

**GG.00  
Injured Workers' Insurance Fund**

***Operating Budget Data***

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(\$ in Thousands)

	<b>CY 2000</b>	<b>CY 2001</b>		<b>% Change</b>
	<u>Actual</u>	<u>Working</u>	<u>Change</u>	<u>Prior Year</u>
Nonbudgeted Fund	\$30,330	\$38,272	\$7,942	26.2%
<b>Total Funds</b>	<b>\$30,330</b>	<b>\$38,272</b>	<b>\$7,942</b>	<b>26.2%</b>

- Capital and nonrecurring items included in the request account for \$6,750,000 of the increase.

***Personnel Data***

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	<b>CY 2000</b>	<b>CY 2001</b>	
	<u>Actual</u>	<u>Working</u>	<u>Change</u>
Regular Positions	396	392	(3.70)
Contractual FTEs	<u>0</u>	<u>0</u>	<u>0.00</u>
<b>Total Personnel</b>	<b>396</b>	<b>392</b>	<b>(4.20)</b>

***Vacancy Data: Regular***

Budgeted Turnover: CY 2001	1.72	0.50%
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Note: Numbers may not sum to total due to rounding.

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## ***Analysis in Brief***

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### **Issues**

***Corporate and Individual Employee Bonus:*** The Injured Workers' Insurance Fund (IWIF) should provide the budget committees with a written statement that details the achievement, objectives, and performance criteria used to distribute the Corporate Achievement Sharing Plan and corporate officer individual bonus payments in calendar 2001 for calendar 2000 performance and the objectives and performance payout criteria for calendar 2001 to be paid in calendar 2002.

### **Recommended Actions**

1. Nonbudgeted.

### **Updates**

***Compensation of Key Executives:*** The update reports the salaries and bonuses paid to corporate executives of IWIF in calendar 2000.

***Injured Workers' Insurance Fund Regulation:*** IWIF is now subject to Maryland Insurance Administration (MIA) risk based capital standards, statutes relating to assets and liabilities, reserves, and reinsurance, and provisions relating to impaired entities. MIA will now be responsible for the financial audits of the fund.

**GG.00**  
**Injured Workers' Insurance Fund**

***Operating Budget Analysis***

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**Program Description**

The Injured Workers' Insurance Fund (IWIF) is a nonbudgeted, independent statutorily chartered agency that insures employers who are unable or choose not to obtain workers' compensation insurance from private insurance companies. All expenses of the fund are paid out of income from premiums paid and interest on fund investments. The fund also acts as a claims administrator for State employees' workers' compensation coverage. The State, like most large corporations, self-insures workers' compensation coverage. IWIF reports that as of June 30, 2000, the State's current actuarial liability is \$172 million. The State has worked diligently in funding this liability by remitting money to be held on deposit at IWIF. As of June 30, 2000, IWIF has on hand \$80.8 million towards this liability. This leaves the State with an unfunded liability of \$91.2 million as of June 30, 2000.

Legislation enacted in 1994 changed the reporting period of the fund from a fiscal to a calendar year to be consistent with industry practices. In 1999 IWIF elected to internalize managed care services with the acquisition of certain assets of Statutory Benefits Management Corporation (SBMC), a managed care service provider to IWIF. The managed care service is now included under the claims processing program. Legislation enacted in 2000 (SB 881, Chapter 567, Acts of 2000) now makes MIA responsible for financial reviews of IWIF.

**IWIF Proposed Budget**

IWIF's budget increases \$7,941,907 or 26.2% as indicated in **Exhibit 1**. The operating budget increases \$ 1,991,907 or 6.8 % after deducting the capital items and nonrecurring expenses noted below and \$1.0 million spent on capital items in the calendar 2000 budget. Most of the operating increase is in the personnel (\$1,912,767) portion of the budget.

*GG.00 - Injured Workers' Insurance Fund*

**Exhibit 1**

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**Governor's Proposed Budget  
Injured Workers' Insurance Fund  
(\$ in Thousands)**

<b>How Much It Grows:</b>	<b>Nonbudgeted <u>Fund</u></b>	<b><u>Total</u></b>
CY 2000 Estimated Expenditures	\$30,330	\$30,330
CY 2001 Budget	<u>38,272</u>	<u>38,272</u>
Amount Change	\$7,942	\$7,942
Percent Change	26.2%	26.2%

**Where It Goes:**

**Personnel Expenses**

New/Abolished positions Net .....	\$150
CY 2001 general salary increase .....	700
Adjusted salary of selected positions to market; based pay on Hay consultant study ..	285
Corporate Achievement Sharing Plan -- \$450,000 in 2000; \$650,000 in 2001 .....	200
Employee and retiree health insurance rate change .....	82
Retirement contribution rate change .....	81
Turnover adjustments .....	106
Other fringe benefit adjustments .....	133
Contractual payroll, training, and staff development .....	176

