



## Self-Insurance Trust Fund Board Report

Date: February 28, 2022  
To: Self-Insurance Trust Fund Board  
From: Nitra Hawkins, Work Safety Administrator  
Brian A. Ritschel, Office of Management and Budget Assistant Director  
Subject: Workers' Compensation Trust Fund: Financial Update and FY 2022/23 Funding Recommendations

### Purpose

The Self-Insurance Trust Fund Board received information in Fiscal Year (FY) 2020/21 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 2020/21, year-end projections for FY 2021/22, and recommend City contributions for inclusion in the FY 2022/23 budget.

### Financial Update

#### *Expense Trends*

Expenses in the Workers' Compensation Trust Fund are tracked in four categories; administration, claims paid, premium costs, and the recently added fire cancer expenditure. 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 for FY 2021/22 are projected to be \$8.0 million which is higher than in the previous five years which ranged between \$4.7 million and \$6.2 million with a five-year average of \$5.1 million dollars annually.

FY 2020/21 total Workers' Compensation Trust Fund expenses were \$6.2 million, an increase of 28.4% over the prior fiscal year. The projected total expenses for FY 2021/22 are expected to be \$8.0 million, approximately \$1.4 million above the budgeted amount. The projected claims for FY 2021/22 are anticipated to be at the adopted budgeted amount of \$4.5 million which is \$200 thousand higher than previous year actuals. The increases in expenses are largely driven by the increased cost of providing medical care for workers' compensation claims. The total expenses and cost of claims for the last several fiscal years are shown in the following chart.

	<b>Fiscal Year</b>	<b>Total Expenses</b>	<b>Cost of Claims</b>
Actual	FY 16/17	\$4.7M	\$3.3M
Actual	FY 17/18	\$5.0M	\$3.5M
Actual	FY 18/19	\$4.8M	\$3.0M
Actual	FY 19/20	\$4.8M	\$3.2M
Actual	FY 20/21	\$6.2M	\$4.3M
Projected	FY 21/22	\$8.0M	\$4.5M
Forecast	FY 22/23	\$8.4M	\$4.8M

*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. Expenses 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 fund balance 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 2021/22 is anticipated to be \$8.5 million. Based on the FY 2021/22 projected reserve balance, and the expenses forecasted for FY 2022/23, a decrease to the workers' compensation rates from the previous year is recommended for the FY 2022/23 budget. This will bring the year end targeted reserve balance equal to the following year's estimated total Workers Compensation Trust Fund expenses.

*Future Stability of the Fund*

The future stability of the Workers' Compensation Trust Fund will have long-term effects of the expansion of the of Arizona Revised Statute §23-901.01 regarding presumptive cancers, which has twenty-three (23) covered cancers for public safety employees, and fire investigators. Because of the complexity and variation in cancer treatment, it is difficult to predict the full costs for any individual with cancer at the time of diagnosis. The global pandemic provides new challenges for managing the costs associated with COVID-19 medical treatment. The long-term health impacts of COVID-19 on employees with workplace exposures has the potential to cause lingering health problems for months or years to come.

The table below shows the number of new workers' compensation claims per year. The City of Mesa has a five-year, new claim average of 406 workers' compensation claims. There are currently 434 active and open workers' compensation claims.

Calendar Year	# Workers' Compensation Claims
2017	426
2018	411
2019	448
2020	332
2021	415
<b>Average</b>	<b>406</b>

The Safety Services Division provides OSHA safety training and education to City employees as well as department-specific safety programs. The 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 with the goal of reducing the number of future injuries and illnesses which can result in additional workers' compensation claims.

