

C94I00
Subsequent Injury Fund

Operating Budget Data

(\$ in Thousands)

	<u>FY 13</u> <u>Actual</u>	<u>FY 14</u> <u>Working</u>	<u>FY 15</u> <u>Allowance</u>	<u>FY 14-15</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Special Fund	\$2,052	\$2,197	\$2,213	\$16	0.7%
Contingent & Back of Bill Reductions	0	0	-20	-20	
Adjusted Special Fund	\$2,052	\$2,197	\$2,192	-\$4	-0.2%
Adjusted Grand Total	\$2,052	\$2,197	\$2,192	-\$4	-0.2%

- The fiscal 2015 allowance decreases by \$4,330 compared to the fiscal 2014 working appropriation. Decreases of \$33,000 in contractual services for medical and legal investigative support and \$20,000 for a fiscal 2014 software purchase are offset by a \$26,944 increase in personnel costs.

Personnel Data

	<u>FY 13</u> <u>Actual</u>	<u>FY 14</u> <u>Working</u>	<u>FY 15</u> <u>Allowance</u>	<u>FY 14-15</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 12/31/13	1.00	5.88%

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

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- The number of regular positions remains unchanged between the current fiscal year working appropriation and the fiscal 2015 allowance.
- The fiscal 2015 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, 2013, there was 1.0 vacant position.

Analysis in Brief

Major Trends

Increase in Case Clearance and Decrease in Costs Per Claim: SIF increased the number of resolved cases in fiscal 2013, clearing more cases than were opened. It also reduced the average cost per claim in each of the last two years.

Recommended Actions

1. Concur with Governor's allowance.

Updates

Fund Balance Continues to Grow: 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 annual average rate of 6.7% over the last decade, with a fiscal 2014 closing balance estimated to be \$83.7 million.

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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'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

1. Increase in Case Clearance and Decrease in Costs Per Claim

The key 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 awards are passed by WCC. The typical processing time for the authorization of award payments is 3 to 5 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 fund increased the number of resolved cases in fiscal 2013 by 11.3%, resulting in a clearance of 159 more cases than were opened or reopened. The fund expects to continue to resolve more cases than are opened or reopened for the next two years.

Exhibit 1
SIF Cases Resolved, Net and Total
Fiscal 2011 to 2015

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Est.</u> <u>2014</u>	<u>Est.</u> <u>2015</u>
New Cases Opened	877	928	850	861	900
Cases Reopened	162	170	126	120	125
Cases Resolved	1,006	1,020	1,135	1,100*	1,150*
Net Resolved Cases	-33	78	159	119	125

SIF: Subsequent Injury Fund

* Estimates revised after publication of Governor’s Budget Books.

Source: Subsequent Injury Fund

Another 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 has seen a decrease the past two fiscal years, from \$2,000 in fiscal 2011 to \$1,808 in fiscal 2013. The fund attributes much of the reduction in the operating cost per claim to the reduction in administrative costs resulting from a drop in the number of costly medical exams required to defend cases. However, due to increased rent costs and computer upgrades, the agency expects the operating cost per claim to increase to \$2,168 per resolved case in fiscal 2014.

Exhibit 2
Subsequent Injury Fund Program Measurement Data
Fiscal 2011-2015

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Est.</u> <u>2014</u>	<u>Est.</u> <u>2015</u>
Operating budget cost per resolved claim	\$2,000	\$1,923	\$1,808	\$2,168	\$2,037
Ratio of fund expenditures to total collections	0.909:1	0.827:1	0.899:1	0.941:1	0.960:1

Source: Subsequent Injury Fund

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The ratio of expenditures to collections continues to remain below 1:1, which leads to continued growth in the fund balance. The ratio dropped to 0.827:1 in fiscal 2012 due to higher than typical revenues caused by back payments of money owed from assessments in previous years. The increased payments came after the enactment of Chapter 41 of 2012, which clarified how medical set-asides would be treated for assessment purposes. The fund expects the ratio to return to historically typical levels in fiscal 2014 and 2015.

