CONSENT CALENDAR – AGENDA ITEM NO. 5
BOARD OF DIRECTORS MEETING
May 24, 2012

TO: Board of Directors, Orange County Fire Authority

FROM: Zenovy Jakymiw, Human Resources Director

SUBJECT: **Annual Workers' Compensation Update for CY 2011 and Actuarial Report**

Summary:
This agenda item provides an update on the OCFA workers' compensation program. Attached is the Actuarial Study showing the estimated financing projections of the Workers' Compensation Self-insurance Program.

Committee Action:
At its April 11, 2012, meeting, the Budget and Finance Committee reviewed and unanimously recommended approval of this item.

Recommended Action:
Receive and file the report.

Background:
This report covers the general history of the OCFA workers' compensation program, the key components, administration, actuary projections, settlement processes, major injury types and their costs for CY 2011, cost controls, injury trends, and workers' compensation settlements.

OCFA Self-Insured Program Formation
When the Orange County Fire Authority formed on March 1, 1995, it used commercial insurance until the California insurance market began to harden and premiums increased in the late 1990s and early 2000s. In 2002, OCFA began a self-insured workers' compensation Program. All new workers' compensation claims post-March 1, 2002, are administered under self-insurance and funded from the annual budget.

Excess Loss Insurance
Excess loss insurance is purchased for the program. This insurance covers losses that exceed a specified dollar amount per incident, regardless of the number of employees per incident, and only covers the portion of those losses that exceeds that particular amount. OCFA's self insurance level of coverage is $2.0M, which is called self-insurance retention (SIR). In incidents exceeding this amount, excess insurance takes over up to statutory limits (limited only by what is directed under California's work comp law such as permanent or temporary disability law, not a specific hard cap limit) on total coverage. For example in a $2.5M work comp incident our self-insurance reserve would cover the first $2.0M. Excess insurance would cover the next $500,000 of that $2.5M loss. OCFA has excess insurance through CSAC-EIA, a major California local government pool. Membership in this pool has brought significant premium savings.

Third Party Administration
OCFA contracts with a private company, York Insurance Services Group to provide third party administration (TPA) for claims under the self-insurance program. York does not provide any commercial insurance to OCFA. OCFA is the "insurer" under a self insurance program.

Budgeting for Self-Insurance Fund
Twice a year OCFA uses an independent actuary to project future workers' compensation costs and to update the amount of funding needed by OCFA to self-insure its Workers' Compensation Program. Attached is the latest actuary report using data valued as of 12/31/2011.

The actuary projects varying degrees of confidence levels. Confidence level refers to a statistical level of certainty of whether the actual workers' compensation costs will be higher or lower than projected. For example, budgeting at a 50% confidence level amount means that there is a 50% chance that costs will come in higher or lower than projection. The actuary also reviews past years' workers' compensation losses to re-calculate, if necessary, a more accurate case level reserve.

The OCFA's policy is to fund workers' compensation losses at the 50% confidence level for outstanding losses (all projected losses as of June 30, 2012, commonly called losses "going backwards"). These losses include medical payments, bill review charges, utilization review charges, permanent disability payments, etc. These amounts include charges still expected to be paid on claims reaching back to the beginning of OCFA self-insurance in 2002.

OCFA also has a policy to move towards funding losses "going forward" at a 60% confidence level. As recommended by the Budget and Finance Committee and approved by the Board of Directors previously, staff would begin stair-stepping increases into the annual workers' compensation budget in FY 2012/2013 to reach this 60% confidence level.

Analysis of Actuary Projections
Comparison of 2011/12 to 2012/13 - In last year's report to the Board, using the actuary report based on data from December 31, 2010 the projected losses for FY 2011/12 were $8.270 (50% confidence). In the current actuary report based on data from December 31, 2011, the expected projected losses for FY 2012/13 are $9.674 (50% confidence). This is an increase of approximately 17%. (Projections for this actuary report do not include Santa Ana.)

Comparison of Outstanding Losses back to 3/1/2002 (beginning of self-insurance) - In last year's report to the Board, using the actuary report based on data from December 31, 2010 the projected outstanding losses since inception of self insurance up to 6/30/11 were $31.21M. In the current actuary report based on data from December 31, 2011, the projected outstanding losses since inception of self insurance up to 6/30/12 were $37.40M (50% confidence). This is an increase of approximately 20%. (Projections for this actuary report do not include Santa Ana.)

