the United States of America, even though the funding for ACF is on a terminal funding basis in accordance with the Code. Consequently, the incurred expenses are not fully funded.

**OHIO BUREAU OF WORKERS' COMPENSATION
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**REQUIRED SUPPLEMENTAL REVENUE AND RESERVE
DEVELOPMENT INFORMATION, UNAUDITED**

(See Accompanying Independent Auditors' Report)

June 30, 2009 and 2008

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, 1999 through 2009.

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

**REQUIRED SUPPLEMENTAL REVENUE AND RESERVE
DEVELOPMENT INFORMATION, UNAUDITED, Continued**
(See Accompanying Independent Auditors' Report)

(In Millions of Dollars)

	Fiscal Years Ended June 30											
	2008		2007		2006		2005		2004		2003	
1. Gross premiums, assessments, and investment income	\$ 2,296	\$ 2,968	\$ 5,251	\$ 3,015	\$ 3,272	\$ 3,558	\$ 2,886	\$ 2,032	\$ 2,535	\$ 4,344	\$ 3,609	
2. Unallocated expenses	97	108	109	170	179	188	169	194	292	258	273	
3. Estimated incurred compensation and compensation adjustment expense, end of period	2,139	2,219	2,327	2,270	2,392	2,335	2,405	2,233	2,109	2,052	1,891	
Discount	1,472	1,892	2,099	2,147	2,227	2,447	2,544	2,374	2,443	2,274	2,576	
Gross liability as originally estimated	3,611	4,111	4,426	4,417	4,619	4,782	4,949	4,607	4,552	4,326	4,467	
4. Paid (cumulative) as of:												
End of period	458	415	423	417	449	449	485	456	434	404	422	
One year later		755	747	743	795	843	872	853	821	757	809	
Two years later			926	927	979	1,037	1,096	1,063	1,038	967	984	
Three years later				1,066	1,121	1,181	1,248	1,230	1,194	1,122	1,122	
Four years later					1,238	1,302	1,371	1,351	1,325	1,245	1,232	
Five years later						1,408	1,485	1,459	1,423	1,355	1,325	
Six years later							1,570	1,570	1,559	1,439	1,411	
Seven years later								1,645	1,605	1,519	1,479	
Eight years later									1,680	1,597	1,542	
Nine years later										1,665	1,605	
Ten years later											1,699	
5. Re-estimated incurred compensation and compensation adjustment expenses (gross):												
One year later	3,192	3,523	3,670	4,007	4,155	4,183	4,028	4,022	3,953	3,612		
Two years later		3,037	3,462	3,636	3,920	4,027	3,943	4,007	3,818	3,695		
Three years later			2,993	3,480	3,689	3,827	3,787	3,856	3,880	3,534		
Four years later				3,053	3,393	3,638	3,639	3,617	3,680	3,453		
Five years later					3,040	3,302	3,376	3,441	3,448	3,183		
Six years later						3,009	3,124	3,119	3,222	3,001		
Seven years later							2,899	2,982	2,936	2,807		
Eight years later								2,781	2,854	2,584		
Nine years later									2,659	2,495		
Ten years later										2,399		
6. Decrease in gross estimated incurred compensation and compensation adjustment expenses from end of period	(919)	(1,389)	(1,424)	(1,566)	(1,742)	(1,940)	(1,708)	(1,771)	(1,667)	(2,068)		

