

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

FINANCIAL STATEMENTS

June 30, 2020 and 2019

OHIO AUDITOR OF STATE
KEITH FABER



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Board of Directors
Ohio Bureau of Workers' Compensation
and Industrial Commission of Ohio
P. O. Box 182880
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We have reviewed the *Independent Auditor's Report* of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio, Franklin County, prepared by Crowe LLP, for the audit period July 1, 2019 through June 30, 2020. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

November 13, 2020

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

FINANCIAL STATEMENTS
June 30, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio (BWC/IC), a department of the State of Ohio (State), as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the BWC/IC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the BWC/IC, as of June 30, 2020 and 2019, and the changes in its financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the BWC/IC are intended to present the financial position, changes in financial position, and cash flows of the BWC/IC. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2020 and 2019, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, supplemental revenue and reserve development information, the schedule of proportionate share of the net pension liability (asset), the schedule of employer pension contributions, the schedule of proportionate share of the net OPEB liability, and the schedule of employer OPEB contributions on Pages 3-8, 46, 48, 49, 50 and 51, respectively, listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2020 on our consideration of BWC/IC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering BWC/IC's internal control over financial reporting and compliance.



Crowe LLP

Columbus, Ohio
September 29, 2020

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

This section presents management's discussion and analysis of the Ohio Bureau of Workers' Compensation's (BWC's) and the Industrial Commission of Ohio's (IC's) financial performance for fiscal years ended June 30, 2020, 2019, and 2018. BWC and IC are collectively referred to as BWC/IC. This information is based on BWC/IC's financial statements, which begin on Page 9.

Financial highlights

- BWC/IC's total assets at June 30, 2020 were \$27.8 billion, a decrease of \$1.6 billion or 5.4% compared to June 30, 2019.
- BWC/IC's total liabilities at June 30, 2020 were \$16.2 billion, a decrease of \$2 billion or 10.8% compared to June 30, 2019.
- BWC/IC's total operating revenues for fiscal year 2020 were \$1.3 billion, a decrease of \$42 million or 3.3% compared to fiscal year 2019.
- BWC/IC's total operating expenses for fiscal year 2020 were \$1.4 billion, an increase of \$498 million or 53% from fiscal year 2019.
- BWC/IC had \$1.3 billion in policy holder dividend expenses in fiscal year 2020.
- BWC's non-operating revenues for fiscal year 2020 were \$1.8 billion, compared to \$2.2 billion for fiscal year 2019.
- BWC/IC's net position at June 30, 2020 was \$11.6 billion, an increase of \$268 million or 2.4% compared to June 30, 2019.

Financial statement overview

BWC/IC's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. Management's discussion and analysis is intended to serve as an introduction to BWC/IC's financial statements, which are prepared using the accrual basis of accounting and the economic resources measurement focus.

- **Statement of Net Position** – This statement is a point-in-time snapshot of BWC/IC's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at fiscal year-end. Net position represents the amount of total assets and deferred outflows of resources less total liabilities and deferred inflows of resources. The statement is categorized by current and noncurrent assets and liabilities. For the purpose of the accompanying financial statements, current assets and liabilities are generally defined as those assets and liabilities with immediate liquidity or those that are collectible or due within 12 months of the statement date.
- **Statement of Revenues, Expenses and Changes in Net Position** – This statement reflects the operating revenues and expenses, as well as policy holder dividend expense and 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. Policy holder dividend and loss contingency expenses are included as part of the operating gain or loss calculation. 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.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

- Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of BWC/IC's financial position and results of operations presented in the financial statements. The notes present information about accounting policies and disclose material risks, subsequent events, and contingent liabilities, if any, that may significantly impact BWC/IC's financial position.
- Supplemental Information – The financial statements include the following supplemental information schedules:
 - Required supplemental information that presents BWC/IC's revenue and reserve development information;
 - Required supplemental information that presents BWC/IC's proportionate share of the Ohio Public Employees Retirement System (OPERS) net pension liability;
 - Required supplemental information that presents BWC/IC's contribution to pension based on statutory requirements;
 - Required supplemental information that presents BWC/IC's proportionate share of the OPERS net other post-employment benefits (OPEB) liability;
 - Required supplemental information that presents BWC/IC's contribution to OPEB based on statutory requirements; and
 - Optional supplemental schedules presenting the statement of net position and the statement of revenues, expenses and changes in net position for the individual accounts administered by BWC/IC.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial analysis

Components of BWC/IC's Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position as of June 30, 2020, 2019, and 2018, and for the fiscal years then ended were as follows (000's omitted):

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Current assets	\$ 1,146,478	\$ 1,110,224	\$ 1,873,364
Noncurrent assets	26,635,369	28,262,787	27,008,766
Total assets	<u>\$ 27,781,847</u>	<u>\$ 29,373,011</u>	<u>\$ 28,882,130</u>
Deferred outflows of resources	45,563	137,416	66,462
	<u>\$ 45,563</u>	<u>\$ 137,416</u>	<u>\$ 66,462</u>
Current liabilities	\$ 2,915,700	\$ 4,312,046	\$ 4,328,724
Noncurrent liabilities	13,280,208	13,841,739	14,615,631
Total liabilities	<u>\$ 16,195,908</u>	<u>\$ 18,153,785</u>	<u>\$ 18,944,355</u>
Deferred inflows of resources	67,525	61,116	77,373
	<u>\$ 67,525</u>	<u>\$ 61,116</u>	<u>\$ 77,373</u>
Net investment in capital assets	\$ 97,207	\$ 116,659	\$ 135,770
Unrestricted net position	11,466,770	11,178,867	9,791,094
Total net position	<u>\$ 11,563,977</u>	<u>\$ 11,295,526</u>	<u>\$ 9,926,864</u>
Net premium and assessment income, including provision for uncollectibles	\$ 1,248,759	\$ 1,290,499	\$ 1,183,068
Other income	8,670	9,396	9,407
Total operating revenues	<u>\$ 1,257,429</u>	<u>\$ 1,299,895</u>	<u>\$ 1,192,475</u>
Workers' compensation benefits and compensation adjustment expenses	\$ 1,260,821	\$ 760,096	\$ 804,021
Other expenses	176,282	179,137	153,472
Total operating expenses	<u>\$ 1,437,103</u>	<u>\$ 939,233</u>	<u>\$ 957,493</u>
Policy holder dividend expense	\$ (1,343,613)	\$ (1,182,817)	\$ (1,298,778)
Legal settlement / loss contingency	-	-	(75)
Operating transfers out	(1,425)	(425)	(425)
Net investment income	1,792,931	2,191,121	1,336,579
Gain (loss) on disposal of capital assets	232	121	(175)
Increase in net position	<u>\$ 268,451</u>	<u>\$ 1,368,662</u>	<u>\$ 272,108</u>
Cumulative effect of GASB75 implementation	\$ -	\$ -	\$ (103,315)

(Continued)

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MANAGEMENT'S DISCUSSION AND ANALYSIS

BWC/IC's net position increased by \$268 million during fiscal year 2020, compared to a \$1.4 billion increase during fiscal year 2019.

- Fiscal year 2020 premium and assessment income of \$1.26 billion reflects an overall reduction of 20% in premium rates for Ohio's private employers for the policy period beginning July 1, 2019, and an overall decrease of 10% and 12% in premium rates for public taxing district (PEC) employers for the policy periods beginning January 1, 2020, and January 1, 2019, respectively. (PEC employers include counties, cities, villages, townships, schools, libraries, and special taxing districts.) Fiscal year 2019 premium and assessment income of \$1.32 billion reflects a 12% decrease in rates for private employers for the policy period beginning July 1, 2018, and PEC employers for the policy period beginning January 1, 2019, and a 6.1% decrease in rates for PEC employers for the policy period beginning January 1, 2018. Refer to Note 1 – Organization Background and Summary of Significant Accounting Policies for more information about premium and assessment income.
- Workers' compensation benefits and compensation adjustment expenses were as follows in fiscal years 2020, 2019, and 2018.

(\$ in millions)	<u>2020</u>	<u>2019</u>	<u>2018</u>
Net benefit payments	\$ 1,271	\$ 1,325	\$ 1,367
Payments for compensation adjustment expenses	237	242	220
Managed Care Organization administrative payments	169	171	171
Change in reserves for compensation and compensation adjustment expenses	<u>(416)</u>	<u>(978)</u>	<u>(954)</u>
	<u>\$ 1,261</u>	<u>\$ 760</u>	<u>\$ 804</u>

- State Insurance Fund (SIF) benefit payments for all accident years were \$23 million or 2% lower than expected during fiscal year 2020. Medical benefits were \$32 million lower than expected. Indemnity benefits were \$8 million higher than expected due to an increase in lumpsum settlement payments during fiscal year 2020. During the past 12 fiscal years, SIF annual payments have been on a consistent decline, ranging from a low of \$1.3 billion in fiscal year 2020 to a high of \$1.9 billion in fiscal year 2008.
- The discounted reserves for workers' compensation benefits and compensation adjustment expenses as of June 30, 2020 are \$416 million lower than the June 30, 2019 discounted liabilities. The recorded liabilities for reserves are management's selection based on estimates calculated by BWC's independent consulting actuary and BWC's Actuarial division staff. Note 1 – Organization Background and Summary of Significant Accounting Policies and Note 4 – Reserves for Compensation and Compensation Adjustment Expenses provide a more detailed discussion of BWC's liabilities for reserves.
- The SIF net position has continued to grow primarily as a result of better than expected investment returns and declines in the reserves for compensation and compensation adjustment expenses for prior years' claims. The net position has exceeded the guidelines in the Net Asset Policy established by the Board. Dividends for private and PEC employers were approved by the Board in April 2020 and June 2019. Dividend expense of \$1.3 billion and \$1.2 billion reduced net position in fiscal years 2020 and 2019, respectively. Refer to Note 12 – Net Position for additional detail regarding BWC/IC's net position and Note 7 – Policy Holder Dividend for additional information on the policy holder dividends.
- Although the investment portfolio was exposed to the market volatility and other economic impacts of the coronavirus (COVID-19) pandemic during the last half of fiscal year 2020, the portfolio's performance for fiscal year 2020 resulted in net investment income of \$1.8 billion, compared to \$2.2 billion in fiscal year 2019. The portfolio earned a net return, after management fees, of 7% during fiscal year 2020 compared to 8.7% in fiscal year 2019.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Conditions expected to affect financial position or results of operations

BWC/IC's guiding principles of prevention and care drive our commitment to keep Ohio workers safer on the job; help injured workers recover and return to their lives – at work and home; and keep costs down for Ohio businesses.

- The COVID-19 pandemic has led to significant economic disruptions that will likely continue for the foreseeable future. Due to the volatility in the financial markets, BWC/IC's investment portfolio has experienced significant fluctuations in value. In response to the economic impacts to BWC/IC's operations and financial position and the economic challenges that BWC/IC's customers are facing, BWC/IC has taken the following actions:
 - negotiated cost reductions with current suppliers and continue to limit non-critical purchases in compliance with Governor DeWine's Executive Orders, budgetary guidance from the Office of Budget and Management, and purchasing guidance from the Department of Administrative Services;
 - reduced private employer estimated annual payroll by 20% for policy year July 1, 2020 through June 30, 2021;
 - allowed deferral of private and PEC employer unpaid premium installment amounts due for the six-month period from March 2020 through August 2020 to September 1, 2020;
 - continued to ship masks to Ohio employers as part of Protecting Ohio's Workforce—We've Got You Covered and received approval to begin a second round of shipments beginning in the fall; and
 - approved the distribution of a policy holder dividend up to \$1.5 billion to private and PEC employers beginning in late October 2020. The dividend is based on the premium paid by private and PEC employers for policy year 2019.
- Private employer statewide average base rates will decrease an average of 13% for the July 1, 2020 policy year. PEC average base rates will decrease 10% for the January 1, 2021 policy year.
- Businesses that invest in workplace safety and health are able to reduce fatalities, injuries, and illnesses, resulting in lower medical and legal expenses as well as lower costs to train replacement employees. BWC offers numerous financial assistance opportunities for employers to invest in workplace safety.
 - Grants are available to purchase safety equipment, promote health and wellness, implement drug-free workplaces, minimize firefighters' exposure to dangerous environmental elements, purchase body armor for first responders, and assist people that work with developmentally disabled children and adults.
 - The Better You, Better Ohio! health and wellness program provides health and wellness resources and services to employees of small employers in high-risk industries. The program encourages workers to take ownership of their health and well-being and proactively pursue a healthier lifestyle. Services include health risk assessments, biometric screenings, lifestyle management and coaching, and chronic disease management. Employers can benefit from this program as it helps to manage and reduce costs for workers' compensation and health care by having a healthier workforce.
 - BWC launched a pilot program in October 2018 to support employers willing to hire workers struggling to overcome an addiction to opioids and other dangerous substances. BWC provides funding to local Alcohol, Drug and Mental Health (ADAMH) Boards in selected counties to administer the Substance Use Recovery and Workplace Safety Program. The program provides reimbursement and training to help employers with hiring, managing, and retaining workers in addiction recovery.

