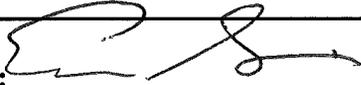




Memorandum

TO: Public Safety, Finance and Strategic Support Committee **FROM: Mark Danaj**

SUBJECT: Workers' Compensation First Trimester Report **DATE: December 4, 2009**

Approve:  **Date:** 12/7/09

As recommended by the City Auditor in the Workers' Compensation Audit published in April, 2009, Human Resources is presenting the first trimester report on the workers' compensation program to raise the visibility and accountability for controlling costs and claims. The report presents information as follows:

- ◆ Costs for each of the City Departments who account for a majority of General Fund costs.
- ◆ Significant components of costs such as medical, indemnity, and disability leave supplement.
- ◆ Claims for each of the City Departments who have the highest number of claims.
- ◆ City's efforts to control costs and reduce claims.

I. General Fund Costs for City Departments

As of October 31, 2009, the City expended \$5.1M in GF costs for workers' compensation as compared to \$4.8M of the same period last year, or 7.3% higher. At this rate, the year-end projection is approximately \$15.35M or \$400,000 below budgeted cost. It is still too early to develop a firm projection four months into the fiscal year.

The table below shows detailed costs by departments.

Table 1: Costs by Department

Dept.	Budget	YTD		Projection	Year-end Balance
		Expenditure	YTD Balance		
Police	7,577,360	2,535,447	5,041,913	7,606,341	-28,981
Fire	4,876,870	1,792,015	3,084,855	5,376,044	-499,174
DOT	666,225	184,699	481,526	554,097	112,128
PRNS	833,500	252,925	580,575	758,774	74,726
GS	577,832	102,651	475,181	307,952	269,880
Others	1,218,213	248,872	969,341	746,616	471,597
GF Total	15,750,000	5,116,608	10,633,392	15,349,824	\$400,176

A majority of departments are expected to stay below their budgeted costs, with the exception of the Police and Fire Departments. The Fire Department's cost is projected to be approximately \$500,000 over budget. Temporary and permanent disability costs account for 66% of this cost increase (an increase of \$330,000 over last year). The increase in fees paid for attorneys of claimants accounts for 13% of the total cost increase (an increase of \$63,000 over last year).

II. Significant Components of Costs

Significant components of cost include medical, indemnity, and other (legal fees and rehabilitation). These costs are budgeted in the Citywide appropriations assigned to each major department (Police, Fire, Transportation, General Services, and Parks Recreation and Neighborhood Services). One other major cost component is the disability leave supplement (DLS) cost. This cost is paid for by the department's budget.

Table 2: Cost Components

Dept.	Medical	Indemnity	Other	Total
Police	\$1,289,616	\$1,224,757	\$21,074	\$2,535,447
Fire	\$883,132	\$894,724	\$14,159	\$1,792,015
DOT	\$162,622	\$16,137	\$5,940	\$184,699
GSA	\$88,348	\$8,962	\$5,341	\$102,651
PRNS	\$142,091	\$106,724	\$4,110	\$252,925
Other	\$199,812	\$44,084	\$4,977	\$248,872
Total	\$2,765,620	\$2,295,387	\$55,602	\$5,116,609

Overall, medical costs account for 54% of the total cost and indemnity the other 45% as shown by the table below. Indemnity costs account for a lower percentage of total costs for DOT and GSA (9% of total cost).

Table 3: Cost Components as a % of Total Cost

Dept	Medical as a % of Total	Ind. As a % of Total-	Other as a % of Total-
Police	51%	48%	1%
Fire	49%	50%	1%
DOT	88%	9%	3%
GSA	86%	9%	5%
PRNS	56%	42%	2%
Other	<u>80%</u>	<u>18%</u>	<u>2%</u>
Total	54%	45%	1%

Disability Cost Analysis

As of October 31, 2009, the City expended \$2.46M in disability leave supplement (DLS) cost as compared to \$2.57M during the same period last year, or 4% lower. At this rate, the year-end projection is approximately \$7.4M or \$840,000 lower than that of last year. It is still too early to develop a firm projection four months into the fiscal year.