**OHIO BUREAU OF WORKERS' COMPENSATION
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(A DEPARTMENT OF THE STATE OF OHIO)**
SUPPLEMENTAL SCHEDULE OF NET ASSETS
 (See Accompanying Independent Auditors' Report)
 June 30, 2009
 (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	\$ 429,350	\$ 6,913	\$ 1,846	\$ 132	\$ 200	\$ 54,570	\$ 11,302	\$ -	\$ 504,313
Collateral on loaned securities	-	-	-	113	-	-	6,076	-	6,076
Premiums in course of collection	812,718	-	-	-	-	-	-	-	812,831
Assessments in course of collection	-	41,570	-	-	-	-	-	-	186,906
Accounts receivable, net of allowance for uncollectibles	181,777	20,173	-	29	5	(1,235)	10,293	-	211,042
Interfund receivables	13,941	56,115	1	145	27	811	120,473	(191,513)	-
Investment trade receivables	80,500	219,551	46,188	-	-	-	-	-	346,239
Accrued investment income	171,187	12,370	2,636	-	-	13	-	-	186,206
Other current assets	2,972	-	-	-	-	-	4,208	-	7,180
Total current assets	<u>1,692,445</u>	<u>356,692</u>	<u>50,671</u>	<u>419</u>	<u>232</u>	<u>54,159</u>	<u>297,688</u>	<u>(191,513)</u>	<u>2,260,793</u>
Non-current assets:									
Fixed maturities	11,948,193	875,403	186,336	23,006	17,188	-	-	-	13,050,126
Domestic equity securities:									
Common stocks	3,248,145	218,289	45,932	-	-	-	-	-	3,512,366
Preferred stocks	3,841	-	-	-	-	-	-	-	3,841
International securities	-	-	-	-	-	-	-	-	-
Investments in limited partnerships	161	-	-	-	-	-	-	-	-
Unbilled premiums receivable	829,789	1,543,993	-	-	-	721,584	105,609	-	161
Retrospective premiums receivable	282,372	-	-	-	-	-	-	-	3,205,975
Capital assets	22,368	22	-	-	-	-	81,347	-	282,372
Restricted cash	-	-	-	-	-	-	978	-	103,737
Total noncurrent assets	<u>16,334,869</u>	<u>2,642,707</u>	<u>232,288</u>	<u>23,006</u>	<u>17,188</u>	<u>721,584</u>	<u>187,934</u>	<u>-</u>	<u>978</u>
Total assets	<u>\$ 18,027,314</u>	<u>\$ 2,999,389</u>	<u>\$ 282,939</u>	<u>\$ 23,425</u>	<u>\$ 17,420</u>	<u>\$ 775,743</u>	<u>\$ 485,622</u>	<u>\$ (191,513)</u>	<u>\$ 20,159,556</u>
									<u>\$ 22,420,349</u>

**OHIO BUREAU OF WORKERS' COMPENSATION
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(A DEPARTMENT OF THE STATE OF OHIO)**
SUPPLEMENTAL SCHEDULE OF NET ASSETS, Continued
(See Accompanying Independent Auditors' Report)
June 30, 2009
(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	\$ 1,693,638	\$ 105,738	\$ 1,258	\$ 182	\$ 390	\$ 22,287	\$ 310,920	\$ -	\$ 1,823,493
Reserve for compensation adjustment expenses	166,605	404	75	44	990	-	-	-	479,038
Warrants payable	32,371	-	-	-	-	-	-	-	32,371
Bonds payable	-	-	-	-	-	-	-	-	15,330
Investment trade payables	131,332	222,625	47,117	-	-	-	-	-	401,074
Accounts payable	126	-	-	-	-	-	-	-	3,649
Interfund payables	175,813	12,532	86	17	29	3,036	-	(191,513)	-
Obligations under securities lending	-	-	-	-	-	-	-	-	6,076
Other current liabilities	11,020	83	43	2	121	-	6,076	-	29,706
Total current liabilities	2,210,905	341,382	48,579	201	584	26,313	354,886	(191,513)	2,791,337
Noncurrent liabilities:									
Reserve for compensation	13,037,362	1,766,362	62,842	3,818	1,191	731,305	-	-	15,602,880
Reserve for compensation adjustment expenses	499,395	55,796	4,425	-	75	11,190	770,080	-	1,340,961
Premium payment security deposits	87,764	-	710	-	-	-	-	-	88,474
Bonds payable	-	-	-	-	-	-	-	-	64,727
Other noncurrent liabilities	-	-	-	-	-	-	-	-	16,628
Total noncurrent liabilities	13,624,521	1,822,158	67,977	3,818	1,266	742,495	851,435	-	17,113,670
Total liabilities	15,835,426	2,163,540	116,556	4,019	1,850	768,808	1,206,321	(191,513)	19,905,007
NET ASSETS (DEFICIT)									
Invested in capital assets, net of related debt	22,369	22	-	-	-	-	1,667	-	24,058
Restricted for Surplus Fund	(1,918,671)	-	-	-	-	-	-	-	(1,918,671)
Restricted for Premium Payment Security Fund	124,083	-	-	-	-	-	-	-	124,083
Unrestricted net assets (deficit)	3,964,107	835,837	166,383	19,406	15,570	6,935	(722,366)	\$ 6,935	4,285,872
Total net assets (deficit)	\$ 2,191,388	\$ 835,839	\$ 166,383	\$ 19,406	\$ 15,570	\$ 6,935	\$ (720,699)	\$ -	\$ 2,515,342

