Subsequent Injury Fund

Operating Budget Data

($ in Thousands)

	FY 11 Actual	FY 12 Working	FY 13 Allowance	FY 12-13 Change	% Change Prior Year
Special Fund	$1,962	$1,982	$2,095	$113	5.7%
Adjusted Special Fund	**$1,962**	**$1,982**	**$2,095**	**$113**	**5.7%**
Reimbursable Fund	60	0	0	0	
Adjusted Reimbursable Fund	**$60**	**$0**	**$0**	**$0**	
Adjusted Grand Total	**$2,022**	**$1,982**	**$2,095**	**$113**	**5.7%**

- The fiscal 2013 allowance increases by $112,692 over the fiscal 2012 working appropriation, primarily due to increased expenditures for disaster recovery computer equipment, rental expense, and the inclusion of new statewide charges for retirement, technology, and administrative hearing services.

Personnel Data

	FY 11 Actual	FY 12 Working	FY 13 Allowance	FY 12-13 Change
Regular Positions	18.00	17.00	17.00	0.00
Contractual FTEs	0.00	0.00	0.00	0.00
Total Personnel	**18.00**	**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 12/31/11	1.00	5.88%

- There is no change to the agency's personnel complement in the allowance.

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

For further information contact: Dylan R. Baker Phone: (410) 946-5530

- One position is currently vacant, an administrative specialist III position, that has not been filled for the last 18 months pending the completion of the realignment of fiscal and information technology responsibilities between the Subsequent Injury Fund (SIF) and the Uninsured Employer's Fund.

Analysis in Brief

Major Trends

Case Resolution Shows Mixed Results: The rate of total case resolutions declined, but the agency's pending permanent total disability caseload saw positive progress.

Recommended Actions

1. Concur with Governor's allowance.

Updates

Fund Status and Actuarial Valuation: The fund's January 2011 actuarial valuation shows improvement in funding of the SIF's long-term liability, and its actuary believes that there should be no change to the current 6.5% assessment mechanism.

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. The 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 the 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 injuries. The 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 the SIF's 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's fund balance.

Performance Analysis: Managing for Results

The goals of the 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 assessments are awarded by WCC. The average processing time for the authorization of award payments remains at three days. This measure strictly tracks the authorization time, as the Comptroller controls the release of funds.

Exhibit 1 shows the case load measures of the SIF. The net cases resolved figure is a productivity measure that represents the difference between the number of ongoing (new and reopened) cases in a given year and the number of cases resolved in that year. The number of ongoing cases administered annually by the SIF has gravitated around 1,000 cases over the past decade. In fiscal 2011, 33 more cases began or were reopened than were resolved. This result stemmed from the combination of an increase in new cases over fiscal 2010 figures and a decrease in the number of resolutions reached. Yet, it bears noting that in spite of the overall decline in resolution figures, positive progress was achieved by the SIF in terms of the pending permanent total disability cases, which decreased by 20 from fiscal 2010 to 2011. Permanent total cases, which relate to the severest of injuries, require the longest periods of case management and benefit payment processing by the SIF staff. A reduction of this subset of the overall caseload should help the SIF to achieve the improvement in total case resolutions projected in the exhibit.

Exhibit 1
Subsequent Injury Fund Cases Resolved: Net and Total
Fiscal 2009-2013

	2009	2010	2011	Est. 2012	Est. 2013
Number of new cases opened	879	822	877	910	940
Number of cases reopened	183	161	162	168	174
Number of cases resolved	1,069	1,114	1,006	1,000	1,100
Net resolved cases	7	131	-33	-78	-14

Source: Subsequent Injury Fund

A complementary gauge of administrative productivity is operating costs per claim. While different cases merit different costs in terms of medical exams, depositions, and other legal fees, **Exhibit 2** demonstrates that the average cost per claim increased during the last fiscal year, from $1,771 in fiscal 2010 to $2,000 in fiscal 2011. The change was chiefly due to the incursion of one-time expenses during fiscal 2011, principally the agency's actuarial review, which is performed every five years. The fiscal 2012 and 2013 projections for this measure return to typical levels due to the removal of this expense and the cessation of the financial services workload previously undertaken on behalf of the Uninsured Employer's Fund. On a positive note, the ratio of expenditures to revenues through collection continues to be below 1:1, indicating that inflows from the fund's assessments and interest earnings again exceeded benefit payments and agency operating expenses. As will be discussed in the Updates section, this situation results in the growth of the fund's holdings, which is needed to offset increasing liabilities.