Recommendation

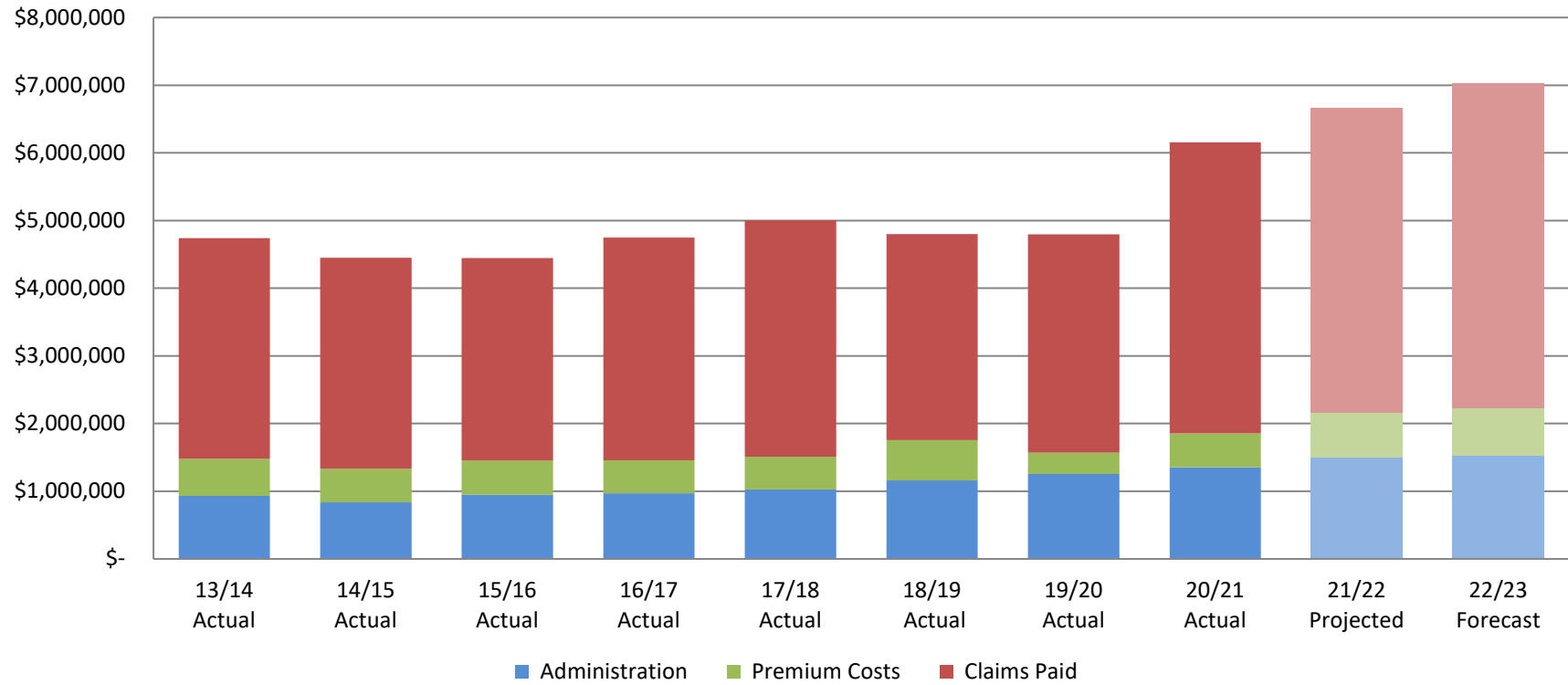
Staff recommends the continuation of the current practice to adjust rates annually unless a significant change in expenses occurs. Staff recommends setting the rates for FY 2022/23 at a level to achieve a targeted ending reserve balance sufficient to cover the annual Workers' Compensation Trust Fund expenses. For FY 2022/23, the reserve fund balance target is \$7.5 million. Based on the FY 2021/22 projected reserve balance, and the expenses forecasted for FY 2022/23, a decrease to the workers' compensation rates from the previous year is recommended for the FY 2022/23 budget to reach the targeted reserve. The current estimate for the City contribution for FY 2022/23 is \$5.6 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. *FY22-23 Workers Compensation Report Trust Fund Board – Data Through 1-24-2022*

## Workers' Compensation Trust Fund Expenses



## Workers' Compensation Trust Fund Cashflow