The State has seen substantial work comp actuarial increases throughout California. Major drivers of increases in OCFA injured employee case reserves (which are a primary driver of these actuarial projections) are claimants at or above retirement age with high levels of permanent disability (a workers' compensation standard benefit, which is a payment the injured worker receives when the work injury causes permanently limitations.)

Settlement Process
Workers compensation may require a financial settlement, either "stipulations," which include permanent disability (PD) benefits and future medical (FM), or a compromise and release (C&R). The Board delegated approval settlements of $50,000 and under to the Fire Chief or his designee. The Fire Chief has delegated settlements of $25,000 and under to the Risk Manager. Settlements over $50,000 are brought to the Settlement Committee of the Board of Directors for review and approval.

C&R is a settlement between employer and employee when the employee agrees to end a workers' compensation liability for an agreed upon sum. Greater administrative and legal leeway is given for a C&R settlement. C&R negotiations give greater flexibility to attorneys for both sides, or the TPA and the employee (if no attorney is retained), to come to an agreement on a sum to end all liability that the employee has with OCFA.

Cost Controls
A variety of cost controls are in place, including the WEFIT (wellness and fitness) Program, twice-yearly actuarial analysis, TPA medical bill review, TPA case management, an aggressive modified (light) duty program for firefighters, annual audits, safety programs, utilization review (mandated review of medical treatment plans for injured workers), excess insurance, and monthly OCFA and York Executive Management oversight meetings. These are described in more detail below.

Medical Bill Review - Our TPA has a system of bill review for all charges made by medical providers when treating employees. The bill review assures that medical providers do not exceed state cost standards for treatment and other medical charges. In CY 2011 there were net charges of $5,943,898 against OCFA by medical providers. TPA bill review services reduced those charges by $3,965,684 to $1,978,214—a savings of approximately 67%.

WEFIT - OCFA's WEFIT is a wellness and fitness program designed to monitor the health and fitness of firefighters and prepare them for physical demands of the firefighter job. In addition, the Wellness Injury/Fitness Rehabilitation Program provides for the treatment of minor sprains and pulls before becoming a workers' compensation injury claim.

Workers' Compensation Injury Data – Work comp injury data is part of a feedback loop to better focus WEFIT Program direction on injury prevention, physical conditioning, and wellness. In the firefighter academies, the WEFIT Program has been successful at reducing injuries, and training and educating recruit firefighters in maintaining good physical conditioning and health. Additionally, a wellness injury/fitness rehabilitation program has also been implemented. The program's focus is on injury prevention and injury/fitness rehabilitation. It is a cost containment method that provides for the individual's well-being and work-related performance improvement.

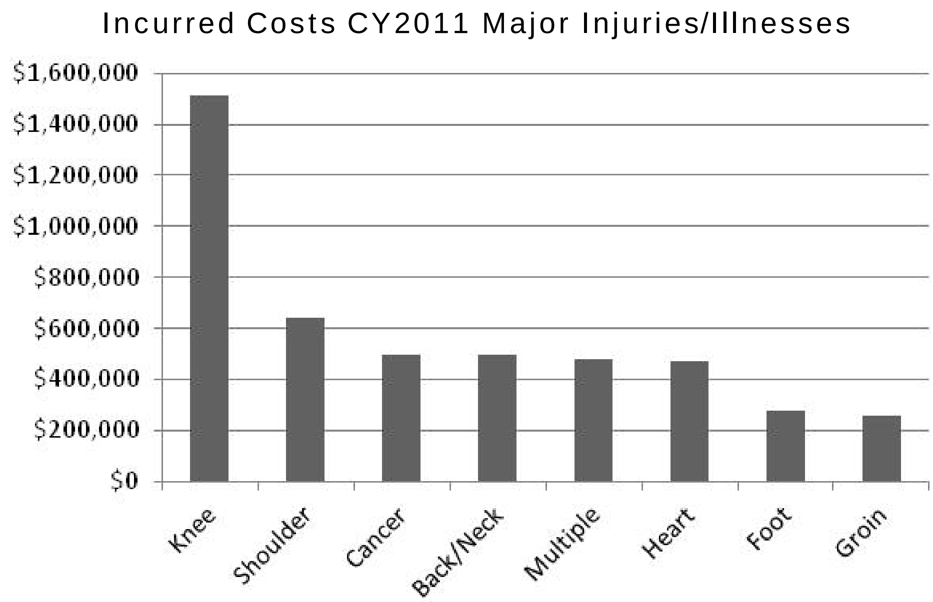
Modified (Light) Duty for Firefighters – Labor Code (LC) 4850 pay refers to salary due to an injured firefighter when placed off work by a treating physician. While healing, firefighters are entitled to their regular salary, up to one year. However, injured firefighters who are not ready for full duty can be released by their doctor back to "light" duty, which is typically office and administrative work at Headquarters. This temporary assignment ends LC4850 and helps speed the transition back to full duty. Under the OCFA Light Duty Program, there are many valuable short term projects that can be completed using these injured firefighters, who are not yet completely healed for regular firefighting duty.

