REPORT OF THE
JOINT SUBCOMMITTEE STUDYING

Workers' Compensation Self-Insurance

TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA

House Document No. 31

COMMONWEALTH OF VIRGINIA
RICHMOND
1984

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Report of the Joint Subcommittee Studying
Workers' Compensation Self-Insurance
To
The Governor and the General Assembly of Virginia
Richmond, Virginia
January, 1984

To: Honorable Charles S. Robb, Governor of Virginia
and
The General Assembly of Virginia

INTRODUCTION

The Joint Subcommittee studying the advisability of state and local governments' establishing a self-insurance plan for workers' compensation insurance was established pursuant to House Joint Resolution No. 8 of the 1983 General Assembly. The Resolution was introduced since many people felt that a self-insurance plan could lead to savings in both the state and local governments' budgets.

HOUSE JOINT RESOLUTION NO. 8

Establishing a joint subcommittee of members of certain House and Senate Committees to study the advisability of state and local governments' establishing a self-insurance plan for workmen's compensation insurance.

WHEREAS, during the last ten years there has been a dramatic increase in workmen's compensation insurance premiums in the Commonwealth; and

WHEREAS, only approximately five percent of that increase has been attributable to law changes; and

WHEREAS, at this time there are budget cut-backs due to the rising costs of goods and services brought about by high inflation, high interest rates and high cost of money; and

WHEREAS, the citizens look to the state and local governments to cut back on items in their budgets where unnecessary expenses are involved; and

WHEREAS, one of those unnecessary expenses in the budgets of the state and local governments may be the contract premiums for workmen's compensation insurance; and

WHEREAS, one means of providing cost-efficient workmen's compensation insurance to the state and local governments would be for them to formulate a plan to establish a self-insurance plan; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That a joint subcommittee be established to study the advisability of state and local governments' establishing a self-insurance plan for workmen's compensation insurance. The joint subcommittee shall be composed of three members of the House Committee on Labor and Commerce, three members of the House Committee on Counties, Cities and Towns, two members of the Senate Committee on Commerce and Labor. The House members shall be appointed by the Chairmen of the respective Committees and the Senate members shall be appointed by the Senate Committee on Privileges and Elections. The joint subcommittee shall complete its work by and make any recommendations it deems appropriate to the 1984 Session of the General Assembly.

The cost of conducting this study shall not exceed $3,500.

Delegate Joan H. Munford of Blacksburg served as Chairperson of the subcommittee. Other members of the House of Delegates who served on the subcommittee were Howard E. Copeland of Virginia Beach, C. Richard Cranwell of Vinton, A. R. Giesen, Jr. of Waynesboro, Nora A.

Squyres of Falls Church, and Warren G. Stambaugh of Arlington.

Senator Virgil H. Goode, Jr. of Rocky Mount served as Vice-Chairperson of the subcommittee. Other members of the Senate who served on the study group were Elmon T. Gray of Waverly, Richard J. Holland of Arlington, and Madison E. Marye of Shawsville.

Interested parties who provided information to the subcommittee included: H. Douglas Hamner, Director of the Department of General Services; Charles F. Scott and Robert B. Williams of the Office of Risk Management; Wayne F. Anderson, Secretary of Administration and Finance; Charles Robinson and Bradley Harmes of the Virginia Municipal League Self-Insurance Association; Thomas Rutherfoord and William Koehler of the Thomas Rutherfoord Insurance Agency; Wayne Higgins, Vice President for Operations and Finance of Old Dominion University; Ray C. Hunt, Jr., Vice President, and Ray Haas, Vice President of Administration of the University of Virginia; James Guerdon, Vice President and Bruce Chase, Treasurer, of Virginia Commonwealth University; Raymond M. Smoot, Treasurer and Associate Vice President of Finance of Virginia Polytechnic Institute and State University; Richard L. Miller, Vice President of Mary Washington College; Lawrence W. Broomall, Jr., Vice President of Business Affairs of the College of William and Mary; George B. Minter and Jim Harris of the State Department of Corrections; Lucian Hiner, Chief Deputy Commissioner of the State Industrial Commission; George Weston of the Virginia Compensation Rating Bureau; Aubrey Baird of the State Department of Highways and Transportation; the American Insurance Association; William H. Murphy and Robert W. Esenberg of the State Insurance Advisory Board; and the Travelers Insurance Company.

C. William Cramme', III, Senior Attorney and Terry Mapp, Research Associate of the Virginia Division of Legislative Services served as legal and research staff for the subcommittee. Barbara Hanback of the House Clerk's Office provided administrative and clerical staff assistance for the study group.

WORK OF THE SUBCOMMITTEE

During 1983 the subcommittee held three meetings on May 10, June 27 and September 29. A fourth meeting was held on January 25, 1984. A meeting of private insurers, the Office of Risk Management, and certain state agencies was held on November 16 at the request of the joint subcommittee.

The May 10 meeting, held in Richmond, was organizational in nature. Delegate Joan H. Munford was elected to chair the committee and Senator Virgil H. Goode, Jr. was elected to act as Vice-Chairman. During the meeting Mr. Wayne F. Anderson, Secretary of Administration and Finance, informed the subcommittee that the Office of Risk Management has endeavored to find the optimal mix of purchased insurance and self-insurance in order to save the Commonwealth money.

Mr. Charles F. Scott, Director of the Office of Risk Management, provided the subcommittee with information on Virginia's workers' compensation program and issues surrounding self-insurance. A copy of his report is attached as Appendix 1. He informed the subcommittee that it takes three to four years in order to make the proper decision as to whether the current approach or a self-insurance approach should be taken.

During the meeting the Virginia Municipal League Self-Insurance Association presented a paper on its local workers' compensation program. After hearing the presentation the subcommittce determined that the insurance programs of the local governments were cost-efficient and needed no further discussion. Hereafter the subcommittee concentrated on the advisability of a self-insurance program for the state government.

The June 27 meeting was held in Charlottesville. At the beginning of the meeting a representative of the Thomas Rutherfoord Insurance Agency outlined various aspects of workers' compensation insurance and stated that his company recommends that the subcommittee consider self-insurance for the State's workers' compensation coverage. He explained that the number of group workers' compensation self-insurance plans has increased considerably since they were authorized in 1980.

The subcommittee was informed that the Commonwealth is spending approximately $16 million on workers' compensation coverage, a type of self-insurance program, and that sixty to seventy percent of the Commonwealth's total insurance expenditures is for workers' compensation coverage.

During the meeting the subcommittee heard statements from various state agencies and institutions of higher learning concerning their own and statewide workers' compensation programs. Representatives from Old Dominion University, the University of Virginia, Virginia Commonwealth University, Virginia Polytechnic Institute and State University, Mary Washington College, and the College of William and Mary stated that they believe a state-wide workers' compensation program would be beneficial to the Commonwealth for the most part, yet their principle objection was the cost of participation. Most felt they had cost-effective self-insurance approaches. Several representatives noted that, if they were forced to join a state-wide program, the additional costs of membership would have to be passed on to students unless they received additional funds from the State to cover the cost of participation.

A representative from Radford University informed the subcommittee that prior to joining the state program in 1981 they had been self-insured. They have found that participation in the state plan is much more costly.

The subcommittee learned that some of the smaller units of the Department of Corrections participate in the state plan, and although the larger would like to participate, it would cost them much more than what they currently are paying.

The Office of Risk Management provided the subcommittee with a list showing which state agencies have and which do not have their own workers' compensation programs. A copy of this list is attached as Appendix 3.

Prior to the adjournment of the meeting the subcommittee decided to have its staff and the staff of the Office of Risk Management jointly design a questionnaire to be sent to those agencies which have their own workers' compensation programs.

During the September 29 meeting which was held in Blacksburg, Mr. Robert Williams of the Office of Risk Management went over the questions on and responses to the questionnaire sent to the agencies which currently do not participate in the state plan. A copy of the questionnaire and responses thereto appear as Appendix 4 to this report.

Question 1 gave the agencies an opportunity to state that they abide by the provisions of the Virginia Personnel Act. Question 2, concerning loss payments, required that some background information be provided to the subcommittee. It was explained that in 1980-81 the state-wide norm for an average cost per claim was $500 after the first twelve months of the injury and $1,200 after thirty-six months. The state-wide norm for closing out a claim was within six to eight years after the injury, costing between $1,200 and $1,500. Responses to the questionnaire indicated that both the Department of Corrections and the Department of Highways and Transportation conform to the norm, yet Virginia Commonwealth University and the University of Virginia do not. Virginia Polytechnic Institute and State University had the lowest frequency of claims reported per $1,000 of payroll and the College of William and Mary had the highest. The 1983-84 expected losses by the agencies was approximately $3.8 million whereas the estimated figure by the Office of Risk Management was $5 million.

Question 3 gave the agencies an opportunity to state that they are in compliance with certification procedures under the workers' compensation system. Through the responses to Questions 4 and 6 the subcommittee learned that either the Attorney General's Office or in-house counsel handle the legal defense in cases of contested losses and in subrogation efforts for the agencies under review.

The subcommittee was informed that through good handling of outside claims investigations and related expenses, agencies can control the costs of their programs.

The subcommittee learned through the responses to Question 7 concerning medical expense benefits and accounting procedures for injured employees, that all agencies offer first aid to the injured and that only two, Virginia Commonwealth University and the University of Virginia, have their own hospitals. These two institutions are the only ones which have excess insurance (Question 9). The need for excess insurance and both medical and occupational rehabilitation (Question 8) was stressed.

It was explained that although it would appear that those agencies with the largest payments of FICA wages, the Department of Highways and Transportation, the University of Virginia, and Virginia Commonwealth University, would incur the greatest costs of maintaining self-insurance program, the responses to Question 10 indicated that this is not so. A possible explanation of this was that each agency may look at the costs of their programs differently.

Representatives from some of the agencies presented their views to the subcommittee. All indicated once again that their major objection to joining the state plan is the increased cost. The University of Virginia and Virginia Polytechnic Institute and State University voiced concern over being left with the cost of already existing claims if they joined the plan and suggested the Office of Risk Management develop a program providing for the necessary funding and administration for a statewide program. The College of William and Mary informed the subcommittee that although they could not forsee saving money by participating in the state plan, they anticipated experiencing better administration of the workers' compensation program.

After hearing testimony from the various agencies, the subcommittee heard from a representative of the Thomas Rutherfoord Insurance Agency who presented to the subcommittee a plan and the costs for the self-insured agencies to enter into a group self-insurance program. A copy of this is attached as Appendix 5. The Department of Corrections was not included in the Rutherfoord proposal. The subcommittee was informed by the Director of the Department of General Services that the Office of Risk Management's program costs to the individual agencies equal the amount necessary to pay losses and to pay for the administration of the program and that Travelers was paid $650,000 last year for administering the state-wide program.

During the meeting, the American Insurance Association presented to the subcommittee a written statement supporting private insurers as opposed to self-insurers.

The subcommittee decided that a meeting of the Office of Risk Management, private insurers, and interested parties should be called by the Director of the Department of General Services to determine the costs for the state agencies to enter the program and to properly relate and compare information presented to date.

This meeting of the Office of Risk Management, private insurers, and other interested parties to formulate the most cost-effective method for the agencies to enter the state-wide program was held on November 16. The minutes of this meeting were provided to the members of the joint subcommittee by the co-chairman, Messrs. Murphy and Esenberg.

Mr. William H. Murphy and Mr. Robert W. Esenberg, gubernatorialy appointed members of the State Insurance Advisory Board chaired, the meeting. Mr. Bernard M. Hulcher and Dr. Clarence R. Jung, Jr., also members of the State Insurance Advisory Board, were present.

Mr. Esenberg informed those present that in his discussion with H. Douglas Hamner, Director of the Department of General Services, and after being advised of the concerns of the joint subcommittee, he had devised a list of questions which he felt would assist in the "apples to apples" comparison and in the development of a common base upon which the comparison could be made. A copy of these questions and the responses by the Department of General Services/Office of Risk Management (DGS/ORM) and the Rutherfoord Insurance Agency is attached as Appendix 6 to this report.

A representative of the Rutherfoord agency reported the reasons behind their refusal to submit the costs for their program. The representative explained that they felt it would be improper to release information based on the conclusion of the Blacksburg meeting when his agency thought it was the intention to develop an "apples to apples" comparison of proposals, however they would consider submitting their costs if the DGS/ORM did so.

Mr. Esenberg expressed the desire for concrete information and Mr. Murphy noted that a determination as to the most cost-effective method could not be made unless the actual costs were known.

The Rutherfoord Agency reported that their plan included an adequate reserve, a factor for benefit increases, and a guaranteed price. The current plan also included the Department of Corrections which was not included in their prior proposal. It was explained that their plan was a normal type of self-insurance scheme whereby the agency would pay its losses up to each individual loss limit after which the reinsurer would pay the excess for each occurrence as well as an aggregate stop loss. A predetermined retention had been arrived at by the reinsurer for each agency and an administrator would handle the claims as one group thus reducing considerably the overhead of each individual agency handling its own claims and engineering. Losses, however, would be segregated by agency.

During the meeting, Mr. Esenberg asked general questions of industry professionals in the interest of all present to give an indication of what certain industry standards might be. An actuary from Travelers Insurance Company explained loss development and distributed illustrated materials on the subject. A copy of these materials is attached as Appendix 7 to this report. A handout indicating state average weekly wage increases since July, 1974 and the Consumer Price Index for medical care since July, 1978 was also distributed during the meeting. A copy of this handout is attached as Appendix 8.

The discussion turned to the Rutherfoord's presentation in Blacksburg and the figure of $10,878,000 for the required Travelers premium. A representative of the Rutherfoord Agency explained that the figure was developed using original information obtained in the Charlottesville meeting and subsequent telephone conversations with state agencies regarding what their contributions represented. The general consensus was that their contributions represented sixty percent of standard premiums. The contributions divided by sixty percent determined the estimated annual premium. The Office of Risk Management noted that the standard Travelers premium is $12,489,000. A representative from Travelers clarified the "Travelers Required Premium" as "paid losses (losses with certain limitations) plus expenses."

Mr. Rutherfoord explained that he was not suggesting that anything be done to the current program as he felt it was the best program that could be bought. He suggested that the current program and his proposed program be run in parallel to see which program was the best.

