

C94I00
Subsequent Injury Fund

Operating Budget Data

(\$ in Thousands)

	<u>FY 15</u> <u>Actual</u>	<u>FY 16</u> <u>Working</u>	<u>FY 17</u> <u>Allowance</u>	<u>FY 16-17</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Special Fund	\$2,195	\$2,317	\$2,334	\$17	0.7%
Deficiencies and Reductions	0	0	-5	-5	
Adjusted Special Fund	\$2,195	\$2,317	\$2,329	\$12	0.5%
Adjusted Grand Total	\$2,195	\$2,317	\$2,329	\$12	0.5%

- The fiscal 2017 allowance increases by \$12,000 over the fiscal 2016 working appropriation when adjusted for a back of the bill reduction for health insurance. A decrease of \$60,000 due to the elimination of a one-time cost for an actuarial study is offset by a net \$57,000 increase in personnel costs.

Personnel Data

	<u>FY 15</u> <u>Actual</u>	<u>FY 16</u> <u>Working</u>	<u>FY 17</u> <u>Allowance</u>	<u>FY 16-17</u> <u>Change</u>
Regular Positions	17.00	17.00	17.00	0.00
Contractual FTEs	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Personnel	17.00	17.00	17.00	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	0.51	3.00%
Positions and Percentage Vacant as of 12/31/15	2.00	11.76%

- The number of regular positions remains unchanged between the current fiscal year working appropriation and the fiscal 2017 allowance.
- The fiscal 2017 turnover rate of 3% will require the Subsequent Injury Fund (SIF) to keep the equivalent of 0.51 positions vacant for the entire year. As of December 31, 2015, there were 2.0 vacant positions.

Note: Numbers may not sum to total due to rounding.

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Analysis in Brief

Major Trends

Cases Resolved Exceed Cases Opened: The number of cases resolved decreased by 4.3% in fiscal 2015; however, cases resolved exceeded cases opened from fiscal 2011 to 2015. **The Department of Legislative Services recommends that new cases opened, cases reopened, cases resolved, and net resolved cases information be provided in Managing for Results measurements starting with the fiscal 2018 budget.**

Issues

Fund Balance Continues to Grow, High Unpaid Liabilities Loom: SIF receives special funds from a 6.5% assessment on awards against employers or insurers for permanent disability or death and amounts payable by employers or insurers under settlement agreements. Assessments continue to exceed payments, so the fund has grown at an average annual rate of 3.9% over the last decade, with a fiscal 2016 closing balance estimated to be \$82.8 million. However, using actuarial assumptions, unpaid liabilities are significant. For example, as of January 2011, the unfunded liability was \$278.4 million if no interest earnings are assumed. Assuming 1.5% in interest earnings reduces the unfunded liability to \$221.8 million, which is still substantial. **The agency should comment on the unfunded liability and discuss whether the 6.5% assessment rate is sufficient to maintain the fund.**

Recommended Actions

1. Concur with Governor's allowance.

C94I00
Subsequent Injury Fund

Operating Budget Analysis

Program Description

The Subsequent Injury Fund (SIF) compensates injured workers whose preexisting injuries, diseases, or congenital conditions are substantially worsened by a current injury. SIF receives special funds from a legislatively mandated 6.5% assessment on (1) awards against employers or insurers for permanent disability or death; and (2) amounts payable by employers or insurers under settlement agreements. The purpose of SIF is to encourage the employment of disabled individuals by limiting an employer's liability should a subsequent occupational injury render an individual permanently disabled or result in death. Employers or their insurers are liable only for damage caused by current workplace injuries. SIF incurs the additional liability for damage resulting from the combined effects of all injuries and conditions. The SIF mission addresses the need to:

- efficiently defend SIF resources against inappropriate use;
- provide monetary benefits to qualified disabled workers injured on the job in accordance with awards passed by the Workers' Compensation Commission (WCC); and
- maintain the adequacy and integrity of the SIF fund balance.

Performance Analysis: Managing for Results

1. Cases Resolved Exceed Cases Opened

The key goals of SIF focus on the efficient and responsible use of fund resources. These goals are measured against objectives related to the review and preparation of cases and the processing of payments once awards are passed by WCC. The typical processing time for the authorization of award payments is three to five days. This measure strictly tracks the authorization time, as the Comptroller controls the release of funds.

