Self insured Worker's Compensation Program

Goal: To provide worker's compensation coverage to county employees for the best price and the least amount of risk to the county.

Objective: To evaluate and compare a fully insured worker's compensation program with the current self funded program by looking at past experience and cost of the two programs.

Assumptions/Facts:

1. The county has been self insured since October 1, 2006.
2. If the decision is made to change to a fully insured program, the county can revert back to being self funded at any time.
3. A $500,000 bond must be maintained for ten years after the county ceases to be self funded.
4. The county will be responsible for any open claims that occurred while being self funded.
5. The county is not required to have a Third-Party Administrator (TPA) to administer claims after becoming fully insured, although one may be needed.
6. A recent audit of payroll and a verification of the classification codes of employees for the 2009-2010 fiscal year that resulted in a manual premium of $550,065 which is $84,904 more than the bid price received from the Local Government Insurance Pool (LGIP).
7. The last fully-insured premium paid was $481,422 for the 2005-2006 fiscal year.

Analysis:

1. After the bids were received for property/casualty insurance in May for fiscal year 2011-2012, it was decided that worker's compensation program would be evaluated prior to the October 1, 2011 renewal date.

2. The county received a bid of $465,161 on June 16, 2011 for a fully-insured worker's compensation program through the LGIP. This premium was not based on a modification rate and not on complete payroll data. The information is unavailable as to how the modification rate and payroll data will affect future premiums. The county's last premium for a fully-insured worker's compensation program was paid in the 2005-2006 fiscal year was a total of $481,422 with a total audited payroll of $39,512,259. The county's total audited payroll for the 2009-2010 fiscal year totaled $45,760,764 and a manual premium calculation of $550,065.

3. The LGIP is an assessable program but in the 30+ years of business the members have not received assessment premiums. With a fully insured program, there is limited financial risk to the county for claims since all medical claims and lost wages are paid by the LGIP; however, limited risk exists since the LGIP is an assessable program.

4. Along with the cost of premiums for a fully-insured program, the county would be required to maintain a $500,000 bond at the cost of $10,000 per year for the existing self insured program. Additionally, there will be some cost associated with having Cannon Cochran Management Services, Inc. (CCMSI) to continue to do the claims administration of the open claims until they are closed. The fee for CCMSI to continue to administer the open claims is negotiable. If the county chooses to administer the claims in house there will be a $2,500 fee for an electronic copy of the open and closed claims.

5. With our current self funded program, the county determines the amount of the annual contributions made from each fund. Any money that is not spent on claims is saved by the county and the experience modification rate is always 1.00. A fully insured program has a premium that is paid by each fund with no chance to recoup any costs if the total expenditures are lower than the cost of the premium. Premium costs will increase as payroll increases. Premium costs are also affected by the modification rate that is based on the county's loss experience.

6. The following matrix summaries the various aspects and comparisons of a self insured and fully insured program.

TYPE OF EXPOSURE	SELF-INSURED PROGRAM	FULLY INSURED PROGRAM
Financial	The county is responsible for paying all claims, cost for excess insurance, bond cost and administrative costs for a Third Party Administrator (TPA).	The County is responsible for paying the premium for the insurance.
Financial Risk	The cost of claims is unknown. The excess insurance stop loss is $350,000 per claim and an aggregate amount of $902,460. Claims that exceed the $2,000,000 aggregate would be the county's expense.	The pool is an accessible pool and the county could be accessed for additional funds. The pool did not use a modification rate or have complete payroll data when the bid price of $465,161 was calculated.
Administration Costs/Fees	A portion of one county employee's salary to report claims and be the liaison with TPA plus the fees paid to the TPA for managing the county's claims which has totaled $85,855 for the past five years.	A portion of one county employee's salary to report claims
Impact of Low Claims	The county's expenditures are decreased both by claims costs and administrative costs.	None
Cost Allocation	Contributions to the fund can be adjusted administratively depending on the health of the work comp fund balance.	The cost of the premium charged to the departments will be allocated based on the recommendation of the insurance company.

7. The experience of the county's self-funded program has resulted in a financial impact of a positive $1,169,027. The total revenue is $2,785,187 and the total expense is $1,616,159; however, reserves have been established of $272,489 making a total adjusted financial impact of $896,538. Further, the positive financial impact included an allocation premium of $493,456 to $573,297 averaging a $557,037 annual contribution to the fund.

8. If the actual premium had been the bid price of $465,161 for the five years the county has been self-funded, the total expenditure would have been $2,325,805.The difference on an annual basis of $465,161 and the average annual contribution of $557,037 would have been $91,876 annually or a five year total of $459,380. Thus, the allocation costs for the departments would have been less.

Conclusion:

1. The bid of $465,161 received from the LGIP in June is an attractive bid and would relieve the county of any risk with regard to claims. There is some risk of an assessment with a pool but with the LGIP's history it is unlikely that the county would receive an assessment.

2. A concern with accepting the bid from LGIP is that while the county would virtually be risk free, the bid submitted by the LGIP does not appear to be realistic. The bid received from LGIP is less than the premium paid by the county in the 2005-2006 fiscal year and the payroll since that time has increased $6,248,505. It is extremely probable that premiums would significantly increase after this first year.

3. The comparison of the average contributions made to the work comp fund and the allocation of the $465,161 would result in less cost to the departments on an annual basis. Since it is unlikely that future premiums would remain at the $465,151 bid price beyond this fiscal year, the effect on the this allocation is not really a factor in the decision to be fully-insured. However, the contributions made to the fund in a self-funded program can be adjusted at any time.

4. Based on the analysis of the Work Comp Fund, the county has an adjusted positive financial impact of $896,538 over the past five years. There has been only one year that had a negative impact on the fund. While there is some risk associated with being self-insured, this risk can be mitigated by increasing the aggregate amount on the excess insurance policy.

