



Information Item

Date: March 31, 2016

To: Mayor and City Council
From: Gigi Decavalles-Hughes, Director of Finance
Subject: FY 2015-16 Mid-Year Workers' Compensation Report

Introduction

The purpose of this item is to provide the City Council with an overview of how the City's Workers' Compensation Program performed during the first half of FY 2015-16, and includes information on: 1) medical and indemnity payments; 2) claim settlements approved by staff; and 3) general claim and cost trends as required by the "Workers' Compensation Settlement Authority and Reporting of Benefit Payments" Administrative Instruction.

Discussion

The Risk Management Division of the Finance Department is responsible for providing semi-annual reports to the City Council on workers' compensation medical and indemnity payments, approved settlements, and general claim and cost trends. This information is provided below.

- **Medical and Indemnity Payments.**

City employees injured while carrying out assigned job duties are entitled to workers' compensation benefits. This means the City, as the employer, must pay for all medical treatment in connection with the injury and provide indemnity payments to offset lost wages and/or the residual impact of the injury (i.e., any permanent losses in physical functioning, such as lost range of motion, lost hearing, etc.).

The City spent approximately \$4.7 million on medical treatment and indemnity payments for injured employees during the first half of FY 2015-16. Medical costs comprised \$2 million of this figure (e.g., doctor visits, diagnostic tests, inpatient and outpatient hospital stays, prescription drugs, etc.). Indemnity payments of \$2.7 million comprised the balance. These payments are split between temporary disability (payment for lost wages) and permanent disability (the residual impact associated with an injury), at \$1.2 million and \$1.5 million respectively.

- **Settlements.**

Once a doctor declares an employee's injury to be "permanent and stationary," the City can engage in claim settlement negotiations. The phrase "permanent and stationary" means the employee's medical progress has stabilized and additional treatment is not likely to improve or worsen the injury.

The City can settle workers' compensation claims through one of two options: a stipulation agreement or a compromise and release agreement. Injured workers still employed with the City at the time of claim settlement are offered a stipulation agreement. This agreement establishes the permanent disability payment owed the employee and identifies any future medical treatment the employee is entitled to for the remainder of his/her life in connection with the injury.

A compromise and release agreement is only offered to injured workers no longer employed with the City at the time of claim settlement. This agreement allows the City to offer a lump sum payment to the injured worker to close out his/her claim. Injured workers no longer employed at the City at the time of claim settlement can also elect to pursue a stipulation agreement.

The Risk Manager has been delegated authority by the City Manager to approve all claim settlements up to \$15,000. Settlements in excess of \$15,000 must be approved by the City Manager as authorized by the Municipal Code (staff obtains City Attorney approval of compromise and release settlements prior to seeking City Manager approval). All settlements are then reported to the City Council as part of this twice-yearly Information Item (see below).

During the first half of FY 2015-16, 58 claims were settled. Of that figure, 18 were settled via Compromise and Release Agreements for a total of \$762,500 and 40 were settled via Stipulation Agreements for a total cost of \$1,044,851. This compares to 50 settlements during the first half of the prior year.

- **General Claim and Cost Trends.**

Workers' compensation claim frequency (i.e., new claims filed) increased by 7.2% during the first half of FY 2015-16 compared to the same period in the prior year. The increase is driven by the Fire Department and Big Blue Bus (BBB). The claim severity rate (i.e., indemnity or "lost time" claims as a percentage of total claims filed) also went up by 15%. Almost 57% of the new claims filed during the first half of FY 2015-16 resulted in employee lost time (i.e., employee was off work due to injury).

On the financial side, workers' compensation program liabilities (i.e., the value of all open claims from 1979 forward) totaled \$27.3 million as of December 31, 2015; up from \$23.6 million one year earlier. The vast majority of the growth occurred in BBB and the Police Department. Further, program expenses (i.e., cash flow) for the first half of the fiscal year totaled \$5.3 million. If this trend continues, the City is on target to spend nearly \$1.7 million more on program expenses in FY 2015-16 than the prior year.

- **Budget Impact.**

After showing some signs of stabilizing, the City's workers' compensation costs are again on the rise. The City has positioned itself to weather the impact of this on a short-term basis through a combination of increasing departmental contributions to the Workers' Compensation Self-Insurance Fund by 30% (\$3 million) in FY 2015-16 and maintaining this contribution level into FY 2016-17, and making a one-time \$5 million contribution to the Fund in FY 2014-15. If the growth in claims costs continues at the current pace, however, the City should prepare for significant hikes (i.e., well beyond the 5% contemplated in the Financial Forecast) in contributions to the Self-Insurance Fund come FY 2017-18 and going forward.

- **Cost Control Efforts.**

Risk Management continues to pursue all available tools to help control the City's workers' compensation costs. Most recently, a Committee composed of representatives from the City Manager's Office, City Attorney's Office, the Finance Department and the Human Resources Department was created to identify innovative solutions for controlling Workers' Compensation Program costs. The results of this effort will be reported in future Information Items as they emerge. Further, Risk Management continues to tighten its control over medical care management. Staff now schedules medical appointments for injured workers whenever possible (i.e., some employees handle this on their own), reschedules employee-made medical appointments if a more suitable option is available (e.g., at the start or end of a shift, on a day off, on an earlier date, etc.), contacts the physician's office immediately after medical appointments to obtain status reports, and promptly reschedules missed medical appointments. This helps to speed medical care and reduce the length of injury duration. Risk Management staff are also focusing on more one-on-one interactions with injured employees, contacting them at least every 45 days to discuss their care and offer support to get them back to work. This is considered

an industry best practice. Finally, Risk Management continues to enhance the “Wow, That’s Fast” Program, implement a permanent Functional Testing Program, and replace its automated claims system. More detailed information regarding these initiatives can be found in prior Information Items.

Summary

Despite staff’s best efforts to stabilize the City’s workers’ compensation costs through implementation of industry best practices, concentrating safety resources on problem injury areas, and piloting non-traditional cost control measures, program costs continue to escalate. It is our hope that the new Workers’ Compensation Committee will serve as a catalyst for implementing innovative measures that, over time, can reverse this trend. It is important to understand, however, there are no immediate solutions to the City’s rising workers’ compensation costs. Rather, the City needs to continue to vigilantly extract every efficiency and/or dollar savings from existing cost control measures and be open to trying unconventional methods that could take years to yield results. Consequently, it would be wise for the City to prepare for continued higher workers’ compensation well into the future.

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