SIF's fund balance is estimated to close at \$83.7 million at the end of fiscal 2014 and is considered to be at an adequate level by the most recent actuarial study. A more detailed analysis of the fund balance and actuarial liability can be found in the Updates section of this analysis.

Proposed Budget

The fiscal 2015 allowance decreases by \$4,330 compared to the fiscal 2014 working appropriation, as shown in **Exhibit 3**. The allowance reduces the use of contractual services used for gathering evidentiary support for the agency's legal stance in court for claims against SIF. A fiscal 2014 purchase of a software package for use by the legal department totaled \$20,000; the fiscal 2015 allowance decreases by that amount. Those decreases are offset by a \$26,944 increase in personnel costs, which are mainly driven by the annualized cost-of-living adjustment (COLA) increase.

There is one across-the-board reduction and one contingent reduction reflected in the Governor's spending plan for the fiscal 2015 allowance. This affects funding for employee/retiree health insurance and retirement reinvestment. These actions are fully explained in the analyses of the Department of Budget and Management – Personnel and the State Retirement Agency.

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

How Much It Grows:	<u>Special</u> <u>Fund</u>	<u>Total</u>
2014 Working Appropriation	\$2,197	\$2,197
2015 Allowance	<u>2,192</u>	<u>2,192</u>
Amount Change	-\$4	-\$4
Percent Change	-0.2%	-0.2%

Where It Goes:

Personnel Expenses

Annualized fiscal 2014 cost-of-living adjustment and increments	\$52
Increments and other compensation.....	13
Retirement contribution rate change	11
Other fringe benefit adjustments.....	3
Turnover adjustments	-17
Employee and retiree health insurance	-36

Other Changes

Telecommunications	6
Maintenance and support of necessary software.....	6
Travel.....	4
Subscriptions.....	2
One-time purchase in fiscal 2014 of software for legal department	-20
Contractual services for medical and legal investigative support	-33
Other changes	5

Total **-\$4**

Note: The fiscal 2014 working appropriation reflects negative deficiencies and contingent reductions. The fiscal 2015 allowance reflects back of the bill and contingent reductions. Numbers may not sum to total due to rounding.

Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Fund Balance Continues to Grow

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 2005.

Exhibit 4
Subsequent Injury Fund History
Fiscal 2005-2014

<u>Fiscal Year</u>	<u>Balance</u>	<u>Percent Change</u>
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	78,103,384	6.96%
2013	80,987,975	3.69%
2014 Est.	83,657,128	3.30%

Source: Subsequent Injury Fund

Fund growth results when revenue from assessments exceeds benefit payments and agency expenses. The fund has grown at an annual average rate of 5.8% over the last decade, with a fiscal 2014 closing balance estimated to be \$83.7 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.

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In June 2011, Pinnacle Actuarial Resources, Inc. 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 varying estimates of SIF's liabilities based on varying assumptions about the discount rate and the expected mortality of fund recipients. Depending on assumptions used, the present value of liabilities was between \$240.3 million (assuming a disabled mortality and 4.0% discount rate) and \$548.1 million (healthy mortality and 0% discount rate) at the time of the report. The fund's current balance is between 34.7 and 53.4% of the present value estimated liabilities. At the time of the actuarial study, Pinnacle recommended the 6.5% assessment level was appropriate.

Exhibit 5
Subsequent Injury Fund Liability Profile
As of January 2011

Health Mortality Assumptions

<i>Discount Factor</i>	<i>0.0%</i>	<i>1.5%</i>	<i>4.0%</i>
Total Loss Liability	\$548,088,221	\$439,521,116	\$324,406,205
Fund Balance*	83,657,128	83,657,128	83,657,128
Unfunded Liability	\$464,431,093	\$355,863,988	\$240,749,077

Disabled Mortality Assumptions

<i>Discount Factor</i>	<i>0.0%</i>	<i>1.5%</i>	<i>4.0%</i>
Total Loss Liability	\$361,206,348	\$304,543,417	\$240,251,128
Fund Balance*	83,657,128	83,657,128	83,657,128
Unfunded Liability	\$277,549,220	\$220,886,289	\$156,594,000

* Estimated end of fiscal 2014 balance.