The Industrial Commission presented its position regarding single employers having portions of their employees covered under different types of programs. They stated that historically there has not been a problem with state agencies because state law indicates there is a sole employer. The Industrial Commission currently views the state agencies as being individual self-insurers.

Representatives of Virginia Commonwealth University, the University of Virginia, the Department of Corrections, and Virginia Polytechnic Institute and State University reiterated their concerns which had been presented in prior meetings. These concerns are summarized in a paper presented by the University of Virginia during the meeting which is attached as Appendix 9.

During the meeting, the DGS/ORM and the Rutherfoord Agency were asked to prepare two papers - one showing the cost and the methods for determining the cost of the programs and the other showing the allocation of cost and the opportunities that exist for the reduction of costs by claims control and safety - so that a comparison of the proposals could be made.

Mr. Charles F. Scott of the DGS/ORM presented background information on the state insurance program. He explained that in 1980 the program was started with a mandate that in three years all agencies would be in the program however this has not happened. No precise loss data was available until recently from the Travelers Insurance Company. Once information was developed on the participating agencies and information provided from agencies outside the program, DGS/ORM began looking at a paid loss concept. This was DGS/ORM's ultimate objective by 1983, however the date was changed to 1986 due to the lack of participation. In 1986 DGS/ORM is mandated to make a decision to continue a paid loss concept or to go into a self-insurance program. DGS/ORM is trying to arrive at a common denominator to bring all agencies into the program through the transition period. Mr. Scott proposed to the agencies that the DGS/ORM charge them to enter into the program July, 1984 a reasonable figure based upon what their payout was this past year (or the preceding year). If the agencies agree to go on a pre-funded concept, more money may be needed at a later date. By the agencies entering the program in July, 1984, the DGS/ORM can make a determination in 1986 if it is financially prudent to go self-insured or continue on a paid loss concept.

Mr. Rutherfoord was requested to submit his proposal, including cost factors, to Mr. Esenberg and Mr. Murphy so that an "apples to apples" comparison of the proposals could be made and presented to the subcommittee. A letter, a copy of which is attached as Appendix 10 to this report, was sent to Mr. Rutherfoord by certified mail requesting the information necessary to make the comparison. A copy of Messrs. Murphy and Esenberg's letter and report concerning workers' compensation for state agencies is attached as Appendix 11.

Between the November 16 and January 25 meetings, all of the agencies referred to in this report, except the Department of Highways and Transportation, came under the state program or committed to come in no later than July 1, 1984.

During the January 25 meeting the joint subcommittee noted that it was pleased that all of the agencies except one had come under the plan.

SUBCOMMITTEE RECOMMENDATION

In light of the contents of Appendix 11 and the fact that all of the agencies except one have joined the state program, the joint subcommittee feels that no recommendations are necessary.

The joint subcommittee expresses its appreciation to the Office of Risk Management/Department of General Services and all others who participated in its study.

APPENDIX 1

COMMONWEALTH of VIRGINIA

Department of General Services

OFFICE OF RISK MANAGEMENT

ROOM 117
805 EAST BROAD STREET
RICHMOND, VIRGINIA 23219
(804) 786-5968

May 9, 1983

TO: Members of the Joint Subcommittee Studying Self-Insurance for Workers' Compensation - HJR 8

SUBJECT: Commonwealth of Virginia Workers' Compensation Insurance Program

INTRODUCTION

The tenuous government insurance market is forcing governmental instrumentalities to consider high retentions or self-insurance as an alternative to commercial placement of Workers' Compensation Insurance Coverage.

Commonwealth management has expressed interest in concern for current costs in anticipated biennium 1984-86 premium increases. Management reactions are mixed with respect to a self-insurance approach. Therefore, it becomes necessary to provide the following information as a background review of our current program.

BACKGROUND

Historically Workers' Compensation lent itself to large retention programs. This particular field of coverage was more controllable since most activity was on the premises of the employer. For large employers losses were highly predictable. The adoption of safety programs to fit the specific need was more readily contemplated and easier to supervise. Workers' Compensation laws generally provided for self-insurance programs and a method for operating same.

In the private sector, self-insurance required the establishment of professional risk management departments, with safety management a major consideration as such professionalism grew, retention increased. The two, self-insurance and risk management did go hand in hand and this phenomenon is especially true today.

There was a time when governmental bodies were considered excellent insurance risks. From time to time proposals arise for self-insurance of public entities. Such proposals are put forward on the proposition that a government administered plan can eliminate many costs of private insurance, large savings on premiums and at the same time provide an adequate substitute for the protection against loss afforded by conventional insurance.

That these expectations are illusory is proven by the record of experience as well as by the test of sound insurance principles. Within recent years we have experienced a most phenomenal turnabout. It may change again! Insurance is a phlegmatic, insecure, highly volatile business. We deal with many improbables. With all care, caution and expertise of risk management, there is the unknown, the unpredictable.

THE SELF-INSURANCE PROGRAM

Since several years are required to build up an adequate self-insurance fund through in-house premium payments, it is doubtful whether a given fund would ever reach a point at which it would be safe to reduce payments into the fund. Meanwhile, establishing administration of the fund imposes extra burdens.

It is likely that insurance cost could actually be reduced, since the scope of our operations would be large enough to realize the competitive economies of private insurance companies. For comparable services, administrative costs inevitably could be substantially reduced. It is possible savings may not be realized. The contrary is also possible.

A principle concern to me is inflation. A fiscal year 1982 dollar may be called to pay a claim with a 1984-85 or 86 dollar depending upon the jurisdiction and the the court calendar.

Because of the seriousness of embarking on a self-insurance program, it is imperative that management understands the full impact of such a program. True we have been self-insuring other areas of insurance within the Commonwealth, however, we must recognize Workers' Compensation as a distinct program that can suffer adversity.

Self-insurance proposals have been considered at one time or another by most, if not all of the states. In some states, such proposals have come up repeatedly. Thus, there is nothing new about self-insurance schemes though proponents may claim them with an air of discovery. The Commonwealth has already participated in various forms of self-insurance programs in recent years.

Trends in the area of Workers' Compensation in recent years have leaned towards self-insurance because of social inflation and increased benefits plus a lack of receptiveness from commercial carriers. Another consideration is the increased federal pressure to enact reforms in the compensation area. This can best be illustrated by the excessive benefit under the Harbor and Long Shore Workers' Act which served as the model for the District of Columbia Program which was recently modified. While I have no intention of discouraging interest in a total self-insurance program, I do urge extreme care and caution in the light of changing times.

COMMONWEALTH HISTORICAL BACKGROUND

Prior to July 1, 1982 (1980-82) the Commonwealth participated in a Workers' Compensation Retrospective Rated Program, it was based upon incurred loss bases and adjusted periodically as provided under the retro premium agreement.

In simple terms this was a program whereby the Commonwealth paid the insurance carrier a fixed percentage of cost or otherwise known as a cost of doing business plus incurred losses multiplied by a loss conversion factor, otherwise known as the cost of payment of claims (times a tax multiplier). The premium was paid up front for the total year through a payment of twelve (12) installments with final premium subject to payroll audit along with the necessary premium adjustments. Approximately eighteen (18) months after the expiration of a given years policy a loss adjustment was made and loss dollars were merely transferred back and forth between the carrier and the Commonwealth on an incurred basis. This concept, in my judgment, works well in the private sector but is not compatible with the governmental budget process because of time elements involved in the biennium budget approach. It is a program where premium dollars are paid up front subject to a series of loss adjustments after expiration.

This results in transfers back and forth over a period of years of loss adjustment dollars. It works well when a return is received; however, it poses difficulties when an additional premium is due and this additional premium is not provided for within the framework of the budget.

The Paid Loss Retrospective Rating Plan implemented July 1, 1982 differs in that we are advancing a pre-negotiated basic premium ratio (cost of doing business) factor based upon the standard premium, a small loss escrow for payment of losses when actually paid rather than when incurred. This method improves cash flow through deferrals. The establishment of the reserve trust allows us to earn interest on dollars normally advanced to the insurance carrier.

A deferral program, such as the one just described, allows the reserve trust to earn interest thereby allowing us the opportunity to take care of inflation through interest earnings. This however was eliminated in the last session of the legislature when it was determined that all interest earned on the Workers' Compensation trust would revert back to the General Fund.

The advantage of the Paid Loss (Cash Flow) method is that a normal policy years loss experience takes about seven (7) to eight (8) years to complete repayment.

YEARS FOLLOWING OCCURRENCE/LOSS	PERCENT OF INCURRED LOSS ACTUALLY PAID
1	33%
2	30%
3	14%
4	7%
5	4%
6	3%
7	3%
8	3%
9	2%
10	1%

METHODS OF FUNDING

There are two sources for payment of self-insured losses; (1) appropriations from current revenues and (2) a self-insurance fund. The first is totally inappropriate. It has been proven unsound and is given no consideration today.

The second calls for a reserve fund and should be based upon the experience as determined and the amount retained. Since our State-wide experience is incomplete due to many agencies and institutions maintaining a program through current operating revenues we have no estimates at this time for outstanding liabilities (reserves). Therefore, a careful analysis of funding must be examined.

LEGISLATIVE BACKGROUND

The Code of Virginia provides under §2.1-526.10:

§2.1-526.10. Workmen's Compensation insurance plan for state employees.-A. Subject to the approval of the Governor, the Department of General Services through its Office of Risk Management shall establish a workmen's compensation insurance program for all state employees through a program of self-insurance, purchased insurance or a combination of self-insurance and purchased insurance that is determined to be the most effective on a statewide basis. The Office shall determine that such program will be of less cost to the Commonwealth than the aggreate of individual agency policies.

B. Any insurance program established pursuant to this section shall provide for the establishment of a trust fund or contribution to the State Insurance Reserve Trust Fund for the payment of claims covered under such program. The trust fund shall also provide for payment of administrative costs, contractual costs, and other necessary expenses related to the administration of such program.

C. The workmen's compensation insurance program for state employees shall be submitted for approval prior to implementation.

CONCLUSION

In my judgment, the current Paid Loss Retrospective Rated Program is cost efficient and will enable us to make a determination whether to continue under the current approach or become self-insured in 1986-87. This is contingent upon mandating full participation in the statewide program by all agencies and institutions. Because of the various approaches to self-insurance utilized by State agencies we have concluded that a period of three years is required to appropriately track their experience prior to making a decision to totally self-insure. On the positive side, the current method is basically a self-insurance approach with an insurance carrier administering the claims and fronting the required reserves for us.

Respectively submitted,

Charles F. Scott

Charles F. Scott
Director of Risk Management

CFS:dar

APPENDIX 2

VIRGINIA MUNICIPAL SELF INSURANCE ASSOCIATION

·les A. Robinson, Jr.
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P.O. Box 753 Richmond, Virginia 23206 804/649-8471

April 26, 1983

C. William Cramme, III
Senior Attorney
Division of Legislative Services
General Assembly Building
P.O. Box 3 AG
Richmond, Virginia 23208

Dear Mr. Cramme:

Thank you for informing me of the May 10 meeting of the HJR 8 study committee on self insurance for worker's compensation. The purpose of this letter is to provide some background information on the Virginia Municipal Group Self Insurance program which provides worker's compensation coverage for political subdivisons in Virginia. The VMGSIA was organized by the Virginia Municipal League and began operation on July 1, 1980. It was the first group licensed by the State Bureau of Insurance under Regulation 16. This regulation was promulgated in accordance with Code of Virginia Section 65.1-104.2.

Our group began with 10 local government members with approximately $750,000 in annual premium and has grown to almost 150 members with $5,000,000 in annual premium. I understand that 20 groups have now been formed in the State representing approximately 1000 employers. The VMGSIA is both the oldest and the largest in premium volume, although others have more individual members. VMGSIA members include cities, towns, counties, school boards and special authorities.

Dividends

A major motivation in forming group self insurance associations is the potential for cost savings and better service. After our first year of operation a dividend of approximately 21% was approved and distributed to the membership. Since dividends are determined based on individual member's loss experience, some members received more than and some less than this average amount. For the second year, a dividend of approximately 33% has been declared by the Members' Supervisory Board and is currently under review by the State Bureau of Insurance for approval before distribution. These dividends include the return of all investment income to the participating members. This is a significant difference from traditional insurance, since investment income is a major portion of insurance company profit.

VIRGINIA MUNICIPAL SELF INSURANCE ASSOCIATION

APPENDIX 2

Charles A. Robinson, Jr.
Chairman

Bradley K. Harmes
Administrator

P.O. Box 753 Richmond, Virginia 23206 804/649-8471

April 26, 1983

C. William Cramme, III
Senior Attorney
Division of Legislative Services
General Assembly Building
P.O. Box 3 AG
Richmond, Virginia 23208

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Services

We feel that the VMGSIA is providing a higher level of service for most local governments than had previously been the case under traditional insurance. This is particularly true for smaller jurisdictions. Our service company provides monthly computer runs for losses for each member in addition to providing semi-annual safety inspections. A quarterly newsletter is published by the VMGSIA staff and perhaps most importantly safety seminars are provided for the membership. We attempt to focus our safety training on the unique needs of local government, something which large insurance companies are not generally inclined to do. We offer the training on a regional basis throughout the state at no cost to the members. Another service is working closely with the members in handling the claims for their employees to promptly pay legitimate claims and to thoroughly examine questionable claims. We also work with both employee and employer to establish light duty work assignments for injured employees where appropriate to get the worker back on the job as soon as practical.

Pricing

Premiums for members in the VMGSIA are determined in accordance with the State Bureau of Insurance regulation. Essentially, premiums are calculated on the same basis as a mutual or nonstock insurance company. Manual premiums are calculated based on payrolls and rates for each classification. An experience modification factor is incorporated to adjust the premium based on the employer's loss history. A nonstock discount of from 0% to 4% is applied. Also, other standard insurance industry charges, such as expense constants and loss constants, are used as appropriate, just as an insurance company would. Even though our initial pricing is just like an insurance company, it is important to remember that a group self insurance association is NOT an insurance company. The return of dividends including investment income is a major difference. Also, no insurance agent commissions are paid and no insurance company profit is retained. The intent of these groups is to provide the advantages of self insurance that large employers have enjoyed for many years to smaller employers who can only afford to do so on a group basis.

