

**C96J00**  
**Uninsured Employers' Fund**

***Operating Budget Data***

(\$ in Thousands)

	<u>FY 13 Actual</u>	<u>FY 14 Working</u>	<u>FY 15 Allowance</u>	<u>FY 14-15 Change</u>	<u>% Change Prior Year</u>
Special Fund	\$1,159	\$1,407	\$1,536	\$129	9.2%
Contingent & Back of Bill Reductions	0	0	-14	-14	
<b>Adjusted Special Fund</b>	<b>\$1,159</b>	<b>\$1,407</b>	<b>\$1,522</b>	<b>\$115</b>	<b>8.2%</b>
<b>Adjusted Grand Total</b>	<b>\$1,159</b>	<b>\$1,407</b>	<b>\$1,522</b>	<b>\$115</b>	<b>8.2%</b>

- The Uninsured Employers' Fund's (UEF) fiscal 2015 allowance increases by \$115,338 over the fiscal 2014 working appropriation, primarily due to increases in rent caused by the addition of office space and an increase in the use of contractual services.

***Personnel Data***

	<u>FY 13 Actual</u>	<u>FY 14 Working</u>	<u>FY 15 Allowance</u>	<u>FY 14-15 Change</u>
Regular Positions	12.00	14.00	14.00	0.00
Contractual FTEs	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
<b>Total Personnel</b>	<b>12.00</b>	<b>14.00</b>	<b>14.00</b>	<b>0.00</b>

***Vacancy Data: Regular Positions***

Turnover and Necessary Vacancies, Excluding New Positions	0.00	0.00%
Positions and Percentage Vacant as of 12/31/13	5.00	35.71%

- The number of regular positions remains unchanged between the current fiscal year working appropriation and the fiscal 2015 allowance.
- The agency is budgeted for 0% turnover due to its low number of employees; however, there were 5 vacancies as of December 31, 2013.

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

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## ***Analysis in Brief***

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### **Major Trends**

***Pace of Case Closures Slows:*** An increase in UEF’s operating budget and a drop in the number of resolved cases have led to an increase in the cost per resolved case to \$3,167, or 29.5%. **The agency should comment on its efforts to hire and/or retain its budgeted allotment of attorneys and other employees and on its strategy to increase the number of resolved cases.**

### **Issues**

***Health of Fund Balance Unclear:*** Increasing claim payments are putting pressure on the fund balance, and a lack of a recent actuarial study makes it unclear whether or not the current revenue stream is sufficient to maintain the health of the fund. **UEF should comment on its progress toward having an actuarial study performed, whether the 2% assessment rate is appropriate or should be increased, the statutory requirements for increasing the assessment, and its determination of the health of the fund balance.**

### **Recommended Actions**

1. Adopt narrative requesting an actuarial study.

**C96J00**  
**Uninsured Employers' Fund**

***Operating Budget Analysis***

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**Program Description**

The Uninsured Employers' Fund (UEF) protects workers whose employers are not insured under the State Workers' Compensation Law. UEF reviews and investigates claims filed by employees, or in the case of death, by their dependents. If the employer does not properly compensate a claimant, the fund will directly pay the compensation benefits and medical expenses. UEF will then attempt to recover all benefits paid plus certain assessments from the uninsured employer. The source of the special fund is a 2% assessment on (1) awards against employers or insurers for permanent disability or death; and (2) amounts payable by employers or insurers under settlement agreements. UEF also collects penalties from sanctions on uninsured employers and revenue from recovery of benefits paid out for uninsured claims. The fund's mission addresses the need for:

- efficiently investigating and defending all designated noninsured cases;
- monitoring awards and following established procedures to ensure prompt payment to claimants and health care providers; and
- tracking and collecting fines, assessments, and awards benefits paid by the fund, and maintaining the adequacy and integrity of the fund balance.