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- BWC's net position policy contains the business rationale, methodology, and guiding principles with respect to maintaining a prudent net position to protect the SIF against financial and operational risks that may threaten the ability to meet future obligations. An economic capital model has been developed to quantify the potential financial risk related to the investment portfolio, the carried loss reserves, the policy pricing and catastrophic event exposure. Based upon review and discussion of the output of the model, the Administrator established guidelines for a Simple Funding Ratio (total assets divided by total liabilities) and a Net Leverage Ratio (premium income plus reserves for compensation and compensation adjustment expense divided by net position). Over the last several fiscal years, the net position has continued to increase, primarily as a result of excess investment returns and lower than expected claims costs. The dividend approved by the Board in September 2020 marks BWC's seventh of \$1 billion or more since 2013. BWC has saved employers nearly \$12 billion in workers' compensation costs since 2011 through dividends, credits, rate reductions, and greater efficiencies. As part of the Board's Strategic Plan, a work group has been meeting on the plan to maintain an adequate net position that will ensure that BWC can manage the financial and enterprise risks associated with operations. Net position will continue to be monitored and the plan will be adjusted as needed based on market changes, new economic models, and other appropriate factors.

The SIF ratios for the end of each fiscal year are presented in the following table:

	2020	2019	2018	Guideline
Simple Funding Ratio	1.89	1.77	1.66	1.30 to 1.50
Net Leverage Ratio	1.05	1.11	1.29	3.0 to 7.0

- From time to time, BWC/IC is involved in judicial proceedings arising in the ordinary course of its business. BWC/IC will vigorously defend these suits and expects to prevail; however, there can be no assurance that BWC/IC will be successful in its defense.

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STATEMENTS OF NET POSITION

June 30, 2020 and 2019

(000's omitted)

	<u>2020</u>	<u>2019</u>		<u>2020</u>	<u>2019</u>
ASSETS			LIABILITIES		
Current assets:			Current liabilities:		
Cash and cash equivalents (Note 2)	\$486,892	\$433,914	Reserve for compensation (Note 4)	\$ 1,364,331	\$ 1,424,703
Collateral on loaned securities (Note 2)	4,167	2,375	Reserve for compensation adjustment expenses (Note 4)	430,404	428,824
Premiums recorded not yet due	14,053	15,708	Unearned premium and assessments	335,968	431,129
Assessments recorded not yet due	2,202	1,847	Legal settlement	4,500	4,500
Premiums in course of collection	5,559	6,464	Warrants payable	75,307	29,726
Assessments in course of collection	13,315	13,364	Group retrospective credit payable (Note 5)	119,073	231,626
Accounts receivable, net of allowance for uncollectibles of \$1,227,683 in 2020; \$1,216,259 in 2019	165,264	286,541	Policy holder dividend payable (Note 7)	7,651	1,296,000
Retrospective premiums receivable	26,672	29,234	Investment trade payables	506,106	396,284
Investment trade receivables	322,223	195,199	Accounts payable	18,576	16,087
Accrued investment income	105,531	124,978	Obligations under securities lending (Note 2)	4,167	2,375
Other current assets	600	600	Other current liabilities (Note 5)	49,617	50,792
Total current assets	<u>1,146,478</u>	<u>1,110,224</u>	Total current liabilities	<u>2,915,700</u>	<u>4,312,046</u>
Noncurrent assets:			Noncurrent liabilities:		
Restricted cash (Note 2)	736	-	Reserve for compensation (Note 4)	11,404,323	11,773,857
Fixed maturities, at fair value (Note 2)	14,590,831	15,168,181	Reserve for compensation adjustment expenses (Note 4)	1,319,096	1,307,176
Domestic equity securities, at fair value - common stock (Note 2)	4,982,702	5,711,396	Net pension liability (Note 8)	198,148	278,560
Domestic equity securities, at fair value - preferred stock (Note 2)	673	1,058	Net OPEB liability (Note 9)	136,667	130,796
Non-U.S equity securities, at fair value - common stock (Note 2)	2,459,620	2,681,443	Group retrospective credit payable (Note 5)	193,546	325,287
Investments in real estate funds (Note 2)	3,468,319	3,523,291	Other noncurrent liabilities (Note 5)	28,428	26,063
Unbilled premiums receivable	983,031	1,001,631	Total noncurrent liabilities	<u>13,280,208</u>	<u>13,841,739</u>
Retrospective premiums receivable	51,020	58,460	Total liabilities	<u>\$ 16,195,908</u>	<u>\$ 18,153,785</u>
Capital assets (Note 3)	97,207	116,659	DEFERRED INFLOW OF RESOURCES (Note 8 and 9)	67,525	61,116
Net pension asset (Note 8)	1,230	668	Total liabilities and deferred inflow of resources	<u>\$ 16,263,433</u>	<u>\$ 18,214,901</u>
Total noncurrent assets	<u>26,635,369</u>	<u>28,262,787</u>	NET POSITION		
Total assets	<u>\$ 27,781,847</u>	<u>\$ 29,373,011</u>	Net investment in capital assets	97,207	116,659
DEFERRED OUTFLOW OF RESOURCES (Note 8 and 9)	45,563	137,416	Unrestricted net position	<u>11,466,770</u>	<u>11,178,867</u>
Total assets and deferred outflow of resources	<u>\$ 27,827,410</u>	<u>\$ 29,510,427</u>	Total net position (Note 12)	<u>\$ 11,563,977</u>	<u>\$ 11,295,526</u>

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

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**STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION**

For the fiscal years ended June 30, 2020 and 2019

(000's omitted)

	<u>2020</u>	<u>2019</u>
Operating revenues:		
Premium and assessment income net of ceded premium (Note 6)	\$1,263,961	\$ 1,322,274
Provision for uncollectibles	(15,202)	(31,775)
Other income	8,670	9,396
Total operating revenues	<u>1,257,429</u>	<u>1,299,895</u>
Operating expenses:		
Workers' compensation benefits (Note 4)	841,312	369,563
Compensation adjustment expenses (Note 4)	419,509	390,533
Personal services	86,008	91,216
Other administrative expenses	90,274	87,921
Total operating expenses	<u>1,437,103</u>	<u>939,233</u>
Net operating (loss) income before policy holder dividends	(179,674)	360,662
Policy holder dividend expense (Note 7)	<u>1,343,613</u>	<u>1,182,817</u>
Net operating loss	<u>(1,523,287)</u>	<u>(822,155)</u>
Non-operating revenues:		
Net investment income (Note 2)	1,792,931	2,191,121
Gain (loss) on disposal of capital assets	232	121
Total non-operating revenues	<u>1,793,163</u>	<u>2,191,242</u>
Transfers out	<u>(1,425)</u>	<u>(425)</u>
Increase in net position	268,451	1,368,662
Net position, beginning of year	<u>11,295,526</u>	<u>9,926,864</u>
Net position, end of year	<u>\$ 11,563,977</u>	<u>\$ 11,295,526</u>

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

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STATEMENTS OF CASH FLOWS

For the fiscal years ended June 30, 2020 and 2019

(000's omitted)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash receipts from premiums and assessments net of reinsurance	\$ 1,425,410	\$ 1,723,185
Cash receipts - other	32,420	34,119
Cash disbursements for claims	(1,522,468)	(1,574,451)
Cash disbursements to employees for services	(219,767)	(217,489)
Cash disbursements for other operating expenses	(117,823)	(115,803)
Cash disbursements for employer refunds	(2,915,148)	(1,574,017)
Net cash used for operating activities	<u>(3,317,376)</u>	<u>(1,724,456)</u>
Cash flows from noncapital financing activities:		
Transfers out	(1,425)	(425)
Net cash used by noncapital financing activities	<u>(1,425)</u>	<u>(425)</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets, net of retirements	(1,541)	(1,834)
Net cash used in capital and related financing activities	<u>(1,541)</u>	<u>(1,834)</u>
Cash flows from investing activities:		
Investments sold	20,166,996	20,202,374
Investments purchased	(17,394,557)	(20,027,914)
Interest and dividends received	658,034	721,697
Investment expenses	(56,417)	(52,424)
Net cash provided by investing activities	<u>3,374,056</u>	<u>843,733</u>
Net (decrease) increase in cash and cash equivalents	53,714	(882,982)
Cash and cash equivalents, beginning of year	433,914	1,316,896
Cash and cash equivalents, end of year	<u>\$ 487,628</u>	<u>\$ 433,914</u>

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

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STATEMENTS OF CASH FLOWS, Continued

For the fiscal years ended June 30, 2020 and 2019

(000's omitted)

	<u>2020</u>	<u>2019</u>
Reconciliation of net operating loss to net cash used for operating activities:		
Net operating loss	\$ (1,523,287)	\$ (822,155)
Adjustments to reconcile net operating loss to net cash used for operating activities:		
Provision for uncollectible accounts	15,202	31,775
Depreciation	21,225	21,066
Pension and other postemployment benefits	23,159	48,500
(Increases) decreases in assets and increases (decreases) in liabilities:		
Premiums and assessments recorded not yet due	1,300	2,747
Premiums and assessments in course of collection	954	1,282
Unbilled premiums receivable	18,600	59,054
Accounts receivable	106,075	(57,058)
Retrospective premiums receivable	10,002	10,586
Reserves for compensation and compensation adjustment expenses	(416,406)	(977,749)
Unearned premiums and assessments	(95,161)	(68,953)
Group retrospective credit payable	(244,294)	119,835
Warrants payable	45,581	(135,369)
Accounts payable	2,489	(17,729)
Policy holder dividend payable	(1,288,349)	59,788
Other liabilities	<u>5,534</u>	<u>(76)</u>
Net cash used for operating activities	<u>\$ (3,317,376)</u>	<u>\$ (1,724,456)</u>
Noncash investing, capital, and financing activities		
Change in fair values of investments	\$ 1,206,417	\$ 1,536,515

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

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1. Organization Background and Summary of Significant Accounting Policies

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

The Governor of the State of Ohio (the State) with the advice and consent of the Senate and nominating committee appoints the BWC Administrator, the three members of the IC, and the 11-member BWC Board of Directors (Board). All members have full voting rights. The BWC Administrator, with the advice and consent of the Board, is responsible for the operations of the workers' compensation system, while the IC is responsible for administering claim appeals.

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

Basis of Presentation

BWC/IC has prepared its financial statements in accordance with accounting principles generally accepted in the United States of America as applicable to government organizations. Accordingly, these financial statements were prepared using the accrual basis of accounting and the economic resources measurement focus.

For internal reporting purposes, BWC/IC maintains separate internal accounts as required by the Code. For external financial reporting purposes, BWC/IC has elected to report as a single column business-type activity, since the individual accounts do not have external financial reporting accountability requirements. All significant interaccount balances and transactions have been eliminated.