Fees

As of July 1, 1982 the administrative cost of the VMGSIA has been reduced to 20% of premium, leaving 80% of premium dollars available to pay claims. During the first two years of the program the administrative cost was 26% of premium. Lower excess insurance cost was the major element of this reduction. Administrative costs include the fee for the excess insurance, the fee for our service company, the fee to the Virginia Municipal League to cover staff time, an amount for professional fees for legal and accounting services, and an amount for safety training and loss prevention activities. The 80% claims fund is used to pay claims and any funds remaining in that account are available for dividends. If losses exceed the 80% claims fund, excess insurance is available to pay the claims.

Excess Insurance

The Association retains the first $175,000 of each loss on a per occurrence basis. This coverage is written to provide full statutory benefits beyond the Association's retention, meaning that the most the group would ever have to pay on any one specific occurrence would be $175,000. Furthermore, $5,000,000 worth of aggregate excess insurance is held by the Association should the 80% claims fund ever be exhausted. The chances of this are extremely remote but should such a catastrophy occur, the Association would have ample time to make provisions for payment of claims since these claims can take ten years or more to be paid out.

Regulation

The program is closely regulated by the State Bureau of Insurance in keeping with the Code of Virginia and the regulations of the State Corporation Commission. As with any new endeavor there have been ups and downs as both the regulator and the regulated seek to define objectives and expectations. The purpose of regulation is to assure the solvency of the fund and to be certain that no injured employee goes uncompensated due to a lack of funds. The Bureau has been quite diligent in this area. While I have sensed frustration on behalf of both the regulator and the regulated, it appears that some of the uncertainty and newness is disappearing. I understand that a revision of Regulation 16 is contemplated in the coming months and that the Bureau is also considering the adoption of a customized reporting form for groups which would alleviate the current burden of having each group complete an annual insurance company convention statement. The prospect of such adjustments at the Bureau of Insurance based on approximately two and a half years of experience is most encouraging.

Major Exposures

I would be remiss if I did not bring to the attention of you and the study committee members the tremendous exposure that exists for local governments under the heart/lung act for police and fire personnel. This exposure exists for self insureds, group self insureds and traditionally insureds and all feel the impact of its high cost. As you probably know, this act grants benefits to any police officer with heart disease or any fire fighter with heart or lung disease based on the presumption that the occupational disease occurred on the job. This can only be rebutted by a preponderance of medical evidence which as you can imagine is virtually impossible to generate. Since hypertension (high blood pressure) is an eligible disability, we can see upwards of one third of all public safety personnel being eligibl for benefits which can exceed $150,000 per claim. No other class of employee is granted such an extraordinary benefit based on job stress. Quite frankly, we see this as an unfunded mandate of the state upon local governments. With virtually all large jurisdictions self insured and a sizeable number in the VMGSIA, it cannot be said that insurance companies are picking up the cost. These cost are coming directly out of local taxpayer dollars. If the legislature believes this benefit should be continued, we strongly recommend that it be shifted to retirement disability or that the state establish a special fund to cover these benefits. It is improper to include these benefits in the Workmen's Compensation Act.

Conclusion

With most of the larger localities self insured, we anticipate the VMGSIA will eventually exceed 200 small to medium size political subdivision members and plateau with a premium base of approximately $10,000,000, leaving approximately 20% of local government worker's compensation premiums with local insurance agents. This trend toward self insurance is certainly a very cost effective arrangement. I hope you have found this overview to be helpful and I would be glad to provide any additional information you might desire.

Sincerely,

Bradley K. Harmes

Bradley K. Harmes
Administrator

BKH/idi

APPENDIX 3

Agency Code		Workers' Compensation Program
100	Senate	No ✓
101	House of Delegates	Yes
107	Division of Legislative Services	Yes
109	Legislative Automated Systems	Yes
110	Joint Legislative Audit & Review Commission	Yes
111/103	Virginia Supreme Court - Magistrates System	Yes
111/111	Supreme Court of Virginia	Yes
111/112	Judicial Inquiry & Review Commission	Yes
111/113	Circuit Courts	Yes
111/114	General District Courts	Yes
111/115	Juvenile & Domestic Relations	Yes
111/116	Combined District Courts	Yes
117	Virginia State Bar	Yes
119	Office of the Lieutenant Governor	Yes
121	Governor's Office/Governor's Mansion	Yes
122	Department of Planning & Budget	Yes
123	Department of Military Affairs	Yes
126	Department of Telecommunications	Yes
127	Department of Emergency & Energy Services	Yes
128	Division of Industrial Development	Yes
129	Department of Personnel & Training	Yes
132	State Board of Elections	Yes
133	Auditor of Public Accounts	Yes
135	Department of Computer Services	Yes
137	Department of Management Analysis and System Development	Yes
140	Department of Criminal Justices Services	Yes
141	Office of Attorney General	Yes
142	Virginia State Crime Commission	Yes
144	Division of War Veterans Claims	Yes
146	Science Museum of Virginia	Yes
148	Virginia Commission for the Arts	Yes
149	Department of Transportation Safety	Yes
151	Department of Accounts	Yes
152	Department of Treasury	Yes
154	Division of Motor Vehicles	Yes
156	Department of State Police	Yes
157	Compensation Board	Yes
158	Virginia Supplemental Retirement System	Yes

Agency Code	Agency	Workers' Compensation Program
720/725	Northern Virginia Training Center	Yes
720/726	Southside Virginia Training Center	Yes
720/727	Virginia Treatment Center for Children	Yes
720/728	Northern Virginia Mental Health Institute	Yes
720/729	Piedmont Geriatric Hospital	Yes
720/738	Southwestern Virginia Training Center	Yes
720/739	Southern Virginia Mental Health Institute	Yes
720/746	Southside Mental Health & Mental Retardation Support Unit	Yes
720/748	Hiram W. Davis Medical Center	Yes
750	Rehabilitative School Authority	Yes
751	Virginia Council for Deaf	Yes
765	Department of Social Services	Yes
835	Council on the Environment	Yes
840	Virginia Housing Study Commission	Yes
841	Department of Aviation	Yes
848	Public Defender Commission	Yes
916	Governor's Employment & Training Council	Yes
957	Commonwealth Attorney's Service & Training Council	Yes
960	Office of Fire Service Programs	Yes
961	Division of Capitol Police	Yes
962	Office of Employee Relations Counselors	Yes
964	Virginia Health Services Cost Review Commission	Yes
966	Marine Products Commission	Yes
967	Division of Volunteerism	Yes
968	Commission of Local Government	Yes
999	Department of Alcoholic Beverage Control	Yes

Agency Code	Agency	Workers' Compensation Program
262	Department of Rehabilitative Services	Yes
262/203	Woodrow Wilson Rehabilitation Center	Yes
263	Virginia Rehabilitative Center for Blind	Yes
270	State Education Assistance Authority	Yes
301	Department of Agriculture & Consumer Services	Yes
305	State Milk Commission	Yes
306	Virginia Soil & Water Conservation Commission	Yes
308	Virginia State Apple Commission	Yes
401	Department of Conservation & Economic Development	Yes
401/404	Division of Forestry	Yes
401/405	Division of Mineral Resources	Yes
401/406	Division of Litter Control	Yes
401/418	Division of Parks	Yes
401/419	Virginia State Travel Service	Yes
401/421	Division of Mined Land Reclamation	Yes
402	Marine Resources Commission	Yes
403	Commission of Game & Inland Fisheries	Yes
407	Virginia Port Authority	Yes
414	State Water Control Board	Yes
417	Gunston Hall	Yes
422	State Air Pollution Control Board	Yes
425	Jamestown-Yorktown Foundation	Yes
436	Virginia Historic Landmarks Commission	Yes
437	Commission of Outdoor Recreation	Yes
501	Department of Highways & Transportation	No ✓
601	Department of Health	Yes
701	Department of Corrections	Yes
701	Department of Corrections (Adult Facilities)	No ✓
702	Virginia Commission for Visually Handicapped	Yes
720	Department of Mental Health & Mental Retardation	Yes
720/703	Central State Hospital	Yes
720/704	Eastern State Hospital	Yes
720/705	Southwestern State Hospital	Yes
720/706	Western State Hospital	Yes
720/707	Lynchburg Training School & Hospital	Yes
720/708	DeJarnette Center for Human Development	Yes
720/723	Southeastern Virginia Training Center	Yes
720/724	Catawba Hospital	Yes

Agency Code	Agency	Workers' Compensation Program	
217	Radford University	Yes	
218	Virginia School for Deaf/Blind	Yes	
219	Virginia School at Hampton	Yes	
221	Old Dominion University	No	✓
222	Department of Commerce	Yes	
223	Department of Health Regulatory Boards	Yes	
232	State Office of Minority Business	Yes	
233	State Board of Bar Examiners	Yes	
236	Virginia Commonwealth University/Hospital	No	✓
238	Virginia Museum of Fine Arts	Yes	
241	Richard Bland College	Yes	
242	Christopher Newport College	Yes	
245	State Council of Higher Education	Yes	
247	George Mason University	Yes	
261	Department of Community Colleges	Yes	
	Community College - Special Training	Yes	
261/275	New River Community College	Yes	
261/276	Southside Virginia Community College	Yes	
261/277	Paul D. Camp Community College	Yes	
261/278	Rappahannock Community College	Yes	
261/279	Danville Community College	Yes	
261/280	Northern Virginia Community College	Yes	
261/282	Piedmont Virginia Community College	Yes	
261/283	J. Sargeant Reynolds Community College	Yes	
261/284	Eastern Shore Community College	Yes	
261/285	Patrick Henry Community College	Yes	
261/286	Virginia Western Community College	Yes	
261/287	Dabney S. Lancaster Community College	Yes	
261/288	Wytheville Community College	Yes	
261/290	John Tyler Community College	Yes	
261/291	Blue Ridge Community College	Yes	
261/292	Central Virginia Community College	Yes	
261/293	Thomas Nelson Community College	Yes	
261/294	Southwest Virginia Community College	Yes	
261/295	Tidewater Community College	Yes	
261/296	Virginia Highlands Community College	Yes	
261/297	Germanna Community College	Yes	
261/298	Lord Fairfax Community College	Yes	
261/299	Mountain Empire Community College	Yes	

Agency Code	Agency	Workers' Compensation Program
161	Department of Taxation	Yes
163	Department for the Aging	Yes
165	Office of Housing & Community Development	Yes
166	Secretary of the Commonwealth	Yes
171	State Corporation Commission	Yes
181	Department of Labor & Industry	Yes
182	Virginia Employment Commission	Yes
	VEC Summer Youth	Yes
	VEC National Youth	Yes
183	Secretary of Administration & Finance	Yes
184	Secretary of Commerce & Resources	Yes
185	Secretary of Education	Yes
186	Secretary of Transportation	Yes
187	Secretary of Public Safety	Yes
188	Secretary of Human Resources	Yes
191	Industrial Commission of Virginia	Yes
194	Department of General Services	Yes
194/160	Division of Purchases & Supply	Yes
194/602	Consolidated Laboratory Services	Yes
198	Virginia Division for Children	Yes
201	State Department of Education	Yes
202	Virginia State Library	Yes
204	College of William & Mary	No ✓
204/265	Virginia Associated Research Campus	Yes
204/265	Virginia Assoicated Research Campus Space Radiation Effects Laboratory	Yes
204/268	Virginia Institute of Marine Science	Yes
207	University of Virginia	No ✓
207/246	Clinch Valley College	No ✓
207/603	Blue Ridge Sanitorium	No ✓
208	Virginia Polytechnic Institute & State University	No ✓
210	Virginia Truck & Ornamental Research Station	Yes
211	Virginia Military Institute	Yes
211-A	New Market Battlefield Park	Yes
212	Virginia State University	Yes
213	Norfolk State University	Yes
214	Longwood College	Yes
215	Mary Washington College	No ✓
215/220	Melchers - Monroe Memorials	No ✓
216	James Madison University	Yes

APPENDIX 4

Question 1

Are all provisions of the Virginia Personnel Act as it relates to worker's compensation benefits and annual leave being complied with?

Agency/institution	Response
Department of Corrections	Yes
Department of Highways and Transportation	Yes
Mary Washington College	Yes
Old Dominion University	
University of Virginia includes Clinch Valley College, Blue Ridge Hospital and UVA Continuing Education	Yes
Virginia Commonwealth University	Yes
Virginia Polytechnic Institute and State University	Yes
College of William and Mary	Yes

Question 2

Please provide your loss payments by policy year back to 1978 and provide estimates of the total liabilities incurred by policy year.

Each agency or institution was provided an attachment A to complete and return in order to respond to this item. Those responses are attached to this sheet.

VA. DEPARTMENT OF CORRECTIONS
SUMMARY

Attachment A

with the quest

Incurred Losses
By Policy Year

Policy Year		Paid	Open	Total Incurred
1978-79	Dollars	364,445.67	238,026.33	554,925.95
	*Number of Claims	431		
1979-80	Dollars	359,965.67	233,794.60	607,490.19
	Number of Claims	553		
1980-81	Wages	273,119.24	285,449.58	
	Medical	335,277.65	360,957.13	
	Expense	4,610.91	60,000.00	
	Total	613,007.80	706,406.71	1,033,973.93
	Number of Claims	717		
1981-82	Wages	196,386.13	230,420.29	
	Medical	230,258.16	28,845.92	
	Expense	1,976.34		
	Total	428,620.63	259,266.21	693,886.84
	Number of Claims	866		
1982-83	Wages	149,280.21	165,618.10	
	Medical	125815.87	24,194.02	478,091.49
	Expense	2,749.19	15,594.29	
	Total	277,845.27	205,406.41	
	Number of Claims	850		3,368,368.40

See individual institutional incurred losses by policy year responses for figures which will reflect a balance for the following incurred losses; Paid, Open, Total Incurred. Figures above reflect reported data for all Adult Institutions.