**Performance Analysis: Managing for Results**

**1. Pace of Case Closures Slows**

As shown in **Exhibit 1**, the UEF Managing for Results (MFR) measures track the agency's caseloads and operating efficiency. The operating cost per resolved case has traditionally served as an indicator of UEF's productivity. The cost per case amount increased by 29.5% to \$3,167 in fiscal 2013, driven by a large decline in the number of resolved cases.

While there has been a drop in new cases opened, that does not fully account for the drop in closed cases. The agency only closed 139 cases in fiscal 2010 but increased the number of closed cases to 464 in fiscal 2011 and 465 in fiscal 2012. The agency attributes the 21.3% decrease in the number of resolved cases in fiscal 2013 to two factors: attorney vacancies and new procedures for processing open cases. The agency is budgeted to have 3 full-time attorneys but has only had 1 or 2 on staff in recent times, which limits UEF's ability to close cases. One reason for the agency's inability to maintain a full staff is that its current space is only designed for 10 employees. This issue has been addressed and is more fully discussed in the Proposed Budget section. As of December 31, 2013, the agency had 5 vacancies, including a principal counsel (vacant since

**Exhibit 1**  
**UEF Program Management 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>	<u>Average</u> <u>2006-10</u>	<u>Average</u> <u>2011-15</u>	<u>Percent</u> <u>Change</u>
New Cases	556	594	505	530	560	694	549	-20.9%
Cases Resolved	464	465	366	480	400	687	435	-36.7%
Operating Expenditures (\$ in Millions)	\$1.05	\$1.14	\$1.16	\$1.41	\$1.45	\$0.98	\$1.24	26.8%
Operating Cost Per Resolved Case	\$2,271	\$2,445	\$3,167	\$2,931	\$3,618	\$2,650	\$2,886	8.9%

UEF: Uninsured Employers’ Fund

Source: Uninsured Employers’ Fund

November 2013) and a claims investigator (vacant since February 2013). In addition, UEF is now more closely examining open cases to determine if a claim can be settled with a lump-sum payment. This slows down the pace of processing payments, but the agency believes it will be more cost-effective by limiting ongoing payouts from the fund. **The agency should comment on its efforts to hire and/or retain its budgeted allotment of attorneys and other employees and on its strategy to increase the number of resolved cases.**

The agency’s operating expenditures also play a part in determining the cost per resolved case. While the expenditures had been stable at about \$1.1 million per year in fiscal 2011 through 2013, the agency’s operating budget increases by 21.4% to \$1.4 million in fiscal 2014. This increase is almost entirely attributable to personnel costs, including 2 new positions – an information technology director and a claims manager. A projected drop in the number of cases resolved in fiscal 2015, combined with the new level of operating expenses, would cause the operating cost per resolved case to rise to \$3,618, which is 14.2% higher than the fiscal 2013 level.

## Proposed Budget

As shown in **Exhibit 2**, UEF’s fiscal 2015 allowance increases by \$115,338 over the fiscal 2014 working appropriation. This is primarily due to a \$22,363 increase in personnel costs and a \$43,818 increase in the use of contractual services. Additionally, rent increases by \$32,789 due to an addition of office space adjacent to UEF’s location. The agency is more than doubling its available square footage to alleviate crowding in its current space and to accommodate 2 new employees.

**Exhibit 2  
Proposed Budget  
Uninsured Employers’ Fund  
(\$ in Thousands)**

<b>How Much It Grows:</b>	<b><u>Special Fund</u></b>	<b><u>Total</u></b>
2014 Working Appropriation	\$1,407	\$1,407
2015 Allowance	<u>1,522</u>	<u>1,522</u>
Amount Change	\$115	\$115
Percent Change	8.2%	8.2%

**Where It Goes:**

**Personnel Expenses**

Increments and other compensation .....	-\$27
Annualized fiscal 2014 COLA and increment.....	36
Employee and retiree health insurance .....	2
Retirement contribution rate change.....	2
Reclassification.....	15
Other fringe benefit adjustments.....	-6

**Other Changes**

Contractual services.....	44
Rent.....	33
Data processing equipment.....	12
Contractual legal service support staff.....	7
Other changes .....	-2

<b>Total</b>	<b>\$115</b>
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COLA: cost-of-living adjustment

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.