BWC/IC administers the following accounts:

- State Insurance Fund (SIF)
- Disabled Workers' Relief Fund (DWRF)
- Coal-Workers Pneumoconiosis Fund (CWPF)
- Public Work-Relief Employees' Fund (PWREF)
- Marine Industry Fund (MIF)
- Self-Insuring Employers' Guaranty Fund (SIEGF)
- Administrative Cost Fund (ACF)

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Description of the Accounts

SIF, CWPF, PWREF, and MIF provide workers' compensation benefits for 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 relating to injuries sustained after 1987 by employees of self-insured employers that are bankrupt or in default.

ACF provides for the payment of administrative and operating costs of all accounts except DWRF, CWPF, and MIF, which pay such costs directly. ACF also includes the portion of premiums paid by employers earmarked for the safety and loss prevention activities performed by the Safety & Hygiene Division.

Operating revenues and expenses generally result from providing services in connection with ongoing operations. Operating revenues are primarily derived from premiums and assessments. Operating expenses include the costs of claims, premium dividends, and related administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents

Cash and cash equivalents in the accompanying statements of net position and for the purposes of the statements of cash flows include cash and all highly liquid debt instruments purchased with a maturity of three months or less. Cash equivalents consist of money market funds and commercial paper.

Investments

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

Investments are reported at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fixed income securities, domestic equity securities, and bond funds are valued based on published market prices and quotations from national security exchanges and securities pricing services. The fair value of the commingled bond index funds, commingled domestic equity funds, commingled non-U.S. equity funds, and U.S. real estate funds are based on the value of the underlying net assets of the fund. Dividends, interest earnings, the net increase (decrease) in the fair value of investments (which includes both the change in fair value and realized gains and losses), and investment expenses are aggregated and reported as net investment income in the statements of revenues, expenses and changes in net position. The cost of securities sold is determined using the average cost method. Purchases and sales of investments are recorded as of the trade date.

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Premium Income

Premiums are based on rates that are approved by the Board and on the employers' payroll, except self-insured employer assessments, which are based on paid compensation. SIF rates for private and public taxing district employers meeting certain size criteria are adjusted based on their own claims experience.

Premium income for SIF, CWPF, PWREF, and MIF is recognized over the coverage period. It is billed in advance of the coverage period, except for CWPF, which is billed and collected in subsequent periods. Premiums earned but not yet invoiced are reflected as premiums in course of collection in the statements of net position. Estimated annual premiums recorded but not yet invoiced are reflected as premiums recorded not yet due and unearned premium in the statements of net position.

In addition to the standard base and experience rated plans, BWC/IC offers the following alternative rating plans:

Group experience rating plans allow employers who operate within similar industries to group together to potentially achieve lower premium rates than they could individually.

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

Employers participating in group retrospective rating plans pay experience or base rated premiums as if they were individually rated at the beginning of the policy year. If the group's claims experience is better than expected at evaluation periods 12, 24, and 36 months after the close of the policy year, a portion of the group's premium is returned to employers participating in the group. If the group's claims experience is worse than expected at those intervals, additional premiums are levied on the employers participating in the group. The estimated future group retrospective rating plan credits are reflected in the statements of net position as group retrospective credit payable.

The deductible plan is offered to qualified employers. This plan is similar to that of other insurance deductible plans where an employer agrees to pay the portion of a workers' compensation injury claim that falls below their selected deductible level. For taking on this degree of risk, the employer receives a premium credit.

The Code permits State employers to pay into SIF on a terminal funding (pay-as-you-go) basis. Since BWC/IC has the statutory authority to assess premiums against the State employers in future periods, an unbilled premiums receivable equal to the State's 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 position.

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Assessment Income

DWRF I (DWRF benefits awarded for injuries incurred prior to January 1, 1987) assessments are based on employers' payroll and rates approved by the Board within a statutory range. DWRF II (DWRF benefits awarded for injuries incurred on or after January 1, 1987) and ACF assessments are based on rates that are approved by the Board and on employers' premiums, except for ACF assessments of self-insured employers, which are based on paid workers' compensation benefits. SIEGF assessments are based on paid compensation benefits with the exception of new self-insured employers, which are based on a percentage of prior losses as SIF employers.

Assessment income is recognized over the coverage period and is billed in advance of the coverage period. DWRF I and ACF assessment income is recognized over the period for which the assessment applies. These assessments earned but not yet invoiced were reflected as assessments in course of collection in the statements of net position. Estimated annual assessments recorded but not yet invoiced and unearned assessments are reflected as assessments recorded not yet due in the statements of net position.

In September 2015, the Board approved the funding of DWRF I benefits from SIF investment income for private and public taxing district employers rather than levying assessments against these employers. The annual change in funding commitment has been recorded in SIF and DWRF I as adjustments to the respective premium and assessment income in the statements of revenue, expenses and changes in net position for fiscal years 2020 and 2019. The commitment is reviewed annually and is subject to adjustment based on changes in the estimated DWRF I discounted reserves for compensation and compensation adjustment expenses.

The Code permits employers to pay into DWRF and SIEGF on a terminal funding (pay-as-you-go) basis. As BWC/IC has the statutory authority to assess employers in future periods, an unbilled premiums receivable equal to the discounted reserve for compensation and compensation adjustment expenses for DWRF I public state employers and SIEGF, less BWC/IC's portion of the discounted reserve, is reflected in the statements of net position. SIEGF assessments received or in the course of collection, but not yet recognized, are reflected as a reduction to unbilled premiums receivable.

The year-end balances of the DWRF II cash and investment balances and the DWRF II discounted reserve for compensation and compensation adjustments expenses are compared annually to determine when BWC/IC has an unbilled premiums receivable. At June 30, 2020 and 2019, the total DWRF II cash and investment balances exceeded the DWRF II discounted reserve for compensation and compensation adjustment expenses, thus no unbilled premiums receivable is recorded for DWRF II.

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.

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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
Intangible assets	10
Furniture and fixtures	10
Vehicles and equipment	5

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

Expenditures for the design, software configuration, software interfaces, coding, hardware, hardware installation, data conversion to the extent necessary for the operation of the new software, testing, and licensure on internally generated software exceeding \$1 million are capitalized as an intangible asset. Intangible assets are depreciated upon implementation of the software. The useful lives of intangible assets varies and is determined upon completion of each project.

Reserves for Compensation and Compensation Adjustment Expenses

The reserve for compensation includes actuarial unpaid indemnity and medical loss 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, duration, and inflationary trends for medical claim reserves. The reserve for compensation adjustment expenses is based on projected claim-related expenses, estimated costs of the managed care Health Partnership Program, and the reserve for compensation. The reserves for compensation and compensation adjustment expense do not contemplate future changes due to judicial or legislative actions that cannot be reasonably estimated. The methods and assumptions used in developing such estimates and for establishing the resulting liabilities are reviewed quarterly and updated based on current circumstances. The reserves for compensation and compensation adjustment expenses are discounted at 4.0% at June 30, 2020 and 2019 to reflect the present value of future benefit payments. The selected discount rate approximates an average expected investment yield on BWC/IC's investment portfolio that supports the future payment of the 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 and related expenses. While management and their consultants use currently available

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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 actual future claims experience and changing claims frequency, severity, duration, and inflationary trends for medical claim reserves.

Reinsurance

BWC/IC purchases workers' compensation excess of loss reinsurance to include coverage for catastrophic events and terrorism. Ceded reinsurance transactions are accounted for based on estimates of their ultimate cost. Reserves for compensation and compensation adjustment expenses are reported gross of reinsured amounts. Reinsurance premiums are reflected as a reduction of premium income. The current contract covers the fiscal years ended June 30, 2020 and 2019 and has been discontinued at the end of this contract.

Pensions and Other Post-Employment Benefits (OPEB)

For purposes of measuring the net pension liability, net pension asset, net OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions and OPEB, pension expense, and OPEB expense, information about the fiduciary net position of the Ohio Public Employee's Retirement System's (OPERS) Plans and additions to / deductions from the OPERS Plans' fiduciary net position have been determined on the same basis as they are reported by OPERS. For this purpose, OPERS records deductions when the liability is incurred and recognizes revenues when earned in accordance with benefit terms. OPERS' investments are reported at fair value.

Use of Estimates

In preparing the financial statements BWC/IC's management and pension/OPEB plans are required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could and very likely will differ from those estimates due to unforeseeable events or circumstances.

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.

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The composition of cash and investments held at June 30, 2020 and 2019, is presented below (000's omitted):

	2020 <u>Fair Value</u>	2019 <u>Fair Value</u>
Fixed maturities		
U.S. corporate bonds	\$ 5,316,999	\$ 5,079,118
U.S. treasury inflation protected securities	2,019,188	2,386,311
U.S. government obligations	1,818,801	2,348,274
Non-U.S. corporate bonds	1,179,031	1,248,603
U.S. government agency mortgages	949,759	852,258
Commingled U.S. treasury inflation protected securities	817,779	755,107
Commingled U.S. Long Government / Credit Fixed Income	685,847	637,413
Asset backed securities	507,797	544,142
Commercial mortgage backed securities	384,644	348,100
U.S. state and local government agencies	331,606	358,503
Non-U.S. government and agency bonds	217,086	214,040
Commingled U.S. aggregate indexed fixed income	160,960	149,232
Bond funds	81,812	73,255
Commingled U.S. intermediate duration fixed income	47,557	44,367
Preferred securities	34,143	45,767
U.S. government agency bonds	29,185	62,265
Bank loans	6,307	18,022
Supranational issues	2,330	3,404
Total fixed maturities	<u>14,590,831</u>	<u>15,168,181</u>
Domestic equity securities - common stocks	4,528,490	5,297,711
Domestic equity securities - preferred stocks	673	1,058
Commingled domestic equity securities - common stocks	454,212	413,685
Commingled Non-U.S. equity securities - common stocks	2,459,620	2,681,443
Commingled investments in real estate	3,468,319	3,523,291
Securities lending short-term collateral	4,167	2,375
Restricted cash	736	-
Cash and cash equivalents		
Cash	50,456	31,317
Short-term money market fund	436,436	402,597
Total cash and cash equivalents	<u>486,892</u>	<u>433,914</u>
	<u>\$ 25,993,940</u>	<u>\$ 27,521,658</u>

Net investment income for the fiscal years ended June 30, 2020 and 2019, is summarized as follows (000's omitted):

	<u>2020</u>	<u>2019</u>
Fixed maturities	\$ 422,414	\$ 483,230
Equity securities	95,557	99,428
Real estate	126,247	132,061
Cash equivalents	5,991	8,712
	<u>650,209</u>	<u>723,431</u>
Increase (decrease) in fair value of investments	1,206,417	1,536,515
Investment expenses	(63,695)	(68,825)
	<u>\$1,792,931</u>	<u>\$2,191,121</u>

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Custodial Credit Risk – Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, BWC/IC's deposits might not be recovered. Banks must provide security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in addition to amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities valued at least 102% of the total public monies on deposit at the institution. At June 30, 2020 and 2019, the carrying amount of BWC/IC's cash deposits were \$50.5 million and \$31.3 million, respectively, and the bank balances were \$12.8 million and \$6.8 million, respectively. Differences between the carrying amount and bank balances are primarily due to in transit credit card and online payments. Of the June 30, 2020 and 2019, bank balances, \$250 thousand were insured by the FDIC. The remaining cash balance on deposit with the bank was collateralized by pledges held by the trustee of either a surety bond or securities with a sufficient market value and was not exposed to custodial credit risk. Any pledged securities are held by the Federal Reserve, the Federal Home Loan Bank, or an insured financial institution serving as agent of the Treasurer of the State of Ohio.

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that, in the event of a failure of a counterparty to a transaction, BWC/IC will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. BWC/IC's investments are not exposed to custodial credit risk and are held in BWC/IC's name at either JP Morgan, in commingled account types, or are fixed maturity bank loans, which by definition, are not exposed to custodial credit risk. Commingled bond and U.S. equity funds are held in the custody of State Street. The commingled non-U.S. equity fund is held in the custody of JP Morgan. 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.