**Subtotal** **\$1,913**

**Nonpersonnel Expenses**

Nonrecurring expense -- modular office furniture to reconfigure IWIF offices \$660,000 in CY 2000; \$2,000,000 in CY 2001 .....	1,340
Nonrecurring expense -- replace 10-year old optical imaging technology .....	1,750
Nonrecurring expense -- buy duplicating equipment and terminate lease with Xerox ..	500
Nonrecurring capital improvements to remodel and reconfigure entire building at 8722 Loch Raven Boulevard .....	2,500
Other expenses .....	(61)

**Total** **\$7,942**

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

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## ***GG.00 - Injured Workers' Insurance Fund***

### **Personnel Expenses**

The allowance includes approximately \$150,000 for new positions, \$700,000 for the 4% general salary increase effective January 1, 2001, and \$285,000 to adjust the salary of selected positions to market based on a personnel study provided by Hay Associates. IWIF indicates that it is realigning duties within the company. Some positions will be eliminated, the duties of other positions will be expanded, and new professional positions will be created. The market adjustments average 10%, and primarily adjust salaries for positions in the former managed care unit that IWIF acquired in calendar 1999. The Corporate Achievement Sharing Plan (CASP) bonus is increased \$200,000 to \$650,000 in calendar 2001. IWIF spent \$1,294,757 for employee CASP bonuses in calendar 1999 and \$450,000 in calendar 2000. The CASP is distributed to all employees based on meeting corporate achievement goals. If the goals, as established by IWIF's Board are not met, there is no payout of the CASP. Corporate officers received \$81,059 of the CASP distributed in calendar 2000 awarded on corporate performance for calendar 1999 and an additional \$55,622 for meeting individual performance goals (see Updates: Compensation of Key Executives).

### **Capital and Nonrecurring Expenses**

There are two capital projects in calendar 2001: improvements to the parking lot -- \$200,000 and \$2,500,000 to renovate and reconfigure IWIF offices. There are three nonrecurring expense projects: modular furniture -- \$2,000,000, upgraded optical imaging equipment -- \$1,750,000, and new copier/printing equipment -- \$500,000.

IWIF plans to relocate 80 employees in the managed care unit with the claims department. The managed care employees currently occupy rental space across the street from the main building. These employees were in the managed care unit of SBMC acquired by IWIF in calendar 1999. IWIF management reports that the physical arrangement currently impedes communication between the claims unit and the managed care unit. The renovations include up-grading the wiring and modifications to the floor plan to configure employees in a team environment. The existing wiring configuration does not support technology such as computers, printers, etc.

IWIF plans to remove the existing furniture in the claims department and replace it with modular furniture more conducive to a computer oriented work environment. This will allow the 80 employees in the managed care unit to be absorbed in the existing space of the claims department.

The existing optical imaging disk system is ten years old, out of date, and has exceeded its expected five-year life. All business documents are stored on the optical imaging system. The new improved optical imaging system will decrease duplicating equipment requirements with more electronic documents received by the agency going directly into the imaging system. The existing xerox copier lease expires in May 2001. IWIF plans to buy rather than lease equipment after that date.

*GG.00 - Injured Workers' Insurance Fund*

**Financial Statements**

Excerpts from calendar 1998 and 1999 audited balance sheets and income statements are provided in **Exhibit 2**. Financial information presented for calendar 2000 is preliminary and has not been audited. The statement indicates a substantial 23.6% increase in premium income and a reduction in claim expenses. This resulted in a substantial increase in net income for 2000. However, as investment instruments mature, recent trends toward lower interest rates will likely reduce investment income on new investments in 2001.

**Exhibit 2**

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**Injured Workers' Insurance Fund Status  
Calendar Years**