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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.

## ***Issues***

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### **1. Health of Fund Balance Unclear**

UEF is funded primarily by employers or their insurers via a 2% assessment on awards for temporary and permanent disability or death. In fiscal 2004, UEF increased the assessment on permanency awards from 1 to 2% as part of an agreement in which the agency would use the higher assessment to provide the estimated \$13.1 million in payouts for outstanding Bethlehem Steel workers’ compensation claims in the wake of that company’s bankruptcy. The rate was reduced to 1% on January 25, 2008, because the board felt the fund balance was adequate to deal with Bethlehem Steel claims. However, the UEF board returned the assessment to 2% at the end of fiscal 2009 when it determined the fund balance was not enough to handle the remaining Bethlehem Steel liability.

In fiscal 2009, after which the decision to increase the assessment to 2% was made, UEF paid out \$2.1 million in Bethlehem Steel payments and \$3.2 million in other payments, as shown in **Exhibit 3**. Since then, there has been a slow but steady decrease in Bethlehem Steel payments, with an estimated \$1.5 million to be paid out in fiscal 2014. However, in that same time period, there has been a large increase in other payments to an estimated \$5.7 million in fiscal 2014. A quarterly analysis estimates that the outstanding Bethlehem Steel claims are worth about \$6.2 million over their lifetime.

**Exhibit 3**  
**Uninsured Employers’ Fund Revenue and Expenditures**  
**Fiscal 2009-2014**

	<u>2009*</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014 Est.</u>
<b>Revenue</b>						
2% Assessment on Awards	\$3,435,138	\$6,435,201	\$7,265,835	\$8,599,490	\$8,223,078	\$8,090,000
Noncertification Penalty	139,910	70,669	14,388	103,573	68,401	65,000
Fines and Assessments	980	354	982	3,279	600	600
Interest on Fund Balance	422,789	220,412	205,796	99,329	93,866	93,000
Recovery of Benefits	278,290	168,465	192,803	229,802	272,898	210,000
CCU Collections	95,784	160,400	129,021	65,181	180,647	130,000
<b>Total Revenue</b>	<b>\$4,372,891</b>	<b>\$7,055,502</b>	<b>\$7,808,825</b>	<b>\$9,100,654</b>	<b>\$8,839,490</b>	<b>\$8,588,600</b>
<b>Expenditures</b>						
Operating	\$1,092,342	\$1,053,553	\$1,029,941	\$1,137,049	\$1,145,447	\$1,386,990
Claimant Benefits	3,197,231	4,130,753	6,126,351	5,544,466	6,286,812	5,700,000
Beth Steel Claim Payouts	2,096,639	2,273,973	1,919,379	1,604,542	1,427,526	1,500,000
<b>Total Expenditures</b>	<b>\$6,386,212</b>	<b>\$7,458,279</b>	<b>\$9,075,671</b>	<b>\$8,286,057</b>	<b>\$8,859,784</b>	<b>\$8,586,990</b>
Revenue Less Expenditures	-\$2,013,322	-\$402,778	-\$1,266,846	\$814,596	-\$20,295	\$1,610
Beginning Fund Balance	\$12,869,708	\$10,909,127	\$10,506,350	\$9,234,732	\$10,049,329	\$10,029,034
Closeout Adjustments	52,741	0	-4,771	0	0	0
<b>Fund Balance</b>	<b>\$10,909,127</b>	<b>\$10,506,350</b>	<b>\$9,234,732</b>	<b>\$10,049,329</b>	<b>\$10,029,034</b>	<b>\$10,030,644</b>