Fair Value Measurements

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

- Level 1 - Investments reflect prices quoted in active markets and are valued directly from a primary external pricing vendor.
- Level 2 - Investments reflect prices that are observable either directly or indirectly. Inputs may include quoted prices in markets that are not considered active or inputs other than quoted prices that are observable such as interest rates, yield curves, implied volatilities, credit spreads or market-corroborated inputs. These investments are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor.

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Level 3 - Investments reflect prices based upon unobservable sources. Asset backed securities, commercial mortgage backed securities, and bank loans are classified in Level 3 and are valued using an internal fair value as provided by the investment manager or other unobservable pricing source.

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

The fair value measurement of investments held at June 30, 2020 and 2019, is presented below (000's omitted):

	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	2020 Fair Value Total
Fixed Maturities				
U.S. corporate bonds	\$ 6,757	\$ 5,310,242	\$ -	\$ 5,316,999
U.S. treasury inflation protected securities	2,019,188	-	-	2,019,188
U.S. government obligations	1,697,605	121,196	-	1,818,801
Non-U.S. corporate bonds	-	1,179,031	-	1,179,031
U.S. government agency mortgages	-	940,883	8,876	949,759
Asset backed securities	-	387,874	119,923	507,797
U.S. state and local government agencies	-	328,948	2,658	331,606
Commercial mortgage backed securities	-	352,484	32,160	384,644
Non-U.S. government and agency bonds	-	217,086	-	217,086
U.S. government agency bonds	-	29,185	-	29,185
Preferred securities	-	34,143	-	34,143
Bond funds	29,463	-	-	29,463
Bank loans	-	-	6,307	6,307
Supranational issues	-	2,330	-	2,330
Domestic equity securities - common stocks	4,528,490	-	-	4,528,490
Domestic equity securities - preferred stocks	540	133	-	673
Securities lending short-term collateral	-	4,167	-	4,167
	<u>\$ 8,282,043</u>	<u>\$ 8,907,702</u>	<u>\$ 169,924</u>	<u>\$ 17,359,669</u>

Investments measured at net asset value:

Commingled U.S. aggregate indexed fixed income	160,960
Commingled U.S. Long Government / Credit Fixed Income	685,847
Commingled U.S. treasury inflation protected securities	817,779
Commingled U.S. intermediate duration fixed income	47,557
Investment in Bond Fund	52,349
Commingled domestic equity securities - common stocks	454,212
Commingled Non-U.S. equity securities - common stocks	2,459,620
Commingled investments in real estate	3,468,319
	<u>\$ 8,146,643</u>

Restricted Cash : \$ 736

Cash and Cash Equivalents: \$ 486,892

Total Investments: \$ 25,993,940

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	Quoted Prices Level 1	Observable Inputs Level 2	Unobservable Inputs Level 3	2019 Fair Value Total
Fixed Maturities				
U.S. corporate bonds	\$ -	\$ 5,079,118	\$ -	\$ 5,079,118
U.S. treasury inflation protected securities	2,386,311	-	-	2,386,311
U.S. government obligations	2,170,761	177,513	-	2,348,274
Non-U.S. corporate bonds	-	1,247,387	1,216	1,248,603
U.S. government agency mortgages	-	852,258	-	852,258
Asset backed securities	-	410,278	133,864	544,142
U.S. state and local government agencies	-	358,503	-	358,503
Commercial mortgage backed securities	-	323,546	24,554	348,100
Non-U.S. government and agency bonds	-	214,040	-	214,040
U.S. government agency bonds	-	62,265	-	62,265
Preferred securities	-	45,767	-	45,767
Bond funds	29,898	-	-	29,898
Bank loans	-	-	18,022	18,022
Supranational issues	-	3,404	-	3,404
Domestic equity securities - common stocks	5,297,711	-	-	5,297,711
Domestic equity securities - preferred stocks	888	170	-	1,058
Securities lending short-term collateral	-	2,375	-	2,375
	<u>\$ 9,885,569</u>	<u>\$ 8,776,624</u>	<u>\$ 177,656</u>	<u>\$ 18,839,849</u>

Investments measured at net asset value:	
Commingled U.S. aggregate indexed fixed income	149,232
Commingled U.S. Long Government / Credit Fixed Income	637,413
Commingled U.S. treasury inflation protected securities	755,107
Commingled U.S. intermediate duration fixed income	44,367
Investment in Bond Fund	43,357
Commingled domestic equity securities - common stocks	413,685
Commingled Non-U.S. equity securities - common stocks	2,681,443
Commingled investments in real estate	3,523,291
	<u>\$ 8,247,895</u>

Cash and Cash Equivalents: \$ 433,914

Total Investments: \$ 27,521,658

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For the investments below which do not have a readily determinable fair value, net asset value per unit is used as a practical expedient for establishing fair value. The valuation method for investments measured at the net asset value (NAV) per share, or equivalent, is presented in the tables below (000's omitted).

Investments Measured at the NAV
FY 2020

Investment Strategy	Fair Value	Unfunded Commitments	Redemption Frequency (If currently eligible)	Redemption Notice Period
Commingled U.S. aggregate indexed fixed income	\$ 160,960	\$ -	Daily	5 days
Commingled U.S. long government / credit fixed income	685,847	-	Daily	5 days
Commingled U.S. treasury inflation protected securities	817,779	-	Daily	5 days
Commingled U.S. intermediate duration fixed income	47,557	-	Daily	5 days
Investment in Bond Fund	52,349	-	Bi-Monthly	15 days
Commingled domestic equity securities - common stocks	454,212	-	Daily	5 days
Commingled Non-U.S. equity securities - common stocks	2,459,620	-	Daily	5 days
Commingled investments in real estate:				
Core real estate	2,256,773	-	Quarterly	1 quarter
Core plus real estate	905,542	-	Quarterly	1 quarter
Value added real estate	306,004	317,971	Illiquid	
Total Commingled investments in real estates:	\$ 3,468,319	\$ 317,971		

Investments Measured at the NAV
FY 2019

Investment Strategy	Fair Value	Unfunded Commitments	Redemption Frequency (If currently eligible)	Redemption Notice Period
Commingled U.S. aggregate indexed fixed income	\$ 149,232	\$ -	Daily	5 days
Commingled U.S. long government / credit fixed income	637,413	-	Daily	5 days
Commingled U.S. treasury inflation protected securities	755,107	-	Daily	5 days
Commingled U.S. intermediate duration fixed income	44,367	-	Daily	5 days
Investment in Bond Fund	43,357	-	Bi-Monthly	15 days
Commingled domestic equity securities - common stocks	413,685	-	Daily	5 days
Commingled Non-U.S. equity securities - common stocks	2,681,443	-	Daily	5 days
Commingled investments in real estate:				
Core real estate	2,361,391	-	Quarterly	1 quarter
Core plus real estate	875,345	-	Quarterly	1 quarter
Value added real estate	286,555	308,319	Illiquid	
Total Commingled investments in real estates:	\$ 3,523,291	\$ 308,319		

Commingled fixed maturities, domestic equity, and non-U.S. equity funds are valued at the net asset value of units held at the end of the period based upon the fair value of the underlying investments. Investment in the bond fund is valued monthly per the fund manager.

BWC/IC invests in real estate through limited partnerships, commingled funds, and commingled real estate investment trusts. Core and Core Plus real estate funds owned are open-ended funds that offer each investor the right to redeem all or a portion of their investment ownership interest once every quarter at the stated unit net asset value of the fund. Value-added real estate funds owned are close-ended funds and do not offer such redemption rights and, therefore, can be considered to be illiquid investments. The real estate funds provide BWC/IC with quarterly valuations based on the most recent capital account balances. Individual properties owned by the funds are valued by an outside independent certified real estate appraisal firm at least once a year and are adjusted as often as every quarter if material

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market or operational changes have occurred. Each asset is also valued internally on a quarterly basis by each fund. The internal and external valuations of properties owned are subject to oversight and review by an independent valuation advisor firm. Debt obligations of each fund receive market value adjustments by the fund every quarter, generally with the assumption that such positions will be held to maturity. Annual external audits of the funds include a review of compliance with the fund's valuation policies.

Interest Rate Risk – Fixed-Income Securities

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

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

At June 30, 2020 and 2019, the effective duration of BWC's fixed-income portfolio is as follows (000's omitted):

<u>Investment Type</u>	<u>June 30, 2020</u>		<u>June 30, 2019</u>	
	<u>Fair Value</u>	<u>Effective Duration</u>	<u>Fair Value</u>	<u>Effective Duration</u>
U.S. corporate bonds	\$ 5,316,999	13.10	\$ 5,079,118	12.34
U.S. treasury inflationary protected securities	2,019,188	8.29	2,386,311	7.99
U.S. government obligations	1,818,801	8.91	2,348,274	7.94
Non-U.S. corporate bonds	1,179,031	10.35	1,248,603	9.66
U.S. government agency mortgages	949,759	2.81	852,258	3.19
Commingled U.S. treasury inflationary protected securities	817,779	7.90	755,107	7.62
Commingled U.S. Long Government / Credit Fixed Income	685,847	16.75	637,413	15.66
Asset backed securities	507,797	1.59	544,142	1.64
Commercial mortgage backed securities	384,644	3.88	348,100	4.22
U.S. state and local government agencies	331,606	12.85	358,503	12.25
Non-U.S. government and agency bonds	217,086	11.44	214,040	10.94
Commingled U.S. aggregate indexed fixed income	160,960	6.05	149,232	5.74
Bond funds	81,812	1.62	73,255	0.15
Commingled U.S. intermediate duration fixed income	47,557	4.10	44,367	3.94
Preferred securities	34,143	3.31	45,767	4.05
U.S. government agency bonds	29,185	14.72	62,265	6.14
Bank loans	6,307	0.34	18,022	0.25
Supranational issues	2,330	1.70	3,404	2.48
Total fixed maturities	<u>\$ 14,590,831</u>		<u>\$ 15,168,181</u>	

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Although the short-term money market 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 its yield resulting in some interest rate risk.

Credit Risk – Fixed-Income Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment. U.S. government obligations, U.S. treasury inflation protected securities, and commingled U.S. treasury inflation protected securities are all rated AA by Standard and Poor's (S&P) in fiscal years 2020 and 2019. Obligations of the U.S. government are explicitly guaranteed by the U.S. government. BWC/IC's fixed-income securities were rated by S&P and/or an equivalent national rating organization and the ratings are presented below using the S&P rating scale (000's omitted):

Quality Rating	2020	2019
<u>Credit risk debt quality</u>	<u>Fair Value</u>	<u>Fair Value</u>
AAA	\$ 625,120	\$ 624,456
AA	1,239,332	1,206,021
A	2,650,148	2,270,814
BBB	3,772,603	4,086,518
BB	439,379	399,172
B	179,427	126,364
CCC	39,363	41,468
CC	4,193	3,442
C	789	128
D	5,765	-
NR	-	5,583
Total credit risk debt securities	<u>8,956,119</u>	<u>8,763,966</u>
U.S. government agency bonds		
AAA	10,033	10,179
AA	19,152	52,086
Total U.S. government agency bonds	<u>29,185</u>	<u>62,265</u>
U.S. government agency mortgages		
AAA	193,782	137,818
AA	753,905	711,936
A	-	2,240
BBB	715	264
BB	1,167	-
B	190	-
Total U.S. government agency mortgages	<u>949,759</u>	<u>852,258</u>
U.S. government obligations (AA)	1,818,801	2,348,274
U.S. treasury inflation protected securities (AA)	2,019,188	2,386,311
Commingled U.S. treasury inflation protected securities (AA)	817,779	755,107
Total fixed maturities	<u>\$ 14,590,831</u>	<u>\$ 15,168,181</u>

The short-term money market fund carries an AAA credit rating.

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Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of BWC/IC's investment in a single issuer. In 2020 and 2019, there is no single issuer that comprises 5% or more of the overall portfolio with the exception of BWC/IC's investments in the U.S. government.