5. It is therefore determined that it is in the best interest of the county to remain self-funded and explore the possibility of increasing the aggregate amount on the excess insurance.

Attachment: Spreadsheet

Prepared By: Lynn Farnham & Scott Stout

SELF-FUNDED WORKER'S COMPENSATION PROGRAM WORKSHEET

October 21, 2011

REVENUE ANALYSIS

PREMIUM PERIOD	TOTAL REVENUE
10/1/2006 - 9/30/2007	493,456.36
10/1/2007 - 9/30/2008	568,497.00
10/1/2008 - 9/30/2009	572,108.71
10/1/2009 - 9/30/2010	577,827.53
10/1/2010 - 8/18/2011	573,297.00
TOTALS	**$2,785,186.60**
AVERAGES	**$557,037.32**

EXPENDITURE ANALYSIS

PREMIUM PERIOD	EXCESS INSURANCE	BOND COST	PAID MEDICAL	PAID IDEMNITY	CCMSI ADMIN FEES	TOTAL ANN COST	RESERVE AMOUNT	TOTAL ANNUAL COST + RESERVE
10/1/2006 - 9/30/2007	49,892.00	10,000.00	27,828.11	110,899.01	16,130.00	$214,749.12	$13,824.07	$228,573.19
10/1/2007 - 9/30/2008	51,568.00	10,000.00	11,603.78	313,227.91	15,235.00	$401,634.69	$53,716.47	$455,351.16
10/1/2008 - 9/30/2009	56,793.00	10,000.00	17,725.36	192,926.70	22,330.00	$299,775.06	$14,219.36	$313,994.42
10/1/2009 - 9/30/2010	59,274.00	10,000.00	37,934.95	426,114.46	19,775.00	$553,098.41	$130,021.65	$683,120.06
10/1/2010 - 8/18/2011	62,174.00	10,000.00	23,237.95	39,105.62	12,385.00	$146,902.57	$60,707.70	$207,610.27
TOTALS	**$279,701.00**	**$50,000.00**	**$118,330.15**	**$1,082,273.70**	**$85,855.00**	**$1,616,159.85**	**$272,489.25**	**$1,888,649.10**
AVERAGES	**$55,940.20**	**$10,000.00**	**$23,666.03**	**$216,454.74**	**$17,171.00**	**$323,231.97**	**$54,497.85**	**$377,729.82**

ANNUAL NET EFFECT

	REV-EXP EXCULDING RESERVE	REV-EXP INCLUDING RESERVE	# MED CLAIMS	# INDEM CLAIMS
	278,707.24	264,883.17	49	8
	166,862.31	113,145.84	32	8
	272,333.65	258,114.29	41	16
	24,729.12	(105,292.53)	55	10
	426,394.43	365,686.73	42	2
TOTALS	**$1,169,026.75**	**$896,537.50**	**219**	**44**
AVERAGES	**$233,805.35**	**$179,307.50**	**44**	**8.80**

LF/SS

SELF-FUNDED WORKER'S COMPENSATION PROGRAM WORKSHEET

October 21, 2011

REVENUE ANALYSIS

PREMIUM PERIOD	TOTAL REVENUE
10/1/2006 - 9/30/2007	493,456.36
10/1/2007 - 9/30/2008	568,497.00
10/1/2008 - 9/30/2009	572,108.71
10/1/2009 - 9/30/2010	577,827.53
10/1/2010 - 8/18/2011	573,297.00
TOTALS	**$2,785,186.60**
AVERAGES	**$557,037.32**

EXPENDITURE ANALYSIS

PREMIUM PERIOD	EXCESS INSURANCE	BOND COST	PAID MEDICAL	PAID IDEMNITY	CCMSI ADMIN FEES	TOTAL ANN COST	RESERVE AMOUNT	TOTAL ANNUAL COST + RESERVE
10/1/2006 - 9/30/2007	49,892.00	10,000.00	27,828.11	110,899.01	16,130.00	$214,749.12	$13,824.07	$228,573.19
10/1/2007 - 9/30/2008	51,568.00	10,000.00	11,603.78	313,227.91	15,235.00	$401,634.69	$53,716.47	$455,351.16
10/1/2008 - 9/30/2009	56,793.00	10,000.00	17,725.36	192,926.70	22,330.00	$299,775.06	$14,219.36	$313,994.42
10/1/2009 - 9/30/2010	59,274.00	10,000.00	37,934.95	426,114.46	19,775.00	$553,098.41	$130,021.65	$683,120.06
10/1/2010 - 8/18/2011	62,174.00	10,000.00	23,237.95	39,105.62	12,385.00	$146,902.57	$60,707.70	$207,610.27
TOTALS	**$279,701.00**	**$50,000.00**	**$118,330.15**	**$1,082,273.70**	**$85,855.00**	**$1,616,159.85**	**$272,489.25**	**$1,888,649.10**
AVERAGES	**$55,940.20**	**$10,000.00**	**$23,666.03**	**$216,454.74**	**$17,171.00**	**$323,231.97**	**$54,497.85**	**$377,729.82**

ANNUAL NET EFFECT

	REV-EXP EXCULDING RESERVE	REV-EXP INCLUDING RESERVE	# MED CLAIMS	# INDEM CLAIMS
	278,707.24	264,883.17	49	8
	166,862.31	113,145.84	32	8
	272,333.65	258,114.29	41	16
	24,729.12	(105,292.53)	55	10
	426,394.43	365,686.73	42	2
TOTALS	**$1,169,026.75**	**$896,537.50**	**219**	**44**
AVERAGES	**$233,805.35**	**$179,307.50**	**44**	**8.80**

LF/SS