C94I00
Subsequent Injury Fund

Operating Budget Data

($ in Thousands)

	FY 17 Actual	FY 18 Working	FY 19 Allowance	FY 18-19 Change	% Change Prior Year
Special Fund	$2,304	$2,347	$2,341	-$6	-0.2%
Adjustments	0	-26	16	43	
Adjusted Special Fund	**$2,304**	**$2,321**	**$2,358**	**$37**	**1.6%**
Adjusted Grand Total	**$2,304**	**$2,321**	**$2,358**	**$37**	**1.6%**

Note: FY 18 Working includes targeted reversions, deficiencies, and across-the-board reductions. FY 19 Allowance includes contingent reductions and cost-of-living adjustments.

- The fiscal 2019 allowance increases by $37,000, or 1.6%, over the fiscal 2018 working appropriation, including an across-the-board reduction to health insurance in fiscal 2018 and a 2.0% general salary increase effective January 1, 2019.

Personnel Data

	FY 17 Actual	FY 18 Working	FY 19 Allowance	FY 18-19 Change
Regular Positions	17.00	17.00	17.00	0.00
Contractual FTEs	0.00	0.00	0.00	0.00
Total Personnel	**17.00**	**17.00**	**17.00**	**0.00**

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	0.31	1.85%
Positions and Percentage Vacant as of 12/31/17	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 2019 allowance.

- The fiscal 2019 turnover rate of 1.9% will require the Subsequent Injury Fund (SIF) to keep the equivalent of 0.31 positions vacant for the entire year. As of December 31, 2017, there was 1.0 vacant position with a salary of $35,629. This position has been vacant since January 1, 2015.

Analysis in Brief

Major Trends

Cases Resolved Continue to Exceed Cases Opened: The number of cases resolved decreased by an annual rate of 6.9% from fiscal 2013 to 2017; however, cases resolved exceeded cases opened and reopened during that time period.

Issues

2015 Actuarial Study Recommendations: 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 4.5% over the last decade, with a fiscal 2018 closing balance estimated to be $95 million. An actuarial study as of October 31, 2015, recommended that the 6.5% assessment rate be maintained at this time. **SIF should respond to the recommendations made by the actuary.**

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

Updates

Outstanding Claim Against SIF Resolved: SIF and the Uninsured Employers' Fund (UEF) share a fund source, with SIF receiving a 6.5% assessment on certain workers' compensation awards and UEF receiving a 2.0% assessment. On April 10, 2012, UEF requested that SIF return $544,000 in assessments that UEF believed it had erroneously paid to SIF. The outstanding claim between SIF and UEF was discussed in both SIF and UEF fiscal compliance audits conducted by the Office of Legislative Audits, submitted in September 2017 for SIF and January 2018 for UEF. As of December 2017, the outstanding claim has been resolved.

Operating Budget Analysis

Program Description

The Subsequent Injury Fund (SIF) compensates injured workers whose pre-existing 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 the 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 Continue to 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 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. From a high of 1,089 cases in fiscal 2013, the number of resolved cases has decreased by 272 cases, or 6.9% annually, through fiscal 2017. However, this corresponded with a decrease of 214 new and reopened cases during that same time period, which most likely explains the negative trend in resolved cases. SIF continues to resolve more cases annually than the agency takes on in new or reopened cases. Since fiscal 2011, SIF has resolved 225 more cases than received. SIF partially attributes increased case closures to a new electronic system that gives the agency improved case tracking capabilities. The agency is also receiving fewer incoming cases to which there is currently no empirical research to explain the reduction in new claims in recent years.

Exhibit 1
Cases Opened, Reopened, Resolved, and Net Unresolved
Fiscal 2011-2017

	2011	2012	2013	2014	2015	2016	2017
New Cases Opened	896	885	868	876	700	711	628
Cases Reopened	105	133	110	121	144	133	136
Cases Resolved	899	964	1,089	1,007	964	931	817
Net Unresolved Cases	102	54	-111	-10	-120	-87	-53

Source: Subsequent Injury Fund; Department of Budget and Management, Fiscal 2019 Managing for Results

Another gauge of administrative productivity is operating cost 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 from fiscal 2014 to 2017. In fiscal 2017, the average cost per claim increased by $342, or 13.8%, over fiscal 2016 costs. Weekly rates of compensation and the maximum permanency payment rates increase annually and contribute to the cost per case increase.