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

SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND

CHANGES IN NET ASSETS

(See Accompanying Independent Auditors' Report)
For the year ended June 30, 2009

(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 income	\$ 1,893,936	\$ -	\$ 1,678	\$ 150	\$ 761	\$ -	\$ -	\$ -	\$ 1,896,525
Assessment income									573,025
Provision for uncollectibles	(96,223)	143,074	-	-	-	67,994	361,957	-	(108,620)
Other income	10,185	(3,055)	-	-	-	(133)	(9,209)	-	17,197
Total operating revenues	1,807,838	140,019	1,678	150	761	67,861	7,012	-	2,378,127
Operating expenses:									
Workers' compensation benefits	1,453,028	141,083	6,370	673	(973)	66,911	-	-	1,667,092
Compensation adjustment expenses	155,911	1,269	470	-	(50)	3,599	245,243	-	406,442
Personal services	-	48	15	-	8	-	44,213	-	44,284
Other administrative expenses	23,215	12	4	1	71	-	24,948	-	48,252
Total operating expenses	1,632,154	142,412	6,859	674	(94)	70,511	314,404	-	2,166,070
Net operating income (loss)	175,744	(2,393)	(5,181)	(524)	1,705	(2,650)	45,356	-	212,057
Non-operating revenues:									
Net investment income	(187,489)	(10,475)	(3,235)	580	434	666	4,784	-	(194,735)
Loss on disposal of capital assets	-	-	-	-	-	-	(220)	-	(220)
Total non-operating revenues	(187,489)	(10,475)	(3,235)	580	434	666	4,564	-	(194,565)
Net transfers out	(3,289)	-	(4,540)	-	-	-	2,780	-	(5,049)
Increase (decrease) in net assets (deficit)	(15,034)	(12,866)	(12,956)	56	2,139	-	52,700	-	12,053
Net assets (deficit), beginning of year	2,206,922	848,727	179,339	19,350	13,431	8,919	773,399	-	2,503,289
Net assets (deficit), end of year	\$ 2,191,888	\$ 835,859	\$ 166,383	\$ 19,406	\$ 15,570	\$ 6,935	\$ 720,699	\$ -	\$ 2,515,342

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

Columbus, Ohio

Independent Auditors' 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
For the years ended June 30, 2009 and 2008



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INDEPENDENT AUDITORS' 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)
Columbus, Ohio

We have audited the financial statements of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio (BWC/IC) as of and for the years ended June 30, 2009 and 2008, and have issued our report thereon dated September 30, 2009. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the BWC/IC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the BWC/IC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the BWC/IC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the BWC/IC's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of BWC/IC's financial statements that is more than inconsequential will not be prevented or detected by BWC/IC's internal control. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting, which is identified as Significant Deficiency Number 09-1.

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the BWC/IC's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency noted above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

We also noted certain additional matters that we reported to management of the BWC/IC in a separate letter dated September 30, 2009.

