

Office of the
Legislative Fiscal Analyst

FY 2001 Budget Recommendations

Joint Appropriations Subcommittee for
Commerce and Revenue

Workers Compensation Fund of Utah

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1.0 Workers Compensation Fund of Utah

Summary

The Workers Compensation Fund of Utah (the Company) provides employers with low cost workers' compensation and employer liability insurance. All funding comes from premiums paid by policyholders. The Company receives no funding from the State except for premiums paid by the State as a policyholder. Premiums paid by the State accounted for \$4,805,342, less than 5% of total 1999 premium. Although this analysis concentrates on the administrative portion of the Company's budget, the success of the Company in meeting its statutorily created objectives is better evidenced by a review of the other key operating statistics included herein.

The Legislature established the workers' compensation system in 1917. Employers have the option of obtaining workers' compensation coverage through the Company or another private carrier or self insuring (with the approval of the Industrial Commission). The Company insures over 29,000 Utah employers.

The Legislature has designated the Company as an independent, quasi-public corporation. In connection with this designation, the budgetary control was shifted from the Legislature to the Company's Board of Directors. The budget presented herein is for Legislative review and not for approval. The Company is a component unit of the State of Utah and is accounted for as a proprietary fund. However, statute clearly indicates *that the State is not liable for the expenses, liabilities, or debts of the Workers' Compensation Fund, and may not use any assets of the Injury Fund for any purpose.* [UCA 31A-33-105(2)]

| | CY 1999 | CY 2000 |
|--|---------------------|---------------------|
| Financing | Estimated | Budget |
| GFR-Workers' Compensation Fund of Utah | \$31,160,500 | \$34,324,100 |
| Total | \$31,160,500 | \$34,324,100 |
| Programs | | |
| Administration | \$31,160,500 | \$34,324,100 |
| Total | \$31,160,500 | \$34,324,100 |
| Standard FTE | 323.00 | 338.00 |
| Expansion FTE | 0.00 | 0.00 |

3.0 Programs: Workers Compensation Fund of Utah - Administration

Recommendation No recommendation is needed. The budget is for review only.

| Financing | CY 1998 Actual | CY 1999 Estimated | CY 2000 Budget | Difference |
|----------------------------|---------------------------|------------------------------|---------------------------|--------------------|
| Workers' Compensation Fund | \$34,600,700 | \$31,160,500 | \$34,324,100 | \$3,163,600 |
| TOTAL | \$34,600,700 | \$31,160,500 | \$34,324,100 | \$3,163,600 |
| % Change | | (9.9%) | 10.2% | |
| Expenditures | | | | |
| Personal Services | \$19,468,800 | \$21,158,200 | \$23,414,100 | \$2,255,900 |
| Travel | 350,200 | 330,000 | 343,200 | 13,200 |
| Current Expense | 10,687,600 | 6,116,000 | 6,529,200 | 413,200 |
| Data Processing | 4,094,100 | 3,556,300 | 4,037,600 | 481,300 |
| TOTAL | \$34,600,700 | \$31,160,500 | \$34,324,100 | \$3,163,600 |
| % Change | | (9.9%) | 10.2% | |
| Standard FTE | 341.00 | 323.00 | 338.00 | 15.00 |
| Enhancement FTE | | | | 0.00 |

Organizational Summary

The Workers Compensation Fund of Utah is organized as follows:

Administration includes underwriting, accounting, financial analysis, budgeting, investments, human resources, customer service, loss prevention, premium specialists (policyholder audits) and information systems.

Operations includes claims administration, medical management and special investigations.

Marketing includes oversight of independent agents, the Company's regional offices, third-party administration of self-funded entities as well as internal marketing representatives.

Legal Services adjudicates cases before the Labor Commission and oversees recoveries and reimbursements from third parties as well as amounts due from policyholders.

Personnel Increase

The Company anticipates hiring 15 new employees during 2000. Of these, five will be in Information Systems and Services, three in Medical Management, three in Underwriting, and one in each in Claims, Claims-Special Projects, Claims-Resource, and the St. George Office. The additional personnel contribute to the accomplishment of the key objectives.