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>% Chg. 99 to 00</u>
<b>Balance Sheet Data</b>				
<b>Assets:</b>				
Total investments (market value)	\$896,074	\$875,158	\$920,190	5.1%
Cash and equivalents	28,918	39,085	29,309	(25.0)%
<b>Subtotal cash &amp; investments</b>	<b>924,992</b>	<b>914,243</b>	<b>949,499</b>	<b>3.9%</b>
Other assets	30,848	32,434	32,410	(0.1)%
<b>Total Assets</b>	<b>\$955,840</b>	<b>\$946,677</b>	<b>\$981,909</b>	<b>3.7%</b>
<b>Liabilities:</b>				
Accrual unpaid claims & related expenses	639,000	639,000	636,000	(0.5)%
Dividends payable	7,161	1,755	629	(64.2)%
Other liabilities	102,832	127,740	151,994	19.0%
<b>Total Liabilities</b>	<b>\$748,993</b>	<b>\$768,495</b>	<b>788,623</b>	<b>2.6%</b>
Total Fund Equity	206,847	178,182	193,286	8.5%
<b>Total Liabilities and Fund Equity</b>	<b>\$955,840</b>	<b>\$946,677</b>	<b>\$981,909</b>	<b>3.7%</b>
<b>Income Statement Data</b>				
<b>Income:</b>				
Net premiums earned	\$77,889	\$77,209	\$95,438	23.6%
Other income	105	0	256	n/a
Investment income and gains	63,668	68,452	67,907	(0.8)%
<b>Total income</b>	<b>\$141,662</b>	<b>\$145,661</b>	<b>\$163,601</b>	<b>12.3%</b>
Net claim expenses	108,747	105,225	103,613	(1.5)%
Net operating expenses	27,250	30,118	34,067	13.1%
<b>Total expenses</b>	<b>\$135,997</b>	<b>\$135,343</b>	<b>\$137,680</b>	<b>1.7%</b>
Net Income	\$5,665	\$10,318	\$25,921	151.2%

Source: IWIF balance sheet and income statements.

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**GG.00 - Injured Workers' Insurance Fund**

**Performance Analysis: Managing for Results**

The mission of IWIF is to ensure that workers compensation insurance is available at a fair price for all Maryland employers. Unlike the Maryland Automobile Insurance Fund, the State-owned automobile insurance company, IWIF is a competitor in the market place, not just the underwriter in the residual market. IWIF's specific goals and objectives are to:

- maintain net operating gain;
- create and respond to market opportunities;
- improve expense ratio; and
- cultivate a high-performance, customer-driven workplace culture.

**Exhibit 3** indicates that IWIF had a net operating gain of \$2.2 million in calendar 2000 and projects a net operating gain of \$200,000 in calendar 2001. IWIF reports deteriorating financial results by private carriers in the Maryland market and states “any projected net operating gain for 2001 is significant.” IWIF has an agent program to attract new business, a retention program whereby all customers are contracted prior to renewal, and a Comprehensive Care program to reduce loss costs.

**Exhibit 3**

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**Program Measurement Data  
Injured Workers' Insurance Fund  
Fiscal 1998 through 2001**

	<u>Actual 1998</u>	<u>Actual 1999</u>	<u>Est. 2000</u>	<u>Actual 2000</u>	<u>Est. 2001</u>	<u>Ann. Chg. 98-00</u>	<u>Ann. Chg. 00-01</u>
Net Operating Gain/(Loss) in Millions	\$-14.2	\$-15.0	\$-2.2	\$2.2	\$0.2	n/a	-69.8%
Net Premium to Surplus	0.5:1	0.5:1	0.5:1	0.6:1	0.6:1	9.5%	0.0%
Accident Year Loss Ratio	129.7%	126.9%	118.0%	118.0%	117.0%	-4.6%	-0.4%
Total Investment Return	12.7%	3.7%	7.0%	7.0%	7.0%	-25.8	0.0%
Active Policies	24,323	22,214	21,000	21,000	23,000	-7.1%	4.7%
Accidents Reported	19,843	19,291	19,400	19,400	22,000	-1.1%	6.5%
Claims Filed	13,270	12,900	12,800	12,800	14,000	-1.8%	4.6%
Benefit Checks (\$ in thousands)	\$143,505	\$134,932	\$134,500	\$137,000	\$138,000	-2.3%	0.4%

Source: IWIF MFR submission.

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### ***GG.00 - Injured Workers' Insurance Fund***

The net premium to surplus ratios measures the potential impact that underwriting results can have on surplus. IWIF reports that anything less than a 3:1 ratio falls within the acceptable range according to the National Association of Insurance Commissioners (NAIC) guidelines. IWIF's ratios (0.6: to 1 in 2000) continue to reflect a strong balance sheet.

The accident year loss ratio compares the total value of all losses occurring during a defined 12-month time period to earned income during the same exposure period. The ratio measures the impact that current underwriting practices are having on company financial results. The IWIF accident year loss ratio trend has been decreasing over the last four years and showed a significant decline in calendar 2000. As noted in the previous Exhibit 2, premium income increased significantly from \$77.2 million in 1999 to \$95.4 million which impacts the accident year loss ratios in Exhibit 3. There is a relationship between expenses and premiums. However, this improvement is driven by improved underwriting and better handling of claims. Not simply increased premiums.

