



Self-Insurance Trust Fund Board Report

Date: March 25, 2019
To: Self-Insurance Trust Fund Board
From: Nitra Hawkins, Work Safety Administrator
Candace Cannistraro, Office of Management and Budget Director
Subject: Workers' Compensation Trust Fund: Financial Update and FY 19/20 Funding Recommendations

Purpose

The Self-Insurance Trust Fund Board received information in Fiscal Year (FY) 17/18 regarding the financial history and reserve policy of the Workers' Compensation Trust Fund. This report will provide an update on the financial status of the fund through FY 17/18, year-end projections for FY 18/19, and recommended City contributions for inclusion in the FY 19/20 budget.

Financial Update

Expenditure Trends

Expenditures in the Workers' Compensation Trust Fund are tracked in three categories; administration, claims paid and premium costs. Administration costs include salary and benefits of City employees who work directly with the workers' compensation program, as well as other operating costs. Citywide overhead charges are not applied to the Workers' Compensation Trust Fund. Total expenses have been relatively consistent in the previous five years ranging between \$4.4 million and \$5.1 million with a five-year average of \$4.7 million dollars annually.

FY 17/18 total Workers' Compensation Trust Fund expenses were \$5.0 million – an increase of 5.4% over the prior fiscal year. The increases in expenditures are largely driven by the increased cost of providing medical care for workers' compensation claims. The projected total expenditures for FY 18/19 are expected to be \$4.9 million, approximately \$1.0 million below the budgeted amount. The projected claims for FY 18/19 are anticipated to be \$3.4 million, approximately \$120 thousand lower than the previous year. The total expenses and cost of claims for the last several fiscal years are shown in the following chart.

	Fiscal Year	Total Expenses	Cost of Claims
Actual	FY 14/15	\$4.5M	\$3.1M
Actual	FY 15/16	\$4.4M	\$3.0M
Actual	FY 16/17	\$4.7M	\$3.3M
Actual	FY 17/18	\$5.0M	\$3.5M
Projected	FY 18/19	\$4.9M	\$3.4M
Forecast	FY 19/20	\$6.0M	\$4.0M

Revenues/Contributions and Reserve Target

The Workers' Compensation Trust Fund has a stable funding source as departments are charged each pay period based on the salary of the departments' employees. The needed revenues are estimated each year and included in the estimated expenses of each department's adopted operating budgets. Expenditures are reviewed during the fiscal year, and rates may be modified as needed. The outstanding workers' 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 following year's total Workers' Compensation Trust Fund expenses. Rates are adjusted annually to coincide with budget adoption.

The reserve balance at the end of FY 18/19 is anticipated to be higher than budgeted due to FY 18/19 expenses being \$1.0 million lower than budgeted. The budgeted fund balance utilization (where expenses are higher than revenues) was \$2.7 million, but the year-end utilization amount will be \$0.9 million with a projected year-end balance of \$8.0 million. Based on the FY 18/19 projected reserve balance and the expenditures forecasted for FY 19/20, a slight increase to the workers' compensation rates from the previous year is recommended for the FY 19/20 budget to reach the targeted reserve.

Future Stability of the Fund

The Safety Services Division provides OSHA safety training and education to City employees as well as department-specific safety programs. Safety team members work in collaboration with departments to proactively address, correct and mitigate safety challenges. Claims are reviewed for preventability, mechanism and accident types for trending and candidacy for additional training to reduce accident occurrence.

The future stability of the trust fund may be impacted by the legislative expansion of the of Arizona Revised Statute §23-901.01 regarding presumptive cancers. In most workers' compensation claims, the burden is placed on the worker to prove their ailment is a result of occupational exposure. "Presumptive" illnesses work in the opposite course, whereby the employer is required to prove the worker was not injured while at work. Thirteen (13) additional cancers were added to the presumptive statute increasing the total to 21 covered cancers for public safety employees, which includes both Fire & Medical Department and Police Department employees. The presumed cancers are considered to arise out of employment and covered under the City's workers' compensation program. The total ongoing

financial impact of the new legislation to the Workers' Compensation Trust Fund is currently being considered, although there is no immediate impact anticipated.

Recommendation

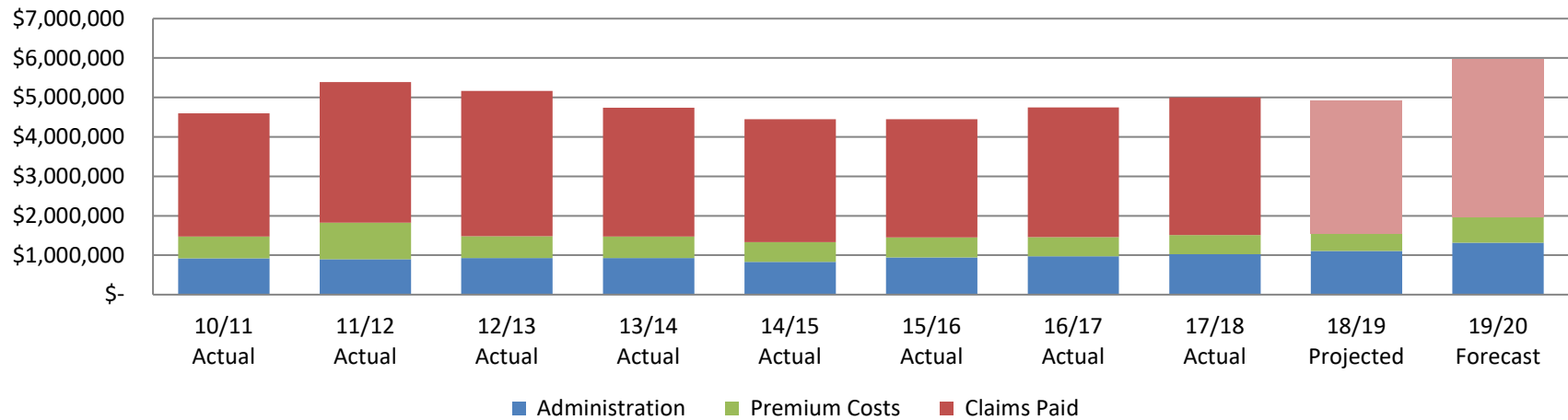
Staff recommends the continuation of the current practice to adjust rates annually unless a significant change in expenses occurs. Staff recommends setting the rates for FY 19/20 at a level to achieve a targeted ending reserve balance sufficient to cover the annual Workers' Compensation Trust Fund expenses. For FY 19/20, the reserve target is \$6.0 million. Based on the FY 18/19 projected reserve balance and the expenditures forecasted for FY 19/20, a slight increase to the workers' compensation rates from the previous year is recommended for the FY 19/20 budget to reach the targeted reserve. The current estimate for the City contribution for FY 19/20 is \$3.9 million with a fund utilization of \$2.0 million.

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. *Workers' Compensation Trust Fund Expenses and Workers' Compensation Trust Fund Cashflow Charts – Data Through 12-31-2018*

Workers' Compensation Trust Fund Expenses



Workers' Compensation Trust Fund Cashflow