Exhibit 2
Subsequent Injury Fund Program Measurement Data
Fiscal 2011 Actual-2019 Est.

	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Actual	2018 Est.	2019 Est.
Operating budget cost per resolved claim	$2,010	$1,923	$1,808	$2,033	$2,276	$2,477	$2,820	$2,870	$2,873
Ratio of fund expenditures to total collections	0.910:1	0.827:1	0.900:1	0.992:1	0.965:1	0.887:1	0.804:1	0.843:1	0.845:1

Source: Subsequent Injury Fund; Department of Budget and Management Fiscal 2019 Managing for Results

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 2018 and 2019.

Fiscal 2018 Actions

Across-the-board Employee and Retiree Health Insurance Reduction

The budget bill includes an across-the-board reduction for employee and retiree health insurance in fiscal 2018 to reflect a surplus balance in the fund. This agency's share of this reduction is $26,063 in special funds.

Proposed Budget

As shown in **Exhibit 3**, the fiscal 2019 allowance increases by $37,000, or 1.6%, over the fiscal 2018 working appropriation, including an across-the-board reduction in health insurance in fiscal 2018 and a 2.0% general salary increase effective January 1, 2019.

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

How Much It Grows:	**Special Fund**	**Total**
Fiscal 2017 Actual	$2,304	$2,304
Fiscal 2018 Working Appropriation	2,321	2,321
Fiscal 2019 Allowance	2,358	2,358
Fiscal 2018-2019 Amount Change	$37	$37
Fiscal 2018-2019 Percent Change	1.6%	1.6%

Where It Goes:	
Personnel Expenses	
Health insurance, including the fiscal 2018 across-the-board reduction	$26
Regular earnings, including a 2.0% general salary increase effective January 1, 2019	20
Turnover expectancy	9
Other Changes	
Medical exams and evidentiary support	-14
Office of Attorney General administrative fee	-3
Statewide Personnel System allocation	-1
Telecommunications	-1
Other	1
Total	**$37**

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

General Salary Increase

The fiscal 2019 allowance includes funds for a 2.0% general salary increase for all State employees, effective January 1, 2019. These funds are budgeted in the Department of Budget and Management's (DBM) statewide program and will be distributed to agencies during the fiscal year. This agency's share of the general salary increase is $16,459 in special funds. In addition, employees will receive another 0.5% increase and a $500 bonus effective April 1, 2019, if actual fiscal 2018 general fund revenues exceed the December 2017 estimate by $75 million. These funds have not been budgeted. The Administration will need to process a deficiency appropriation if revenues are $75 million more than projected.

Personnel

Removing the 2% general salary increase, regular earnings for SIF increase by approximately $4,000. SIF reclassified a vacant administrator specialist III position, reducing the salary from $53,000 to $35,000 (an $18,000 decrease). As a result of the savings, SIF authorized salary increases to various employees, including an accountant I position, an administrator specialist III position, 2 administrator I positions, and an office secretary. The salary increases to these positions amounted to $22,000, resulting in a net increase of $4,000 in regular earnings in fiscal 2019 for the agency. SIF's turnover expectancy increased by $9,000 in fiscal 2019, lowering the agency's required turnover in comparison to fiscal 2018.

Issues

1. 2015 Actuarial Study Recommendations

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 2007-2018 Est.

Fiscal Year	Balance	Percent Change
2007	$58,851,161	8.13%
2008	62,465,183	6.14%
2009	65,369,903	4.65%
2010	70,754,896	8.24%
2011	73,025,353	3.21%
2012	78,107,299	6.96%
2013	80,989,370	3.69%
2014	81,243,776	0.31%
2015	82,185,258	1.16%
2016	85,259,943	3.74%
2017	90,670,459	6.35%
2018 Est.	95,025,459	4.80%

Source: Subsequent Injury Fund

Fund growth results when revenue from assessments exceeds payments from the fund and agency expenses. The fund has grown at an average annual rate of 4.2% over the last decade, with a fiscal 2018 closing balance estimated to be $95 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.