Good Case Management - Workers' Compensation Program staff emphasize customer service to assist any employee injured on the job through the sometimes complex workers' compensation process. Executive Management and OCFA staffs meet monthly with York executive management and claims examiners to discuss and troubleshoot key cases and procedures.

The Injury and Illness Prevention Plan (IIPP) - This is a mandated state program to reduce lost workdays and associated costs by correcting hazards. This includes the objectives of increasing communication at all levels within the organization on safety issues, and maintaining compliance with health and safety regulatory requirements, such as Cal/OSHA. It's the responsibility of OCFA battalion chiefs and section managers to require captains and supervisors to observe safe working practices, and to follow up and investigate the causes of work-related injuries and illnesses.

Types of Injuries
OCFA's injuries are categorized by the TPA as body part injured (e.g., foot, knee, or lower back). In addition, every injured worker's case has an "incurred cost." This cost includes charges already paid, along with an estimate of future charges. For example, a back injury case reserve with a date of injury in December 2011 may include costs for the immediate treatment, an estimate for treatment that will occur during 2012, and permanent disability payments, if expected.

The following bar chart shows "incurred costs" of eight major injury categories in both CY 2011. Incurred costs are the combined projected medical, salary, legal, and other costs projected by the claims examiner on injuries of OCFA employees broken down by body part. For example in CY 2011, injured knee claims cost approximately $1.5 million.



Typically the most expensive injuries for any past year for OCFA firefighters are knees, shoulders, cancers, backs, knees, shoulders, and hearts.

Presumptive Illnesses
By law firefighters have certain presumptive illnesses/injuries under California state law. These include blood borne pathogens, hernias, heart-related diseases, and cancers. Presumptive illnesses or injuries mean that—per the California labor code—if a particular type of employee is diagnosed with a presumptive medical condition, the workers compensation system assumes the condition is proximately caused by employment and is compensable unless the employer, OCFA in this case, can present evidence that rebuts the presumption.

Summary and Conclusions
The goal of the OCFA is to control workers compensation costs through a number of techniques, especially the illness and injury prevention plan, WEFIT, an aggressive return to work program, medical bill review, injury and investigation follow-up, and good case management.

We believe the self-insurance workers' compensation program has been effective, and it is our goal to continue to improve its effectiveness through a focus on the following areas:

Legislation - The OCFA must use legislative advocacy to protect workers compensation reforms, which have been intended to control costs to employers. Various special interest groups will continue to introduce legislation to weaken the workers' compensation reforms.

WEFIT - The OCFA must continue to emphasize employee wellness, especially through programs such as WEFIT and Wellness Fitness/Injury Rehabilitation. Most injuries can be reduced through better fitness, conditioning, and rehabilitation. In addition, many illnesses such as cancers and cardiovascular diseases can be reduced through lifestyle changes. The WEFIT program directly affects these medical conditions and promotes a good health and fitness culture. From the inception of the program it has been successful at identifying medical conditions that can be treated before they become more severe, thereby controlling costs, and helping in the development of a more fitness and health conscious work force.

Program Management and Customer Service - The OCFA must continue to closely manage the workers' compensation program through good communication with its employees and its third-party administrator. The OCFA workers' compensation staff work closely with injured employees, and assist them throughout the workers' compensation process.

Quality TPA - Our current TPA, York, can best administer the program through a close relationship with injured employees and a close partnership with OCFA program staff. Workers' compensation rules, policies, and procedures are mandated primarily by the state, but the high quality implementation of those rules can improve the workers compensation experience of an injured employee, and more quickly get him or her back to health and to the workplace. This provides quality medical care to the injured employee and ultimately reduces and controls the OCFA's workers' compensation program costs.

Impact to Cities/County:
Not Applicable.

Fiscal Impact:
Per the actuarial report, 2012/13 budget at 60% confidence level (projected ultimate limited losses) should be $10,157,906 and reserves for past cases at 50% confidence level should be $37,398,452.

Staff Contact for Further Information:
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Attachment: (On file in the Office of the Clerk.)
Actuarial Study of the Workers Compensation Program of OCFA, based on data valued as of December 31, 2011