



Self-Insurance Trust Fund Board Report

Date: February 25, 2020
To: Self-Insurance Trust Fund Board
From: Nitra Hawkins, Safety Administrator
Candace Cannistraro, Office of Management and Budget Director
Subject: Workers' Compensation Trust Fund: Financial Update and FY 2020/21 Funding Recommendations

Purpose

The Self-Insurance Trust Fund Board received information in Fiscal Year (FY) 2018/19 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 2018/19, year-end projections for FY 2019/20, and recommend City contributions for inclusion in the FY 2020/21 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 \$5.0 million with a five-year average of \$4.9 million dollars annually.

FY 2018/19 total Workers' Compensation Trust Fund expenses were \$4.8 million, a decrease of 12.8% over the prior fiscal year. The projected total expenditures for FY 2019/20 are expected to be \$5.5 million, approximately \$700 thousand below the budgeted amount. The projected claims for FY 2019/20 are anticipated to be \$3.7 million, approximately \$650 thousand higher than the previous year actuals. The increases in expenditures 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
Projected	FY 19/20	\$5.5M	\$3.7M
Forecast	FY 20/21	\$6.3M	\$4.2M

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 target year end fund balance for the Workers Compensation Trust is equal to the total estimated expenses for the following fiscal year. The reserve balance at the end of FY 2019/20 is anticipated to be \$7.0 million. The budgeted fund balance utilization (where expenses are higher than revenues) was \$2.0 million, but the projected year-end utilization amount will be \$1.0 million. Based on the FY 2019/20 projected reserve balance and the expenditures forecasted for FY 2020/21, a slight increase to the workers' compensation rates from the previous year is recommended for the FY 2020/21 budget. This will bring the year end targeted reserve balance equal to the following year's estimated total Workers Compensation Fund expenses.

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. 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.

The future stability of the trust fund may be impacted by the proposed 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. Currently there are twenty-one (21) covered cancers for public safety employees, which includes both Fire & Medical Department and Police Department sworn employees. The presumed cancers are considered to arise out of employment and covered under the City's workers' compensation program. Arizona State Legislators have proposed bills to expand the presumptive cancer list. Senate Bill (SB) 1160 still restricts presumptive benefit to specified types of cancer but adds breast and ovarian cancers to the presumptive list. Senate Bill (SB) 1161 is broader and indicates a presumption of workers' compensation coverage for any type of cancer among firefighters or Police officers who have been assigned to hazardous duty. Both Senate Bills 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.

Recommendation

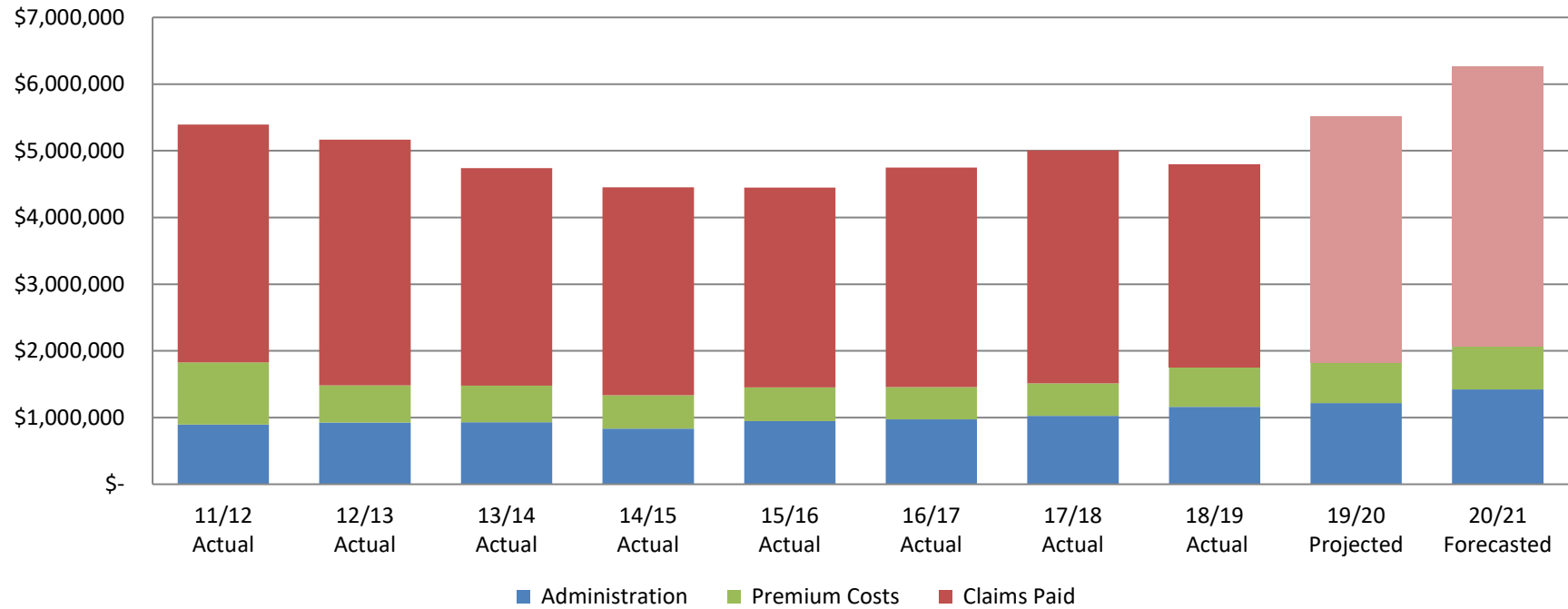
Staff recommends the continuation of the current practice to adjust rates annually unless a significant change in expenses occurs. Staff recommends setting the rates for FY 2020/21 at a level to achieve a targeted ending reserve balance sufficient to cover the annual Workers' Compensation Trust Fund expenses. For FY 2020/21, the reserve fund balance target is \$6.3 million. Based on the FY 2019/20 projected reserve balance and the expenditures forecasted for FY 2020/21, a modest increase to the workers' compensation rates from the previous year is recommended for the FY 2020/21 budget to reach the targeted reserve. The current estimate for the City contribution for FY 2020/21 is \$5.4 million with a fund utilization of \$700 thousand.

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 12-31-2019

Workers' Compensation Trust Fund Expenses



Workers' Compensation Trust Fund Cashflow