Key Objectives

Key objectives of the Company are to efficiently adjudicate claims and promote workplace safety, enabling appropriate care to injured workers while minimizing the cost to employers. The Company has been successful in achieving these objectives by investing in quality systems and personnel. These investments produce leveraged savings in claims expenses and have enabled the Company to reduce premiums paid by employers.

The significance of this leverage is apparent when viewing the Company's overall expense picture. While operating expenses increased \$15 million between 1994 and 1999, claims expenses decreased by \$64 million for the same period. Budgeted 2000 administrative expenses have increased \$3,163,600 from projected 1999.

Company Initiatives

The Company has implemented the following initiatives aimed at lowering claims costs and premiums, and providing improved service to policyholders and injured workers:

Increasing the number and expertise of safety/loss control professionals to make such services readily available to policyholders.

Establishing a medical case management and utilization review group with registered nurses to oversee medical treatment.

Contracting with hospital and physician groups to provide medical care at discounted rates.

Assist employers in establishing drug and alcohol testing programs.

Utilizing vocational rehabilitation specialists to assist injured workers in returning to work.

Reducing the caseload per adjuster to facilitate more effective claims management. Adjuster caseload has decreased from about 300 in 1992 to approximately 110 in 1999.

Utilizing sophisticated software to track the effectiveness of various physicians and treatments.

Aggressively investigating and assisting in the prosecution of policyholder, claimant and provider fraud. The Company's special investigations unit has saved nearly \$27.5 million since its inception in 1992.

Branch offices have been opened in Ogden and St. George to increase service in outlying areas.

Business Practices

The Company has developed new products, services and delivery methods to better meet the needs of its customers.

The Company operates as a non-profit, mutual insurance company. Premium rates for the Company, and all other private carriers, are approved by Utah's Insurance Department.

Discounts and Rebates

Programs that provide adjustments to standard rates may be granted by carriers with approval of the Utah Insurance Department. The Company offers a variety of adjustment programs that are dependent on historical or projected claims data. The Company may also return excess income to the policyholders in the form of dividends.

History

Originally, the Workers Compensation Fund of Utah operated as a division of the Department of Finance. In 1981, the Legislature reorganized the Fund under the Department of Administrative Services. In 1986, the Legislature designated the Fund as an enterprise fund and shifted the oversight of expenditures from the Legislature to the Governor. In 1988, the Legislature made the Fund independent from direct State oversight and established a Board of Directors and a Chief Executive Officer. The Governor appoints the seven-member board; current board members are listed below.

Current Board

| | |
|-------------------------|--|
| Mel Green - | Chairman, Founder and partner of Galbraith and Green (retired), |
| Mark Heugly - | Senior Vice President, Affiliated Computer Services, Inc |
| August Glissmeyer, Jr.- | Managing Partner, Deloitte & Touche (retired) |
| Raylene Ireland - | Executive Director of Department of Administrative Services, State of Utah |
| Robert Myrick - | President & COO of Morgan Stanley Dean Witter Bank |
| Howard E. Dransfield - | Senior Executive, Mobil Corporation (retired) |
| Lane A. Summerhays - | President and Chief Executive Officer of Workers Compensation Fund of Utah |

Statement of Operations

Premium revenue has declined in 1995, 1996, 1997 and 1998 as the benefit of overall cost reductions is passed on to policyholders. There was a slight premium increase in 1999 due to new business and customer retention. The Company has maintained its market share of approximately 50% of the Utah insured market over the past 6 years.

Premium revenue is used to pay benefit expenses and administrative expenses. Benefit expenses have declined \$63,633,000 or 44% from 1994 to 1999 due to the Company's successful loss control and medical management efforts.

The Company pays premium taxes to the State in accordance with Utah Code Annotated 31A-33-114 and 59-9-101. Premium taxes for 1997 and 1998 are \$9,221,000 and \$8,788,000, respectively.