Exhibit 1 shows the caseload measure for the fund. The number of resolved cases decreased by 4.3% in fiscal 2015, or by 43 fewer cases than in fiscal 2014. However, cases resolved exceeded cases opened from fiscal 2011 to 2015, which could explain the negative trend in resolved cases from fiscal 2013 to 2015. Including new cases and reopened cases, SIF has resolved 85 more cases than received from fiscal 2011 to 2015.

Exhibit 1
Subsequent Injury Fund Caseload
Fiscal 2011-2015

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
New Cases Opened	896	885	868	876	700
Cases Reopened	105	133	110	121	144
Cases Resolved	899	964	1,089	1,007	964
Net Resolved Cases	102	54	-111	-10	-120

Note: Numbers may not match Managing for Results data due to a new electronic tracking system, which is able to produce more accurate data.

Source: Subsequent Injury Fund

Another gauge of administrative productivity is operating costs per claim. Different cases merit different costs in terms of medical exams, depositions, and other legal fees, but **Exhibit 2** shows the average cost per claim. Though the average cost per claim decreased from fiscal 2011 to 2013, the average cost has increased in fiscal 2014 and 2015. In fiscal 2015, average cost per claim increases by \$244, or 12.0%, over fiscal 2014 costs. Weekly rates of compensation and the maximum permanency payment rates increase annually and contribute to the cost per case increase.

Exhibit 2
Average Cost Per Claim and Fund Expenditure to Collections Ratio
Fiscal 2011-2017 Est.

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016 Est.</u>	<u>2017 Est.</u>
Operating Budget Cost Per Resolved Claim	\$2,010	\$1,923	\$1,808	\$2,033	\$2,276	\$2,317	\$2,334
Ratio of Fund Expenditures to Total Collections	0.910:1	0.827:1	0.900:1	0.992:1	0.965:1	0.980:1	0.998:1

Source: Subsequent Injury Fund

C94I00 – Subsequent Injury Fund

The ratio of expenditures to collections continues to remain below 1:1, which leads to continued growth in the fund balance. The fund expects the ratio to stay below 1:1 in fiscal 2016 and 2017.

The SIF fund balance is estimated to close at \$82.8 million at the end of fiscal 2016 and is considered to be at an adequate level by the most recent actuarial study.

The Department of Legislative Services (DLS) recommends that new cases opened, cases reopened, cases resolved, and net resolved cases information be provided in Managing for Results measurements starting with the fiscal 2018 budget.

Proposed Budget

As shown in **Exhibit 3**, the fiscal 2017 allowance increases by \$12,000 over the fiscal 2016 working appropriation when adjusted for a back of the bill reduction for health insurance. A decrease of \$60,000 due to the elimination of a one-time cost for an actuarial study is offset by a net \$57,000 increase in personnel costs. Actuarial studies are conducted every four to six years as recommended by the legislature. The contract for the next actuarial study began in October 2015 and is due to conclude April 1, 2016.

Exhibit 3
Proposed Budget
Subsequent Injury Fund
(\$ in Thousands)

How Much It Grows:	<u>Special</u> <u>Fund</u>	<u>Total</u>
Fiscal 2015 Actual	\$2,195	\$2,195
Fiscal 2016 Working Appropriation	2,317	2,317
Fiscal 2017 Allowance	<u>2,329</u>	<u>2,329</u>
Fiscal 2016-2017 Amount Change	\$12	\$12
Fiscal 2016-2017 Percent Change	0.5%	0.5%

Where It Goes:

Personnel Expenses

Employees' retirement system	\$41
Employee and retiree health insurance, including back of the bill reduction	14
Turnover adjustments.....	6
Salaries and other compensation.....	-5
Other fringe benefit adjustments.....	1

C94I00 – Subsequent Injury Fund

Where It Goes:

Other Changes

Communication, supplies, legal services, and travel	10
Elimination of one-time cost for actuarial study	-60
Other	5
Total	\$12

Note: Numbers may not sum to total due to rounding.