Foreign Currency Risk – Investments

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. BWC's exposure to foreign currency risk as of June 30, 2020 and 2019, is as follows (000's omitted):

<u>Currency</u>	2020 <u>Fair Value</u>	2019 <u>Fair Value</u>
Argentine Peso	\$ 172	\$ 2,014
Australian Dollar	105,368	125,142
Bermudian Dollar	1,681	2,893
Brazilian Real	36,121	53,718
British Pound	203,240	256,912
Canadian Dollar	159,040	182,274
Caymanian Dollar	1,163	559
Chilean Peso	4,138	6,468
Chinese Renminbi	267,345	200,274
Colombian Peso	1,280	2,995
Czech Koruna	712	1,086
Danish Krone	37,144	30,558
Egyptian Pound	759	1,010
Euro	529,517	609,963
Hong Kong Dollar	71,801	88,633
Hungarian Forint	1,667	2,089
Indian Rupee	56,103	63,029
Indonesian Rupiah	10,297	14,963
Israeli Shekel	10,113	10,332
Japanese Yen	403,018	421,388
Macau Pataca	1,484	2,096
Malaysian Ringgit	12,415	14,913
Manx Pound	864	1,011
Mexican Peso	12,129	18,096
New Zealand Dollar	5,145	4,452
Norwegian Krone	8,215	11,897
Pakistani Rupee	171	220
Papua New Guinean Kina	513	831
Peruvian Nuevo Sol	234	443
Philippines Peso	5,809	7,938
Polish Zloty	5,034	7,883
Qatari Rial	5,858	6,545
Russian Ruble	22,295	28,801
Saudi Riyal	18,668	9,919
Singapore Dollar	17,725	23,876
South African Rand	25,898	40,957
South Korean Won	81,185	87,052
Swedish Krona	45,784	43,880
Swiss Franc	169,246	172,745
Taiwan Dollar	84,910	76,071
Thailand Baht	15,737	20,962
Turkish Lira	2,989	3,524
United Arab Emirates Dirham	3,678	4,896
Exposure to foreign currency risk	<u>2,446,665</u>	<u>2,665,308</u>
United States Dollar	12,955	16,135
Total international securities	<u>\$ 2,459,620</u>	<u>\$ 2,681,443</u>

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Securities Lending

At June 30, 2020 and 2019, BWC/IC had no securities out on loan. BWC/IC has been allocated with cash collateral of \$4.2 million in 2020 and \$2.4 million in 2019 from the securities lending program administered through the Treasurer of State's Office based on the amount of cash equity in the State's common cash and investment account.

3. Capital Assets

Capital asset activity and balances as of and for the fiscal years ended June 30, 2020 and 2019, are summarized as follows (000's omitted):

	Balance at 6/30/2018	Increases	Decreases	Balance at 6/30/2019	Increases	Decreases	Balance at 6/30/2020
Capital assets not being depreciated							
Land	\$ 9,466	\$ -	\$ -	\$ 9,466	\$ -	\$ -	\$ 9,466
Subtotal	9,466	-	-	9,466	-	-	9,466
Capital assets being depreciated							
Buildings	205,831	-	-	205,831	-	-	205,831
Building improvements	3,608	-	-	3,608	-	-	3,608
Furniture and equipment	29,560	1,982	(4,457)	27,085	1,788	(3,710)	25,163
Subtotal	238,999	1,982	(4,457)	236,524	1,788	(3,710)	234,602
Accumulated depreciation							
Buildings	(186,107)	(6,787)	-	(192,894)	(6,947)	-	(199,841)
Building improvements	(1,284)	(177)	-	(1,461)	(177)	-	(1,638)
Furniture and equipment	(21,902)	(2,684)	4,430	(20,156)	(2,844)	3,695	(19,305)
Subtotal	(209,293)	(9,648)	4,430	(214,511)	(9,968)	3,695	(220,784)
Capital assets being amortized							
Intangible assets - definite useful lives	115,789	-	-	115,789	-	-	115,789
Accumulated amortization	(19,191)	(11,418)	-	(30,609)	(11,257)	-	(41,866)
Subtotal	96,598	(11,418)	-	85,180	(11,257)	-	73,923
Net capital assets	\$ 135,770	\$ (19,084)	\$ (27)	\$ 116,659	\$ (19,437)	\$ (15)	\$ 97,207

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 liabilities for compensation and compensation adjustment expenses are BWC management's selection based on estimates by BWC's independent consulting actuary and BWC's Actuarial division staff. Management believes that the recorded liabilities make for a reasonable and appropriate provision for expected future losses and expenses; however, the ultimate liabilities may vary from the amounts provided.

All reserves have been discounted at 4.0% at June 30, 2020 and 2019. A decrease in the discount rate to 3.0% would result in the reserves for compensation and compensation adjustment expenses increasing to \$16.2 billion at June 30, 2020, while an increase in the rate to 5.0% would result in the reserves for compensation and compensation adjustment expenses decreasing to \$13.3 billion. The undiscounted reserves for compensation and compensation adjustment expenses were \$23.7 billion at June 30, 2020, and \$24.6 billion at June 30, 2019.

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The changes in the reserves for compensation and compensation adjustment expenses for the fiscal years ended June 30, 2020, 2019, and 2018, are summarized as follows (000,000's omitted):

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Reserves for compensation and compensation adjustment expenses, beginning of period	\$ 14,934	\$ 15,912	\$ 16,866
Incurred:			
Provision for insured events of current period	1,414	1,465	1,507
Net (decrease) increase in provision for insured events of prior periods net of discount accretion of \$597 in 2020, \$636 in 2019, and \$675 in 2018.	<u>(153)</u>	<u>(705)</u>	<u>(703)</u>
Total incurred	1,261	760	804
Payments:			
Compensation and compensation adjustment expenses attributable to insured events of current period	330	348	341
Compensation and compensation adjustment expenses attributable to insured events of prior period	<u>1,347</u>	<u>1,390</u>	<u>1,417</u>
Total payments	1,677	1,738	1,758
Reserves for compensation and compensation adjustment expenses, end of period	<u>\$ 14,518</u>	<u>\$ 14,934</u>	<u>\$ 15,912</u>

5. Long-Term Obligations

Activity for long-term obligations (excluding the reserves for compensation and compensation adjustment expenses – see Note 4) for the fiscal years ended June 30, 2020 and 2019, is summarized as follows (000's omitted):

	<u>Balance at 6/30/2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at 6/30/2019</u>	<u>Due Within One Year</u>
Net pension liability	\$ 162,718	\$ 115,842	\$ -	\$ 278,560	\$ -
Net OPEB liability	111,078	19,718	-	130,796	-
Group retrospective credit payable	437,078	371,618	(251,783)	556,913	231,626
Other liabilities	67,985	127,453	(118,583)	76,855	50,792
	<u>\$ 778,859</u>	<u>\$ 634,631</u>	<u>\$ (370,366)</u>	<u>\$ 1,043,124</u>	<u>\$ 282,418</u>
	<u>Balance at 6/30/2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at 6/30/2020</u>	<u>Due Within One Year</u>
Net pension liability	\$ 278,560	\$ -	\$ (80,412)	\$ 198,148	\$ -
Net OPEB liability	130,796	5,871	-	136,667	-
Group retrospective credit payable	556,913	247,142	(491,436)	312,619	119,073
Other liabilities	76,855	128,127	(126,937)	78,045	49,617
	<u>\$ 1,043,124</u>	<u>\$ 381,140</u>	<u>\$ (698,785)</u>	<u>\$ 725,479</u>	<u>\$ 168,690</u>

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6. Reinsurance

BWC/IC purchased catastrophic reinsurance for the fiscal years ended June 30, 2020 and 2019, for risks in excess of its retention limits on workers' compensation insurance policies written. Management is not aware of any catastrophes during the coverage periods listed below, and BWC/IC has not recorded any reinsurance recoveries. BWC/IC discontinued the reinsurance contract as of the end of the current contract June 30, 2020.

In every policy period reported below, Section Two covers BWC's remaining liability under the Terrorism Risk Insurance Program Reauthorization Act of 2015 (TRIPRA). TRIPRA is in effect for losses up to \$1 billion. Certain provisions frame the coverage under TRIPRA and they are the following:

- The aggregate losses from an occurrence must exceed \$100 million. This minimum increases \$20 million per year from 2016 to 2020.
- Each insurer will have an annual aggregate retention equal to 20% of its prior year's direct earned premiums.
- Each insurer will be responsible for 15% of losses otherwise recoverable that exceed its TRIPRA retention. This percentage increases 1% per year from 2016 to 2020.

Coverage for policies is provided under the following terms:

- Section One – Other than Acts of Nuclear, Biological, Chemical, or Radiological (NBCR) Terrorism - 50% of \$250 million in excess of \$100 million per Loss Occurrence - Maximum loss of \$10 million of any one person
- Section Two – Only for Acts of Terrorism including NBCR Terrorism - \$100 million in excess of \$350 million per Loss Occurrence - Maximum loss of \$10 million of any one person

The following premiums ceded for reinsurance coverage have been recorded in the accompanying basic financial statements for the fiscal years ended June 30, 2020 and 2019 (000's omitted):

	<u>2020</u>	<u>2019</u>
Premium and assessment income	\$ 1,267,508	\$ 1,325,821
Ceded premiums	(3,547)	(3,547)
Total premium and assessment income net of ceded premiums	\$ 1,263,961	\$ 1,322,274

Should the reinsurers be unable to meet their obligations under the reinsurance contracts, BWC/IC would remain liable for coverage ceded to its reinsurers. Reinsurance contracts do not relieve BWC/IC of its obligations, and a failure of the reinsurer to honor its obligations could result in losses to BWC/IC. BWC/IC evaluates and monitors the financial condition of its reinsurers to minimize its exposure to loss from reinsurer insolvency. BWC/IC management believes its reinsurers are financially sound and will continue to meet their contractual obligations.

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BWC/IC's reinsurers had the following AM Best ratings at June 30, 2020 and 2019:

<u>Reinsurer</u>	<u>2020</u>	<u>2019</u>
Allied World Assurance Co. Ltd.	A	A
Arch Reinsurance Co	A+	*
Axis Specialty Ltd.	A	A+
Brit Global Speciality [Syn. 2987]	*	A
Hannover Re (Bermuda) Ltd.	A+	A+
Cincinnati Ins Co	A+	A+
London Markets	A	A
Markel Global Re Co	A	A
MS Almin AG	A	*
Renaissance Re	A+	A+

*Reinsurer not under contract

Other States Coverage

BWC provides access to optional insurance coverage for Ohio companies who meet BWC's underwriting criteria and have out of state workers' compensation exposures. This optional policy offers coverage for workers' compensation gaps and protects employers from penalties and stop-work orders in other states. Zurich American Insurance Company acts as the fronting carrier of the Other States Coverage policies. Acrisure LLC, dba United States Insurance Services Inc, acts as the exclusive fronting agency. The SIF provides 100% reinsurance for the policies in this program.

7. Policy Holder Dividend

BWC's net asset policy contains the business rationale, methodology, and guiding principles with respect to maintaining a prudent net position to protect SIF against financial and operational risks that may threaten the ability to meet future obligations.

The Board approved a dividend to reduce the net position in SIF at the April 2020 board meeting. As a result, the private employers were granted a dividend equivalent to 100% of billed premiums for the July 1, 2018, through June 30, 2019, policy period, while PEC employers were also granted a dividend equivalent to 100% of premiums for the January 1, 2018, through December 31, 2018, policy period. This action resulted in premium dividend expense of \$1.3 billion and a reduction of the group retrospective credit payable balance of \$215 million in fiscal year 2020.

In fiscal year 2019 the Board approved a dividend for both private and PEC employers of 88% of billed premiums for the July 1, 2017, through June 30, 2018, policy period and January 1, 2017, through December 31, 2017, policy period, respectively. As a result, premium dividend expense for fiscal year 2019 totaled \$1.2 billion.

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These policy holder dividends reduce the SIF net position, but preserve a prudent net position while maintaining the ability to meet future obligations for the fund.

