



Self-Insurance Trust Fund Board Report

Date: February 23, 2021
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 2021/22 Funding Recommendations

Purpose

The Self-Insurance Trust Fund Board received information in Fiscal Year (FY) 2019/20 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 2019/20, year-end projections for FY 2020/21, and recommend City contributions for inclusion in the FY 2021/22 budget.

Financial Update

Expense Trends

Expenses 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 for FY 2020/21 are projected to be \$7.1 million which is higher than in the previous five years which ranged between \$4.4 million and \$5.0 million with a five-year average of \$4.8 million dollars annually.

FY 2019/20 total Workers' Compensation Trust Fund expenses were \$4.8 million, an increase of 5.8% over the prior fiscal year. The projected total expenses for FY 2020/21 are expected to be \$7.0 million, approximately \$803 thousand above the budgeted amount. The projected claims for FY 2020/21 are anticipated to be \$5.0 million, approximately \$800 thousand higher than the budgeted amount and \$1.8 million 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.

	Fiscal Year	Total Expenses	Cost of Claims
Actual	FY 15/16	\$4.4M	\$3.0M
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
Projected	FY 20/21	\$7.1M	\$5.0M
Forecast	FY 21/22	\$6.6M	\$4.5M

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 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 target year end fund balance for the Workers' Compensation Trust Fund is equal to the total estimated expenses for the following fiscal year. The reserve balance at the end of FY 2020/21 is anticipated to be \$6.5 million. The budgeted fund balance utilization (where expenses are higher than revenues) was \$1.0 million, but the projected year-end utilization amount will be \$1.2 million. Based on the FY 2020/21 projected reserve balance and the expenses forecasted for FY 2021/22, a slight increase to the workers' compensation rates from the previous year is recommended for the FY 2021/22 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 may be impacted by the proposed legislative expansion of the of Arizona Revised Statute §23-901.01 regarding presumptive cancers. The pandemic tabled prior proposed legislation to expand the number of cancers covered under the presumptive statute. Currently there are twenty-one (21) covered cancers for public safety employees, which includes both Fire and Police departments sworn employees. The presumed cancers are considered to arise out of employment and covered under the City's workers' compensation program. During the current legislative session, Arizona State Legislators have once again introduced proposed bill(s) to expand the presumptive cancer benefits. House Bill (HB) 2506 adds breast and ovarian cancers to the presumptive list and expands presumptive cancer benefits to Fire Investigators. The house bill also proposed that former firefighters or Police officers 65 or younger and diagnosed with cancer up to 15 years

after last date of employment as firefighter or police officer shall also constitute occupational disease. The total ongoing financial impact of the proposed new legislation, if approved as stated, to the Workers' Compensation Trust Fund will have to be evaluated once the approved legislation is adopted.

The next table shows the number of new workers' compensation claims per year. The City of Mesa has a six-year new claim average of 404 workers' compensation claim per year. There are currently 363 active and open workers' compensation claims.

Calendar Year	# Workers' Compensation Claims
2015	407
2016	397
2017	426
2018	411
2019	448
2020	332
Average	404

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

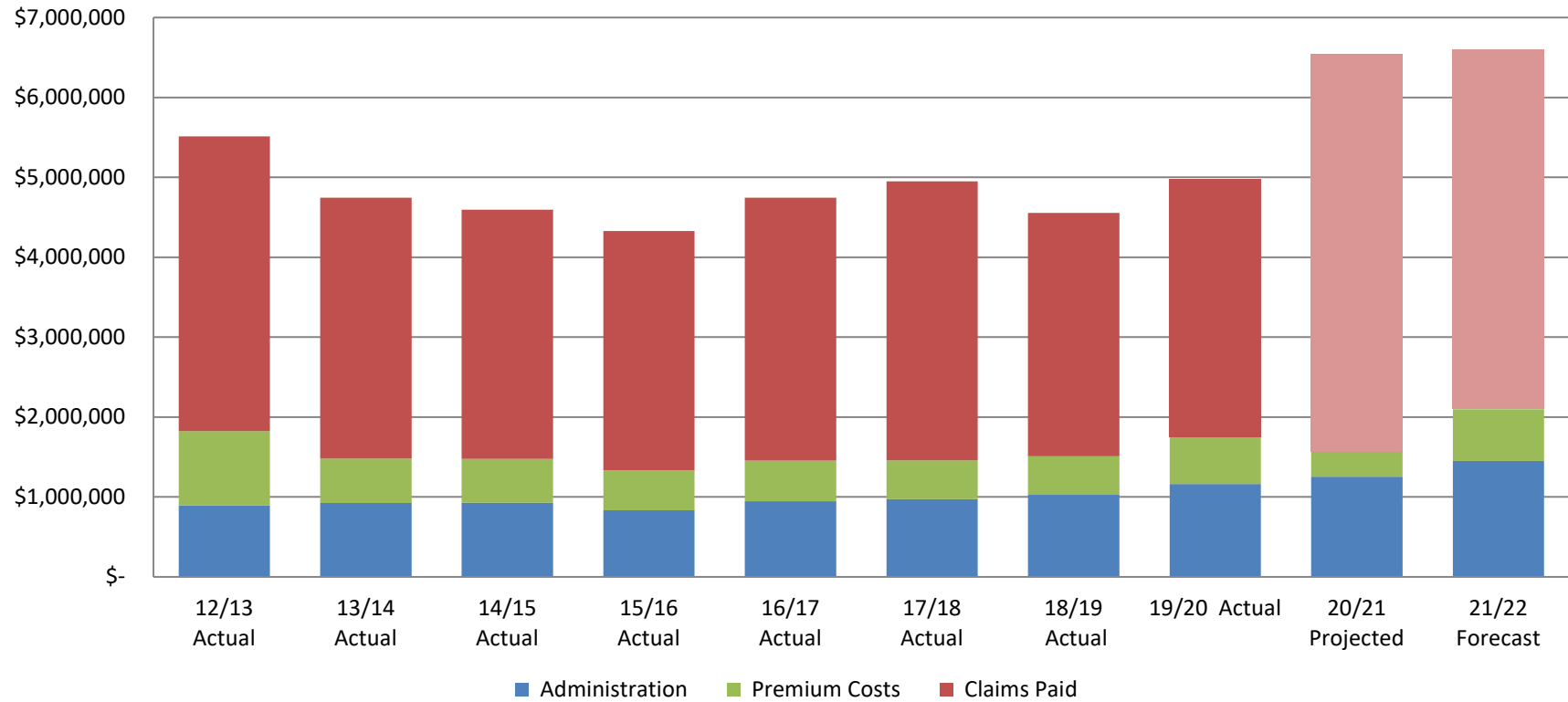
Staff recommends the continuation of the current practice to adjust rates annually unless a significant change in expenses occurs. Staff recommends setting the rates for FY 2021/22 at a level to achieve a targeted ending reserve balance sufficient to cover the annual Workers' Compensation Trust Fund expenses. For FY 2021/22, the reserve fund balance target is \$6.6 million. Based on the FY 2020/21 projected reserve balance and the expenses forecasted for FY 2021/22, a modest increase to the workers' compensation rates from the previous year is recommended for the FY 2021/22 budget to reach the targeted reserve. The current estimate for the City contribution for FY 2021/22 is \$6.4 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. *FY20-21 Workers Compensation Report Trust Fund Board – Data Through 12-31-2020*

Workers' Compensation Trust Fund Expenses



Workers' Compensation Trust Fund Cashflow