Investment income is what keeps insurance affordable because total expenses, consisting of claim expenses and operating expenses, usually exceeds net premium income in a given year. In calendar 2000 Exhibit 2 indicates total expenses were \$137.7 million compared to net premium of 95.4 million. The investment gain of \$67.9 million in 2000 makes up the difference. IWIF is projecting a 7% investment return in 2001 in Exhibit 3.

The IWIF CASP bonus is a part of the IWIF business plan. The CASP bonus is approved by the IWIF board of directors to provide incentives for specific performance and outcomes for the organization. If performance objectives are not met, no payout takes place. The payout generally takes place in the first quarter, after the close of the previous calendar year and after results are audited by an independent auditing firm.

## *Issues*

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### **1. Corporate and Individual Employee Bonus**

As indicated in the performance measures, the IWIF CASP that all employees share is based on specific corporate achievements. As outlined on the attached schedule corporate officers received \$81,059 of CASP payments in 2000 for IWIF's 1999 plan. In addition to the CASP bonus, individual corporate officers can receive an individual bonus for meeting individual performance objectives.

In 1999 the CASP bonus paid out \$1,294,757, and the projected payment for 2000 is \$450,000. The CASP pool in the 2001 budget is \$650,000. In addition to the CASP bonus, corporate officers received \$55,622 in individual performance bonuses in 2000 for 1999 performance.

**It is recommended that IWIF provide the budget committees with a written statement that details the achievement objectives and performance payout criteria that will be used to distribute the CASP and individual bonus payments for calendar 2000 to be paid in calendar 2001 and the IWIF Board of Directors approved objectives and performance payout criteria for calendar 2001 bonuses.**

*GG.00 - Injured Workers' Insurance Fund*

***Recommended Actions***

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1. Nonbudgeted.

## Updates

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### 1. Compensation of Key Executives

The current and proposed salaries of key executive officers of IWIF are noted in **Exhibit 4**. In addition to salaries, key executives the CASP and lump sum payments in calendar 2000 based on 1999 performance. The bonus is in two parts: the CASP that all employees received based on corporate achievement and the lump sum individual bonus. The lump sum payments were made in lieu of salary increases for the executive officers in calendar 1999. IWIF indicates that corporate officers, except for the vice-president of finance, did not receive a pay increase in calendar 2000. The vice-president of finance and the vice-president of investments were both individually awarded \$15,000 lump sum payments by IWIF's Board for 1999 based on significant contributions to the organization.

#### Exhibit 4

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#### Salaries of Corporate Officers Injured Workers' Insurance Fund

<u>Position</u>	<u>Lump Sum</u>	<u>CASP*</u>	<u>CY 2000 Bonus</u>	<u>CY 2000 Budget</u>	<u>Current Salary</u>	<u>CY 2001 Budget</u>
President and Chief Exec. Officer	\$0	\$0	\$0	\$147,000	\$147,000	150,000
Exec. VP Chief Operations Officer	0	0	0	120,000	125,000	129,290
VP Corp. Communications	5,000	12,027	17,027	103,000	100,000	103,989
VP Info. Serv.	3,600	10,819	14,419	92,700	90,000	93,590
VP Claims	1,772	10,660	12,432	91,251	88,593	92,127
VP Corporate Services (vacant)	0	0	0	n/a	n/a	95,000
VP Investments	21,250	15,064	36,314	128,750	125,000	129,986
VP Finance	15,000	10,851	25,851	92,700	105,000	109,189
Policy Services Officer	4,500	10,521	15,021	92,025	90,000	93,590
VP Marketing Business	4,500	11,117	15,617	92,700	90,000	93,590
<b>Total Compensation</b>	<b>\$55,622</b>	<b>\$81,059</b>	<b>\$136,681</b>	<b>\$960,126</b>	<b>\$960,593</b>	<b>\$1,090,351</b>

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\* CASP: Corporate Achievement Sharing Plan bonus received by all employees based on performance of company

## *GG.00 - Injured Workers' Insurance Fund*

### **2. Injured Workers' Insurance Fund Regulation**

IWIF is now subject to limited regulation audits by the Maryland Insurance Administration. IWIF is no longer subject to Legislative Auditor financial audit, compliance audit, and market examination.

Legislation adopted in the 2000 legislative session (SB 881, Chapter 567, Acts of 2000) effective October 2000 now requires IWIF to become a member of the Property and Casualty Insurance Guarantee Corporation. The legislation repeals provisions of the law making the State Treasurer the custodian of the fund. The legislation also repeals the requirement that the Legislative Auditor perform a financial audit, compliance audit, and market conduct examination of the fund. Under the legislation, IWIF is now subject to limited regulation and auditing by MIA.