2015 Actuarial Study Findings

Pinnacle Actuarial Resources, Inc. (Pinnacle) submitted an actuarial study to SIF on March 28, 2016, based on an analysis as of October 31, 2015. Pinnacle also conducted the fund's last actuarial study in 2011. Based on the 2015 analysis, Pinnacle recommended that the assessment rate of 6.5% be maintained at this time.

Due to the long-term nature of the fund's liability, Pinnacle deemed it appropriate to examine the fund's liability at present value assuming investment income. The present value represents the "discounted" liability and assumes that liabilities are fully funded and that the assumed rate of investment income (or discount) can be earned and credited. Based on recent investment rates, Pinnacle developed estimates using annual average discount rates of 1.5% and 3.0%. **Exhibit 5** estimates the total undiscounted loss liability for awarded cases and impleaded but not awarded cases using healthy individual mortality and disabled individual mortality assumptions. Healthy mortality assumes that the nature of the disabilities for which benefits are received does not significantly shorten life spans, while disabled mortality assumes that the nature of the disabilities for which benefits are received significantly shortens life spans. These estimates represent the amounts of money it would take today, if invested at various earning rates shown in the tables, to pay off over time all liabilities currently estimated for the fund.

Exhibit 5
Subsequent Injury Fund Components of Unfunded Liability
As of October 31, 2015

	Discount Factor		
	0.0%	**1.5%**	**3.0%**
Healthy Mortality Assumptions			
Total Loss Liability	$385,513,406	$314,332,997	$263,496,069
Fund Balance	82,331,465	82,331,465	82,331,465
Unfunded Liability	303,181,941	232,001,532	181,164,604
Disabled Mortality Assumptions			
Total Loss Liability	$261,285,602	$223,497,078	$194,950,097
Fund Balance	82,331,465	82,331,465	82,331,465
Unfunded Liability	178,954,137	141,165,613	112,618,632

Source: Pinnacle Actuarial Resources, Inc., *2015 Actuarial Study for Subsequent Injury Fund*

The estimated undiscounted unfunded loss liability as of October 31, 2015, is $179.0 million under the disabled mortality assumptions and $303.2 million under the healthy mortality assumptions.

The 2015 estimate reflects a decrease in the unfunded liability from the 2011 actuarial study. The estimated undiscounted total reserve has decreased from $548.1 million to $385.5 million assuming healthy mortality and from $361.2 million to $261.3 million assuming disabled mortality. According to Pinnacle, there are two primary reasons for the reduction in total loss liability including (1) a change in assumptions, reducing the percentage of impleaded but not awarded cases that would ultimately become a liability to the fund from 90% in 2011 to 60% in the current analysis based on actual transactional benefit payments data; and (2) a decrease in both the number of active claims for awarded cases and impleaded but not awarded cases, which is the primary driver of the reduced liability.

Pinnacle estimates that the current fund balance will sustain up to three years of cash expenditures if the fund does not have additional income. Since the fund operates on a pay-as-you-go basis, this balance can be viewed as a safeguard to the fund's continued operation as well as a guard against unforeseen circumstances in the short term.

Pinnacle made the following recommendations to SIF as a result of the study:

- maintain the current assessment rate of 6.5% for the next few years but continue to monitor the assessment's adequacy;
- review the unfunded loss liability and assessment rate once every two to three years;
- continue to monitor the accuracy of awarded claims data and initial estimated awards for the impleaded but not awarded claims; and
- continuously update the statistics for the impleaded but not awarded claim data file.

SIF should respond to the recommendations made by the actuary.

Operating Budget Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Outstanding Claim Against SIF Resolved

SIF and the Uninsured Employers' Fund (UEF) share a fund source, with SIF receiving a 6.5% assessment on certain workers' compensation awards and UEF receiving a 2% assessment. On April 10, 2012, UEF requested that SIF return $544,000 in assessments that UEF believed that it had erroneously paid in connection with a 2006 Memorandum of Understanding (MOU) with the Injured Workers' Insurance Fund. The MOU addressed the processing of workers' compensation claims associated with employees of the former Bethlehem Steel Corporation, which had filed for federal bankruptcy in 2001. As of June 2017, UEF's claim was still outstanding. UEF sought advice from the Office of the Attorney General (OAG) on April 9, 2014, as to whether SIF should reimburse UEF for those assessments. Written advice was not received, but UEF management advised that OAG had verbally recommended that the issue be directed to DBM. UEF did not pursue this issue with DBM and made no additional attempts to recover the funds from SIF until December 2016, at which time SIF preliminarily agreed to reimburse UEF for certain of these assessments totaling approximately $441,468 (which includes lost interest).