ATTACHMENT A

Incurred Losses
By Policy Year

VIRGINIA DEPARTMENT OF HIGHWAYS AND TRANSPORTATION

Policy Year			Paid	Open	Total Incur
1978-79	Dollars				
	*Number of Claims				
1979-80	Dollars				
	*Number of Claims				
1980-81	Wages		422,383.99	342,647.57	
	Medical		454,553.71	132,100.00	1,352,685.27
	Expense	**	1,000.00	- 0 -	less subrogatior - 8,383.39
	Total		877,937.70	474,747.57	1,344,301.88
	*Number of Claims		1,541		
1981-82	Wages		445,721.52	376,659.08	
	Medical		682,232.39	219,999.00	1,726,611.99
	Expense	**	2,000.00	- 0 -	less subrogation - 16,939.23
	Total		1,129,953.91	596,658.08	1,709,672.76
	*Number of Claims		1,399		
1982-83	Wages		181,692.86	252,114.06	
	Medical		434,086.21	126,870.00	996,763.13
	Expense	**	2,000.00	- 0 -	no subrogation
	Total		617,779.07	378,984.06	996,763.13
	*Number of Claims		1,185		

*Number of Claims means number of First Reports of Injury Forms, whether anything was paid or not.

**Funeral Expenses

Mary Washington College

Incurred Losses
By Policy Year

Policy Year		Paid	Open	Total Incurred
1978-79	Dollars	$31,949	($20,000)	$11,949 *
	*Number of Claims	62		
1979-80	Dollars	15,747	0	15,742
	Number of Claims	55		
1980-81	Wages	3,958	0	
	Medical	5,947	0	
	Expense	4,314	0	
	Total	14,219	0	14,219
	Number of Claims	58		
1981-82	Wages	8,658	0	
	Medical	13,780	0	
	Expense	5,913	0	
	Total	28,351	0	28,351
	Number of Claims	71		
1982-83	Wages	3,648		
	Medical	8,411	1,000	
	Expense	6,400	0	
	Total	18,459	1,000	19,459
	Number of Claims	68		

* $30,000 has already been recovered from third party - an additional $20,000 is anticipated.

*Number of Claims means number of First Reports of Injury Forms, whether anything was paid or not.

OLD Dominion University with the questio

Incurred Losses
By Policy Year

Policy Year		Paid	Open	Total Incurred
1978-79	Dollars	28187	-0-	28,187
	*Number of Claims	107		
1979-80	Dollars	60,657	-0-	60,657
	Number of Claims	75		
1980-81	Wages	3270	-0-	
	Medical	17483	-0-	
	Expense - Administrative	6132	-0-	
	Total	26,885	-0-	26885
	Number of Claims	83		
1981-82	Wages	2992	-0-	
	Medical	13,827	-0-	
	Expense- Administrative	5379	-0-	
	Total	22198	-0-	22198
	Number of Claims	90		
1982-83	Wages	6728	-0-	
	Medical	15707	-0-	
	Expense-Administrative	6,892	-0-	
	Total	28,827	-0-	28827
	Number of Claims	90		

*Number of Claims means number of First Reports of Injury Forms, whether anything was paid or not.

Wages include time away frm work as required by the Worker's Compensation Act and Rule 10.5 of the Virginia Personnel Act.

University of Virginia

Incurred Losses
By Policy Year

Policy Year		Paid	Open	Total Incurred
1978-79	Dollars	$149,413.00	** $ 14,742.00	$164,155.00
	*Number of Claims	1639		
1979-80	Dollars	229,198.00	110,052.94	339,250.94
	Number of Claims	1651		
1980-81	Wages	120,966.46	159,474.28	
	Medical	47,654.55	22,441.00	
	Expense	1,450.00	2,850.00	
	Total	$170,071.01	184,765.28	604,836.29 (includes 250,00 maximum liabil:
	Number of Claims	1868		
1981-82	Wages	69,508.67	138,532.30	
	Medical	42,684.72	46,610.00	
	Expense	1,850.00	5,200.00	
	Total	$113,043.39	190,342.30	303,385.69
	Number of Claims	1863		
1982-83	Wages	22,420.11	224,318.91	
	Medical	39,643.77	48,348.65	
	Expense	0000.00	6,450.00	
	Total	62,063.88	279,117.56	341,181.44
	Number of Claims	1616		

*Number of Claims means number of First Reports of Injury Forms, whether anything was paid or not.

**It was agreed with the knowledge of Mr. Williams of the Department of State Risk Management that the '78-'79 and '79-'80 figures would include the paid out costs previously submitted to the Committee plus any "open" incurred costs noted from the case review of all claims.

Addendum: The total dollars for these years (1978-1980) includes the excess liability insurance premium and the self-insured tax.

These figures include all agencies which are part of the University of Virginia. Clinch Valley College, University of Virginia Hospital, Blue Ridge Hospital, University of Virginia and Continuing Education.

University of Virginia

Workmen's Compensation

Claims and Cost Experience

Fiscal Year	Number of Claims: Minor	Number of Claims: Major	Number of Claims: Total	Costs: Compensation Entitlements	Costs: Medical	Costs: Total Comp & Medical	Costs: Insurance	Costs: Self Insurers Tax	Costs: Grand Total
1977 - 78	1354	55	1409	$47,782	$22,614	$70,396	$30,410	$ 3,137	$103,943
1978 - 79	1579	60	1639	$63,563	57,770	121,333	25,415	2,665	149,413
1979 - 80	1571	80	1651	111,447	71,151	182,598	40,348	6,252	229,198
1980 - 81	1768	100	1868	154,318	123,082	277,400	66,652	11,774	355,826
1981 - 82	1793	70	1863	176,612	206,526	383,138	62,131	26,469	471,738
Total	8065	365	8430	$553,722	$481,143	$1,034,865	$224,956	$50,297	$1,310,118

KS/jg

6/16/83

VIRGINIA COMMONWEALTH UNIVERSITY

Incurred Losses
By Policy Year

Policy Year		Paid	Open	Total Incurred
1978-79	Dollars	$ 84,224	$ 25,467	$109,691
	*Number of Claims	1,039		
1979-80	Dollars	$225,485	$159,726	$385,211
	Number of Claims	1,289		
1980-81	Wages	$124,150	$ 64,896	
	Medical	96,105	34,122	
	Expense	-	1,500	
	Total	$220,255	$100,518	$320,773
	Number of Claims	1,628		
1981-82	Wages	$ 83,728	$ 72,826	
	Medical	64,472	43,205	
	Expense	-	1,500	
	Total	$148,200	$117,531	$265,731
	Number of Claims	1,481		
1982-83	Wages	$110,377	$217,843	
	Medical	107,081	145,955	
	Expense	-	4,000	
	Total	$217,458	$367,798	$585,256
	Number of Claims	1,405		

*Number of Claims means number of First Reports of Injury Forms, whether anything was paid or not.

VPI SU

Incurred Losses
By Policy Year

Policy Year		Paid	Open	Total Incurred
1978-79	Dollars	283,864	175,514	459,378
	*Number of Claims	314		
1979-80	Dollars	309,778	42,314	352,092
	Number of Claims	337		
1980-81	Wages	167,553	300,638	
	Medical	98,491	5,000	
	Expense	500	---	
	Total	266,544	305,638	572,182
	Number of Claims	441		
1981-82	Wages	148,125	376,619	
	Medical	103,690	10,000	
	Expense	----	---	
	Total	251,815	386,619	638,434
	Number of Claims	447		
1982-83	Wages	48,917	75,227	
	Medical	72,538	7,500	
	Expense	---	---	
	Total	121,455	82,727	204,182
	Number of Claims	411		

*Number of Claims means number of First Reports of Injury Forms, whether anything was paid or not.

College of William and Mary

Incurred Losses
By Policy Year

Policy Year		Paid	Open	Total Incurred
1978-79	Dollars	13,820.37	27,589.08	41,409.45
	*Number of Claims	123		
1979-80	Dollars	28,740.51	23,669.32	52,409.83
	Number of Claims	137		
1980-81	Wages	20,207.22		
	Medical	18,903.90		
	** Expense	1,433.01		
	Total	40,544.13	19,749.56	60,293.69
	Number of Claims	195		
1981-82	Wages	8,975.67		
	Medical	10,648.38		
	** Expense	1,583.73		
	Total	21,207.78	15,829.80	37,037.58
	Number of Claims	197		
1982-83	Wages	13,817.62		
	Medical	14,811.39		
	** Expense	1,596.16		
	Total	30,225.17	58,990.36	89,215.53
	Number of Claims	155		

Number of Claims means number of First Reports of Injury Forms, whether anything was paid or not.

Includes only salaries of individuals whose time was allocated to handling Workmen's Compensation.

Open=Awards outstanding

Question 3

Is a certificate of compliance as a self-insurer on file with the Industrial Commission for your agency?

Agency/institution	Response
Department of Corrections	Yes
Department of Highways and Transportation	Yes
Mary Washington College	Yes
Old Dominion University	Yes
University of Virginia includes Clinch Valley College Blue Ridge Hospital, UVA Hospital and UVA Continuing Education	Yes
Virginia Commonwealth University	Yes
Virginia Polytechnic Institute and State University	Yes
College of William and Mary	Yes

Question 4

How many of your losses have been contested requiring a hearing before the Industrial Commission?

a. Who handles your legal defense on such cases and where is the money budgeted to compensate this counsel?

Agency/instition	Response
Department of Corrections	5 a. Attorney General
Department of Highways and Transportation	unknown - do not keep records a. Attorney General; money budgeted by that office
Mary Washington College	None by the employees that were not initiated by the College. All decisions were in favor of the College. a. Attorney General; no funds budgeted
Old Dominion University	None a. Charles V. Sweet, Special Assistant A.G. and assistant to

	President - staff salary
University of Virginia includes Clinch Valley College, Blue Ridge Hospital, UVA Hospital and UVA Continuing Education	8 a. Legal Advisor's Office of UVA, this is part of the attorney's normal job duties; salaries for office come from state funds
Virginia Commonwealth University	8 in last five years a. University Legal Advisor/University Administration
Virginia Polytechnic Institute and State University	1 a. University General Counsel with salary paid by University
College of William and Mary	3 a. State Attorney General's Office

Question 5

Who handles your outside claims investigation and how are these expenses handled?

Agency/institution	Response
Department of Corrections	No outside claims investigation used
Department of Highways and Transportation	By personnel of the Department
Mary Washington College	Not required. The only expenses incurred are the prorated salaries of personnel office staff.
Old Dominion University	R. L. Cowherd and/or Mrs. Joyce Robbins - staff salary
University of Virginia - includes Clinch Valley College, Blue Ridge Hospital, UVA Hospital and UVA Continuing Education	Private firms such as Crawford Associates and Danielson Associates. Expenses paid from the the Worker's Compensation account.

Virginia Commonwealth University	VCU Campus Police Department/University Administration
Virginia Polytechnic Institute and State University	University benefits paid by University
College of William Mary	n/a

Question 6

Who handles your subrogation efforts?

a. How successful have you been?

b. How are these expenses handled?

c. How is the money that is returned accounted for?

Agency/institution	Response
Department of Corrections	N/A Attorney General's Office a. 3 claims referred to to A.G. and 1 claim received less than expended amount. b. No legal expenses for A.G., however paid for 1/3 of 3rd party's attorneys fees c. Returned to major institutions budget
Department of Highways and Transportation	Highway Department handles subrogation. If legal action is required, the Attorney General's Office does intervene. a. Very successful b. Through the Highway

	Department and the Attorney General Office's budget c. Money is returned to the Fiscal Manager for deposit into the Worker's Compensation account
Mary Washington College	Attorney General's office when required. a. About 80% return. On two major cases, $30,000 has been received for 1978-79 and $20,000 more is expected. b. When third party settles, College is reimbursed accordingly, i.e. prorated to settlement. c. Deposited with Treasurer of Va.
Old Dominion University	Charles V. Sweet - Assistant Attorney General a. very b. staff salaries c. credited proportionately

	to accounts reflecting expenses in each instance
University of Virginia includes Clinch Valley College, Blue Ridge Hospital, UVA Hospital and UVA Continuing Education	Workers Compensation Administrator and, on occasion, the Associate Legal Advisor a. On past claims our efforts have been successful. UVA has had few 3rd party claims. b. This reponsibility is considered part of the normal responsibilities of the Worker's Compensation Administrator and the Legal Advisor's Office. c. Deposited in Worker's Compensation account.
Virginia Commonwealth University	VCU's Worker's Compensation Office a. 100% on cases subrogated b. University Administration c. Deposited to Worker's Compensation Account.

Virginia Polytechnic Institute and State University	University General Counsel
	a. Have been successful
	b. From University funds
	c. Reimbursed to accounts from where payments were made for worker's compensation
College of William and Mary	n/a
	a. n/a
	b. n/a
	c. n/a

Question 7

Are any medical expense benefits, including first aid, provided at no recorded cost to your injured employees?

a. What are the accounting procedures when an injured employee is treated at your own medical facility by your own medical staff?

Agency/institution	Response
Department of Corrections	First aid at institution then to hospital. a. None
Deparartment of Highways and Transportation	No a. n/a
Mary Washington College	No. Employees only receive medical services from outside sources, which are paid for by the College. a. n/a
Old Dominion University	No a. n/a
University of Virginia	First aid provided by

includes Clinch Valley College, Blue Ridge Hospital, UVA Hospital and UVA Continuing Education	UVA Hospital Employee Health Dept. at no cost to those employees injured at work. a. With exception noted above injured employees are billed for medical treatment. The employee brings the bill to his dept. Invoices are then prepared by the employees dept. paying hospital and physician charges. These charges are paid from the Worker's Compensation account.
Virginia Commonwealth University	The MCV Emergency Room as well as Employee Health see employees with Workers' Compensation injuries. a. The bills related to MCV Emergency Room are forwarded to Personnel. These bills are then cancelled with

		the Hospital. The following is a five-year summary of bills cancelled: 78-79 - 11,453 79-80 - 16,673 80-81 - 21,681 81-82 - 25,163 82-83 - 13,473 Employee Health does not bill for their services. The costs are estimated under Question 10.
Virginia Polytechnic Institute and State University		No a. n/a
College of William and Mary		No a. The staff benefits account is billed for services rendered.

Question 8

What rehabilitation activity are you involved in and what services and facilities are you using?