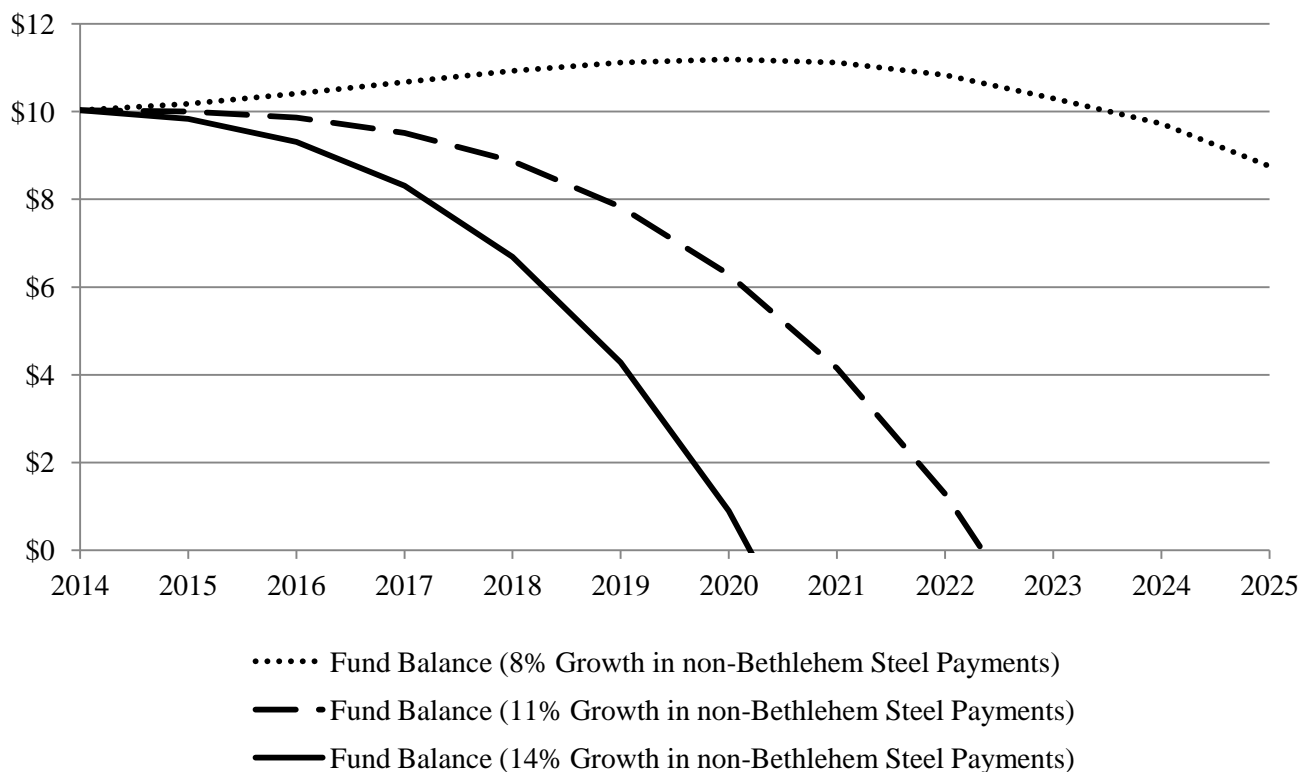
CCU: Central Collection Unit

\* The assessment rate was 1% in fiscal 2009.

Source: Uninsured Employers’ Fund

Based on a 5% annual increase in revenue, a 5% annual increase in operating expenditures, and spreading the estimated outstanding Bethlehem Steel claims over the next 10 years, growth of other payments of about 9% or higher would set the UEF fund balance on a downward path in the near future. These growth rates are in line with the average annual growth rates for the previous 5 to 10 years, except for the rate of growth in non-Bethlehem Steel payments, which has averaged nearly 16% over the past 5 years and about 9% over the past 10 years. **Exhibit 4** shows when the fund would be depleted at various rates of growth in payments for non-Bethlehem Steel claims.