This issue was discussed in the Office of Legislative Audit's fiscal compliance audits for SIF in September 2017 and for UEF in January 2018. According to both agencies, the outstanding claim between UEF and SIF was finally resolved in December 2017.

Appendix 1
Current and Prior Year Budgets
Subsequent Injury Fund
($ in Thousands)

	General Fund	Special Fund	Federal Fund	Reimb. Fund	Total
Fiscal 2017					
Legislative Appropriation	$0	$2,329	$0	$0	$2,329
Deficiency Appropriation	0	0	0	0	0
Cost Containment	0	0	0	0	0
Budget Amendments	0	16	0	0	16
Reversions and Cancellations	0	-42	0	0	-42
Actual Expenditures	**$0**	**$2,304**	**$0**	**$0**	**$2,304**
Fiscal 2018					
Legislative Appropriation	$0	$2,347	$0	$0	$2,347
Cost Containment	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Working Appropriation	**$0**	**$2,347**	**$0**	**$0**	**$2,347**

Note: The fiscal 2018 appropriation does not include deficiencies, targeted reversions, or across-the-board reductions. Numbers may not sum to total due to rounding.

Fiscal 2017

The budget for the Subsequent Injury Fund (SIF) decreased by $26,000, primarily due to $42,000 in canceled unspent special funds. The decrease was partially offset by an increase of $16,000 in special funds to allocate employee increments.

Fiscal 2018

The fiscal 2018 working appropriation for SIF has experienced no changes from the legislative appropriation.

Appendix 2
Audit Findings

Audit Period for Last Audit:	October 29, 2013 – November 13, 2016
Issue Date:	September 2017
Number of Findings:	5
Number of Repeat Findings:	3
% of Repeat Findings:	60.0%
Rating: (if applicable)	n/a

Finding 1: The Subsequent Injury Fund (SIF) did not ensure claim payments agreed with amounts awarded by the Workers' Compensation Commission, resulting in potential overpayments going undetected.

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

Finding 3: **SIF did not ensure that all assessments were recorded in its accounts receivable system and did not conduct independent reviews of adjustments to these accounts. Additionally, SIF did not properly separate certain accounts receivable and cash receipts functions.**

Finding 4: **SIF did not document its efforts to collect delinquent assessment accounts and did not refer all delinquent accounts to the State's Central Collection Unit.**

Finding 5: SIF did not have adequate procedures and controls over collections processed by remote deposit.

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

Appendix 3
Object/Fund Difference Report
Subsequent Injury Fund

Object/Fund	FY 17 Actual	FY 18 Working Appropriation	FY 19 Allowance	FY 18 - FY 19 Amount Change	Percent Change
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	$ 1,939,198	$ 1,961,947	$ 1,975,034	$ 13,087	0.7%
02 Technical and Spec. Fees	93,406	120,000	106,084	-13,916	-11.6%
03 Communication	41,604	45,269	44,396	-873	-1.9%
04 Travel	26,568	21,500	21,500	0	0%
08 Contractual Services	67,111	59,338	55,371	-3,967	-6.7%
09 Supplies and Materials	7,602	9,500	9,500	0	0%
10 Equipment – Replacement	629	0	0	0	0.0%
11 Equipment – Additional	468	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	12,000	12,000	12,000	0	0%
13 Fixed Charges	114,254	116,213	116,245	32	0%
14 Land and Structures	792	1,350	1,350	0	0%
Total Objects	**$ 2,303,632**	**$ 2,347,117**	**$ 2,341,480**	**-$ 5,637**	**-0.2%**
Funds					
03 Special Fund	$ 2,303,632	$ 2,347,117	$ 2,341,480	-$ 5,637	-0.2%
Total Funds	**$ 2,303,632**	**$ 2,347,117**	**$ 2,341,480**	**-$ 5,637**	**-0.2%**

Note: The fiscal 2018 appropriation does not include deficiencies, targeted reversions, or across-the-board reductions. The fiscal 2019 allowance does not include contingent reductions or cost-of-living adjustments.