8. Pension Plans

General Information

BWC/IC employees participate in the Ohio Public Employees Retirement System (OPERS), a cost-sharing, multiple-employer public employee retirement system. OPERS administers three pension plans:

- The Traditional Plan - a defined benefit plan.
- The Combined Plan – a combination of a defined benefit plan and a defined contribution plan. This plan invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Plan benefit. Member contributions are self-directed by the members and accumulate retirement assets in a manner similar to the Member-Directed Plan.
- The Member-Directed Plan – a defined contribution plan. Under this plan, members accumulate retirement assets equal to the value of member and vested employer contributions plus any investment earnings thereon.

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Plan and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Benefits are established and may be amended by State statute. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a publicly available financial report that includes financial statements, required supplementary information, information about the pension plan's fiduciary net position, and the Plan Statement with pension plan details. The report is available by visiting <https://www.opers.org/financial/reports.shtml>, by writing to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 1-800-222-7377. As of June 30, 2020, the most recent report issued by OPERS is for the calendar year ended December 31, 2019.

Funding Policy

Chapter 145 of the Ohio Revised Code provides statutory authority for employee and employer contributions. During fiscal years 2020 and 2019, the employee contribution rate was 10% and the employer contribution rate was 14% of covered payroll for all three plans. BWC/IC's contractually required employer contributions were \$20.5 million for calendar year 2019 and \$20.1 million for calendar year 2018.

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Measurement Date

The measurement dates for the net pension assets and liabilities, deferred inflows and outflows of resources, and pension expense were December 31, 2019, for fiscal year 2020 and December 31, 2018, for fiscal year 2019. OPERS total pension assets and liabilities that were used to calculate the net pension asset and liability were also based on an actuarial valuation as of these dates.

Proportionate Share

BWC/IC's proportionate shares of the net pension assets and liabilities are determined as BWC/IC's share of contributions to the pension plan relative to the total employer contributions from all participating OPERS employers. Member and employer contributions included in OPERS' Statement of Changes in Fiduciary Net Position are used to calculate proportionate share. At December 31, 2019 and 2018, BWC/IC's proportions were as follows:

	<u>December 2019</u>	<u>December 2018</u>
Traditional Plan	1.002487%	1.017089%
Combined Plan	0.589865%	0.597195%

Pension Assets, Deferred Outflows of Resources, Pension Liabilities, Deferred Inflows of Resources, and Pension Expense

At June 30, 2020 and 2019, BWC/IC reported \$1.2 million and \$668 thousand, respectively, for its proportionate share of the Combined Plan's net pension asset and a liability of \$198.1 million and \$278.6 million, respectively, for its proportionate share of the Traditional Plan's net pension liability.

For the fiscal years ended June 30, 2020 and 2019, BWC/IC recognized pension expense of \$8.8 million and \$38.9 million, respectively.

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At June 30, 2020 and 2019, BWC/IC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (000's omitted):

	June 2020		June 2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 2,808	\$ 14	\$ 3,954
Net difference between projected and actual earnings on pension plan investments	-	39,946	83,059	45,307
Changes in proportion and differences between BWC/IC contributions and proportional share of contributions	2,148	3,445	2,152	3,863
Assumption changes	10,864	-	24,460	-
BWC/IC contributions subsequent to the measurement date	10,582	-	11,093	-
Total	<u>\$ 23,594</u>	<u>\$ 46,199</u>	<u>\$ 120,778</u>	<u>\$ 53,124</u>

In 2020 and 2019, deferred outflows of resources related to pensions resulting from BWC/IC's contributions subsequent to the measurement date of \$10.6 million and \$11.1 million, respectively, will be recognized as a reduction of net pension liability in the fiscal years ended June 30, 2020 and 2019, respectively.

Deferred outflows of resources includes the BWC/IC's proportionate share of the effects of changes in assumptions resulting from OPERS experience study for the period 2011 through 2015. Information from this study led to changes in both demographic and economic assumptions. The long-term pension investment return assumption for the defined benefit investments was reduced over the last two years from 7.5% to 7.2%. These assumption changes as well as other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future years as follows (000's omitted):

Year ended June 30:	As of June 30, 2020		As of June 30, 2019	
	2021	\$ (5,780)	2020	\$ 24,168
	2022	(13,434)	2021	11,591
	2023	1,858	2022	3,223
	2024	(15,785)	2023	17,623
	2025	(19)	2024	(20)
	Thereafter	\$ (27)	Thereafter	\$ (24)

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Actuarial Assumptions

The total pension liabilities in the December 31, 2019 and 2018, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

December 2019

	Traditional Pension Plan	Combined Plan
Actuarial Assumptions:		
Investment Rate of Return	7.20%	7.20%
Wage Inflation	3.25%	3.25%
Projected Salary Increases	3.25% - 10.75% (includes wage inflation at 3.25%)	3.25% - 8.25% (includes wage inflation at 3.25%)
Cost of living Adjustments	Pre-1/7/2013 Retirees: 3.00% Simple Post-1/7/2013 Retirees: 1.40% Simple through 2020, then 2.15% Simple	Pre-1/7/2013 Retirees: 3.00% Simple Post-1/7/2013 Retirees: 1.40% Simple through 2020, then 2.15% Simple

December 2018

	Traditional Pension Plan	Combined Plan
Actuarial Assumptions:		
Investment Rate of Return	7.20%	7.20%
Wage Inflation	3.25%	3.25%
Projected Salary Increases	3.25% - 10.75% (includes wage inflation at 3.25%)	3.25% - 8.25% (includes wage inflation at 3.25%)
Cost of living Adjustments	Pre-1/7/2013 Retirees: 3.00% Simple Post-1/7/2013 Retirees: 3.00% Simple through 2018, then 2.15% Simple	Pre-1/7/2013 Retirees: 3.00% Simple Post-1/7/2013 Retirees: 3.00% Simple through 2018, then 2.15% Simple

Mortality rates are based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

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The actuarial assumptions used in the December 31, 2019 and 2018, valuations were based on the results of an actuarial experience study for a 5 year period ended December 31, 2015. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

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

The table below displays the OPERS Board approved asset allocation policy for December 2019 and 2018 and the expected real rates of return.

Asset Class	<u>December 2019</u>		<u>December 2018</u>	
	Target Allocation	Weighted Average Longterm Expected Real Rate of Return	Target Allocation	Weighted Average Longterm Expected Real Rate of Return
Fixed income	25.00%	1.83%	23.00%	2.79%
Domestic equity	19.00%	5.75%	19.00%	6.21%
International equity	21.00%	7.66%	20.00%	7.83%
Real estate	10.00%	5.20%	10.00%	4.90%
Private equity	12.00%	10.70%	10.00%	10.81%
Other Investments	13.00%	4.98%	18.00%	5.50%
Total	100.00%	5.61%	100.00%	5.95%

Discount Rate

The discount rate used to measure the total pension liability for both the Traditional Pension Plan and the Combined Plan was 7.2% for 2019 and 2018. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Traditional Pension Plan and Combined Plan was applied to all periods of projected benefit payments to determine the total pension liability.

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Sensitivity to Changes in the Discount Rate

For the years 2019 and 2018, the following tables present BWC/IC's proportionate share of the net pension liability calculated using the discount rate of 7.2%, as well as BWC/IC's proportionate share of the net pension liability using a discount rate that is 1% lower or 1% higher than the current rate (000's omitted):

December 2019

	<u>1% Decrease - 6.2 %</u>	<u>Current Discount Rate - 7.2%</u>	<u>1% Increase - 8.2%</u>
Traditional Plan:			
Total Net Pension Liability	326,811	198,148	82,485
Combined Plan:			
Total Net Pension (Asset)	(743)	(1,230)	(1,581)

December 2018

	<u>1% Decrease - 6.2 %</u>	<u>Current Discount Rate - 7.2%</u>	<u>1% Increase - 8.2%</u>
Traditional Plan:			
Total Net Pension Liability	411,514	278,560	168,074
Combined Plan:			
Total Net Pension (Asset)	(221)	(668)	(991)

Defined Contribution Plans

Defined contribution plan benefits are established in the plan documents, which may be amended by the OPERS Board. Member-Directed Plan and Combined Plan members who have met the retirement eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the Combined Plan consists of the member's contributions plus or minus the investment gains or losses resulting from the member's investment selections. Combined Plan members wishing to receive benefits must meet the requirements for both the defined benefit and defined contribution plans. Member-Directed participants must have attained the age of 55, have money on deposit in the defined contribution plan and have terminated public service to apply for retirement benefits. The amount available for defined contribution benefits in the Member-Directed Plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five year period, at a rate of 20% each year. BWC/IC recognized \$581 thousand and \$558 thousand in pension expense for defined contribution plans in fiscal years 2020 and 2019, respectively. At retirement, members may select one of the several distribution options for payment of the vested balance of their individual OPERS accounts. Options include the annuitization of their benefit (which includes joint and survivor options), partial lump sum payments (subject to limitations), a rollover of the vested account

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balance to another financial institution, receipt of entire account balance, net of taxes withheld, or a combination of these options.

9. Other Post-Employment Benefit (OPEB)

OPERS administers the 115 Health Care Trust, a cost-sharing, multiple-employer defined benefit post-employment health care trust. OPERS health care program includes medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement for qualifying benefit recipients of both the Traditional Pension and the Combined plans. Currently, Medicare eligible retirees are able to select medical and prescription drug plans from a range of options and may elect optional vision and dental plans. Although participants in the Member-Directed Plan are not eligible for health care coverage offered to benefit recipients in the Traditional and Combined plans, a portion of employer contributions is allocated to a retiree medical account. Upon retirement or separation, participants may be reimbursed for qualified medical expenses from these accounts.

All benefits of the System, and any benefit increases, are established by the legislature pursuant to Ohio Revised Code Chapter 145. OPERS Board has elected to maintain funds to provide health care coverage to eligible Traditional Pension Plan and Combined Plan retirees and survivors of members. Health care coverage does not vest and is not required. As a result, coverage may be reduced or eliminated at the discretion of OPERS. To qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must be at least age 60 with 20 or more years of qualifying Ohio service. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available.

OPERS issues a publicly available financial report that includes financial statements, required supplementary information, information about the OPEB plan's fiduciary net position, and the Plan Statement with OPEB plan details. This report is available by visiting <https://www.opers.org/financial/reports.shtml>, by writing to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 1-800-222-7377. As of June 30, 2020, the most recent report issued by OPERS is for the calendar year ended December 31, 2019.

Funding Policy

Beginning in 2018, Traditional Pension Plan and Combined Plan employer contributions are no longer allocated to health care. Employer contributions as a percent of covered payroll deposited for the Member-Directed Plan participants' health care accounts was 4.0% for both 2019 and 2018. Based upon the portion of each employer's contribution to OPERS set aside for funding OPEB as described above, BWC/IC's contribution allocated to OPEB for the 12 months ended December 31, 2019 and 2018, was approximately \$232 thousand and \$223 thousand respectively.

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Measurement Date

The measurement dates for the net OPEB liabilities, deferred inflows and outflows of resources, and OPEB expense were December 31, 2019, for fiscal year 2020 and December 31, 2018, for fiscal year 2019. For fiscal years 2020 and 2019, OPERS total OPEB assets and liabilities that were used to calculate the net OPEB liability were based on an actuarial valuation of December 31, 2018, with a rollforward measurement date of December 31, 2019, and December 31, 2017, with a rollforward measurement date of December 31, 2018, respectively.

Proportionate Share

BWC/IC's proportionate shares of the net OPEB assets and liabilities are determined as BWC/IC's share of contributions to the plan relative to the total employer contributions from all participating OPERS employers. Member and employer contributions included in OPERS' Statement of Changes in Fiduciary Net Position are used to calculate proportionate share. At December 31, 2019 and 2018, BWC/IC's proportions were as follows:

	<u>December 2019</u>	<u>December 2018</u>
OPEB	0.989436%	1.003218%

Net OPEB Liability, Deferred Outflows of Resources, Deferred Inflows of Resources, and OPEB Expense

At June 30, 2020 and 2019, BWC/IC reported \$136.7 million and \$130.8 million, respectively, for its proportionate share of the net OPEB liability.

