WORKERS COMPENSATION
(LFB Blue Book, Page 296)
(replaces page 37 of the original presentation)

1. Request? $2,000,000 (Governor recommended $1,800,000)

2. Purpose?
Increase the proportion of general funds needed for the program in order to balance the general fund obligation with federal and other funds.

3. Positive impact if funded?
This money will pay the general fund share of claims and administrative costs of the program. IDOP will contract with a third party administrator (TPA) during the last half of FY01. While this will initiate long-range cost control of the program, short-term costs will be higher. This money will help to offset the short-term increase.

4. Negative impact if not funded?
The state risks paying this money later if an audit by the federal government were to show that lower general funding levels have created cost shifting to federal funds. Such an audit occurred for FYOO and is likely for FY01.

5. Program/Process changes?
IDOP is negotiating an agreement with Sedgwick CMS to provide workers' compensation claims management services based upon recommendations of The Segal Company. The rationale for this change is based on the following:

- An actuarial review suggests that the unpaid liability of the program must be addressed in order to control the long-range costs of the program. Failure to more effectively manage the claims process will drive costs higher. IDOP does not have the systems and staffing to support this requirement.
- IDOP should be focused on loss avoidance and control, not claims processing. This package will enable IDOP to reduce costs by assisting agencies with safety programs and early return-to-work initiatives.

6. Funding changes?
Agencies will continue to be billed a premium for workers' compensation coverage. This premium will consist of a combination of funding from sources proportionate to how their payroll is funded. The $1.8 million appropriation will be credited to each agency to maintain the proper proportions but will remain in the workers' compensation fund to pay claims and administrative costs. Agencies will meet their obligation for the year by paying their premium. If costs exceed their premium, they will not be billed the additional costs for that year. Their premium will increase or decrease based on trends, not one good or bad year. Therefore, they can benefit from ongoing attention to loss prevention and control.

7. Action required? Approve appropriation.

For more information
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Workers' Compensation for State Employees -An Executive Overview
(Supplements page 37 of the original presentation addressing the LFB Blue Book, page 296)

1. ***What is the purpose of a workers' compensation program and what is our legal requirement to offer it?***

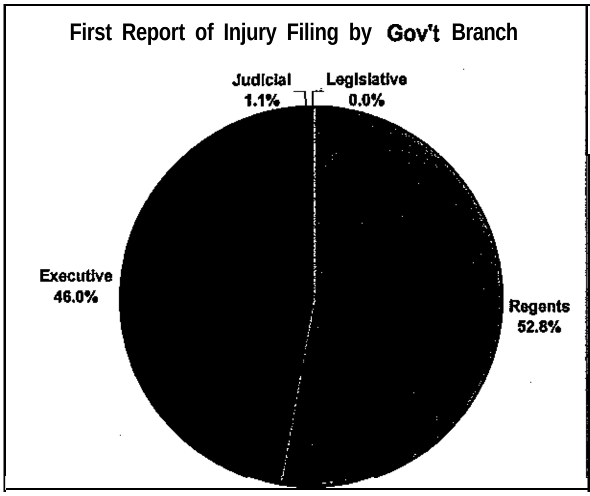
This is a mandated benefit program administered by the Iowa Department of Personnel. Workers' Compensation is designed to provide medical and lost time benefits to employees who have sustained work related injuries and illnesses. Workers' Compensation laws are intended to assure that employees receive prompt medical care and lost time benefits in exchange for limitations on legal actions. Benefits may include:

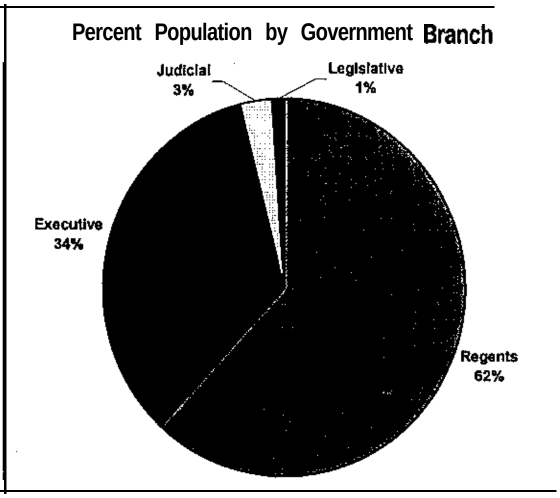
- Medical care
- Lost time benefits (generally 80% of spendable income)
- Compensation for permanent loss, impairment, and loss of earning capacity
- Death benefits to surviving spouse and/or children