Across-the-board Reductions

The fiscal 2017 budget bill includes an across-the-board reduction for employee health insurance, based on a revised estimate of the amount of funding needed. This agency's share of these reductions is \$5,036 in special funds. There is an additional across-the-board reduction to abolish vacant positions statewide, but the amounts have not been allocated by agency.

Personnel Expenditures

Personnel expenses increase by \$57,000 overall. Regular earnings decrease by \$5,000. Health insurance for employees and retirees increases by a net \$14,000, including a back of the bill reduction in health insurance. Employees' retirement costs increase by \$41,000, and turnover expectancy increases by \$6,000.

Although not reflective in the SIF fiscal 2017 budget, \$16,097 in employee increments and associated expenses are expected to be distributed to the agency by budget amendment at the start of the fiscal year. Currently, increments for agencies are included in the Department of Budget and Management's budget.

Issues

1. Fund Balance Continues to Grow, High Unpaid Liabilities Loom

SIF receives special funds from a 6.5% assessment on awards against employers or insurers for permanent disability or death and amounts payable by employers or insurers under settlement agreements. In addition to providing for the agency’s operating expenses, the assessment is designed to build reserves for the payment of benefits to qualified disabled workers injured on the job in accordance with awards approved by WCC. **Exhibit 4** shows the balance in the fund since the end of fiscal 2007.

Exhibit 4
Subsequent Injury Fund History
Fiscal 2007-2016 Est.

<u>Fiscal Year</u>	<u>Balance</u>	<u>Percent Change</u>
2007	\$58,851,161	8.1%
2008	62,465,183	6.1%
2009	65,369,903	4.7%
2010	70,754,896	8.2%
2011	73,025,353	3.2%
2012	78,107,299	7.0%
2013	80,989,370	3.7%
2014	81,243,776	0.3%
2015	82,185,258	1.2%
2016 Est.	82,793,244	0.7%

Source: Subsequent Injury Fund

Fund growth results when revenue from assessments exceeds benefit payments and agency expenses. The fund has grown at an average annual rate of 3.9% over the last decade, with a fiscal 2016 closing balance estimated to be \$82.8 million. The SIF holdings are intended to provide the source of capital that offsets future liabilities, whose value is calculated periodically by an actuarial study.

In June 2011, Pinnacle Actuarial Resources, Inc. (Pinnacle) completed the most recent valuation of the agency’s liabilities. The actuarial report’s findings provide guidance to SIF as to the appropriateness of its assessment mechanism in funding its loss levels. **Exhibit 5** shows the estimates of SIF liabilities assuming disabled mortality. Pinnacle originally provided scenarios for discount

C94I00 – Subsequent Injury Fund

factors of 0.0%, 1.5%, and 4.0%, but the discount factor of 4.0% has been dropped in Exhibit 5 because it does not reflect reality of interest rate earnings for the fund.

Exhibit 5
Subsequent Injury Fund Liability Profile
As of January 2011

Disabled Mortality Assumptions

<i>Discount Factor</i>	<i>0.0%</i>	<i>1.5%</i>
Total Loss Liability	\$361,206,348	\$304,543,417
Fund Balance*	82,793,244	82,793,244
Unfunded Liability	278,413,104	221,750,173

* Estimated end of fiscal 2016 balance.

Source: Pinnacle Actuarial Resources, Inc.

Using a discount factor of 0.0%, Pinnacle determined that the total loss liability was \$361.2 million. With an ending fund balance of \$82.8 million in fiscal 2016, this would mean current fund balance is only 22.9% of total liabilities, leaving an unfunded liability of \$278.4 million, or 77.1%, unfunded. Using a discount factor of 1.5%, total loss liability is \$304.5 million, making the current fund balance 27.2% of total liability and leaving \$221.8 million in unfunded liability, or 72.8%.

At the time of the actuarial study, Pinnacle recommended that the 6.5% assessment level was appropriate. SIF procured an actuarial study at the start of fiscal 2016 and expects the current study to conclude by April 1, 2016. While SIF does not have the expertise to perform its own actuarial studies to determine a long-term liability profile, it does estimate that the level of current liabilities due over the next 100 weeks is approximately \$32 million, or about 40.0%, of the estimated fund balance at the end of fiscal 2016. However, DLS is concerned with the substantial unfunded liability with which the fund is faced.