For the fiscal years ended June 30, 2020 and 2019, BWC/IC recognized OPEB expense of \$13.9 million and \$11 million, respectively.

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At June 30, 2020 and 2019, BWC/IC reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources (000's omitted):

	<u>June 2020</u>		<u>June 2019</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 4	\$ 12,501	\$ 45	\$ 355
Net difference between projected and actual earnings on OPEB plan investments	-	6,970	12,083	6,206
Changes in proportion and differences between BWC/IC contributions and proportionate share of contributions	320	1,855	212	1,431
Assumption changes	21,645	-	4,298	-
Total	<u>\$ 21,969</u>	<u>\$ 21,326</u>	<u>\$ 16,638</u>	<u>\$ 7,992</u>

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (000's omitted):

	As of June 30, 2020		As of June 30, 2019	
Year ended June 30:				
	2021	\$ 2,346	2020	\$ 4,123
	2022	1,224	2021	573
	2023	47	2022	930
	2024	(2,974)	2023	3,020

Actuarial Assumptions

The total OPEB liability in the December 31, 2019 and 2018, actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

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December 2019

	OPEB
Actuarial Assumptions:	
Single Discount Rate	3.16%
Investment Rate of Return	6.00%
Wage Inflation	3.25%
Municipal Bond Rate	2.75%
Projected Salary Increases	3.25% - 10.75% (includes wage inflation at 3.25%)
Health Care Cost Trend Rate	10% initial, 3.5% ultimate in 2030

December 2018

	OPEB
Actuarial Assumptions:	
Single Discount Rate	3.96%
Investment Rate of Return	6.00%
Wage Inflation	3.25%
Municipal Bond Rate	3.71%
Projected Salary Increases	3.25% - 10.75% (includes wage inflation at 3.25%)
Health Care Cost Trend Rate	10% initial, 3.25% ultimate in 2029

Mortality rates are based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates

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for a calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

The actuarial assumptions used in the December 31, 2019 and 2018, valuations were based on the results of an actuarial experience study for a 5-year period ended December 31, 2015. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

The long-term expected rate of return on the health care investment assets was determined using a building-block method in which best estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long term expected best estimates of arithmetical rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

The table below displays the OPERS Board approved asset allocation policy for December 2019 and 2018 and the expected real rates of return.

Asset Class	December 2019		December 2018	
	Target Allocation	Weighted Average Longterm Expected Real Rate of Return	Target Allocation	Weighted Average Longterm Expected Real Rate of Return
Fixed income	36.00%	1.53%	34.00%	2.42%
Domestic equity	21.00%	5.75%	21.00%	6.21%
International equity	23.00%	7.66%	22.00%	7.83%
Real estate	6.00%	5.69%	6.00%	5.98%
Other Investments	14.00%	4.90%	17.00%	5.57%
Total	100.00%	4.55%	100.00%	5.16%

Discount Rate

The single discount rate used to measure the OPEB liability at the measurement date of December 31, 2019 and 2018, was 3.16% and 3.96%, respectively. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). These single discount rates

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for 2019 and 2018 were based on an expected rate of return on the health care investment portfolio of 6.00%, and a municipal bond rate of 2.75% and 3.71%, respectively. The projection of cash flows used to determine these single discount rates assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the 2019 and 2018 health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034 and 2031, respectively. As a result, the 2019 and 2018 long-term expected rates of return on health care investments were applied to projected costs through the year 2034 and 2031, respectively, and the municipal bond rates were applied to all health care costs after these dates.

Sensitivity to Changes in the Discount Rate

For December 2019 and December 2018, the following tables present BWC/IC's proportionate share of the net OPEB liability calculated using the discount rate of 3.16 and 3.96%, respectively, as well as BWC/IC's proportionate share of the net OPEB liability using a discount rate that is 1.0% lower or 1.0% higher than the current rate (000's omitted):

December 2019

	<u>1% Decrease - 2.16 %</u>	<u>Single Discount Rate - 3.16%</u>	<u>1% Increase - 4.16%</u>
OPEB:			
Total Net OPEB Liability	178,850	136,667	102,891

December 2018

	<u>1% Decrease - 2.96 %</u>	<u>Single Discount Rate - 3.96%</u>	<u>1% Increase - 4.96%</u>
OPEB:			
Total Net OPEB Liability	167,337	130,796	101,726

Sensitivity to Changes in the Health Care Cost Trend Rate

Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following tables present BWC/IC's proportionate share of the net OPEB liability calculated using the assumed trend rates and the expected net OPEB liability using a health care cost trend rate that is 1.0% lower or 1.0% higher than the current rate for December 2019 and December 2018 (000's omitted):

December 2019

	<u>1% Decrease</u>	<u>Current Health Care Cost Trend Rate Assumption</u>	<u>1% Increase</u>
OPEB:			
Total Net OPEB Liability	132,634	136,667	140,648

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December 2018

	1% Decrease	Current Health Care Cost Trend Rate Assumption	1% Increase
OPEB:			
Total Net OPEB Liability	125,723	130,796	136,638

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the starting trend in 2020 and 2019 is 10.5% and 10.0%, respectively. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.50% in the most recent valuation.

10. Risk Management

BWC/IC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To cover these risks, BWC/IC maintains commercial insurance and property insurance. There were no reductions in coverage in either fiscal years 2020 or 2019. 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.

11. Contingent Liabilities

BWC/IC is a party in various legal proceedings and is also involved in other claims and legal actions arising in the ordinary course of business. Although the outcome of certain legal proceedings 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.

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12. Net Position

Individual fund net position (deficit) balances at June 30, 2020 and 2019, were as follows (000's omitted):

	<u>2020</u>	<u>2019</u>
SIF	\$11,449,826	\$11,329,842
SIF Surplus Fund Account	46,036	42,551
SIF Premium Payment Security Fund	143,642	143,642
Total SIF Net Position	11,639,504	11,516,035
DWRF	617,109	454,582
CWPF	311,655	288,094
PWREF	17,694	16,194
MIF	27,931	25,896
SIEGF	33,882	33,039
ACF	(1,083,798)	(1,038,314)
Total Net Position	\$11,563,977	\$11,295,526

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

The SIF Surplus Fund is established by the Code and is financed by a portion of all SIF premiums paid by private and public employers (excluding State employers) and assessments paid by self-insured employers. The Surplus Fund has been appropriated for specific charges, including compensation related to claims of handicapped persons or employees of noncomplying employers, and the expense of providing rehabilitation services, counseling, training, living maintenance payments, and other related charges to injured workers. The Surplus Fund may also be charged on a discretionary basis as ordered by BWC/IC, as permitted by the Code. Prior to the passage of House Bill 15 in 2009, contributions to the Surplus Fund were limited to 5% of premiums. The BWC administrator now has the authority to transfer money from SIF necessary to meet the needs of the Surplus Fund.

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

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

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

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13. Adoption of New Accounting Principles

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. 87, "Leases" (effective fiscal year 2022)
- GASB No. 92, "Omnibus 2020" (effective fiscal year 2022)
- GASB No. 93, "Replacement of Interbank Offered Rate" (effective fiscal year 2023)
- GASB No. 96, "Subscription-Based Information Technology Arrangements" (effective fiscal year 2023)

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

14. Subsequent Events

Subsequent to fiscal year end June 30, 2020, the Board approved a dividend to reduce the net position in SIF at the September 2020 meeting. This proposed dividend is possible due to BWC's investment returns, prudent fiscal management, and the good work of employers who pay their BWC premiums and look out for the health and safety of their employees. As a result, the private employers may be granted a dividend equivalent to 100% of billed premiums for the July 1, 2019, through June 30, 2020, policy period, while PEC employers may also be granted a dividend equivalent to 100% of premiums for the January 1, 2019, through December 31, 2019, policy period. This action is anticipated to result in premium dividend expense of up to \$1.5 billion in fiscal year 2021 and may decrease the group retrospective credit payable balance as of June 30, 2021.

The United States and the State of Ohio declared a state of emergency in March 2020 due to the coronavirus (COVID-19) pandemic. The financial impact of COVID-19 and the ensuing emergency measures may impact subsequent periods of the BWC/IC. The impact on BWC/IC's future operating costs and revenues cannot be estimated.

SUPPLEMENTARY INFORMATION

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**REQUIRED SUPPLEMENTAL REVENUE AND RESERVE
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(See Accompanying Independent Auditors' Report)
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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 nominal and discounted 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 eleven 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 estimated 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, 2010 through 2020.

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

	Fiscal Years Ended June 30										
	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
1. Required premiums, assessments, and investment income earned	\$ 3,124	\$ 3,586	\$ 2,628	\$ 3,517	\$ 1,378	\$ 2,552	\$ 5,194	\$ 2,453	\$ 4,044	\$ 4,356	\$ 4,206
Ceded premiums	4	4	4	4	4	4	4	6	6	6	1
Net earned	3,120	3,582	2,624	3,513	1,374	2,548	5,190	2,447	4,038	4,350	4,205
2. Unallocated expenses	240	248	219	205	170	163	150	140	129	131	139
3. Estimated incurred compensation and compensation adjustment expense, end of period	1,414	1,465	1,507	1,635	1,731	1,853	1,854	1,720	1,800	1,863	1,870
Discount	578	590	656	781	806	874	872	830	967	974	985
Gross liability as originally estimated	1,992	2,054	2,163	2,416	2,538	2,727	2,726	2,549	2,767	2,837	2,854
4. Net paid (cumulative) as of :											
End of period	330	348	341	347	327	331	337	380	386	400	384
One year later		530	531	531	531	548	563	600	620	641	639
Two years later			637	641	644	669	689	731	756	773	775
Three years later				718	724	748	776	822	857	879	883
Four years later					789	815	839	893	935	964	973
Five years later						874	900	952	1,002	1,040	1,055
Six years later							951	1,005	1,057	1,102	1,124
Seven years later								1,049	1,102	1,148	1,179
Eight years later									1,141	1,186	1,222
Nine years later										1,219	1,260
Ten years later											1,293
5. Re-estimated incurred compensation and compensation adjustment expenses (gross):											
One year later		1,893	1,915	2,039	2,257	2,346	2,476	2,494	2,501	2,680	2,701
Two years later			1,868	1,913	2,052	2,219	2,265	2,397	2,450	2,470	2,596
Three years later				1,862	1,883	2,024	2,144	2,234	2,361	2,438	2,425
Four years later					1,821	1,869	1,974	2,119	2,226	2,340	2,426
Five years later						1,812	1,858	2,002	2,135	2,236	2,342
Six years later							1,810	1,891	2,044	2,168	2,246
Seven years later								1,844	1,933	2,082	2,189
Eight years later									1,886	1,974	2,109
Nine years later										1,934	2,021
Ten years later											1,988
6. Decrease in gross estimated incurred compensation and compensation adjustment expenses from end of period		(161)	(295)	(554)	(717)	(915)	(916)	(705)	(881)	(903)	(866)

Ultimate incurred compensation and compensation adjustment expense excludes liability associated with active working miners within the CWPF since they are not yet assignable to fiscal accident year. The June 30, 2020 active miners nominal and discounted liability is approximately \$32.1 million and \$7.4 million, respectively.