Source: Pinnacle Actuarial Resources, Inc.

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 \$35 million, or about 42% of the estimated fund balance at the end of fiscal 2014.

Pinnacle recommended that enhanced recordkeeping and archival work be undertaken by SIF to improve the tracking of awards and the cost of liabilities in the periods between actuarial reviews. Since that time, SIF created a new application (called SIF Claim) which is designed to prevent data entry errors or data omissions. In addition to preventing errors, the application also allows for better data reporting and data analysis and also will ease the processing of the data for future actuarial analyses.

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 2013					
Legislative Appropriation	\$0	\$2,090	\$0	\$0	\$2,090
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	85	0	0	85
Reversions and Cancellations	0	-122	0	0	-122
Actual Expenditures	\$0	\$2,052	\$0	\$0	\$2,052
Fiscal 2014					
Legislative Appropriation	\$0	\$2,148	\$0	\$0	\$2,148
Budget Amendments	0	49	0	0	49
Working Appropriation	\$0	\$2,197	\$0	\$0	\$2,197

Note: The fiscal 2014 working appropriation does not include deficiencies or contingent reductions. Numbers may not sum to total due to rounding.

C94100 – Subsequent Injury Fund

Fiscal 2013

SIF's fiscal 2013 expenditures were \$37,579 less than the legislative appropriation. A budget amendment of \$70,781 in special funds was added to the fiscal 2013 appropriation to cover higher than expected costs related to the agency's office move to Hunt Valley; however, the funds were not necessary and were part of a \$122,130 cancellation by the agency. Also part of the cancellation was \$20,000 budgeted for Practice Management Software, a project moved by amendment to the fiscal 2014 appropriation. Several vacant positions during fiscal 2013 led to the remainder of the cancellation.

The budget was also amended to include \$13,770 in special funds for the COLA.

Fiscal 2014

The distribution of centrally budgeted funds for the COLA increased salaries by \$21,982, and centrally budgeted funds for the salary increment increase increased salaries \$6,928. A new software package to aid in the reduction of paper files increased the special fund appropriation by \$20,000.

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

<u>Object/Fund</u>	<u>FY 13 Actual</u>	<u>FY 14 Working Appropriation</u>	<u>FY 15 Allowance</u>	<u>FY 14 - FY 15 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	\$ 1,608,652	\$ 1,751,450	\$ 1,798,572	\$ 47,122	2.7%
02 Technical and Spec. Fees	144,140	200,000	167,000	-33,000	-16.5%
03 Communication	30,521	28,399	35,630	7,231	25.5%
04 Travel	25,459	20,250	23,945	3,695	18.2%
08 Contractual Services	88,142	43,207	45,605	2,398	5.6%
09 Supplies and Materials	16,875	29,460	12,550	-16,910	-57.4%
10 Equipment – Replacement	21,667	0	2,500	2,500	N/A
11 Equipment – Additional	11,635	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	12,000	12,000	12,000	0	0%
13 Fixed Charges	89,980	111,991	114,293	2,302	2.1%
14 Land and Structures	3,333	0	510	510	N/A
Total Objects	\$ 2,052,404	\$ 2,196,757	\$ 2,212,605	\$ 15,848	0.7%
Funds					
03 Special Fund	\$ 2,052,404	\$ 2,196,757	\$ 2,212,605	\$ 15,848	0.7%
Total Funds	\$ 2,052,404	\$ 2,196,757	\$ 2,212,605	\$ 15,848	0.7%

Note: The fiscal 2014 appropriation does not include deficiencies. The fiscal 2015 allowance does not include contingent reductions.

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Appendix 2