Agency/institution	Response
Department of Corrections	None
Department of Highways and Transportation	Rehabilitative cases ar handled by the State Rehabilitative Services
Mary Washington College	Use Mary Washington Hospital in Fredericksburg when required.
Old Dominion University	Physicians of record and area medical/ rehab. facilities
University of Virginia includes Clinch Valley College, Blue Ridge Hospital, UVA Hospital and UVA Continuing Education	Physical therapy facilities at UVA Hospital. Crawford Rehabilitative Services
Virginia Commonwealth University	Job placement has been handled in-house to date. External services will be used if necessary.

Virginia Polytechnic Institute and State University	On occasion, use local Vocational Rehabilitative Services.
College of William & Mary	None

Question 9

Do you carry an excess Worker's Compensation Policy?

a. Is there a maximum policy limit and what per loss self-insured retention does it have?

b. What premium are you paying?

Agency/institution	Response
Department of Corrections	No a. No b. n/a
Department of Highways and Transportation	No a. n/a b. n/a
Mary Washington College	No a. n/a b. n/a
Old Dominion University	No a. n/a b. n/a
University of Virginia includes Clinch Valley College, Blue Ridge Hospital, UVA Hospital	Yes a. $5,000,000 per loss with a $200,000 retention level

and UVA Continuing Education	b. $58,481
Virginia Commonwealth University	Yes a. $10,000,000 maximum $100,000 retention b. $25,000
Virginia Polytechnic Institute and State University	No a. n/a b. n/a
College of William and Mary	No, we are self insure a. n/a b. n/a

Question 10

Please provide an estimate of the salary, handling and overhead expenses that are properly allocated to Worker's Compensation handling at this time. Standard cost accounting methodology should provide a relatively uniform approach by all agencies.

Agency/institution	Response
Department of Corrections	Estimated salary cost of $94,554.79
Department of Highways and Transportation	Employee Salary $31,775.50 per year Overhead expenses $9,828.9 per year
Mary Washington College	$6,400 per year
Old Dominion University	staff salaries $6,002.78 handling and overhead 2,100.97 $8,103.75
University of Virginia includes Clinch Valley College, Blue Ridge Hospital, UVA Hospital	see attached

and UVA Continuing Education		
Virginia Commonwealth University	Legal -	$ 6,000.00
	Personnel -	39,000.00
	Em. Health-	22,000.00
	Police -	3,000.00
	Fr.Benefit- Overhead -	53,000.00
	Total -	$123,000.00
Virginia Polytechnic Institute and State University	Salaries	$ 15,000.00
	Overhead (fringes, postage)	8,000.00
	Total	$ 23,000.00
College of William and Mary includes Virginia Institute of Marine Science	n/a	

TABLE 2

University of Virginia

Workmen's Compensation

Administrative Costs

FY 1982-83

Personnel (50% of P. Heim's salary, 90% of clerical staff salary and 2.6% of OTPS).		$ 20,426
Legal Advisor (2.5% of total expenditures)		4,280
Voucher Processing (MTDC)		210
Payroll Processing (MTDC)		111
	Total	$ 25,027

KS/jg

6/16/83

Question 11

What were your total FICA wages for each year, 1978 to present?

Agency/institution	Response	
Department of Corrections	1978-79	$ 21,483,640.11
	1979-80	40,738,860.10
	1980-81	51,751,931.26
	1981-82	59,597,432.94
	1982-83	68,177,700.35
Department of Highways and Transportation	1978-79	$142,665,771.29
	1979-80	150,046,172.13
	1980-81	152,135,829.47
	1981-82	169,202,463.05
	1982-83	165,537,931.50
Mary Washington College	1978-79	$ 300,988.00
	1979-80	329,153.00
	1980-81	377,514.00
	1981-82	450,450.00
	1982-83	488,608.00
Old Dominion University	1978-79	$ 20,217,670.79
	1979-80	23,642,992.35
	1980-81	26,854,286.08
	1981-82	29,403,946.86
	1982-83	31,130,058.89

		Total Gross
University of Virginia includes Clinch Valley College, Blue Ridge Hospital, UVA Hospital and UVA Continuing Education	1978-79	$134,061,564.19
	1979-80	148,344,579.11
	1980-81	169,509,237.70
	1981-82	188,919,938.59
	1982-83	197,435,732.11
		Total FICA Gross
	1978-79	$113,109,444.85
	1979-80	123,966,286.05
	1980-81	143,472,888.11
	1981-82	160,845,073.08
	1982-83	174,499,453.89
Virginia Commonwealth University	1978-79	$ 99,130,000.00
	1979-80	112,777,000.00
	1980-81	127,240,000.00
	1981-82	144,581,000.00
	1982-83	161,389,000.00
Virginia Polytechnic Institute and State University	1978-79	$ 61,562,035.00
	1979-80	73,578,887.00
	1980-81	82,513.288.00
	1981-82	91,616,724.00
	1982-83	96,634,701.00

College of William and Mary	1978-79	$ Not available
	1979-80	16,719,891.67
	1980-81	18,834,464.13
	1981-82	20,943,246.09
	1982-83	22,277,964.62

Madam Chairman, committee members, when we last spoke at the June committee meeting in Charlottesville we presented a group self-insurance concept to see if you felt it offered a viable alterative to the program offered by the Office of Risk Management underwritten by the Travelers Insurance Company.

At that meeting various state agencies expressed that it would not be "cost effective" to participate in the Travelers program. Several of these agencies indicated that their present workers' compensation costs were less than 1/2 of required premium to enter the Travelers program.

We also made note that those agencies present who stated that they have a self-insurance program were not consistent with each other. In particular, they are inconsistent in the utilization of excess or reinsurance, likewise filing of a certificate of compliance as a self-insurer and the completion of an "agreed statement of fact" form needed to terminate a claim properly.

Based upon information furnished us by Mr. Cranwell and at his request we have developed a group self-insurance program that will eliminate both the potential for any "unfunded liabilities" and at the same time create a program consistent and uniform to all agencies.

The display before you serves to point out the mechanics of such program. We have listed each agency showing five year average losses, cost of excess insurance if purchased, administrative expense, and total estimated costs. As you can see, total estimated present costs to the seven agencies shown is $2,894,910 with the required Travelers premium being $10,878,080. Overall, the agencies presently are paying approximately 25% of that asked by the Travelers.

However, we must point out that five of the seven agencies do not carry excess reinsurance and no agency is making provisions for loss reserves. All of these agencies have had exceptionally fine loss experience which could change dramatically at any time thus increasing costs of their program to the State far in excess of any Standard Insurance Premium.

The program we developed would require a maximum outlay of approximately $3,687,642 resulting in a savings to each agency of approximately 66% of the Travelers required premium. Excess reinsurance will be provided to assure that no agency will be surcharged more than the indicated contribution. The reinsurance is thus structured in a way as to limit maximum expenditures of each agency as well as eliminate the possiblity of any unfunded liability.

It is our understanding the Travelers program will not handle the adjustment of claims that have already taken place and have not been settled. The servicing company we work with will handle such claims. Moreover, because that servicing company claims personnel are experienced insurance adjustors claims should be settled more expeditiously and at less cost.

In concluding, the worst the state could do is save over $7.0 million dollars if a program such as proposed is used by the State.

Based on our experience as administrators of Workers' Compensation Self-Insurance programs as well as available statistics, We feel this program should be given just consideration by the committee.

AGENCY	LOSSES 5 YR. AVG.	INSURANCE PREMIUM	ADMINISTRATIVE EXPENSE	TOTAL ESTIMATED INSURANCE COSTS	REQUIRED TRAVELERS PREMIUM	MAXIMUM GROUP SELF-INSURANCE CONTRIBUTION	MONTHLY CONTRIBUTION
DEPARTMENT OF HIGHWAYS & TRANSPORTATION	$ 1,358,666 (3 yrs)	N/A	$ 41,603	$ 1,400,289	$ 7,500,000	$ 2,542,500	$
UNIVERSITY OF VIRGINIA	$ 350,561	$ 58,481	$ 25,027	$ 434,069	$ 1,347,000	$ 456,633	$
VIRGINIA COMMONWEALTH UNIVERSITY	$ 333,332	$ 25,000	$ 123,000	$ 481,332	$ 972,000	$ 329,508	$
VIRGINIA POLYTECHNIC INSTITUTE	$ 445,253	N/A	$ 23,000	$ 468,253	$ 700,000	$ 237,300	$
COLLEGE OF WILLIAM & MARY	$ 56,072	N/A	--------	$ 56,072	$ 160,000	$ 54,240	$
OLD DOMINION UNIVERSITY	$ 33,003	N/A	$ 6,892	$ 39,895	$ 114,000	$ 38,646	$
MARY WASHINGTON COLLEGE	$ 15,000 (3 yr)	N/A	Incl.	$ 15,000	$ 85,080	$ 28,815	$
TOTAL	$ 2,591,907	$ 83,481	$ 219,522	$ 2,894,910	$ 10,878,080	$ 3,687,642	$

APPENDIX 6

Nine Questions

1) Did Mr. Rutherfoord's firm/Office of Risk Management recognize that the lost figures submitted by the eight self-insured agencies were primarily unaudited, paid losses, and not incurred losses?

2) If this fact was recognized, did Mr. Rutherfoord's firm/Office of Risk Management utilize any type of industry standard payout matrix to develop the ultimate incurred losses?

3) Were underwriters actually contracted for a quote or indication on the cost of excess insurance?

4) If so,

   (a) what loss figures were given?
   (b) were the figures separated into the eight separate agencies, or were they provided in one lump sum?
   (c) were the underwriters made aware that the figures represented only paid losses (or incurred losses developed by Mr. Rutherfoord's firm or the Office of Risk Management)?
   (d) were estimated payrolls provided to the underwriters, and were these broken down by job class?

5) Would Mr. Rutherfoord's firm/Office of Risk Management be so kind as to provide a breakdown of total cost estimates including:

   (a) estimated retained losses (by agency),
   (b) claims administration costs (by agency)
   (c) excess premium costs, indicating the per agency self-insured retention level and the upper limits of the excess insurance for each agency.

6) What procedure would be used by the service agency to pay losses (from a bank account funded by the agency, from a deposit fund held by the service company utilizing monies paid to the service company by the agency, and maintained at a specified level, etc.)?

7) Did Mr. Rutherfoord's firm/Office of Risk Management discount the estimated incurred loss figures to take advantage of any interest income that may be earned by the agencies?

8) Did Mr. Rutherfoord's firm/Office of Risk Management figures represent the total cost to the agencies over a period of years until payments are at their maximum retention, or did the figures represent the expected cash payments during only the first year of the program?

9) Is Mr. Rutherfoord's firm/Office of Risk Management recommending the establishment of a funded reserve for actuarially computed incurred losses?

Responses to Questions

Office of Risk Management

1. yes.
2. yes, used industry pay out matrix of .28 for the first year.
3. it is a no aggregate limitation, has a per occurrence cap as requested by the Office of Risk Management.
4. a. yes, shared figures with the Travelers Insurance Company.
   b. yes, figures are broken down by agency.
   c. yes, with recognized weaknesses in figures.
   d. obtained actual report of self insurers payroll from Mr. Heiner, Industrial Commission.
5. a. none, all losses are insured.
   b. claims administration fee is part of the program - this is not charged to agencies - there are no additional charges to the agencies regardless of claims or expenses.
   c. $250,000 per occurrence catastrophe.
6. all claims are paid by the insurance company.
7. have not been able to discount because all of the interest is taken by the legislature.
8. all figures project the ultimate cash pay out of $5 million.
9. the entire program is on a funded basis.

Rutherfoord Agency

1. our reinsurers took into account whatever they thought necessary in order for us to submit a proposal.
2. "this is a question that the reinsurer has to determine in their minds". "I would definitely say they assumed a matrix of some sorts in order to allow a meaningful quotation to be submitted to the State".
3. yes.

4. a. "the information supplied/furnished the agencies was given to our reinsurer".
   b. "they were given on a separate basis".
   c. "they had to do what they felt necessary to present a proposal to us".
   d. "we supplied the information that was furnished us showed payrolls but not job classifications".
5. a. "we have, under our group self-insurance proposal, a retention for each agency which I will not divulge at this time".
   b. "we had incorporated that in our overall cost of doing business which will be passed along to the various agencies on a group basis".
   c. "once again, we don't want to inform you of exactly how our program is structured but we do have upper limits of reinsurance both on specific basis and excess of loss and stop loss basis for each agency".

