



Self-Insurance Trust Fund Board Report

Date: February 8, 2016
 To: Self-Insurance Trust Fund Board
 From: Candace Cannistraro, Office of Management and Budget Director
 Subject: Worker's Compensation Fund: FY 16/17 Funding Recommendations

Strategic Initiatives



Purpose

The Self-Insurance Trust Fund Board received information in FY 2014/15 regarding the financial history and reserve policy of the Worker's Compensation Fund. This report will provide an update on the financial status of the fund and recommend City contributions for inclusion in the FY 2016/17 budget.

Financial Update

Expenditure Trends

Worker's Compensation Fund expenses are tracked and trended in three categories; administration, claims paid and premium costs. Only salary and benefits for City employees who work directly with the program are included in the administration costs. The cost of Citywide overhead is not included in the administrative expenses. Total expenses have been fairly consistent over the last ten years with a slight uptick in FY 11/12.

The total expenses in the last few years have been lower than forecasted. The projected expenditures for FY 15/16 are expected to be slightly below budget with projected claims increasing \$0.9M from FY 14/15. The forecasted claims for FY 16/17 is anticipated to be \$4.2M. The increases in expenditures are largely attributed to increases nationwide in the medical industry.

		Total Expenses	Cost of Claims
Actual	FY 12/13	\$5.2M	\$3.7M
Actual	FY 13/14	\$4.7M	\$3.3M
Actual	FY 14/15	\$4.5M	\$3.1M
Projected	FY 15/16	\$5.9M	\$4.0M
Forecast	FY 16/17	\$6.1M	\$4.2M

Revenues/Contributions and Reserve Target

The Worker's Compensation Fund has a stable funding source as departments are charged each pay period based on the salary of the employees. The needed revenues are estimated each year and included in the

estimated expenses of the departments' adopted operating budgets. Expenditures are reviewed during the year and rates can be modified as needed. The outstanding worker's compensation claims are valued at the total estimated payments which may occur over many years based on the type of injury. The current reserve policy sets the reserve target at the amount sufficient to cover the current year portion of the claims and related costs. Staff tries to limit changing rates to coincide with each annual budget adoption in order to avoid effecting the departments' budgets mid-year.

Due to expenses coming in lower than anticipated, the reserve balance at the end of FY 14/15 was projected to be greater than target. This allowed for reduced worker's compensation rates to be included in the FY 15/16 budget.

The reserve balance at the end of FY 15/16, is projected to be drawn down to approximately \$1M over the reserve target. Based on the FY 15/16 projected reserve balance and the expenditures forecasted for FY 16/17, an increase to the worker's compensation rates from the reduced FY 15/16 rates will be required for the FY 16/17 budget to maintain the targeted reserve.

Future Stability of the Fund

The Safety Services Division provides safety training and education to City employees. Claims are reviewed for preventability, commonality and candidacy for additional training. There are no identified changes in policy or legislation that would affect the future revenues or expenditures of the fund.

Recommendation

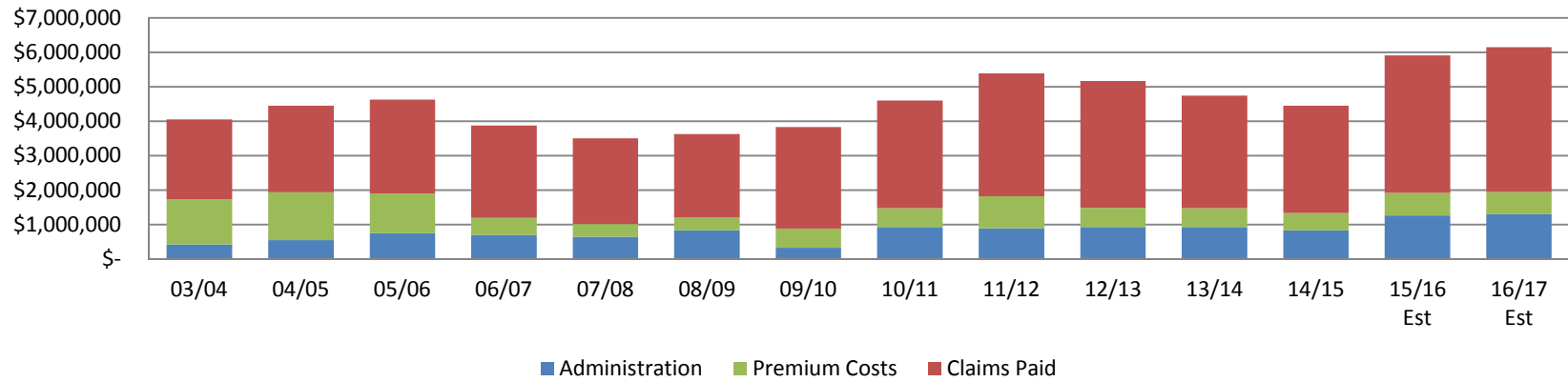
Staff recommends the continuation of the current practice to adjust rates annually unless a significant change in expenses occurs. Staff recommends setting the rates for FY 16/17 at a level to achieve a targeted ending reserve balance sufficient to cover the annual expenses. For FY 16/17, the reserve target is \$6.2M. The current estimate for the City contribution for FY 16/17 is \$5.2M.

The final budgeted contribution may vary slightly from the recommendation as the adjusted rates are applied to budgeted salaries and the budget process has not yet been completed.

Attachments:

1. Worker's Compensation Fund Charts – Data Through 12-31-15

Worker's Compensation Trust Fund Expenses



Worker's Compensation Trust Fund Cashflow