2. ***Who is covered? (What entities within state government and the number of employee lives)***

Total Population Covered -- 69,000 (includes inmates, student workers and volunteers in work status)

Percent Covered Population by Government Branch (see graph)





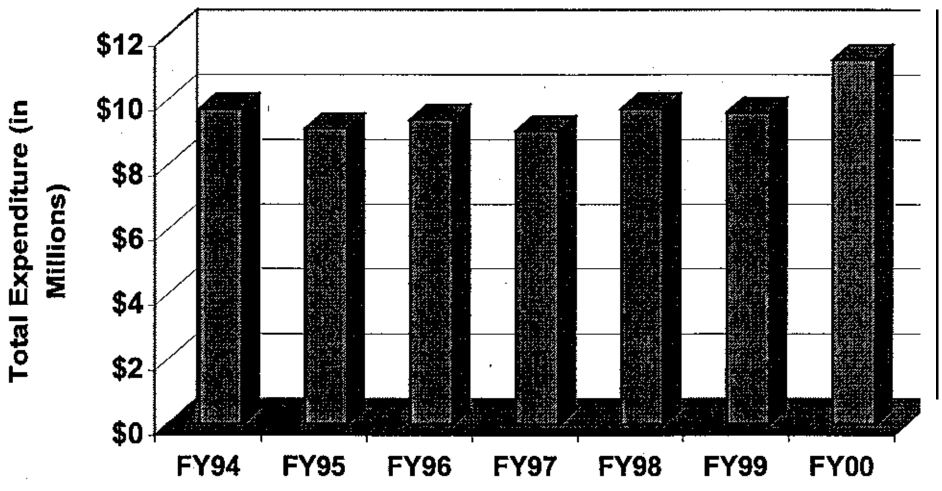
3. ***How does the State fund this program risk? Are we insured? Self-insured? Or do we have a stop/loss insurance for catastrophic issues?***

IDOP bills state agencies a premium that is based on a rate per $100 of payroll. State agencies also receive some general fund money in their operating budget to pay part of the premium. The balance comes from other agency funding sources, proportional to how their payroll is funded. Prior to FY 01, IDOP received this general fund money directly into the workers' compensation fund, which was used to credit or reduce agency premiums. Currently, the State assumes all financial risks of the program. No stop/loss or excess insurance is in effect.

4. *What risks are there to the State if this program is not managed correctly?*

Since the State is insuring its own risk in the case of workers' compensation claims, all financial risks are borne by the State. Budgetarily, it is estimated the State will spend $13.6 million in FY 02 to pay medical and other income loss claims of employees covered by the program. In terms of credit-worthiness, inadequate management and accounting controls on the program may negatively impact the State's credit rating.

5. *What was spent last year? How many people were injured last year? What is the average cost of a claim?*



Number of Claims FY00 = 4,177 Ave. Cost per Claim FY00 = $2,697

*Amount reported on annual financial statement to the Department of Revenue and Finance per GASB-10. Does not include charges incurred from third party claims paid or other administrative costs.

6. *What are the most frequent injuries?*

Slips, trips, and falls, back strain, and repetitive trauma injuries are among the most common injuries. Back strains and/or pain account for nearly half of all injuries. The State is also at high risk for auto accidents/traffic control accidents and injuries resulting from patient/client interactions.

7. ***What are the number of deaths or permanent disabilities we have had in fhis program?***

We have 33 active permanent total disability claims and 29 active death claims open at this time.

8. ***Describe the trends that we have in workers' compensation over the past 10 years, if possible.***

The frequency of claims has decreased over this period, but the severity and cost of claims has increased.

9. ***Describe the number of staff who manage the workers' compensation program and briefly describe their responsibilities.***

IDOP operates its own claims and loss control unit. This unit employs:

- Two claims specialists, for claims intake and benefit payment;
- One legal affairs coordinator, for litigation coordination with the Office of the Attorney General;
- One claims review nurse, to review incoming medical bills;
- One accountant, for fund and premium management, and reporting;
- One administrative support temporary employee;
- One safety officer to enhance loss avoidance activities in the departments;
- One return to work coordinator to promote employees' return to work.