6. servicing company can do it either way.
7. no.
8. "we are working with first year payments only"
9. we have a loss fund

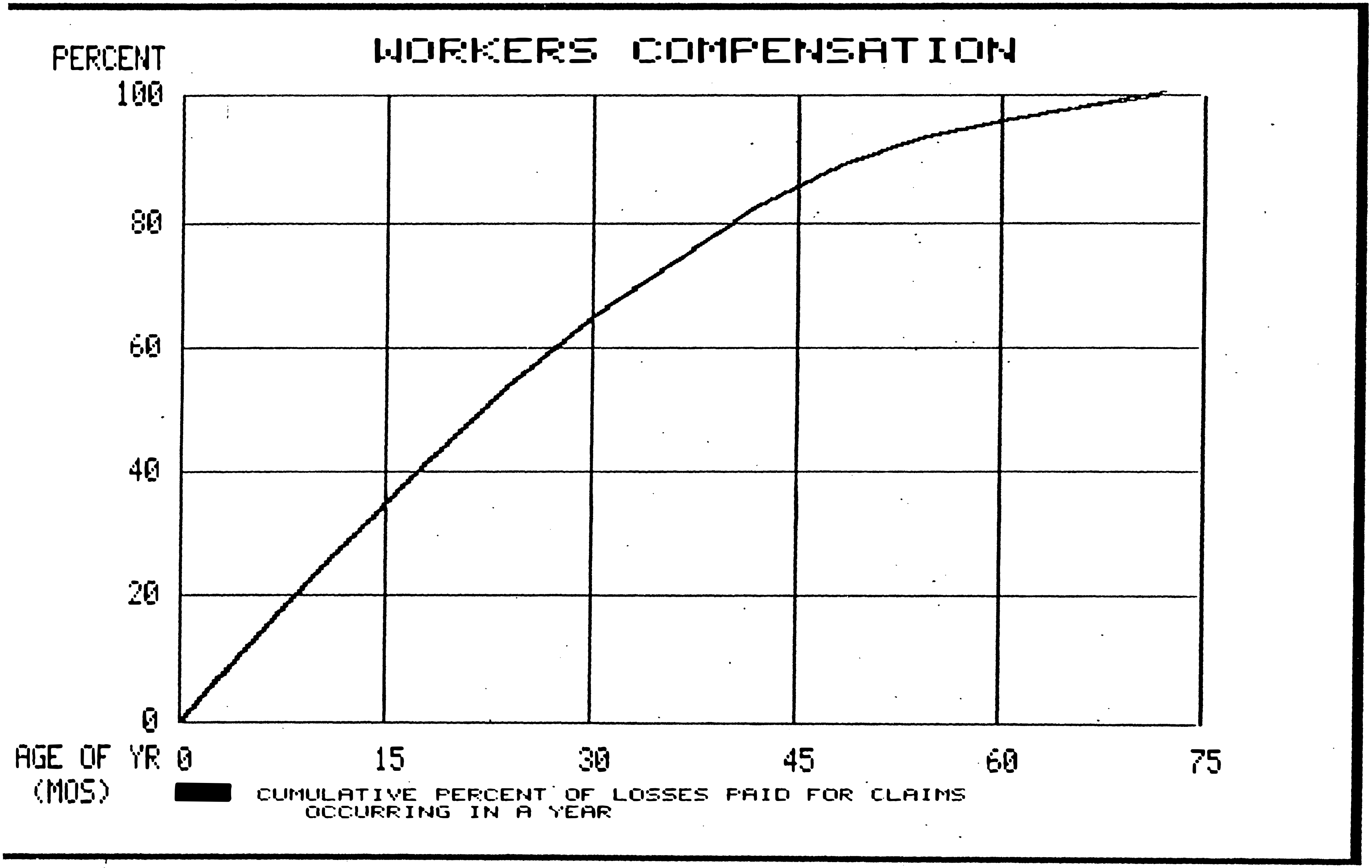
APPENDIX 7

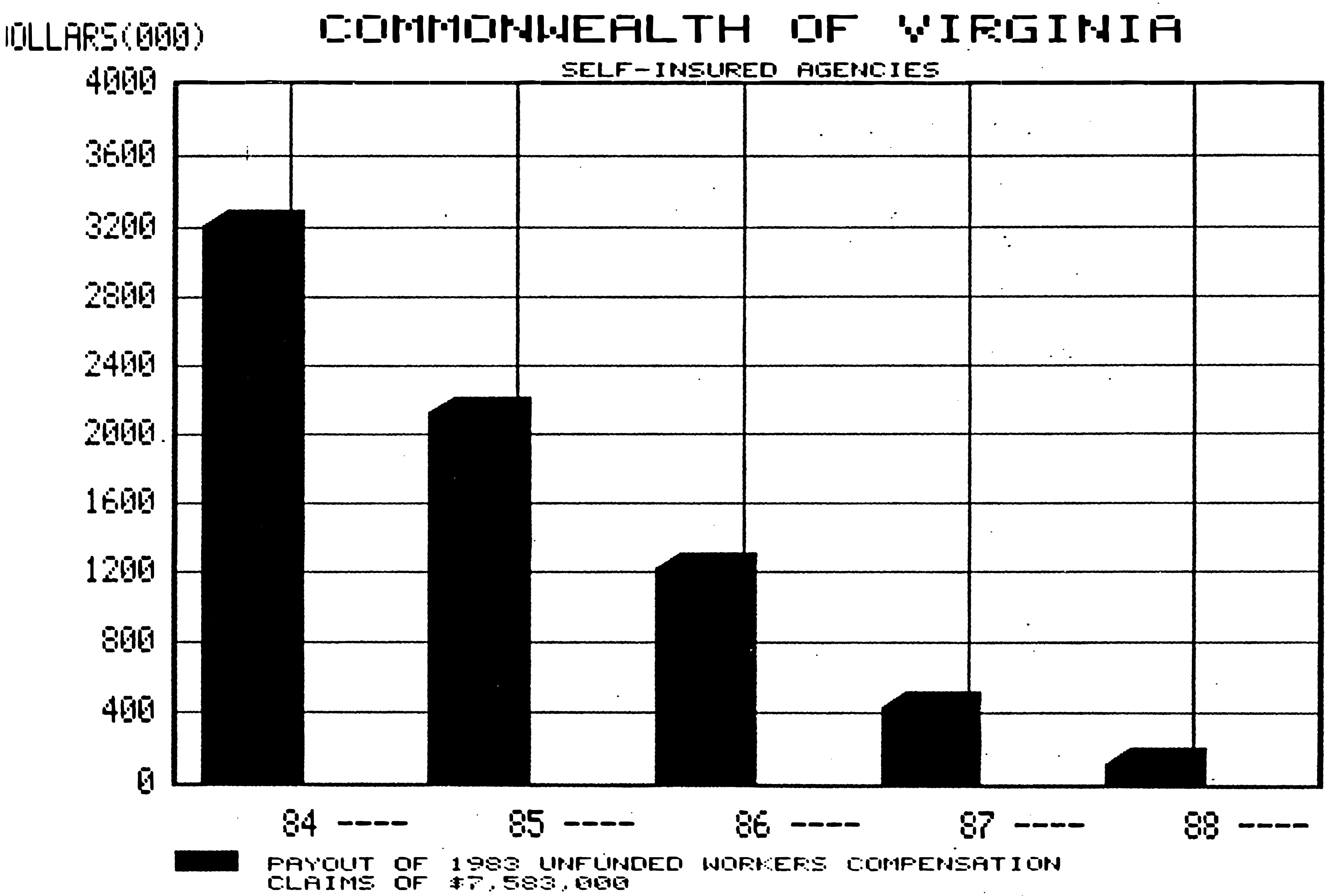
COMMONWEALTH OF VIRGINIA

SELF-INSURED AGENCIES

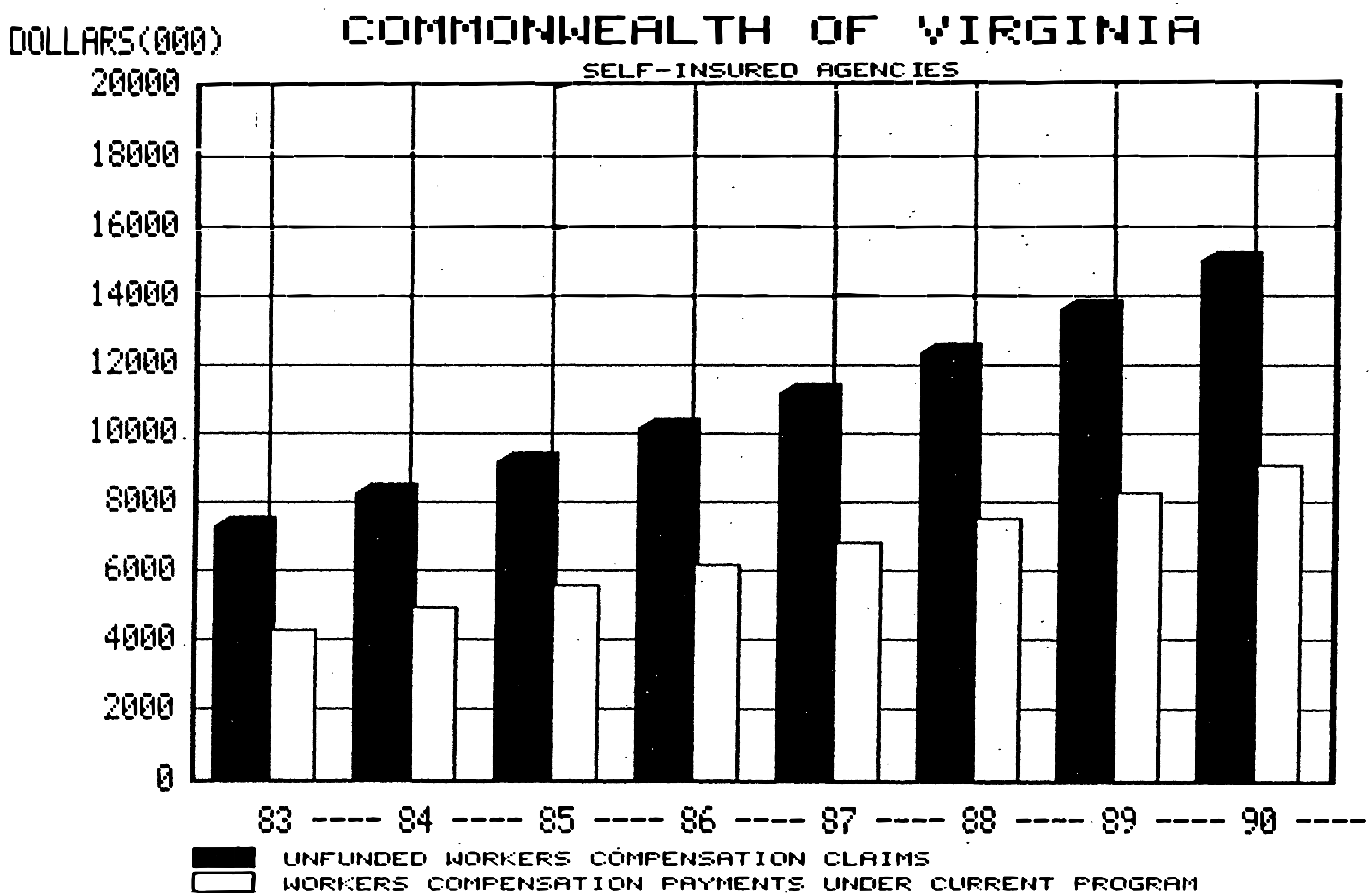
Workers' Compensation

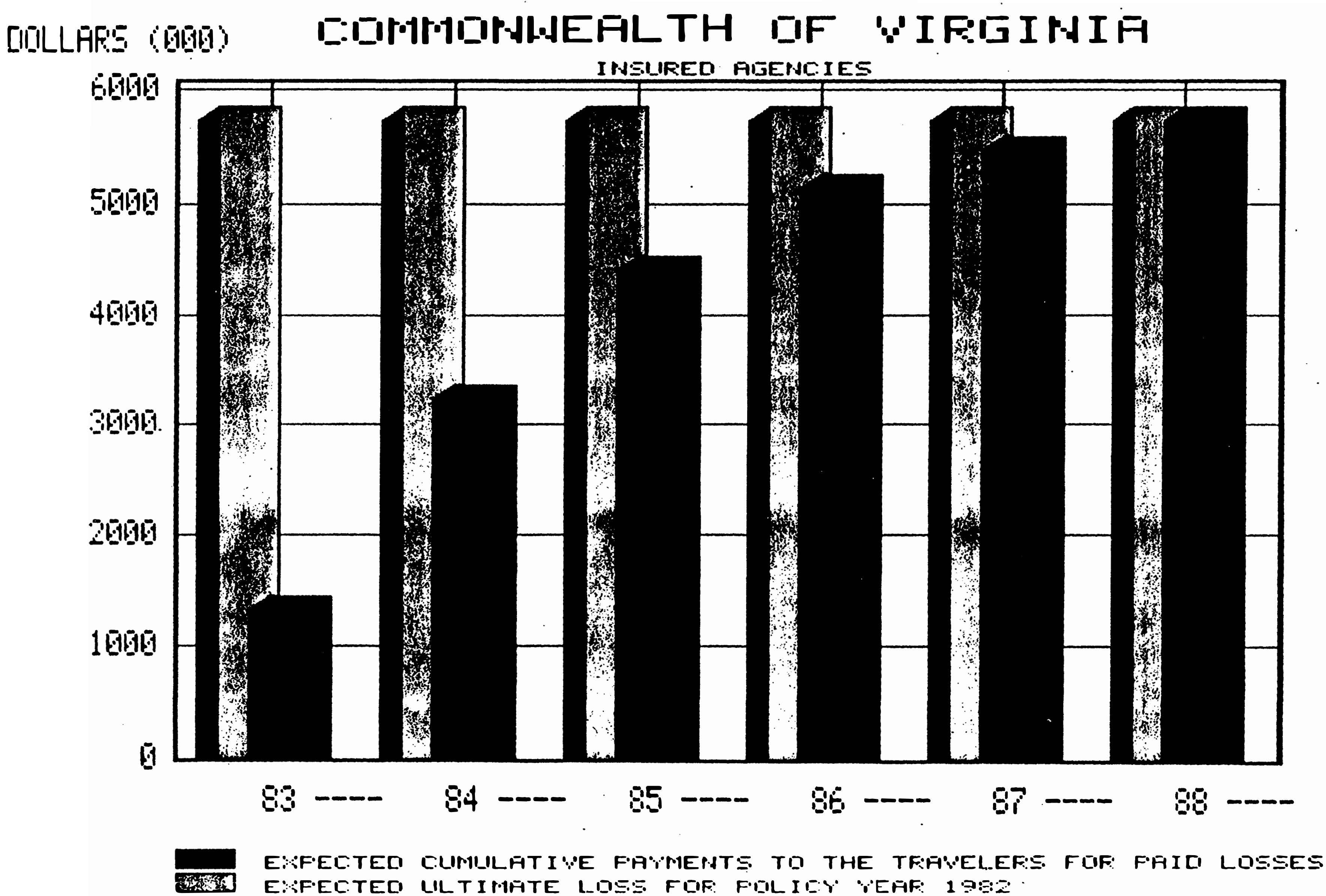
Kurt A. Reichle
November 15, 1983


WORKERS COMPENSATION
PERCENT
100
80
60
40
20
0
AGE OF YR 0
15
30
45
60
75
(MOS)
CUMULATIVE PERCENT OF LOSSES PAID FOR CLAIMS OCCURRING IN A YEAR



DOLLARS(000)
COMMONWEALTH OF VIRGINIA
SELF-INSURED AGENCIES
4000
3600
3200
2800
2400
2000
1600
1200
800
400
0
84 ----
85 ----
86 ----
87 ----
88 ----
PAYOUT OF 1983 UNFUNDED WORKERS COMPENSATION CLAIMS OF $7,583,000


COMMONWEALTH OF VIRGINIA
SELF-INSURED AGENCIES
DOLLARS(000)
20000
18000
16000
14000
12000
10000
8000
6000
4000
2000
0
83 ---- 84 ---- 85 ---- 86 ---- 87 ---- 88 ---- 89 ---- 90 ----
UNFUNDED WORKERS COMPENSATION CLAIMS
WORKERS COMPENSATION PAYMENTS UNDER CURRENT PROGRAM


DOLLARS (000)
COMMONWEALTH OF VIRGINIA
INSURED AGENCIES
6000
5000
4000
3000
2000
1000
0
83 ----
84 ----
85 ----
86 ----
87 ----
88 ----
EXPECTED CUMULATIVE PAYMENTS TO THE TRAVELERS FOR PAID LOSSES
EXPECTED ULTIMATE LOSS FOR POLICY YEAR 1982

APPENDIX 8

STATE AVERAGE WEEKLY WAGE - VIRGINIA
(For Workers' Compensation Purposes)

July 1, 1983	$277
July 1, 1982	253
July 1, 1981	231
July 1, 1980	213
July 1, 1979	199
July 1, 1978	187
July 1, 1977	175
July 1, 1976	162
July 1, 1975	149
July 1, 1974	91

CONSUMER PRICE INDEX FOR MEDICAL CARE
Source: U. S. Department Of Labor - Monthly Labor Review

July 1983	357.7	(8.39% increase)
July 1982	330.0	(11.64% increase)
July 1981	295.6	(10.88% increase)
July 1980	266.6	(11.13% increase)
July 1979	239.9	(9.34% increase)
July 1978	219.4	

APPENDIX 9

Dr. Raymond Haas - University of Virginia - Objectives

1) To learn the cost assessment formulas and the data on which it was based (Risk Management & Thomas Rutherfoord) if only so we can be more effective.

2) We want everyone to know there will be a continuing cost beyond current premiums for past claims.

3) We want to be sure that the accuracy of the University of Virginia cost data (as substantiated by Travelers') is understood.

4) We need to know how claims will be administered because therein lie the greatest potential for costs which are hard to foresee.

5) Any program must offer incentives for good claims management, University of Virginia wants to be excellent in that regard.

6) Unlike some State agencies, the costs of higher education institutions are borne in part by students through tuition.

The University of Virginia does not oppose the State's program. We would like to be a part and need only to have our extra costs funded. We especially commend the work of Mr. Hamner, Mr. Scott and Mr. Williams - they have been excellent to work with.

APPENDIX 10

JFS

File

December 2, 1983

DEC 1983
Department of
General Services

OFFICE OF RISK MANAGEMENT
DEC 9 1983

CERTIFIED MAIL

Mr. Thomas D. Rutherfoord
c/o Thomas D. Rutherfoord, Inc.
One South Jefferson Street
P. O. Box 12748
Roanoke, Virginia 24028-2748

Dear Mr. Rutherfoord:

At the meeting of interested parties called to formulate the most cost-effective method for certain state agencies to enter the state-wide workers' compensation program held Wednesday, November 16, 1983 chaired by us, you and your associate, William M. Coehler, expressed a reluctance to respond to our questions concerning the pertinent parts of a program recommended by your firm for the self insuring of workers' compensation by certain state agencies. You had expressed your intention to deliver a complete proposal to the Joint Subcommittee studying the workers' compensation insurance program, HJR 8. Delegate Joan H. Munford, Chairman of that Subcommittee, indicated that the Joint Sub-Committee would not be prepared to act on a proposal if a comparison had not been made. At that juncture we stated we would submit our questions to you in writing, the answers to which will then give us the opportunity to make an indepth review (an apples to apples comparison) of your proposal vs. the in-force program administered by the Office of Risk Management. Unless complete answers to all our questions are available from you, then no comparison as intended by the Joint Subcommittee can be made.

Although you responded generally to the questions submitted to you by Mr. Hamner in his letter of November 1, 1983, those questions are attached as Exhibit I. We ask that you respond in writing to each question. We also ask that you complete Exhibit II in its entirety. In addition, please respond to the following queries so a complete analysis can be made of your proposal.

1. Is this a true self-insurance proposal; i.e., losses paid by the self-insured up to a predetermined per loss

limit above which excess insurance reponds? If not, what type plan are you proposing?

2. Assuming this is a self-insurance proposal, what is the per loss limit?

3. Is there an annual aggregate limit in the plan? If so, what is it? Is it an overall plan limit or is it a per participant limit?

4. Does the excess insurance provide coverage for marine, longshoremen & harbor workers, employers' liability and extraterritorial exposures?

5. In your plan, what is the basis of assumed losses? Paid? Incurred?

6. What development factors, if any, have been used?

7. What trending factors, if any, have been used?

8. What claims handling service will be employed and what is the basis for the claims handling charge; i.e., percentage of the claim or a predetermined per claim charge? What percent or per claim charge?

9. How will the administrative fee charged by your firm be determined? If it is included in the premium charged for the excess insurance, please indicate the percentage of the commission charged.

10. What underwriter will provide the excess insurance? Please indicate the Bests rating and the Standard and Poors ability to pay claims rating.

11. Since you stated the costs charged in your plan were guaranteed, please provide the complete cancellation clause under the excess policy.

Your prompt response to these questions will enable us to provide the Joint Subcommittee with the information it has requested. Please address your replies to William H. Murphy c/o Reynolds Metals Company, P. O. Box 27003, Richmond, Virginia 23261.

Sincerely,

William H. Murphy

R.W. Esenberg

R. W. Esenberg

cc: Joan H. Munford, Chairman of Joint Subcommittee Studying Workers' Compensation Self Insurance, HJR 8
H. Douglas Hamner, Jr., Director - Department of General Services, Commonwealth of Virginia

1. Did Mr. Rutherfoord's firm/Office of Risk Management recognize that t loss figures submitted by the eight self-insured agencies were primarily unaudited, paid losses, and not incurred losses?

2. If this fact was recognized, did Mr. Rutherfoord's firm/Office of Risk Management utilize any type of industry standard payout matrix to develop the ultimate incurred losses?

3. Were underwriters actually contacted for a quote or indication on the cost of excess insurance?

4. If so,

   (a) what loss figures were given?
   (b) were the figures separated into the eight separate agencies, or were they provided in one lump sum?
   (c) were the underwriters made aware that the figures represented only paid losses (or incurred losses developed by Mr. Rutherfoord's firm or the Office of Risk Management)?
   (d) were estimated payrolls provided to the underwriters, and were these broken down by job class?

5. Would Mr. Rutherfoord's firm/Office of Risk Management be so kind as to provide a breakdown of total cost estimates including:
   (a) estimated retained losses (by agency),
   (b) claims administration costs (by agency)
   (c) excess premium costs, indicating the per agency self-insured retention level and the upper limits of the excess insurance for each agency.

6. What procedure would be used by the service agency to pay losses (from a bank account funded by the agency, from a deposit fund held by the service company utilizing monies paid to the service company by the agency, and maintained at a specified level, etc.)?

7. Did Mr. Rutherfoord's firm/Office of Risk Management discount the estimated incurred loss figures to take advantage of any interest income that may be earned by the agencies?

8. Did Mr. Rutherfoord's firm/Office of Risk Management figures represent the total cost to the agencies over a period of years until payments are at their maximum retention, or did the figures represent the expected cash payments during only the first year of the program?

9. Is Mr. Rutherfoord's firm/Office of Risk Management recommending the establishment of a funded reserve for actuarily computed incurred losses?

Exhibit II

FIVE YEAR CASH FLOW EXHIBIT
SELF INSURANCE PLAN
WORKERS' COMPENSATION

	First Year	Second Year	Third Year	Fourth Year	Fifth Year
I. Payments on Losses Incurred in the:					
First Year					
Second Year					
Third Year					
Fourth Year					
Fifth Year					
Total Payments In:					
II. Other Costs					
A) Excess Insurance					
B) Claims Handling Fee					
C) Plan Administration Fee including Loss Prevention Services					
D) Financial Guarantee Cost (If Required)					
E) Self Insurers' Tax					
Total Other Costs					
Total I & II					
III. Payments on Prior Losses					
Total Cash Flow					

APPENDIX 11

City of Virginia Beach

DEPARTMENT OF FINANCE
RISK MANAGEMENT DIVISION

MUNICIPAL CENTER
VIRGINIA BEACH, VIRGINIA 23456-9002
(804) 427-4217

January 13, 1984

The Honorable Joan H. Munford, Chairman
Joint Sub-Committee Studying The Workers'
Compensation Self-Insurance Program HJR 8

Dear Delegate Munford:

As promised, attached is our report concerning workers' compensation for state agencies. We trust that this report meets with your approval and the approval of the other joint sub-committee members, and we are available to answer any questions you or the committee may have.

Respectfully submitted,

William H. Murphy
Director, Risk Management
Reynolds Metals Company

Robert W. Esenberg
Risk Management Administrator
The City of Virginia Beach

WHM:RWE:stc

Attachment

CC: The Honorable Wayne F. Anderson
Mr. H. Douglas Hamner, Jr.
Mr. Charles F. Scott

OFFICE OF RISK MANAGEMENT
JAN 19 1984

REPORT TO THE JOINT SUB-COMMITTEE STUDYING THE WORKERS' COMPENSATION SELF-INSURANCE PROGRAM HJR 8

At a meeting of the joint sub-committee held in Blacksburg, Virginia on September 29, 1983, the Department of General Services, Office of Risk Management (Risk Management) reviewed the current workers' compensation insurance program which has been offered to all state agencies. Also at this meeting, Thomas D. Rutherfoord, Inc. (Rutherfoord) described an alternative "self-insurance" program for seven of the eight major state agencies not participating in the Risk Management Program. Because it was apparent that the source data used by Risk Management and Rutherfoord differed, and because of the brevity of Rutherfoord's formal submission, it was obvious to the joint sub-committee that further, more detailed analysis was called for. In this regard, and as cited in the minutes of the meeting, "Delegate Cranwell made a formal motion that Mr. Hamner and Risk Management get together with private insurers in order to formulate the most cost effective method for these agencies to enter the statewide program." This motion was seconded and unanimously agreed to. In addition, Delegate Cranwell requested that the information from Rutherfoord and Risk Management be made comparable, "apples to apples".

In response to the direction of the joint sub-committee, and in the interest of complete objectivity, Mr. H. Douglas Hamner, Jr., Director of the Department of General Services, requested William H. Murphy, Risk Manager for Reynolds Metals Company and Robert W. Esenberg, Risk Manager for the City of Virginia Beach to chair a meeting of all interested parties so that a complete, bottom line analysis could be made of the two workers' compensation funding mechanisms. This meeting was held in Richmond, Virginia on November 16, 1983. A list of the attendees is attached. (See Exhibit I).

On November 1, 1983, a questionnaire prepared by Robert W. Esenberg was submitted to both Risk Management and Rutherfoord, so that a fair, "apples to apples" comparison of the two programs could be made. A detailed response to the questionnaire was received from Risk Management prior to the meeting. Unfortunately, on November 8, 1983, Rutherfoord advised Mr. Hamner that "due to certain time parameters we will not be able to respond in writing to the questions provided by Mr. Esenberg. We would, however, expect to have this information in hand for the November 16th meeting. (See Exhibit II).

The meeting was convened at 1:30 p.m. After opening remarks by Mr. Hamner, requested technical information was provided by representatives of the Travelers's Insurance Company, the Virginia Compensation Rating Bureau and the Industrial Commission. Next, Risk Management and Rutherfoord were asked to respond to the questionnaire previously submitted to them. A comprehensive response was presented by Robert W. Williams of Risk Management. Unfortunately, and despite the expectation voiced by Rutherfoord in his letter of November 8, 1983, responses to the questionnaire were either limited or refused.

General discussion ensued, and was highlighted by comments from various state agency representatives. During this general discussion, Rutherfoord continued to be uncooperative in responding to specific queries from the Chair. In an effort to resolve the impasse, and in the spirit of compromise, the Chair agreed to direct its questions, in writing, to Rutherfoord, answers to which were considered vital in order for a valid comparison to be made. As the minutes indicate, Delegate Munford stated that the joint sub-committee would not be prepared to act without such comparison. (See Exhibit I). On December 2, 1983 we submitted our questions to Rutherfoord. (See Exhibit III). To date no reply has been received.

Prior to the conclusion of the meeting, Risk Management indicated its willingness to reevaluate its workers' compensation billing procedures which had been fiscally quite conservative, and which had created the perception by the eight state agencies, of an insurmountable budgetary problem. Subsequently, this reevaluation was performed and resulted in procedural changes being effected. Those changes have alleviated the concerns of these agencies. We are advised that three agencies have entered Risk Management's program as of January 1, 1984 and four others have committed to participate effective July 1, 1984. The final agency is giving participation consideration.

We believe that it is important for this joint sub-committee to know that the workers' compensation funding mechanism currently administered by the Office of Risk Management conforms to a recommendation of the Risk Management Advisory Committee to the Joint Sub-Committee Studying The Commonwealth's Insurance Coverage, which was established by HJR 251 during the 1977 General Assembly. This Risk Management Advisory Committee, acting at the request of that joint sub-committee, was composed of Mr. William H. Murphy, Risk Manager of Reynolds Metals Company, Mr. Bernard M. Hulcher, Risk Manager of Southern States Cooperative, and Mr. Robert W. Esenberg, Risk Manager for the City of Virginia Beach. We encourage this joint sub-committee to review House Document Number 41, 1980, the Final Report of the Joint Sub-Committee Studying The Commonwealth's Insurance Coverage.

It will be noted that the authors of this report also served on that Risk Management Advisory Committee. As it is a primary risk management tenet that accurate, historical loss cost data is required before consideration of any self-insurance scheme, our recommendation remains unchanged. The current program which has been developed, and is currently administered by Mr. Charles F. Scott, Director of Risk Management, Commonwealth of Virginia, provides the vehicle to generate such data. We recommend this program not be bifurcated. We further recommend that this joint sub-committee adopt a resolution encouraging any state agency not now participating in the risk management program to so participate.

We are pleased to have had the opportunity to be of service to this sub-committee and to the Commonwealth of Virginia, and we are available to respond to any questions you may have.

