Self-Insurance Trust Fund Board Report

Date: February 13, 2017

To: Self-Insurance Trust Fund Board

From: Candace Cannistraro, Office of Management and Budget Director

Subject: Worker's Compensation Fund: FY 17/18 Funding Recommendations

Strategic Initiatives

Purpose

The Self-Insurance Trust Fund Board received information in FY 2015/16 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 2017/18 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 16/17 are expected to be on par with the budgeted amount. Projected claims are expected to be approximately $1.2M higher than FY 15/16. The forecasted claims for FY 17/18 is anticipated to be $4.5M. The increases in expenditures are largely attributed to increases nationwide in the medical industry.

		Total Expenses	Cost of Claims
Actual	FY 13/14	$4.7M	$3.3M
Actual	FY 14/15	$4.5M	$3.1M
Actual	FY 15/16	$4.4M	$3.0M
Projected	FY 16/17	$5.6M	$4.2M
Forecast	FY 17/18	$6.5M	$4.5M

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.

The reserve balance at the end of FY 16/17 will likely come in higher than expected at $9.2M due to City contributions projected to be higher than expected and is projected to be drawn down to approximately $2.7M over the reserve target of one year of estimated total expenses. Based on the FY 16/17 projected reserve balance and the expenditures forecasted for FY 17/18, decrease to the worker's compensation rates from the increased FY 16/17 rates will be required for the FY 16/17 budget to reach decrease to 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.
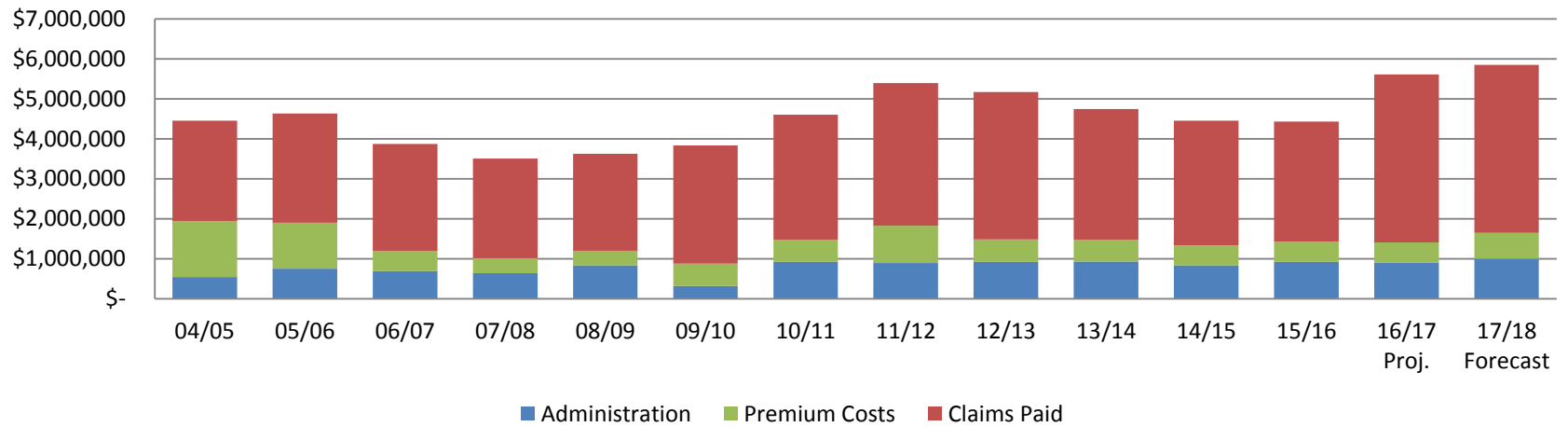
Recommendation

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 17/18 at a level to achieve a targeted ending reserve balance sufficient to cover the annual expenses. For FY 17/18, the reserve target is $6.4M. The current estimate for the City contribution for FY 17/18 is $3.5M.

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 12-31-16

Worker's Compensation Trust Fund Expenses

Legend: Administration, Premium Costs, Claims Paid

Worker's Compensation Trust Fund Cashflow

Legend: City Contribution, All Other Revenues, Total Expenses, Ending Fund Balance