**Exhibit 4**  
**Projected Fund Balance Scenarios**  
**Fiscal 2014-2025**  
**(\$ in Millions)**



Source: Uninsured Employers’ Fund; Department of Legislative Services

These simple estimates should be further examined by the agency with a full actuarial study, which UEF is planning to begin procuring this spring. **UEF should comment on its progress toward having an actuarial study performed, whether the 2% assessment rate is appropriate or should be increased, the statutory requirements for increasing the assessment, and its determination of the health of the fund balance.**

Other factors contributing to the increase in benefit payments, which impacts the fund balance, are the attorney vacancies and low case closings discussed in the MFR section that have permitted claims and their medical bills to stay open that otherwise might have been closed. The longer cases stay open, the higher the expense incurred.



## ***Recommended Actions***

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1. Adopt the following narrative:

**Actuarial Study of the Uninsured Employers’ Fund:** The committees direct that the Uninsured Employers’ Fund (UEF) perform an actuarial study to determine the health of the fund and whether the 2% assessment rate on workers’ compensation awards is appropriate to maintain the fund’s viability. The study should be presented to the committees by September 1, 2014.

<b>Information Request</b>	<b>Author</b>	<b>Due Date</b>
Actuarial study on UEF’s fund balance	UEF	September 1, 2014

## ***Current and Prior Year Budgets***

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### **Current and Prior Year Budgets Uninsured Employers’ Fund (\$ in Thousands)**

	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Federal Fund</u></b>	<b><u>Reimb. Fund</u></b>	<b><u>Total</u></b>
<b>Fiscal 2013</b>					
Legislative Appropriation	\$0	\$1,169	\$0	\$0	\$1,169
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	8	0	0	8
Reversions and Cancellations	0	-18	0	0	-18
<b>Actual Expenditures</b>	<b>\$0</b>	<b>\$1,159</b>	<b>\$0</b>	<b>\$0</b>	<b>\$1,159</b>
<b>Fiscal 2014</b>					
Legislative Appropriation	\$0	\$1,387	\$0	\$0	\$1,387
Budget Amendments	0	20	0	0	20
<b>Working Appropriation</b>	<b>\$0</b>	<b>\$1,407</b>	<b>\$0</b>	<b>\$0</b>	<b>\$1,407</b>

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

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*C96J00 – Uninsured Employers’ Fund*

**Fiscal 2013**

A budget amendment added \$8,496 in special funds for the cost-of-living adjustment (COLA). The agency canceled \$18,147 in special funds due to lower than anticipated payroll costs.

**Fiscal 2014**

Salaries increased by \$20,106 due to the distribution of centrally budgeted funds for the COLA and the salary increment increase.

**Object/Fund Difference Report  
Uninsured Employers' 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>
<b>Positions</b>					
01 Regular	12.00	14.00	14.00	0.00	0%
<b>Total Positions</b>	<b>12.00</b>	<b>14.00</b>	<b>14.00</b>	<b>0.00</b>	<b>0%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 883,989	\$ 1,226,362	\$ 1,262,538	\$ 36,176	2.9%
02 Technical and Spec. Fees	7,633	3,500	10,000	6,500	185.7%
03 Communication	26,441	34,735	36,006	1,271	3.7%
04 Travel	8,958	12,500	14,000	1,500	12.0%
08 Contractual Services	160,698	57,735	101,553	43,818	75.9%
09 Supplies and Materials	12,451	12,500	11,156	-1,344	-10.8%
10 Equipment – Replacement	19,036	0	14,700	14,700	N/A
11 Equipment – Additional	2,007	0	2,100	2,100	N/A
12 Grants, Subsidies, and Contributions	1,519	8,994	1,600	-7,394	-82.2%
13 Fixed Charges	36,389	50,770	82,594	31,824	62.7%
<b>Total Objects</b>	<b>\$ 1,159,121</b>	<b>\$ 1,407,096</b>	<b>\$ 1,536,247</b>	<b>\$ 129,151</b>	<b>9.2%</b>
<b>Funds</b>					
03 Special Fund	\$ 1,159,121	\$ 1,407,096	\$ 1,536,247	\$ 129,151	9.2%
<b>Total Funds</b>	<b>\$ 1,159,121</b>	<b>\$ 1,407,096</b>	<b>\$ 1,536,247</b>	<b>\$ 129,151</b>	<b>9.2%</b>

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