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)
Required Supplementary Information
Schedule of BWC/IC's Proportionate Share of the Net Pension Liability
Last 6 fiscal years*
(000's omitted)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
BWC/IC's Proportion						
Net Pension Liability	1.002%	1.017%	1.037%	1.060%	1.080%	1.115%
Net Pension Asset	0.590%	0.597%	0.602%	0.578%	0.549%	0.586%
 BWC/IC's Proportionate share of the net pension liability	 \$196,918	 \$277,892	 \$161,899	 \$240,344	 \$186,771	 \$134,254
BWC/IC's covered payroll	\$160,253	\$154,397	\$152,774	\$155,963	\$149,562	\$149,652
 Proportionate share of the net pension liability as a percentage of its covered payroll	 122.879%	 179.985%	 105.973%	 154.103%	 124.879%	 89.711%
 Plan fiduciary net position as a percentage of the total pension liability						
Traditional Pension Plan	82.17%	74.70%	84.66%	77.25%	81.08%	86.45%
Combined Plan	145.28%	126.64%	137.28%	116.55%	116.90%	114.83%

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

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)
Required Supplementary Information
Schedule of Employer Pension Contributions
(See Accompanying Independent Auditors' Report)
Last 6 fiscal years*
(000's omitted)

	2020	2019	2018	2017	2016	2015
BWC/IC's Statutorily Required Employer Contributions	\$ 20,504	\$ 21,357	\$ 20,713	\$ 20,428	\$ 19,752	\$ 19,688
Amount of contributions recognized by the pension plan in relation to the statutory contributions	20,504	21,357	20,713	20,428	19,752	19,688
Contributions deficiency (excess)	-	-	-	-	-	-
Employer's covered payroll	162,037	161,974	153,211	152,963	151,275	148,683
Amount of contributions recognized by the pension plan as a percentage of employers' covered payroll	12.65%	13.19%	13.52%	13.35%	13.06%	13.24%

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

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)
Required Supplementary Information
Schedule of BWC/IC's Proportionate Share of the Net OPEB Liability
Last 3 fiscal years*
(000's omitted)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
BWC/IC's Proportion of the OPEB liability	0.989%	1.003%	1.023%
BWC/IC's Proportionate share of the OPEB liability	\$136,667	\$130,796	\$111,078
BWC/IC's covered payroll	\$160,253	\$154,397	\$152,774
Proportionate share of the OPEB liability as a percentage of its covered payroll	85.282%	84.714%	72.707%
Plan fiduciary net position as a percentage of the total OPEB liability	47.80%	46.33%	54.14%

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

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)
Required Supplementary Information
Schedule of Employer OPEB Contributions
(See Accompanying Independent Auditors' Report)
Last 3 fiscal years*
(000's omitted)

	<u>2020</u>	<u>2019</u>	<u>2018</u>
BWC/IC's Statutorily Required Employer Contributions	\$ 232	\$ 223	\$ 2,384
Amount of contributions recognized by the OPEB plan in relation to the statutory contributions	232	223	2,384
Contributions deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>
Employer's covered payroll	\$ 162,037	\$ 161,974	\$ 153,211
Amount of contributions recognized by the OPEB plan as a percentage of employers' covered payroll	0.14%	0.14%	1.56%

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

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)
SUPPLEMENTAL SCHEDULE OF NET POSITION
(See Accompanying Independent Auditors' Report)
June 30, 2020
(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	\$ 390,150	\$ 10,849	\$ 779	\$ 136	\$ 412	\$ 55,556	\$ 29,010	\$ -	\$ 486,892
Collateral on loaned securities	-	-	-	-	-	-	4,167	-	4,167
Premiums recorded not yet due	13,703	-	132	218	-	-	-	-	14,053
Assessments recorded not yet due	-	-	-	-	-	-	2,202	-	2,202
Premiums in course of collection	5,559	-	-	-	-	-	-	-	5,559
Assessments in course of collection	-	261	-	-	-	-	13,054	-	13,315
Accounts receivable, net of allowance for uncollectibles	140,045	10,733	145	-	2	449	13,890	-	165,264
Retrospective premiums receivable	26,672	-	-	-	-	-	-	-	26,672
Interfund receivables	8,848	422,435	1	1	-	47	138,625	(569,957)	-
Investment trade receivables	322,223	-	-	-	-	-	-	-	322,223
Accrued investment income	105,526	-	-	-	1	4	-	-	105,531
Other current assets	600	-	-	-	-	-	-	-	600
Total current assets	<u>1,013,326</u>	<u>444,278</u>	<u>1,057</u>	<u>355</u>	<u>415</u>	<u>56,056</u>	<u>200,948</u>	<u>(569,957)</u>	<u>1,146,478</u>
Non-current assets:									
Restricted Cash	736	-	-	-	-	-	-	-	736
Fixed maturities	12,878,686	1,341,239	323,349	18,946	28,611	-	-	-	14,590,831
Domestic equity securities:									
Common stock	4,528,491	400,030	54,181	-	-	-	-	-	4,982,702
Preferred stocks	673	-	-	-	-	-	-	-	673
Non-U.S equity securities - common stock	2,238,497	193,048	28,075	-	-	-	-	-	2,459,620
Investments in real estate funds	3,468,319	-	-	-	-	-	-	-	3,468,319
Unbilled premiums receivable	514,292	11,306	-	-	-	384,065	73,368	-	983,031
Retrospective premiums receivable	51,020	-	-	-	-	-	-	-	51,020
Capital assets	17,445	22	-	-	-	-	79,740	-	97,207
Net pension asset	-	-	-	-	-	-	1,230	-	1,230
Total noncurrent assets	<u>23,698,159</u>	<u>1,945,645</u>	<u>405,605</u>	<u>18,946</u>	<u>28,611</u>	<u>384,065</u>	<u>154,338</u>	<u>-</u>	<u>26,635,369</u>
Total assets	<u>24,711,485</u>	<u>2,389,923</u>	<u>406,662</u>	<u>19,301</u>	<u>29,026</u>	<u>440,121</u>	<u>355,286</u>	<u>(569,957)</u>	<u>27,781,847</u>
DEFERRED OUTFLOW OF RESOURCES									
	-	-	-	-	-	-	45,563	-	45,563
Total assets and deferred outflow of resources	<u>\$ 24,711,485</u>	<u>\$ 2,389,923</u>	<u>\$ 406,662</u>	<u>\$ 19,301</u>	<u>\$ 29,026</u>	<u>\$ 440,121</u>	<u>\$ 400,849</u>	<u>\$ (569,957)</u>	<u>\$ 27,827,410</u>

**OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)
SUPPLEMENTAL SCHEDULE OF NET POSITION, Continued
(See Accompanying Independent Auditors' Report)
June 30, 2020
(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	\$ 1,238,613	\$103,742	\$ 2,155	\$ 102	\$ 194	\$19,525	\$ -	\$ -	\$ 1,364,331
Reserve for compensation adjustment expenses	169,367	118	106	-	36	764	260,013	-	430,404
Unearned premium and assessments	280,196	1	131	58	76	-	55,506	-	335,968
Legal settlement	4,500	-	-	-	-	-	-	-	4,500
Warrants payable	75,307	-	-	-	-	-	-	-	75,307
Group retrospective credit payable	119,073	-	-	-	-	-	-	-	119,073
Policy holder dividend payable	7,651	-	-	-	-	-	-	-	7,651
Investment trade payables	506,106	-	-	-	-	-	-	-	506,106
Accounts payable	1,076	-	240	37	-	-	17,223	-	18,576
Interfund payables	559,399	7,511	185	9	13	2,839	1	(569,957)	-
Obligations under securities lending	-	-	-	-	-	-	4,167	-	4,167
Other current liabilities	33,073	102	51	3	6	-	16,382	-	49,617
Total current liabilities	2,994,361	111,474	2,868	209	325	23,128	353,292	(569,957)	2,915,700
Noncurrent liabilities:									
Reserve for compensation	9,279,541	1,660,058	84,545	1,398	706	378,075	-	-	11,404,323
Reserve for compensation adjustment expenses	604,533	1,282	7,594	-	64	5,036	700,587	-	1,319,096
Net pension liability	-	-	-	-	-	-	198,148	-	198,148
Net OPEB liability	-	-	-	-	-	-	136,667	-	136,667
Group retrospective credit payable	193,546	-	-	-	-	-	-	-	193,546
Other noncurrent liabilities	-	-	-	-	-	-	28,428	-	28,428
Total noncurrent liabilities	10,077,620	1,661,340	92,139	1,398	770	383,111	1,063,830	-	13,280,208
Total liabilities	13,071,981	1,772,814	95,007	1,607	1,095	406,239	1,417,122	(569,957)	16,195,908
DEFERRED INFLOW OF RESOURCES									
Total liabilities and deferred inflow of resources	-	-	-	-	-	-	67,525	-	67,525
Total liabilities and deferred inflow of resources	13,071,981	1,772,814	95,007	1,607	1,095	406,239	1,484,647	(569,957)	16,263,433
NET POSITION (DEFICIT)									
Net investment in capital assets	17,445	22	-	-	-	-	79,740	-	97,207
Surplus fund	46,036	-	-	-	-	-	-	-	46,036
Premium payment security fund	143,642	-	-	-	-	-	-	-	143,642
Unrestricted net position (deficit)	11,432,381	617,087	311,655	17,694	27,931	33,882	(1,163,538)	-	11,277,092
Total net position (deficit)	\$ 11,639,504	\$ 617,109	\$ 311,655	\$ 17,694	\$ 27,931	\$ 33,882	\$ (1,083,798)	\$ -	\$ 11,563,977

OHIO BUREAU OF WORKERS' COMPENSATION
AND
INDUSTRIAL COMMISSION OF OHIO
(A DEPARTMENT OF THE STATE OF OHIO)
SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
(See Accompanying Independent Auditors' Report)
For the fiscal year ended June 30, 2020
(000's omitted)

	State Insurance Fund Account	Disabled Workers' Relief Fund Account	Coal-Workers Pneumoconiosis Fund Account	Public Work- Relief Employees' Fund Account	Marine Industry Fund Account	Self-Insuring Employers' Guaranty Fund Account	Administrative Cost Fund Account	Eliminations	Totals
Operating revenues:									
Premium and assessment income net of ceded premium	\$936,040	\$27,523	\$519	\$129	\$588	\$9,315	\$289,847	\$ -	\$1,263,961
Provision for uncollectibles	(14,442)	249	2	-	-	(102)	(909)	-	(15,202)
Other income	4,055	-	-	-	-	-	4,615	-	8,670
Total operating revenues	925,653	27,772	521	129	588	9,213	293,553	-	1,257,429
Operating expenses:									
Workers' compensation benefits	773,791	56,208	2,757	(98)	396	8,258	-	-	841,312
Compensation adjustment expenses	158,951	(49)	519	-	10	759	259,319	-	419,509
Personal services	-	115	135	-	42	-	85,716	-	86,008
Other administrative expenses	19,178	-	2	-	30	-	71,064	-	90,274
Total operating expenses	951,920	56,274	3,413	(98)	478	9,017	416,099	-	1,437,103
Net operating (loss) income before policy holder dividend	(26,267)	(28,502)	(2,892)	227	110	196	(122,546)	-	(179,674)
Policy holder dividend expense	1,343,613	-	-	-	-	-	-	-	1,343,613
Net operating (loss) income	(1,369,880)	(28,502)	(2,892)	227	110	196	(122,546)	-	(1,523,287)
Non-operating revenues:									
Net investment income	1,565,124	191,029	27,453	1,273	1,925	647	5,480	-	1,792,931
Gain on disposal of capital assets	-	-	-	-	-	-	232	-	232
Total non-operating revenues	1,565,124	191,029	27,453	1,273	1,925	647	5,712	-	1,793,163
Net transfers out	(71,775)	-	(1,000)	-	-	-	71,350	-	(1,425)
Increase (decrease) in net position (deficit)	123,469	162,527	23,561	1,500	2,035	843	(45,484)	-	268,451
Net position (deficit), beginning of year	11,516,035	454,582	288,094	16,194	25,896	33,039	(1,038,314)	-	11,295,526
Net position (deficit), end of year	\$11,639,504	\$617,109	\$311,655	\$17,694	\$27,931	\$33,882	\$(1,083,798)	\$ -	\$11,563,977

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Ohio Bureau of Workers' Compensation and Industrial Commission of Ohio (BWC/IC), a department of the State of Ohio, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the BWC/IC's basic financial statements and have issued our report thereon dated September 29, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Crowe LLP". The letters are cursive and slightly slanted to the right.

Crowe LLP

Columbus, Ohio
September 29, 2020

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OHIO AUDITOR OF STATE KEITH FABER



OHIO BUREAU OF WORKERS' COMPENSATION

LUCAS COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 12/1/2020

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov