

Selecting Primary Workers' Compensation Program

General Services Department
Risk Management Division

Presented to the

Santa Barbara County Board of Supervisors

APRIL 2010



County of Santa Barbara

TWO PROGRAM CHOICES FOR WORKERS' COMPENSATION COVERAGE

- CSAC-EIA'S EXCESS WORKERS' COMPENSATION PROGRAM (EWC)
- CSAC-EIA'S PRIMARY WORKERS' COMPENSATION PROGRAM (PWC)



WHY FOCUS ON CSAC-EIA PROGRAMS?

- There are other WC insurance programs that are available, but CSAC-EIA with its focus on public entities is our best fit.
- Simply put, we trust CSAC-EIA to provide us with the lowest cost, best managed program



WHY DO WE TRUST CSAC-EIA?

- As one of its founding members, Santa Barbara County has a 31 year relationship with CSAC-EIA.
- The risk sharing pool is member-directed such that we have a position on its board and also serve on its Finance Committee
- CSAC EIA has grown from its original 29 county membership to over 278 members, including 54 of the 58 counties, so it is widely trusted by other public agencies as well



Existing: Excess Workers' Compensation

- We absorb the risk for each claim up to our self insured retention of \$500,000.
- Risk Management staff administers all aspects of the claim, including making doctor's appointments, determining if treatment is appropriate, processing indemnity and medical payments through our county treasury, etc. County counsel staff defends the litigated claims.
- Once the claim is above \$500,000, Risk Management staff files for reimbursement from CSAC-EIA, providing any requested documentation, which can be time consuming.
- As a self insured entity under EWC, our claims administration process is audited by the State and CSAC and we have the same reporting requirements as a large insurance company would have.



Recommended: Primary Workers' Compensation (PWC)

- All risk is transferred to the Pool, meaning that we effectively have first dollar coverage.
- A Third Party Administrator handles the day to day claims issues, including making doctor's appointments, determining if treatment is appropriate, processing indemnity and medical payments and paying the outside attorneys hired to defend the claims. No payments are taken out of the County treasury since all costs are covered by the premium that we pay.



What are the cost differences between the two programs?

- The premiums collected from the departments for 2010-11 are significantly reduced under the PWC Program.
- Keep in mind that the premiums collected from the departments, under either EWC or PWC, are to fund all the costs for all claims with dates of injuries from 7-1-2010 through 6-30-2011. Claims costs can span over decades, since the medical costs must be paid for the lifetime of the claimant or until the claim is resolved via Compromise & Release lump sum settlement.



2010-11 PREMIUM: EXISTING EWC

	OPTION 1	OPTION 2	OPTION 3
PREMIUM	12,830,000	10,956,000	9,365,000
CONFIDENCE LEVEL	70%	60%	50%

- **BUDGET PRINCIPLE FOR 2010-11**
 - Reduce rates charged to departments from the Internal Service Funds to the extent fiscally prudent in order to mitigate departmental budget gaps.



2010-11 PREMIUM: PWC

- PWC Cost = \$9,230,000
- Confidence level funded is at 99% !
- This is a \$1,726,000 savings from the EWC level at 60% confidence level



Why would there be such a dramatic difference under the two programs?

- Under EWC, we absorb 100% of the risk for all claims up to \$500,000 whereas in PWC that risk is spread over a much larger pool which drives our cost down.
- The cost to administer the claims is lower due to volume level discounts that CSAC-EIA is able to get with the TPA's plus overhead costs are spread over a larger base



			ORIGINAL PREMIUM AT 60% CONFIDENCE LEVEL	PWC ESTIMATE AFTER BUDGET WORKSHOP	PREMIUM REDUCTION	PWC FINAL PREMIUM COST 99% CONFIDENCE LEVEL	ADDITIONAL REDUCTION OR FOR OVERSIGHT COSTS
GENERAL FUND SUBTOTAL			7,515,298	6,603,667	911,631	6,331,344	272,323
NON GENERAL FUND SUBTOTAL			3,440,701	3,023,333	417,369	2,898,656	124,677
	GRAND TOTAL		10,956,000	9,627,000	1,329,000	9,230,000	397,000
031	Fire	0001	2,080,441	1,828,077	252,365	1,752,690	75,387
032	Sheriff	0001	3,539,290	3,109,962	429,328	2,981,713	128,249
	TOTAL FIRE & SHERIFF		5,619,731	4,938,039	681,692	4,734,403	203,636
	% OF TOTAL PREMIUM		51%	51%	51%	51%	51%



General Services

What about control issues?

Any perceived loss of control is mitigated by the following factors:

- We have 24/7 access to all the claims data and we will be analyzing reports and trends just as we do now.
- None of the TPA's under PWC have settlement authority.
- CSAC expects each Member to be included on all settlements and the TPA is to obtain Member concurrence before the settlement is brought to CSAC for consideration.



What about the possibility for rate increases in future years?

Concerns for rate increases being higher under PWC than if we stayed with EWC are lessened when we consider the following:

- This is not a low-ball offer from an insurance company but instead is a highly analyzed, actuarially based premium cost from our trusted CSAC-EIA
- Adverse changes in the law or just increases in severity for claims would impact our EWC premium allocation to departments even more dramatically than in the PWC because there is a 2 year smoothing mechanism built in, plus the risk is still spread over a wider pool base.
- All members of PWC have been and will continue to be also members of EWC for a layered portion of the risk.



Will this decision mean that we have to layoff staff?

- No, we will not layoff staff in Risk Management or County Counsel.
- We have an unprecedented, wonderful opportunity to focus on resolving our existing claims load
- Due to the required 3 year commitment to PWC, we will also be able to improve our processes and have the full infrastructure in place (assuming no attrition) to return to EWC at the end of the 3 years should we decide to do so.



Questions?

