



Self-Insurance Trust Fund Board Report

Date: March 06, 2014
To: Self-Insurance Trust Fund Board
From: Candace Cannistraro, Office of Management and Budget Director
Subject: Worker's Compensation Fund: Financial Viability Review

Strategic Initiatives



Purpose and Recommendation

The Self-Insurance Trust Fund Board has received information during previous meetings regarding the purpose and use of the Worker's Compensation Fund. This report will review the financial history, reserve policy and future stability of the fund.

Financial History

The Worker's Compensation Fund receives revenue through departmental charges. The rates are based on the individual employees and their associated industrial codes. Each job code in the City is assigned to an industrial insurance classification. The City uses the risk ratios between industrial codes set by the State of Arizona. Since the City of Mesa is self-insured, the rates set by the State are only used as a base. City claims experience is applied to the whole so the rates charged may be higher or lower than the base rates. Each rate is applied to the salary of the relevant job codes and charged to the departments each pay period. The estimated needed revenues are calculated each year and included in the departments' operating budgets. The rates can be adjusted if necessary during the year.

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 ranging from a low of \$3.5M to a high of \$5.4M. The City has experienced a slight upward trend in the last few years. FY 13/14 total expenses are estimated at \$5.6M and total expenses for FY 14/15 is estimated at \$6.5M.

Reserve Policy

Maintaining an appropriate reserve is important for any fund. The reserve policy for each fund is catered to the fund's needs and characteristics. A fund with inconsistent or uncontrollable revenue sources may need a larger reserve to ensure ability to cover expenses during a downturn in revenues. In the same manner, a fund with inconsistent or uncontrollable expenditures may also need a larger reserve for the same reason. The magnitude of the expenses also plays a role. The same dollar change in expenditures will have a greater percentage change on a smaller fund than a larger fund.

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.

Previous reserve balance levels were higher than necessary. In FY 10/11, staff determined the appropriate level of funding. The rates for that year were set at minimum levels in order to draw the balance down and then reestablished the following year. Increased expenses in FY 11/12 resulted in an ending reserve balance below the target. Rates for FY 12/13 were set higher in order to compensate. Staff tries to limit changing rates to coincide with each annual budget adoption in order to avoid effecting the departments' budgets mid-year.

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

Continuation of staff's current practice to set the reserve target at an amount sufficient to cover the annual expenses. Continuation of staff's current practice to adjust rates annually unless a significant change in expenses occurs.

The actual City contribution for FY 12/13 was \$6.3M. The budgeted City contribution for FY13/14 is \$4.6M. The estimated contribution needed for FY 14/15 is \$7.1M. Staff recommends setting the Worker's Compensation rates for FY 14/15 sufficient to maintain an appropriate reserve balance.

Attachments:

1. Worker's Compensation fund: Expenses, Cashflow