



Agenda Item No. 5

To: Finance-Auditing Committee/Committee of the Whole
Meeting of February 22, 2007

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Subject: **OVERVIEW OF WORKERS' COMPENSATION PROGRAM**

Recommendation

This report is for informational purposes and requires no action.

Summary

This report provides an overview of the costs, claims trends, fiscal impact and strategic issues relevant to the District's workers' compensation program. A detailed PowerPoint presentation will be provided at the Finance-Auditing Committee meeting of February 22, 2007.

Since the last status report, the District has continued to see a reduction in workers' compensation costs and a decrease in the frequency of reported indemnity (lost time) injuries.

The success of the District's workers' compensation program is dependent on the District's ability to:

- reduce injuries by implementing and maintaining effective safety programs
- make available the highest quality medical treatment to injured workers
- reduce costs by actively managing open claims
- return employees to normal or modified duties when authorized by the medical provider
- comply with California workers' compensation laws
- accommodate within reason employees who may have permanent disability
- encourage employees to report all injuries no matter how minor, as well as "near misses"
- investigate accidents and injuries thoroughly

At the time of that report, staff indicated that the positive results of workers' compensation programs were due in part to more aggressive claims management by the District and its third party administrator after many years of passive or reactive claims management, and the fact that new workers' compensation legislation was expected to be more favorable for employers.

During the last two years there have been legal challenges to the 2004 workers' compensation reforms. Although there are a handful of cases which could still reach the California Supreme Court, most cases have been ruled to fall within the existing statutes. Among those reforms still intact are:

- capping permanent disability ratings at 100%
- apportioning disability between work- related and non- work related causes
- establishing objective treatment guidelines
- empowering employers to form their own medical provider networks (MPN)

In May 2006 the District changed its workers' compensation third party administrator from Claims Management Inc. to Athens Administrators. To date Athens Administrators has provided very good claims adjusting services and timely reports and information. They have been responsive to the needs of injured workers, as well as deploying nurse case managers on more complex claims. Athens Administrators' medical utilization review protocol has been very effective in ensuring that injured workers receive the most appropriate treatment(s) for their injuries.

Although the Jones Act claims are a small part of the District's workers' compensation program today, they have been a significant part of dollars spent in past years. The claims frequency and costs can fluctuate significantly, because of the relatively small number of affected employees.

Facts that summarize FY 2004/2005 through December 2006

- New workers' compensation indemnity claims decreased by 20% from 94 in FY 04/05 to 78 in FY 05/06. This follows a 30% decrease in FY 03/04.
- Medical only claims increased 12% in FY 05/06 from FY 04/05.
- Open indemnity (lost time) claims have decreased 5% from FY 04/05 through December 2006.
- Workers' compensation reserves (future liabilities) have dropped from \$7.9 million in July 2005 to \$5.5 million by December 2006. This is due in large part to settling several large claims and the lower frequency of indemnity claims in the last three years.
- Annual paid workers' compensation costs have remained virtually unchanged from year to year at approximately \$2.3 million per fiscal year, despite benefit and medical cost increases.
- The majority of injuries continue to be strains and cumulative trauma injuries. This is to be expected, given that the average age of District employees is approximately 50.
- The District's Structured Return-to-Work Program had 34 employees participate, for a total of 1,057 day of modified duty and a total savings of \$113,911 for Calendar Year 2006.
- The claims frequency for Jones Act claims is 190% lower than it was two years ago. However, it is noted again that the actual numbers are based on relatively small population bases.

Funded Workers' Compensation Liability Reserves

The District is self-insured for workers' compensation liability up to \$1 million, and buys excess workers' compensation coverage for claims that exceed \$1 million with a \$10 million insured limit.

The claims liabilities are based on the results of estimated losses and claims adjustment expense on the current open claim inventory. As of December 31, 2006, the District's workers' compensation reserves were at \$5,475,389. A law that went into effect May 2006, governing self-insured in California, now requires a third party administrator to update reserves every three months, based on the workers' treatment patterns.

The District's reserves will be audited by an independent actuarial firm later this year.

Current and Future Workers' Compensation Opportunities

In order to further reduce and protect cost savings that the District has achieved during the last two years, the following programs and strategies are being pursued:

- Development and implementation of customized Medical Provider Network (June 2007). It is expected that a minimum of \$40,000 in annual savings will be realized.
- Accelerated closure of open indemnity and medical award claims. Currently approximately 20% of the District's claims have been open eight years or more.
- Enhancement and expansion of early return-to-work programs.
- Review of additional job descriptions to assist more in structured return-to-work program.
- Improved response to and communication with employees regarding workers' compensation issues to avoid litigation.
- Revitalization of the management/employee safety committee and on-going safety training programs.
- Involvement in equipment purchase including "ergonomic" buses and materials handling equipment that reduce the potential for cumulative trauma injuries and strains.
- Development of training programs for managers and supervisors on workers' compensation cost savings programs and skills.

Fiscal Impact

There is no fiscal impact as this report is informational.