Exhibit 2
Subsequent Injury Fund Program Measurement Data
Fiscal 2009-2013

	2009	2010	2011	Est.2012	Est. 2013
Operating budget cost per resolved claim	$1,786	$1,771	$2,000	$1,982	$1,790
Ratio of fund expenditures to total collections	0.961:1	0.896:1	0.909:1	0.847:1	0.844:1

Source: Subsequent Injury Fund

Proposed Budget

As shown in **Exhibit 3**, the largest increase proposed in the fiscal 2013 allowance is the $34,400 in outlays for information technology purchases. These expenses, such as a dedicated offsite server and the related software to provide virtual access to the agency's information, relate to the agency's recent legislative audit, detailed in **Appendix 2**, which urged the SIF to develop disaster recovery capabilities given the paper-centric nature of its work and the current lack of digital backups. Also of note are the inclusion of new statewide charges for retirement, technology, and administrative hearing services which increase the SIF budget by a combined $29,948 as well as a $19,810 increase in rental expense related to the agency's relocation in August 2012 due to the subpar conditions of its current rental facility. Personnel expenditures account for a net increase of $17,241 as higher employee/retiree health insurance ($19,816) and retirement contributions ($10,514) are partially offset by reduced total salaries ($19,227) derived chiefly from the removal of one-time bonus funds from the fiscal 2012 working appropriation.

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

How Much It Grows:	Special Fund	Reimb. Fund	Total
2012 Working Appropriation	$1,982	$0	$1,982
2013 Allowance	2,095	0	2,095
Amount Change	$113	0	$113
Percent Change	5.7%	0	5.7%
Contingent Reductions	$0	$0	$0
Adjusted Change	$113	$0	$113
Adjusted Percent Change	5.7%		5.7%

Where It Goes:	
Personnel Expenses	
Employee and retiree health insurance	$20
Retirement contributions	10
Turnover adjustments	7
Salary adjustments (removal of one-time bonus)	-19
Other fringe benefit adjustments	1
Other Changes	
Audit-related computer enhancements for disaster recovery capability	34
Rent expense due to relocation	20
Office of the Attorney General administrative fee	11
Case-related legal/medical fees	11
Statewide Personnel System charge	8
Telecommunication expenses	4
Information Technology service fee allocation	3
Retirement agency administrative fee	2
Other	1
Total	**$113**

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

Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Fund Status and Actuarial Valuation

The 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 2004.

Exhibit 4
Subsequent Injury Fund History
Fiscal 2004-2012

Fiscal Year	Balance	Percent Change
2004	$44,784,403	8.20%
2005	50,211,216	12.12%
2006	54,427,380	8.40%
2007	58,851,161	8.13%
2008	62,465,183	6.14%
2009	65,369,903	4.65%
2010	70,759,699	8.25%
2011	73,022,841	3.20%
2012 (est.)	75,207,837	2.99%

Source: Subsequent Injury Fund

The fund has grown at an annual average rate of 7.11% over the last decade, leaving the estimated fiscal 2012 closing balance at $75.2 million. Fund growth results from any positive differential between the SIF's total outlays from benefit payments and agency expenses, and the total revenues collected from the assessment and interest returns on the balance. The intake from assessments has functioned as designed, continually exceeding benefit payouts and bolstering the fund's reserve holdings. Prior to fiscal 2010, interest income alone had also exceeded total operating expenditures, leading to even larger increases in the fund balance. The estimated fiscal 2012 fund balance only increases by 2.99% due to lower prevailing interest rates that require the assessment's inflows to partially cover operating costs. The SIF holdings are intended to provide the source of capital that offsets future liabilities, whose value is calculated periodically by an actuarial study.

Actuarial Study of Liability

In June 2011, Pinnacle Actuarial Resources, Inc. (Pinnacle) completed the most recent valuation of the agency's liability structure. Previous similar studies had been conducted by Deloitte Consulting, with reports provided in 1989, 1991, 1996, and 2003. The actuarial report's findings help provide guidance to the SIF as to the appropriateness of its assessment mechanism in funding its loss levels.

Pinnacle calculated a total liability of $254.0 million under an assumed 4.0% discount rate. The funded status, or the ratio of total assets held divided by the actuarial liability, of the SIF's portfolio was consequently 27.7% as the fund held $70.4 million in assets against its liabilities. The percentage is an improvement over the 20.5% funded status shown in the last Deloitte valuations, which reported a $201.0 million liability against $41.3 million in assets. Of note, the Deloitte study utilized a 5.0% discount rate during an investment climate of higher interest rates, thus accounting for some of the increase in liabilities seen over the intervening period. A lower discounting rate is appropriate as the annual investment return on fund assets since the 2003 Deloitte report has averaged 3.6%. Also, the above figures use healthy mortality assumptions, which increase the value of the liability as they extend the timeframe the SIF assumes it will pay claims to its beneficiaries. The use of disabled mortality assumptions lowers the anticipated liability to $169.9 million when employing a 4.0% discount factor. **Exhibit 5** shows the liability and funding levels calculated by Pinnacle, according to various discounting conventions.