IWIF is now subject to MIA, risk-based capital standards, statutes relating to assets and liabilities, reserves and reinsurance, and provisions relating to impaired entities. MIA will now be responsible for the financial audits of the fund. The Insurance Commissioner may not order IWIF to increase premium rates and may not take any action to enforce any provision of the Insurance Article except to enforce risk-based capital standards and provisions relating to impaired entities.

The Insurance Commissioner may examine the fund for compliance with the subtitles of the Insurance Article relating to form filings and to worker's compensation insurance and the title relating to unfair trade practices. The Insurance Commissioner is required to submit all financial audit and market conduct examinations to the IWIF Board.

The IWIF Board is expanded from seven to nine members appointed by the Governor, subject to Senate confirmation. A member may not serve more than two terms. The Board continues to appoint the President of the fund but the legislation repealed the provision that the Board shall appoint the executive vice-president. The executive vice-president and other corporate officers are appointed by the president of the fund with the consent of the Board.

**Object/Fund Difference Report  
Injured Workers' Insurance Fund**

	<u>Object/Fund</u>	CY 99	CY 00	CY 01	FY 01 - FY 02	Percent
		<u>Actual</u>	<u>Estimated</u>	<u>Budgeted</u>	<u>Amount Change</u>	<u>Change</u>
<b>Positions</b>						
01	Regular	310.00	395.70	391.50	(4.20)	(100.0%)
<b>Total Positions</b>		<b>310.00</b>	<b>395.70</b>	<b>391.50</b>	<b>(4.20)</b>	<b>(100.0%)</b>
<b>Objects</b>						
01	Salaries and Wages	19,447,358	\$ 21,555,176	\$ 23,291,807	1,736,631	8.1%
02	Technical & Spec Fees	366,927	372,884	549,020	176,136	47.2%
03	Communication	886,451	782,496	861,855	79,359	10.1%
04	Travel	124,035	189,022	247,504	58,482	30.9%
06	Fuel & Utilities	155,340	228,500	239,000	10,500	4.6%
07	Motor Vehicles	121,806	304,650	158,380	(146,270)	-48.0%
08	Contractual Services	4,229,743	4,352,664	4,597,152	244,488	5.6%
09	Supplies & Materials	865,151	479,462	365,945	(113,517)	-23.7%
10	Equip - Replacement	0	1,251,500	3,978,000	2,726,500	217.9%
11	Equip - Additional	1,787,037	213,541	962,847	749,306	350.9%
13	Fixed Charges	158,676	260,137	320,429	60,292	23.2%
14	Land & Structures	0	340,000	2,700,000	2,360,000	694.1%
<b>Total Objects</b>		<b>\$28,142,524</b>	<b>\$30,330,032</b>	<b>\$38,271,939</b>	<b>\$7,941,907</b>	<b>26.2%</b>
<b>Funds</b>						
07	Nonbudgeted Fund	\$28,142,524	\$ 30,330,032	\$ 38,271,939	\$7,941,907	26.2%
<b>Total Funds</b>		<b>\$28,142,524</b>	<b>\$30,330,032</b>	<b>\$38,271,939</b>	<b>\$7,941,907</b>	<b>26.2%</b>

*GG.00 - Injured Workers' Insurance Fund*

Note: Full-time and contractual positions and salaries are reflected for operating budget programs only.

**Fiscal Summary  
Injured Workers' Insurance Fund**

<u>Unit/Program</u>	<u>CY 99 Actual</u>	<u>CY 00 Budget</u>	<u>CY 01 Budget</u>	<u>CY 00 - 01 Change</u>	<u>FY 01 - 02 % Change</u>
01 General Administration	\$10,857,863	\$10,788,351	\$19,736,346	\$8,947,995	82.9%
02 Policyholder Services	5,427,968	6,377,499	5,386,237	(991,262)	-15.5%
03 Claims Processing	11,856,693	13,164,182	13,149,356	(14,826)	-0.1%
<b>Total Expenditures</b>	<b>\$28,142,524</b>	<b>\$30,330,032</b>	<b>\$38,271,939</b>	<b>\$7,941,907</b>	<b>26.2%</b>
Non-budgeted Fund	\$28,142,524	\$30,330,032	\$38,271,939	\$7,941,907	26.2%
<b>Total Appropriations</b>	<b>\$28,142,524</b>	<b>\$30,330,032</b>	<b>\$38,271,939</b>	<b>\$7,941,907</b>	<b>26.2%</b>