Table 4: DLS Cost by Department

Dept.	YTD - DLS	FY 08-09 YTD - DLS	Year-end Projection	FY 08-09	Net	% Chg.
Police	\$1,362,641	\$1,001,596	\$4,087,922	\$3,133,703	\$954,219	30%
Fire	\$684,358	\$1,262,272	\$2,053,075	\$4,121,332	-\$2,068,257	-50%
DOT	\$130,166	\$120,544	\$390,498	\$375,461	\$15,038	4%
GSA	\$36,244	\$9,282	\$108,731	\$36,980	\$71,750	194%
PRNS	\$144,420	\$69,611	\$433,259	\$230,731	\$202,528	88%
Other*	<u>\$104,135</u>	<u>\$106,379</u>	<u>\$312,405</u>	<u>\$328,257</u>	<u>-\$15,852</u>	-5%
	\$2,461,963	\$2,569,685	\$7,385,890	\$8,226,465	-\$840,575	-10%

*Does not include the Airport and Environmental Services Departments

III. Claims Analysis

The total number of claims as of October 31, 2009 was 325 as compared to 362 for the same period last year. The figure 325 has been adjusted for incurred but not reported (IBNR) claims by 3.5% based on historical data. The adjustment is needed to improve the accuracy of the comparison and projection. At this rate, the year-end projection for claims is 975 as compared to 1,097 for last year, an 11% reduction. This reduction has a significant impact on future costs since claims are a lagging indicator of costs. A reduction in claims in year 1 will likely result in a reduction in costs in year 2 and 3.

Table 5: Claims by Department

Dept	# of Claims	Last Year YTD	YTD Net	Year-end Projection	Last Year Total	Net	% Chg.
Police	102	122	-20	306	368	-62	-20.3%
Fire	101	120	-19	303	361	-58	-19.1%
DOT	18	21	-3	54	79	-25	-46.3%
GSA	23	18	5	69	48	21	30.4%
PRNS	26	31	-5	78	95	-17	-21.8%
ESD	11	18	-7	33	75	-42	-127.3%
Airport	20	10	10	60	43	17	28.3%
Other	<u>24</u>	<u>22</u>	<u>2</u>	<u>72</u>	<u>90</u>	<u>-18</u>	<u>-25.0%</u>
Total	325	362	-37	975	1159	-184	-18.9%

IV. City's efforts to control costs and reduce claims.

Risk Management in Human Resources has been actively working with departments to control costs and to reduce claims. Specific efforts include:

◆ **Cost Allocation**

In FY 09-10 the City has established separate Citywide appropriations for workers' compensation costs for departments which have accounted for a majority of costs, such as Police, Fire, DOT, General Services, and PRNS. Risk Management in Human Resources has been working with these departments to identify and analyze trends and any major cost items in order to control costs.

◆ **Safety Culture Assessment**

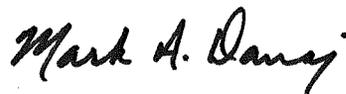
The City with the assistance of the risk management and brokerage firms, Marsh USA and Bickmore Risk Services, has concluded an assessment of the safety culture of DOT to identify areas where improvements are possible to strengthen a culture of safety, including defining clear accountability for safety. Recommendations were made and presented to the management team of DOT for review and implementation. The City plans to expand this assessment to other departments.

◆ **Accountability for Safety**

Departments are now required to report safety violations, injuries, and accidents and any corresponding corrections and/or disciplinary actions. Quarterly reports are required to be submitted to Risk Management for analysis and follow-up.

◆ **Disability Leave Management**

The Return-to-Work program in Risk Management has expanded its scope to include disability leave management. Claims with high disability usage will be analyzed to find ways to return the employee to work as soon as appropriate.



Mark Danaj
Director of Human Resources

Please contact John Dam, Deputy Director of HR/Risk Manager at 975-1438 for further information or questions.