10. ***What recent assessments have been completed of the program and whaf sfrengfhs and weaknesses were found?***

In 1999, IDOP commissioned a study of the program by The Segal Company, a consultant on benefits matters. The goals set by IDOP and The Segal Company to improve the program included:

- Fair and appropriate compensation to an employee injured during service;
- Expedite access to quality occupational medical care;
- Return the employee to full, productive work as promptly as possible;
- Reduce the need for an employee to engage an attorney to ensure fair and equitable treatment;
- Reach settlements as reasonably and quickly as possible;
- Effectively manage the costs and financial risks of the program.

The Segal Company found that:

- Funding and cost allocation methods to the agencies fairly represented the burden of costs the program bears.
- General fund cost sharing arrangements were insulating agencies from feeling the full effect of the cost of the program and they were not actively engaged in preventing injuries and illnesses.

- Existing program staff were unable to focus on developing and implementing cost and injury avoidance strategies in state government due to their focus on claims payment.
- Unpaid claims liability levels were reviewed by an actuary, and were determined to be higher than the results obtained using a claims paid historical method.

11. ***Briefly describe the corrective action plan that was recommended in these reports.***

Segal's report made the following primary recommendations:

- Move the general fund appropriation from the workers' compensation fund directly to the agencies, and bill agencies the premium at 100%,
- Outsource the claims administration of the program to a third party administrator (TPA), and refocus internal resources and efforts on loss avoidance and control.

12. ***What is the purpose of the request for the increase in appropriations* and *the dollar amount needs to be listed?***

The increased amount of general funding will rebalance the cost sharing relationship that exists between all funding sources such that all sources of funds which pay into the workers' compensation fund pay their proportionate share.

13. ***What will be the positive affects of this appropriation, if funded?***

This money will pay the general fund share of claims and administrative costs of the program. IDOP will contract with a third party administrator (TPA) during the last half of FY 01. While this will initiate long-range cost control of the program, short-term costs will be higher. This additional funding will offset part of the short-term increase.

14. ***What will be the negative affects if this is not funded?***

The state will avoid paying this money later if an audit by the federal government were to show that lower general funding levels have created cost shifting to federal funds. Such an audit occurred for FY 00 and is likely for FY 01.

15. ***What will be the return on investments if a third party administrator is used?***

IDOP is currently negotiating an agreement with Sedgwick CMS to provide workers' compensation claims management services based upon recommendations of The Segal Company. The primary benefits of the outsourcing are:

- More effectively managing claims will allow the State to bring its unpaid liability under control, reigning in long-range costs of the program. Currently, the Department does not have the systems or the staffing to support this effort.
- Outsourcing administration will allow the Department to focus more effectively on loss avoidance and control. IDOP will be able to more effectively assist agencies

with safety programs and early return-to-work initiatives, lowering long-range costs of the workers' compensation program.

16. ***What is the role of a third party administrator? And what will they bring to this relationship?***

A third party administrator will handle various aspects of day-to-day management of the program, including:

- Claims intake, investigation, and direction of medical care
- Three point contact with the employee, supervisor, and medical provider
- Payment of benefits and ongoing medical management of all claims
- Management and maintenance of a medical network
- Legal reporting and compliance
- Coordinate legal settlements with IDOP and the AG's office
- Provide loss and accident information to the State and generate standard reports

Sedgwick CMS, under contract with the Department was selected due to their:

- Strong corporate resources, including their claims management systems and services offered
- Ability to demonstrate claims handling skills
- Experience with other states, including Nebraska and Tennessee

17. ***What is currently spent on loss control efforts and what impact will a TPA have on loss control?***

The Department's current loss control (safety and injury prevention) efforts are managed by one experienced safety officer for the 69,000 employees covered by the workers' compensation program. Acquiring the services of a third party administrator will enhance this effort through improved information management to target areas for prevention efforts by the line departments. IDOP will be able to support the departments as they identify and address the identified risks. This will include providing technical assistance to agencies at higher than average risk of accidents and injuries, providing periodic inspections at state facilities to examine potential hazards, and consulting with managers and employees on injury avoidance.