The success of the Company's programs has enabled the strengthening of its investment portfolio and increased the investment income. Investment income is used to offset expenses and enable further premium reductions. The strengthening is also evidenced by the increase in policyholders' equity, which has grown approximately \$169,000,000 from 1993.

The Company returns excess premiums to policyholders in the form of dividends. Due to the success of the Company's cost saving programs, the Company paid a dividend for 1998 of \$39.8 million to policyholders in 1999. The 1999 dividend, to be paid in 2000, will be approximately \$25 million. The 1999 dividend is subject to approval by the Company's Board of Directors.

Budget Authority Ceded

The 2000 budget for the Company was approved by the Board of Directors on December 16, 1999, and is presented to the Governor and Legislature for information purposes. The 1990 Legislature allowed the Fund to report its operating results on a calendar year rather than the State's fiscal year.

Performance Measures

The following tables show key performance measures used by Company management in evaluating Company performance:

| Year | Number of Claims Filed | Number of Open Claims | Claims Payments (\$ in 000s) | Avg. Premium Rate-Increase (Decrease) |
|-------------|-------------------------------|------------------------------|-------------------------------------|--|
| 1992 | 41,767 | 20,218 | 83,897 | 17.90% |
| 1993 | 38,157 | 15,501 | 78,362 | 19.50% |
| 1994 | 35,139 | 12,447 | 75,494 | 8.40% |
| 1995 | 31,165 | 9,870 | 63,339 | -8.20% |
| 1996 | 30,874 | 10,075 | 59,658 | -10.10% |
| 1997 | 29,822 | 9,627 | 58,964 | -11.90% |
| 1998 | 28,741 | 9,528 | 59,236 | -16.30% |
| 1999 | 30,044 | 10,560 | 62,714 | -9.60% |

The next two pages show the statistics and the income statement for the company.

4.0 Tables

| Programs | CY 1996 Actual | CY 1997 Actual | CY 1998 Actual | CY 1999 Estimated | CY 2000 Budget |
|-----------------|---------------------------|---------------------------|---------------------------|------------------------------|---------------------------|
| Administration | \$30,340,500 | \$32,375,200 | \$34,600,700 | \$31,160,500 | \$34,324,100 |
| TOTAL | \$30,340,500 | \$32,375,200 | \$34,600,700 | \$31,160,500 | \$34,324,100 |
| % Change | | 6.7% | 6.9% | (9.9%) | 10.2% |

| Financing | CY 1996 Actual | CY 1997 Actual | CY 1998 Actual | CY 1999 Estimated | CY 2000 Budget |
|----------------------------|---------------------------|---------------------------|---------------------------|------------------------------|---------------------------|
| Workers' Compensation Fund | \$30,340,500 | \$32,375,200 | \$34,600,700 | \$31,160,500 | \$34,324,100 |
| TOTAL | \$30,340,500 | \$32,375,200 | \$34,600,700 | \$31,160,500 | \$34,324,100 |
| % Change | | 6.7% | 6.9% | (9.9%) | 10.2% |

| Expenditures | CY 1996 Actual | CY 1997 Actual | CY 1998 Actual | CY 1999 Estimated | CY 2000 Budget |
|---------------------|---------------------------|---------------------------|---------------------------|------------------------------|---------------------------|
| Personal Services | \$14,934,500 | \$16,969,200 | \$19,468,800 | \$21,158,200 | \$23,414,100 |
| Travel | 258,900 | 310,200 | 350,200 | 330,000 | 343,200 |
| Current Expense | 12,008,200 | 11,110,500 | 10,687,600 | 6,116,000 | 6,529,200 |
| Data Processing | 3,138,900 | 3,985,300 | 4,094,100 | 3,556,300 | 4,037,600 |
| TOTAL | \$30,340,500 | \$32,375,200 | \$34,600,700 | \$31,160,500 | \$34,324,100 |
| % Change | 8.0% | 6.7% | 6.9% | (9.9%) | 10.2% |
| Standard FTE | 278.00 | 323.00 | 341.00 | 323.00 | 338.00 |