Pinnacle recommends that enhanced recordkeeping and archival work be undertaken by the SIF to improve the tracking of awards and the cost of liabilities in the periods between actuarial reviews, an area to monitor in future analyses. In concluding the valuation, Pinnacle asserts that the current 6.5% assessment rate is sufficient for its purpose and should be maintained at its current level.

Exhibit 5
Subsequent Injury Fund Liability Profile
As of January 2011

Healthy Mortality Assumptions

Discount Factor	*0.0%*	*1.5%*	*4.0%*
Total loss liability	$548,088,221	$439,521,116	$324,406,205
Fund balance*	$70,359,015	$70,359,015	$70,359,015
Unfunded liability	$477,729,206	$369,162,101	$254,047,190

Disabled Mortality Assumptions

Discount Factor	*0.0%*	*1.5%*	*4.0%*
Total loss liability	$361,206,348	$304,543,417	$240,251,128
Fund balance*	$70,359,015	$70,359,015	$70,359,015
Unfunded liability	$290,847,333	$234,184,402	$169,892,113

* Fund balance calculated as average of June 30, 2010 and June 30, 2011 levels.

Source: Pinnacle Actuarial Resources, Inc.

Appendix 1

Current and Prior Year Budgets

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

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2011					
Legislative Appropriation	$0	$1,922	$0	$60	$1,982
Deficiency Appropriation	0	50	0	0	50
Budget Amendments	0	0	0	0	0
Reversions and Cancellations	0	-9	0	0	-9
Actual Expenditures	**$0**	**$1,962**	**$0**	**$60**	**$2,022**
Fiscal 2012					
Legislative Appropriation	$0	$1,969	$0	$0	$1,969
Budget Amendments	0	13	0	0	13
Working Appropriation	**$0**	**$1,982**	**$0**	**$0**	**$1,982**

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

Fiscal 2011

- A deficiency appropriation of $50,000 was added to the fiscal 2011 appropriation to provide funds for the SIF's periodic actuarial valuation.

Fiscal 2012

- The distribution of centrally budgeted funds for a one-time employee bonus of $750 increased salaries by $12,912.

Appendix 2

Audit Findings

Audit Period for Last Audit:	January 23, 2008 – January 4, 2011
Issue Date:	September 2011
Number of Findings:	4
Number of Repeat Findings:	2
% of Repeat Findings:	50%
Rating: (if applicable)	

Finding 1: The SIF procedures for ensuring that funds are not disbursed to deceased beneficiaries were not sufficiently comprehensive, resulting in at least $12,000 being disbursed and another $117,000 that was scheduled to be disbursed in the future to deceased individuals.

Finding 2: The SIF did not conduct independent reviews of certain recurring payments to beneficiaries to ensure the payments were valid and accurate.

Finding 3: **The SIF did not conduct independent reviews of certain critical accounts receivable transactions, specifically the accuracy of WCC awards entered into the accounts receivable system and non-cash credit adjustments.**

Finding 4: **The SIF did not have a disaster recovery plan, and security event monitoring was not adequate over the dedicated computer server.**

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

Object/Fund Difference Report
Subsequent Injury Fund

Object/Fund	FY 11 Actual	FY 12 Working Appropriation	FY 13 Allowance	FY 12 - FY 13 Amount Change	Percent Change
Positions					
01 Regular	18.00	17.00	17.00	0.00	0%
Total Positions	**18.00**	**17.00**	**17.00**	**0.00**	**0%**
Objects					
01 Salaries and Wages	$ 1,533,925	$ 1,597,983	$ 1,615,224	$ 17,241	1.1%
02 Technical and Spec. Fees	248,171	225,233	236,000	10,767	4.8%
03 Communication	33,223	27,292	31,687	4,395	16.1%
04 Travel	24,254	20,000	21,400	1,400	7.0%
08 Contractual Services	72,980	19,902	53,635	33,733	169.5%
09 Supplies and Materials	11,672	10,500	30,500	20,000	190.5%
10 Equipment – Replacement	12,026	0	0	0	0.0%
11 Equipment – Additional	1,107	0	5,400	5,400	N/A
12 Grants, Subsidies, and Contributions	12,000	12,000	12,000	0	0%
13 Fixed Charges	73,067	69,168	88,924	19,756	28.6%
Total Objects	**$ 2,022,425**	**$ 1,982,078**	**$ 2,094,770**	**$ 112,692**	**5.7%**
Funds					
03 Special Fund	$ 1,962,425	$ 1,982,078	$ 2,094,770	$ 112,692	5.7%
09 Reimbursable Fund	60,000	0	0	0	0.0%
Total Funds	**$ 2,022,425**	**$ 1,982,078**	**$ 2,094,770**	**$ 112,692**	**5.7%**

Note: The fiscal 2012 appropriation does not include deficiencies.

Appendix 3