



Memorandum

TO: Public Safety, Finance and Strategic
Support Committee

FROM: Mark Danaj

SUBJECT: Workers' Compensation
Mid-Year Report

DATE: February 8, 2010

Approve:

2/9/10

As recommended by the City Auditor in the Workers' Compensation Audit published in April, 2009, Human Resources is presenting the mid-year report on the Workers' Compensation program to raise the visibility and accountability for controlling costs and claims.

Overall, workers' compensation costs are projected to be within budget, with total claims numbering fewer than last year's final tally. Disability leave expenditures are also projected to be lowered than those of last year. One notable change in disability leave is that as of January 1, 2010, disability leave payments for sworn personnel fell under the provision of Labor Code 4850 as a result of Assembly Bill 1127, and therefore have been legislatively exempted from income tax. This increases the benefits received by sworn personnel.

This report presents detailed information in the following areas:

- ◆ 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.
- ◆ A summary of the City's efforts to control costs and reduce claims.

I. General Fund Costs for City Departments

As of December 31, 2009, the City expended \$7.8M in GF costs for workers' compensation as compared to \$6.9M of the same period last year, or 12.4% higher. At this rate, the year-end projection is approximately \$15.6M or \$174,000 (1.1%) below the budgeted fund total.

The table below shows detailed costs by departments.

Table 1: Costs by Department

Department	Adopted W/C Budget	YTD Expenditures	Projected	Year-End Balance
Police	7,577,360	3,691,735	7,383,469	193,891
Fire	4,876,870	2,688,777	5,377,554	(500,684)
DOT	666,225	260,066	520,132	146,093
PRNS	833,500	398,915	797,830	35,671
GS	577,832	124,565	249,130	328,702
Others	1,218,213	623,735	1,247,469	(29,256)
GF Total	15,750,000	7,787,792	15,575,584	174,416

A majority of departments are expected to stay below their budgeted costs, with the exception of the Fire Department. The Fire Department's cost is projected to be approximately \$500,684 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). Medical costs and part of temporary disability (TD) expenditures (TD payments after one year) are budgeted in the Citywide appropriations assigned to each major department (Police, Fire, Transportation, General Services, and Parks Recreation and Neighborhood Services). The other part of TD expenditures (TD payments in year one) are paid for by department's budget. One other major cost component is the disability leave supplement (DLS) cost. This cost is also paid for by a department's budget.

The table below presents various cost components for both General Fund and Special Funds.

Table 2: Cost Components

Dept	Medical	Indemnity	Other	Total
Police	\$1,815,074	\$2,484,728	\$34,470	\$4,334,272
Fire	\$1,265,691	\$1,924,279	\$20,903	\$3,210,872
DOT	\$234,060	\$344,714	\$5,985	\$584,759
GSA	\$130,355	\$105,040	\$5,418	\$240,813
PRNS	\$226,667	\$298,062	\$4,629	\$529,357
Other	<u>\$562,158</u>	<u>\$640,788</u>	<u>\$18,874</u>	<u>\$1,221,821</u>
Total	\$4,234,004	\$5,797,611	\$90,278	\$10,121,893

Overall, medical costs account for 42% of the total cost and indemnity the other 57% as shown by the table below.

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	42%	57%	1%
Fire	39%	60%	1%
DOT	40%	59%	1%
GSA	54%	44%	2%
PRNS	43%	56%	1%
Other	<u>46%</u>	<u>52%</u>	<u>2%</u>
Total	42%	57%	1%

Disability Cost Analysis

As of December 31, 2009, the City expended \$3.8M in disability leave supplement (DLS) cost as compared to \$4.6 during the same period last year, or 6% lower. At this rate, the year-end projection is approximately \$7.7M or \$518,000 lower than that of last year.

Table 4: DLS Cost by Department

Dept	YTD - DLS	FY 08-09 YTD - DLS	Year-end Projection	FY 08-09	Net	% Chg.
Police	2,003,411	1,582,292	4,006,822	3,133,703	873,119	28%
Fire	989,495	2,251,994	1,978,990	4,121,332	(2,142,342)	-52%
DOT	214,561	205,395	429,123	375,461	53,662	14%
GSA	44,986	11,693	89,973	36,980	52,993	143%
PRNS	194,604	105,332	389,207	230,731	158,476	69%
Other	<u>407,067</u>	<u>409,211</u>	<u>814,134</u>	<u>\$328,257</u>	<u>485,877</u>	148%
Total	3,854,124	4,565,917	7,708,248	8,226,464	(518,216)	-6%

*Does not include the Airport and Environmental Services Departments

III. Claims Analysis

The total number of claims as of December 31, 2009 was 477 as compared to 515 for the same period last year. The figure 477 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 954 as compared to 1,159 for last year, an 18% 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	155	168	(13)	310	368	(58)	-15.8%
Fire	154	172	(18)	308	361	(53)	-14.7%
DOT	31	31	0	62	79	(17)	-21.5%
GSA	35	26	9	70	48	22	45.8%
PRNS	30	38	(8)	60	95	(35)	-36.8%
ESD	16	29	(13)	32	75	(43)	-57.3%
Airport	22	14	8	44	43	1	2.3%
Other	34	37	(3)	68	90	(22)	-24.4%
Total	477	515	(38)	954	1,159	-205	-17.7%

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 as a pilot project to keep track of expenditures. 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. Before the end of this fiscal year, Risk Management, Departments, and the Budget Office will evaluate the results of this pilot project to determine the next steps of cost allocation.

◆ **Safety Culture Assessment**

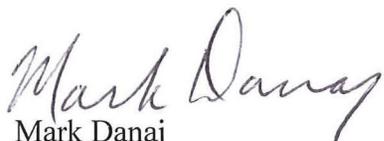
The City with the assistance of the risk management and brokerage firm, Marsh USA and Bickmore Risk Services, has concluded an assessment of the safety culture of DOT to identify areas where improvements are possible to strengthen a culture of safety, including defining clear accountability for safety. Recommendations were made and presented to the management team of DOT for review and implementation. Risk Management and the Fire Department are discussing potentially expanding this assessment to the Fire Department.

◆ **Accountability for Safety**

Departments are now required to report safety violations, injuries, and accidents and any corresponding corrections and/or disciplinary actions. The first reports from departments identify three safety violations and subsequent disciplinary actions to prevent future violations.

◆ **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 are being analyzed to find ways to return the employee to work as soon as appropriate.


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