

Office of the  
Legislative Fiscal Analyst

## **FY 2002 Budget Review**

Joint Appropriations Subcommittee for  
Commerce and Revenue

### **Workers Compensation Fund**

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## 1.0 Workers Compensation Fund of Utah

### Summary

The Workers Compensation Fund (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 \$4,525,544, or 4.65 percent and \$5,009,513 or 4.57 percent of total 1999 and 2000 premium respectively. 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)]

	<b>CY 2000</b>	<b>CY 2001</b>
<b>Financing</b>	<b>Estimated</b>	<b>Budget</b>
GFR-Workers' Compensation Fund of Utah	\$36,480,500	\$36,012,900
<b>Total</b>	<b>\$36,480,500</b>	<b>\$36,012,900</b>
<b>Programs</b>		
Administration	\$36,480,500	\$36,012,900
<b>Total</b>	<b>\$36,480,500</b>	<b>\$36,012,900</b>
<b>Standard FTE</b>	<b>359.00</b>	<b>344.00</b>
<b>Expansion FTE</b>	<b>0.00</b>	<b>0.00</b>

## **2.0 Budget Highlights – Workers’ Compensation Fund**

### **Quasi-Governmental Entities Task Force**

A legislative task force evaluated the standing of many of Utah’s quasi-governmental entities, including the Workers’ Compensation Fund. Changes could transfer budgetary review responsibilities to a new interim Quasi-Governmental Entities Committees. Legislation has been proposed during the 2001 General Session to make adjustments to the statute of several of the quasi-governmental entities.

The Commerce and Revenue Appropriations Subcommittee does not appropriate funds to the Company. Neither does the Legislature appropriate the funding. It is an oversight and review function.

**3.0 Programs: Workers Compensation Fund - Administration**

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

	<b>CY 1999</b>	<b>CY 2000</b>	<b>CY 2001</b>	
<b>Financing</b>	<b>Actual</b>	<b>Estimated</b>	<b>Budget</b>	<b>Difference</b>
Workers' Compensation Fund	\$32,344,500	\$36,480,500	\$36,012,900	(\$467,600)
<b>TOTAL</b>	<b>\$32,344,500</b>	<b>\$36,480,500</b>	<b>\$36,012,900</b>	<b>(\$467,600)</b>
% Change		12.8%	(1.3%)	
<b>Expenditures</b>				
Personal Services	\$20,713,600	\$22,886,200	\$24,101,100	\$1,214,900
Travel	360,700	391,000	401,300	10,300
Current Expense	7,802,800	9,567,000	7,648,500	(1,918,500)
Data Processing	3,467,400	3,636,300	3,862,000	225,700
<b>TOTAL</b>	<b>\$32,344,500</b>	<b>\$36,480,500</b>	<b>\$36,012,900</b>	<b>(\$467,600)</b>
% Change		12.8%	(1.3%)	
Standard FTE	335.00	359.00	344.00	(15.00)
Enhancement FTE				0.00

**Organizational Summary**

The Workers Compensation Fund 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 Change**

The company continues to control operating costs by improving the productivity of its personnel through training and technological development. The Company anticipates reducing its staff by 15 FTEs during 2001, primarily by attrition.

**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 \$21 million between 1994 and 2000, claims expenses decreased by \$42 million for the same period. Budgeted 2001 administrative expenses have decreased \$467,600 from projected 2000.

**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 \$33.0 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 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 declined in 1995, 1996, 1997 and 1998 as the benefit of overall cost reductions was passed on to policyholders. There was a slight premium increase in 1999 and 2000 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 7 years.

Premium revenue is used to pay benefit expenses and administrative expenses. Benefit expenses have declined from 1994 to 2000 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 1998 and 1999 were \$8,788,000 and \$8,472,000, 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 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, paid in 2000, was \$25.5 million. The 2000 dividend is subject to approval by the Company's Board of Directors.

**Budget Authority Ceded**

The 2001 budget for the Company was approved by the Board of Directors on November 16, 2000, 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:

<b>Year</b>	<b>Number of Claims Filed</b>	<b>Number of Open Payments Claims</b>	<b>Claims in 000s (\$)</b>	<b>Avg. Rate Increase (Decrease)</b>
1993	41,767	20,218	83,897	17.90%
1994	38,157	15,501	78,362	19.50%
1995	35,139	12,447	75,494	8.40%
1996	31,165	9,870	63,339	-8.20%
1997	30,874	10,075	59,658	-10.10%
1998	29,822	9,627	58,964	-11.90%
1999	28,741	9,528	59,236	-5.20%
2000	27,369	9,501	58,123	-3.20%

The next page shows the statistics outlining the performance for the company.



4.0 Tables

<b>Programs</b>	<b>CY 1997 Actual</b>	<b>CY 1998 Actual</b>	<b>CY 1999 Actual</b>	<b>CY 2000 Estimated</b>	<b>CY 2001 Budget</b>
Administration	\$32,375,200	\$32,375,200	\$32,344,500	\$36,480,500	\$36,012,900
<b>TOTAL</b>	<b>\$32,375,200</b>	<b>\$32,375,200</b>	<b>\$32,344,500</b>	<b>\$36,480,500</b>	<b>\$36,012,900</b>
% Change		0.0%	(0.1%)	12.8%	(1.3%)

<b>Financing</b>	<b>CY 1997 Actual</b>	<b>CY 1998 Actual</b>	<b>CY 1999 Actual</b>	<b>CY 2000 Estimated</b>	<b>CY 2001 Budget</b>
Workers' Compensation Fund	\$32,375,200	\$32,375,200	\$32,344,500	\$36,480,500	\$36,012,900
<b>TOTAL</b>	<b>\$32,375,200</b>	<b>\$32,375,200</b>	<b>\$32,344,500</b>	<b>\$36,480,500</b>	<b>\$36,012,900</b>
% Change		0.0%	(0.1%)	12.8%	(1.3%)

<b>Expenditures</b>	<b>CY 1997 Actual</b>	<b>CY 1998 Actual</b>	<b>CY 1999 Actual</b>	<b>CY 2000 Estimated</b>	<b>CY 2001 Budget</b>
Personal Services	\$16,969,200	\$19,468,800	\$20,713,600	\$22,886,200	\$24,101,100
Travel	310,200	350,200	360,700	391,000	401,300
Current Expense	11,110,500	10,687,600	7,802,800	9,567,000	7,648,500
Data Processing	3,985,300	4,094,100	3,467,400	3,636,300	3,862,000
<b>TOTAL</b>	<b>\$32,375,200</b>	<b>\$34,600,700</b>	<b>\$32,344,500</b>	<b>\$36,480,500</b>	<b>\$36,012,900</b>
% Change	8.0%	6.9%	(6.5%)	12.8%	(1.3%)
Standard FTE	323.00	341.00	335.00	359.00	344.00