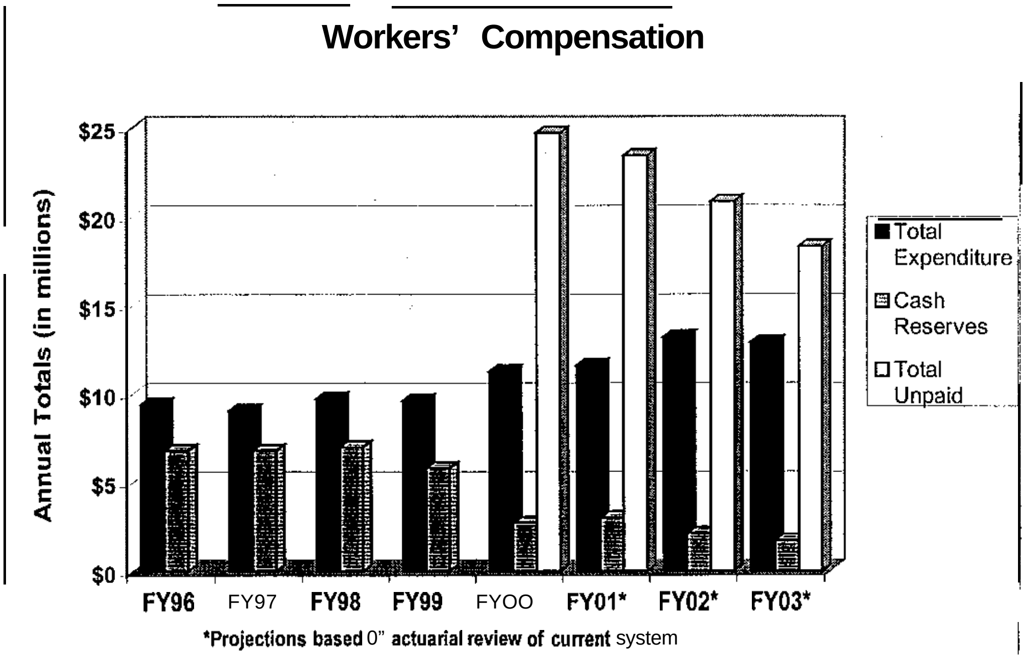
18. ***What will happen to the staff who currently handle responsibilities that will be outsourced to a TPA?***

The Department will manage the transition of staff through attrition, reassignment, and potential reemployment with the third party administrator.

19. ***Why did the State decide to contract this function out rather than doing this in-house?***

IDOP studied The Segal Company's recommendations with regard to outsourcing with a critical eye and worked with the State Insurance Committee to assess and develop a recommendation for the Executive Council. The recommendation to approve proceeding with outsourcing was based on the following factors:

- The cost of rebuilding the program internally would be comparable (over the short run) to the cost of third party administration. However, savings to the program would be more likely with the TPA due to experience and the ability to manage a medical network using managed care methodologies. See the following chart on the financial effect of the TPA on reducing unpaid liability in the program.
- IDOP would be better able to focus its efforts on loss avoidance and control. This has the potential for reducing costs further.



20. What analysis led to the decision about the cost effectiveness of outsourcing versus administering the program in-house?

A general assessment was done by IDOP to compare the costs of in-house administration, which included systems costs, staffing, and overhead. The end result was that the cost would be comparable, but the state would still be left without the critical corporate resources and experience that a TPA would have.

21. What consultants do you have who have helped you evaluate the program? What is their cost and what is their role?

The Department has used The Segal Company and its consulting actuaries to provide advice on management improvements in the program. Costs in FY 99 and FY 00 are as follows:

FY 99 – Risk and Benefits Operational and Organizational Review	$ 50,000
FY 00 – Analysis and Plan Development	$ 110,000
Vendor Selection Services	$ ***124,600***

22. What input have you had from the Executive Council and what has their reaction been to the recommended changes?

The Executive Council and its insurance committee have met with staff and consultants of the Department several times over the past year. Numerous presentations have been made to provide both the committee and the Council every piece of information available. The Council has insisted that every alternative be investigated. In the end, the Council concluded with our recommendation to outsource the program. We are currently negotiating an agreement with Sedgwick CMS to provide claims management support to the Department for the program.