BWC/IC's response to the finding identified in our audit is described in the accompanying schedule of finding and response. We did not audit management's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management, the Ohio Bureau of Workers' Compensation Board of Directors, and the Auditor of State and is not intended to be and should not be used by anyone other than these specified parties.

Schneider, Downs & Co., Inc.

Columbus, Ohio
September 30, 2009

**OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO**

(A DEPARTMENT OF THE STATE OF OHIO)

Schedule of Findings and Responses

June 30, 2009

Significant Deficiency No. 09-1, Managed Care Organization (MCO) SAS 70 Reviews

Criteria: A significant portion of the BWC/IC control environment related to payments resides with the managed care organizations (MCO) that process certain claims for BWC/IC. MCO's are required to have Type II SAS 70 reviews performed annually as a contractual condition for performing this function for the BWC/IC.

Condition: We noted that management held a SAS 70 Type II training session for all MCO finance staff during fiscal year 2007. The objectives of the training were to clarify the purposes of the report, establish expectations with respect to testing requirements, and provide guidelines on corrective action plans. During fiscal year ending June 30, 2009, management implemented additional procedures designed to further improve the internal controls associated with transactions processed by the MCO's. These included formalized communication and discussions with each MCO concerning the results of their SAS 70 review, and revision of the control objectives to be evaluated at the MCO's. In addition, another formal training session was conducted in early 2009 for all MCO's finance staff which further reiterated the purposes and objectives of these reviews.

However, a review of the SAS 70 Type II reports received by BWC/IC management appears to indicate that several MCO's have not yet designed and/or implemented internal control systems that meet the standards established by the BWC/IC. Specifically, we noted that three of the 19 MCO's received a qualified opinion from their independent auditors.

In addition, as noted in previous years, management's review of the SAS 70 reports indicates that the procedures performed by several of the independent auditors were inadequate, and thus unable to satisfy the overall objectives established by the BWC/IC with respect to testing the operating effectiveness of the control environments.

Effect: Inadequate internal controls at the MCO's can create an environment that:

- Increases the potential for inappropriate and unauthorized transactions;
- Increases the potential of noncompliance with laws and regulations.

Management Response:

Management agrees that the control environments in place at MCO's have a significant impact to BWC's overall control environment. This impact was discussed at the November 2008 MCO Business Council meeting. BWC revised the control objectives with the goal of improving the objectives and to make sure all objectives were clearly stated and released the updated control objectives in January 2009. BWC conducted SAS 70 training for the MCO's in February 2009 providing background information on SAS 70 audits, the purpose of a SAS 70 audit, Type II reports, testing, and a review of each control objective.

The 2009-10 MCO contract includes language that, effective January 1, 2010, BWC may place an MCO at capacity for a SAS 70 report in which 10% or more of the control objectives were not tested to the satisfaction of BWC. The MCO will remain at capacity until the deficiencies are corrected. The contract also allows BWC to withhold a portion of the MCOs' administrative payment pending submission of a corrected SAS 70 report.

After BWC's review of the SAS 70 reports for fiscal year 2008, each MCO received a letter notifying them of issues identified in our reviews. BWC is in the process of notifying each MCO of the results of this year's review. The notification will identify deficiencies which must be corrected within 60 days or a portion of the MCO's administrative fees will be withheld pending corrections.

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
Columbus, Ohio

Management Letter

For the year ended June 30, 2009



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Marsha Ryan
Administrator/CEO
Ohio Bureau of Workers' Compensation
30 West Spring Street L-29
Columbus, OH 43215

Dear Ms. Ryan:

In planning and performing our audit of the financial statements of the Ohio Bureau of Workers' Compensation (the BWC) as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the BWC's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the BWC's internal control. Accordingly, we do not express an opinion on the effectiveness of the BWC's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated September 30, 2009 on the financial statements of the Ohio Bureau of Workers' Compensation. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. The BWC's written responses to the matters identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them. Our comments are summarized as follows:

Claim Payments

Observation:

We reviewed a sample of Compensation Reviews performed by Claim Service Specialists. We noted that 3 out of 60 selected had incorrect warrant dates on the Audit Data Form which gave the appearance of the review not being performed timely. It appears that the reviewer had entered the incorrect dates on the forms. In 4 of the selections tested, we noted that the payment amount was not made timely. In addition, we noted errors and lack of follow-up when exceptions occurred. We were not able to validate if the exceptions were resolved because the audit trail within the system for MIRA data elements cannot easily be traced to validate that the noted errors were resolved. We recommend that the documentation entered into MIRA for resolved issues be validated and reviewed for accuracy and reasonableness.