The agency should comment on the unfunded liability and discuss whether the 6.5% assessment rate is sufficient to maintain the fund.

Recommended Actions

1. Concur with Governor's allowance.

Current and Prior Year Budgets

Current and Prior Year Budgets Subsequent Injury Fund (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2015					
Legislative Appropriation	\$0	\$2,180	\$0	\$0	\$2,180
Deficiency Appropriation	0	0	0	0	0
Cost Containment	0	0	0	0	0
Budget Amendments	0	15	0	0	15
Reversions and Cancellations	0	-1	0	0	-1
Actual Expenditures	\$0	\$2,195	\$0	\$0	\$2,195
Fiscal 2016					
Legislative Appropriation	0	\$2,227	\$0	\$0	\$2,227
Budget Amendments	0	90	0	0	90
Working Appropriation	\$0	\$2,317	\$0	\$0	\$2,317

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. Numbers may not sum to total due to rounding.

C94100 – Subsequent Injury Fund

Fiscal 2015

The SIF fiscal 2015 budget increased by approximately \$15,000 due to allocation of the 2% cost-of-living adjustment effective January 1, 2015; this increase was offset by \$612 in cancelled funds.

Fiscal 2016

A budget amendment in fiscal 2016 to restore salaries increased the budget by \$30,000. A budget amendment to procure an actuarial consulting firm to conduct an actuarial analysis of the fund's projected liability and assessment mechanism increased the budget by another \$60,000, for a total increase of \$90,000 in fiscal 2016.

Audit Findings

Audit Period for Last Audit:	January 5, 2011 – October 28, 2013
Issue Date:	August 2014
Number of Findings:	5
Number of Repeat Findings:	2
% of Repeat Findings:	40%
Rating: (if applicable)	n/a

Finding 1: **Claim payments were not independently reviewed for validity and accuracy.**

Finding 2: SIF did not always pursue recovery of payments improperly disbursed to deceased individuals.

Finding 3: **SIF did not conduct independent reviews of the establishment of assessment accounts and adjustments to those accounts. Additionally, SIF did not properly separate the responsibilities for billing assessments and processing the related collections.**

Finding 4: SIF did not always take timely action to collect delinquent assessment accounts.

Finding 5: Controls were not sufficient over passwords and sensitive personally identifiable information (PII).

*Bold denotes item repeated in full or part from preceding audit report.

**Object/Fund Difference Report
Subsequent Injury Fund**

<u>Object/Fund</u>	<u>FY 15 Actual</u>	<u>FY 16 Working Appropriation</u>	<u>FY 17 Allowance</u>	<u>FY 16 - FY 17 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	17.00	17.00	17.00	0.00	0%
Total Positions	17.00	17.00	17.00	0.00	0%
Objects					
01 Salaries and Wages	\$ 1,799,052	\$ 1,846,231	\$ 1,908,324	\$ 62,093	3.4%
02 Technical and Spec. Fees	136,345	167,000	168,500	1,500	0.9%
03 Communication	36,998	34,802	39,557	4,755	13.7%
04 Travel	25,649	23,945	24,750	805	3.4%
08 Contractual Services	57,400	108,776	52,279	-56,497	-51.9%
09 Supplies and Materials	10,030	9,500	11,750	2,250	23.7%
10 Equipment – Replacement	4,145	0	0	0	0.0%
11 Equipment – Additional	3,229	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	12,000	12,000	12,000	0	0%
13 Fixed Charges	109,012	114,250	116,423	2,173	1.9%
14 Land and Structures	654	510	650	140	27.5%
Total Objects	\$ 2,194,514	\$ 2,317,014	\$ 2,334,233	\$ 17,219	0.7%
Funds					
03 Special Fund	\$ 2,194,514	\$ 2,317,014	\$ 2,334,233	\$ 17,219	0.7%
Total Funds	\$ 2,194,514	\$ 2,317,014	\$ 2,334,233	\$ 17,219	0.7%

Note: The fiscal 2016 working appropriation does not include deficiencies or reversions. The fiscal 2017 allowance does not include contingent reductions.