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Management's Response:

Management agrees with the audit findings. Enhancements have been made to the Claim Audit Tool used in compensation audits that will help to address incorrect dates, the resolution of errors, and rather than general references to MIRA data elements there will be questions that address specific data fields. To address the timeliness of payments, a reference document is being created for CSS staff to review and reference when making payments to ensure all payments are made timely and payment expectations are clear to all staff.

Observation:

When performing testing to validate the reconciliation process between Office Services, Benefits Payable, and IT, we requested the Daywork Pension and Med-Risk Check logs for a selection of randomly sampled days. For 2 out of the 25 days selected, we were not able to obtain the logs. In addition there was one day selected where the Daywork-Pension Check Log and Med-Risk Manual Daywork Check Log was not validated by Office Services as evidenced with signature and date. We recommend that management reinforce the importance of signing and dating the log with its employees.

Management's Response:

Management agrees with the audit findings and will reinforce the importance of these logs to ensure that the correct number of warrants are printed and mailed. This takes on even more importance as the responsibility for warrant printing and mailing is transitioned to State Printing.

Observation:

BWC receives a Type II SAS 70 for the EBT services performed by Chase. During our review of the EBT verification process, we noted that there is no formalized procedure for the SAS 70 report to be reviewed by BWC management. Without formalized procedures in place, the review of the SAS 70's may not be consistently applied and critical control areas may be omitted from review and follow-up. We recommend management formalize procedures and establish checklists to ensure the SAS 70 is receiving the appropriate review and consideration.

Management's Response:

Management agrees with this recommendation and will develop formalized procedures for the review of SAS 70 reports.

Issue, Maintain and Service Policies

Observation:

When performing testing over the controls associated with review, approval and initiation of Policies with over \$5,000 Available for Refund reporting, we noted that the review, approval and release of the policy refunds does not always appear timely. Out of the 60 samples selected, we noted 30 policy refunds that were not released within two weeks of the email, hard copy request or report receipt date (UW411r Report). The "Refund Approval and Release" procedures revised on 5/28/2009 does address refund timeliness but may not consider the multiple levels of reviews needed or the time period that transpires between the UW411r Report date and the refund release date.

We recommend the BWC develop more defined policies and procedures addressing premium refunds. Policies, especially as they pertain to retaining refunds for premiums due and timeliness, should be written to consider legal (bankruptcy, receivership) and reputational risks.

Management's Response:

Management agrees with the audit comment. The refund review and refund approval-release procedures have been updated to more realistically reflect time frames for refund processing that take into consideration the need to obtain supporting documentation and multiple levels of review.

Financial Reporting Department

Observation:

During the course of our audit, we noted that the Financial Reporting department had difficulties in determining the reason for various fluctuations within the Statements of Net Assets and Changes in Net Assets. While we recognize that management does a very high level variance fluctuation analysis and has reports that show lower level variance fluctuations, it appears that an analysis of these reports is not occurring routinely. It is possible that this could result in a material error in the financial statements not being detected in a timely fashion.

We recommend that the Financial Reporting department perform a more detailed review of the trial balance on a monthly basis.

Management's Response:

Financial Reporting is completing more detailed monthly reviews on a timely basis. However, new staff members need to increase their understanding of Bureau operations so they can better determine the reasons behind the various account fluctuations. Management is confident that there are sufficient mitigating controls in place such as journal entry reviews, balance checks, reconciliations, along with higher level reviews and analysis that would detect any material error in the financial statements.

Ohio Compliance Supplement and ORC Compliance

Observation:

While testing specific ORC requirements it was noted that the BWC was not in compliance with a portion of ORC 4123.32 which states: "Any deficiencies in the amounts of the premium security deposit paid by an employer for any period shall be subject to an interest charge of six per cent per annum from the date the premium obligation is incurred".

We recommend the BWC implement a procedure that will charge interest against employers who are deficit in paying the premium security deposit.

Management's Response:

Existing programs that would be used to review and adjust premium security deposits contained a number of difficulties when initially ran. It has not been a priority to pursue updating this program or creating a new program in light of the many other program initiatives that use IT resources.

Observation:

The BWC's cell phone policies requires that on a monthly basis any employee who has been issued a cell phone for business use should sign and date the cell phone bill documenting that they have reviewed the bill and quantified all personal calls and if necessary reimbursed the BWC for such calls. This should then be forwarded to the manager for their review. We tested five cell phone bills and we noted two instances where neither the employee nor their supervisor reviewed the cell phone bills which are instances of non-compliance with Chapter 7-2 of the Ohio Compliance Supplement. We recommend that the BWC require all employees with company

issued cell phones review their bills noting personal and business calls and then submit the bill to their supervisor for review and approval.

Management's Response:

BWC employee handbook memo 4.26 requires employees with state owned cell phones to review their monthly cell phone bills, document any personal calls, and provide reimbursement within two weeks for the total charge of their personal calls. The reviewed bills are returned to each supervisor who is responsible for reviewing the cell phone bill to ensure appropriate usage and/or that reimbursement was made. BWC will remind all employees and their supervisors of this policy and the need to document their monthly compliance with this policy.

Observation:

Office of Budget and Management (OBM) states that the BWC can use procurement cards to purchase services from pre-approved vendors. When the State of Ohio purchases services from certain vendors, the state is required each year by law to report these purchases of services to the Internal Revenue Service. Because of this obligation, the OMB has established a web site of approved service vendors that can be used with the procurement cards. Cardholders should always check the web site prior to purchasing services from a vendor to make certain that they are an approved vendor. We tested ten procurement card transactions and noted that two out of the three payments made using company issued procurement cards for services were to vendors who were not on the Office of Budget and Management (OBM) approved vendor list which is an instance of non-compliance with Chapter 7-2 of the Ohio Compliance Supplement. We recommend that the BWC only use service providers who are on the OBM approved vendor list.

Management's Response:

Management agrees with this audit comment. Policies and procedures will be updated to include the monitoring of all procurement card logs to ensure that purchases are being made from approved vendors. All procurement cardholders will be reminded of the policies regarding the purchase of services using the State of Ohio procurement card with emphasis on the requirement to use approved vendors.

We wish to thank Ms. Tracy Valentino, Ms. Barb Ingram and Ms. Vicki Congrove and the rest of the staff for their assistance during our audit.

This report is intended solely for the information and use of the Board of Directors, management and others within BWC/IC, and is not intended to be and should not be used by anyone other than these specified parties.

Schneider, Downs & Co., Inc.

Columbus, Ohio
September 30, 2009



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November 12, 2009

Board of Directors
The Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio
Columbus, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio (BWC/IC), a department of the State of Ohio (State), for the year ended June 30, 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 22, 2009. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by BWC/IC are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2009. We noted no transactions entered into by BWC/IC during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the reserve for compensation and reserve for compensation adjustment expense (reserves) as well as the related unbilled premiums and assessments receivable is based upon independent third party calculation of the reserves. We evaluated the key factors and assumptions used to develop the reserves in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

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Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. All uncorrected misstatements identified during the audit, which were determined to be immaterial in the aggregate, have been previously reviewed and acknowledged by the Administrator and other key members of BWC/IC management in connection with the issuance of the formal management representation letter at the conclusion of the audit. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 30, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to BWC/IC's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as BWC/IC's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of BWC/IC and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Schneider, Downs & Co., Inc.

Certified Public Accountants