Respectfully submitted,

William H. Murphy
Director, Risk Management
Reynolds Metals Company

Robert W. Esenberg
Risk Management Administrator
The City of Virginia Beach

WHM/RWE/stc

EXHIBIT I

A meeting of interested parties to formulate the most cost effective method for certain State agencies to enter the Statewide Workers' Compensation Program was held on Wednesday, November 16, 1983 at the General Assembly Building, Richmond, Virginia at 1:30 p.m.

Persons in attendance were:

Mr. C. William Cramme' Ms. Terry Mapp	Division of Legislative Services
Mr. James Gillespie, Jr. Mr. Edward P. Kehoe Mr. J. P. Rapisarda	Johnson & Higgins of Virginia, Inc.
Mr. Carmen Pappalardo Mr. Ronald Smith Mr. Kurt Reichle Mr. Jeff Seibert Mr. Jim Dorschel	Travelers Insurance Company
Mr. David C. Landin	Yeager and Company, Inc.
Mr. Thomas D. Rutherfoord Mr. William M. Koehler	Thomas D. Rutherfoord, Inc.
Mr. George D. Weston	Va. Compensation Rating Bureau
Mr. H. Douglas Hamner, Jr.	Department of General Services
Mr. Charles F. Scott Mr. Robert B. Williams Mrs. Sheila M. Vanada	Department of General Services/Office of Risk Management
Dr. Clarence R. Jung, Jr. Mr. Bernard Hulcher Mr. William Murphy Mr. Robert Esenberg	State Insurance Advisory Board Members
Mr. R. E. Farmer	Self-Insurance Services, Inc.
Mr. Fred C. Bosse	American Insurance Association
Mr. James E. Harris, Jr.	Department of Corrections
Mr. Perry C. M. Butler	Liberty Mutual Insurance Company
Dr. Raymond D. Smoot, Jr.	Virginia Polytechnic Institute and State University
Ms. Karen F. Russell Mr. Lucian W. Heiner	Industrial Commission of Virginia
Mrs. Penney Heim Dr. Raymond M. Haas	University of Virginia

Roland E. Johnson
Richard F. Shutts

Mr. Bruce Chase	Virginia Commonwealth University
Mr. David H. Charlton	College of William and Mary
Mr. Floyd B. Loving Mr. E. A. Street	Department of Highways and Transportation

Delegate Joan Munford

Mr. H. Douglas Hamner, Jr., Director of the Department of General Services called the meeting to order. Mr. Hamner advised that he had asked Mr. William H. Murphy and Mr. Robert W. Esenberg, members of the State Insurance Advisory Board, to chair the meeting. Also present were Mr. Bernard M. Hulcher and Dr. Clarence R. Jung, Jr., members of the State Insurance Advisory Board. The members were introduced to those present. A brief synopsis of their professional background was given.

Mr. Murphy advised that an agenda of the meeting had been distributed and that it was the intent of the co-chairmen to follow it. An attendee log was distributed and all present were requested to sign their name and affiliation.

Murphy stated the meeting was generated at the meeting of the Joint Subcommittee studying the Workers' Compensation on Thursday, September 29, 1983 in Blacksburg, Va. Motion at that meeting was made and passed unanimously that "Mr. Hamner and the Office of Risk Management get together with the program insurers in order to formulate the most cost effective method for these agencies to enter the Statewide program". In addition Delegate Cranwell requested that the information from the Thomas Rutherfoord, Inc. Insurance Agency and the Department of General Services/Office of Risk Management ("DGS/ORM") be made comparable.

Those present were advised that the co-chairmen plan to prepare a formal report of the discussions and incorporate their recommendations. This will be transmitted to the Joint Subcommittee at Mr. Hamner's request.

The meeting was then turned over to Mr. Esenberg to address item 3 on the agenda - Review of Questionnaire prepared by Mr. Esenberg and submitted to the DGS/ORM and Thomas Rutherfoord, Inc. Insurance Agency.

Mr. Esenberg advised that in discussions with Mr. Hamner and being advised of the concerns of the Joint Subcommittee, he came up with a limited number of questions that he felt would assist in the "apples to apples" comparison and in developing a common base for which the proposals were made.

In the interest of all persons and to avoid lengthing the meeting the DGS/ORM and representatives from the Rutherfoord agency were requested to refrain from restating and resubmitting their proposals. They were requested to answer the nine questions as shortly and concisely as possible. They were told that time would be provided for discussion during the Question and Answer period.

Mr. Esenberg asked general questions of industry professionals for the interest of all present to give an indication of what certain industry standards may or may not be and then specifics.

At Mr. Esenberg's request Mr. Kurt Riechle, an actuary from the Travelers Insurance Company, briefly gave the benefit of his technical expertise. Illustrated material was distributed to clarify Mr. Riechle's discussion on loss development - both ultimate and paid losses.

Mr. Esenberg asked Mr. George Weston, Virginia Compensation Rating Bureau, to give an indication of how the benefit levels for Workers' Compensation have increased since 1979 regarding medical costs and limits on indemnity benefits as controlled under the State Code with the Statewide averages.

Mr. Weston distributed a handout which indicated total benefit payouts: (1) State average weekly wage increases (7/1/74 - 7/1/83) and (2) the U. S. Department of Labor, Labor Review publishes a consumer Price Index which has a Section for Medical Care and Subsections. Yearly increases were noted.

Mr. Esenberg requested the DGS/ORM to respond to each of the nine questions. The answers, as supplied by Mr. Robert B. Williams, are as follows:

NOTE: A copy of the questions are attached as Exhibit A. The Minutes will make reference to the questions by number.

1. yes.
2. yes, used industry pay out matrix of .28 for the first year.
3. it is a no aggregate limitation, has a per occurrence cap as requested by the Office of Risk Management.
4. a. yes, shared figures with the Travelers Insurance Company.
   b. yes, figures are broken down by agency.
   c. yes, with recognized weaknesses in figures.
   d. obtained actual report of self insurers payroll from Mr. Heiner, Industrial Commission.
5. a. none, all losses are insured.
   b. claims administration fee is part of the program - this is not charged to agencies - there are no additional charges to the agencies regardless of claims or expenses.
   c. $250,000 per occurrence catastrophe.
6. All claims are paid by the insurance company.
7. have not been able to discount because all of the interest is taken by the legislature.
8. all figures project the ultimate cash pay out of $5 million.
9. the entire program is on a funded basis.

Mr. Esenberg then recognized representatives from the Rutherfoord agency and requested that they respond to each of the nine questions. Mr. Koehler read each question prior to his response.

1. our reinsurers took into account whatever they thought necessary in order for us to submit a proposal.
2. "this is a question that the reinsurer has to determine in their minds". "I would definitely say they assumed a matrix of some sorts in order to allow a meaningful quotation to be submitted to the State".
3. yes.

4. a. "the information supplied/furnished the agencies was given to our reinsurer".
   b. "they were given on a separate basis".
   c. "they had to do what they felt necessary to present a proposal to us".
   d. "we supplied the information that was furnished us showed payrolls but not job classifications".
5. a. "we have, under our group self insurance proposal, a retention for each agency which I will not divulge at this time".
   b. "we had incorporated that in our overall cost of doing business which will be passed along to the various agencies on a group basis".
   c. "once again, we don't want to inform you of exactly how our program is structured but we do have upper limits of reinsurance both on specific basis and excess of loss and stop loss basis for each agency".
6. servicing company can do it either way.
7. no.
8. "we are working with first year payments only"
9. we have a loss fund

Mr. Esenberg called attenion to Mr. Koehler's response to Question 5 by asking for a specific amount of insurance on the proposal submitted in Blacksburg. Mr. Koehler replied "I'd rather not answer that question at this moment."

Mr Murphy asked Mr. Koehler when he would be able to answer Mr. Esenberg's questions. Mr. Koehler replied that he personally felt the program was a firm, philosophical type of approach trying to limit costs of agencies to participate in an alternative plan to the Travelers' plan. Mr. Koehler felt it would be improper to release information based on the conclusion of the Blacksburg meeting when they thought it was the intention to develop a "apples to apples" comparison of proposals. He further stated "If Mr. Williams can emphatically state what each agency would pay today to come into the program we might consider it."

Mr. Esenberg expressed his concern that it appears a lot of decisions were left to the reinsurer. Further, Mr. Esenberg expressed the desire for concrete information.

Mr. Murphy restated "the Joint Subcommittee asked Mr. Hamner and the Office of Risk Management to get together with program insurers one of which was the Rutherfoord people in order to formulate the most cost effective method for these agencies to enter the Statewide program." Mr. Murphy commented that "A determination as to the most cost effective method can't be made unless we know what the costs are." Mr. Murphy asked "When would you propose to submit those costs?"

Mr. Rutherfoord said that they were told to come together today to discuss how to go about coming up with "apples to apples" and not to sell a particular program.

. Rutherfoord said that information on estimated payrolls was requested least four months ago from the DGS/ORM and he was told that it was not ailable. In Mr. Williams' response to Question 4(d) Mr. Rutherfoord derstood that the information was available from the Industrial Commis- on. Consequently, they came up with their own figures. Mr. Murphy re- ested that this information be released to Mr. Rutherfoord.

. Esenberg recalled that in the Blacksburg meeting the proposal submitted Thomas Rutherfoord, Inc., did not include the Department of Corrections. . Rutherfoord stated that they are included in the present program. He so indicated the company is rated A in the 1933 Best Rating.

. Murphy asked if the firm has a Standard and Poor's ability to pay laims rating and if so what it was. Mr. Rutherfoord replied yes, but he dn't have it with him.

r. Murphy asked Mr. Koehler "when you take the average of the last five ars of incurred losses without any development or indexing current to llars these figures don't you infact under estimate the claims for the uture?"

r. Koehler replied "I can't answer that question as exact as you'd like me o" - "I feel they don't - the reinsurer in evaluating the claim provided". e also said that he was certain that history had been developed to current ollar in their calculation for future cost. However, he did not want to ivulge the structuring of their reinsurance program.

r. Rutherfoord said, "yes, we feel the amount of reserve is adequate" and here is a factor for benefit increases and there is a guaranteed price.

r. Murphy asked if this is a normal type self insurance scheme whereby the gency pays its losses up to each individual loss limit after which a rein- urer would pay the excess for each occurrence as well as a aggregate stop oss?"

r. Koehler replied yes, that is correct. A predetermined retention has een arrived at by the reinsurer for each agency. "It is the same for each gency". "An administrator would handle the claims as one group which ould cut down tremendously on the overhead of each individual handling heir claims and engineering. Losses will be segregated by agency.

r. Murphy asked if any of the State agency representatives wished to com- ent, however there were no comments.

Mr. Murphy recognized Mr. Butler, Liberty Mutual during the Question and nswer period. Mr. Butler addressed his question to Mr. Rutherfoord and sked if "this is the same type of self-insurance that is sanctioned under he Insurance Regulation 16?" Mr. Rutherfoord replied that it was. Mr. Butler asked if Mr. Rutherfoord has received special dispensation from the Bureau of Insurance. Mr. Butler's interpretation of Insurance Regulation 16 is that the agencies are not a valid self insurance group because there s a common employer - the Commonwealth. Mr. Landon, Yeager and Company, said that he would see it as one employer subdivided by agency.

. Butler said that there is considerable discussion being held over this matter at the Bureau of Insurance and Mr. King with the Bureau did not feel the agencies qualified.

Mr. Butler referred to the Rutherfoord's presentation in Blacksburg and the figure for the required Travelers premium of $10,878,000.

Mr. Koehler said that the figure was developed by original information obtained in the Charlottesville meeting and subsequent telephone conversations with State agencies to ask what their contribution represented. He said that the general consensus was it "represented 60% of standard premium". He said that they added the contributions and divided by 60% to receive an estimated annual premium. Mr. Butler asked if $10 million would be a estimate of premium. Mr. Williams responded that the standard premium is $12,489,000.

Mr. Rutherfoord suggested that the current program and his proposed program be run parallel to see which program is the best. Mr. Rutherfoord said he wasn't suggesting doing anything to the current program as he felt it was the best program that can be bought. He further stated that the Travelers has a top notch rating; a fine company.

Mr. Esenberg asked Mr. L. W. Heiner, Industrial Commission, what was the Industrial Commission's position regarding single employers having portions of their employees being covered under different types of programs, i.e. having one department or division self insured versus having others commercially insured.

Mr. Heiner commented that historically there has never been a problem with State agencies because State Law indicates that there is a sole employer and that any State employee is an employee of the Commonwealth. Mr. Heiner further stated that the Industrial Commission views the agencies as being individually self insureds already and the Industrial Commission does not care how the agencies fund their liability.

Mr. Weston said that each agency is combined into a single experience rating promulgation so that there is a central experience modification but it has not always been that way.

Mr. Smith, Travelers Insurance Company clarified the "Travelers Required Premium" as "paid losses (losses with certain limitations) plus expenses".

Mr. Butler expressed his concern that in the original Rutherfoord presentation there was an illusion to the fact that the Travelers premium was estimated at $10 million and the proposed premium was around $3.5 million. In actuality, the differential is far closer. Mr. Butler felt that the presentation would be misleading to the lay persons not well versed in insurance.

Mr. Murphy asked for comments or concerns by the State agencies.

Dr. Haas, UVA submitted his concerns (Attached as Exhibit B).

Mr. Bruce Chase, VCU said the figures developed were based on guidance given (on what loss incurred cost will be to the institutions) and if these figures are considered inaccurate he will be willing to rework them. He estimated that costs would increase to enter the current program.

Mr. Smoot, VPI&SU, expressed the fact that their concern is not with the kind of program but with the cost. VPI&SU would like to participate in the program as they feel it will save money in the future. Their sole concern is the cost of entry.

Dr. Haas restated that "the UVA does not oppose going into the State-wide program as long as the funding is provided".

Mr. James Harris, DOC said that they share the same feeling as UVA. They have $625,000 budgeted for 1984-85 and entry into the current program is estimated at $1 million. The Department of Corrections would like to enter the program but have inadequate funding. He felt that since the State supports an overall program maybe the State should come forth with funding versus individual budgets.

Mr. Murphy felt that some of the concerns expressed can be addressed with a paper to show what costs would be and how the initial costs would be developed. He said he understood that people who generate the cost will pay the cost. He asked that the DGS/ORM and the Rutherfoord agency both prepare this paper so a comparison can be made.

Mr. Murphy asked of UVA and VCU if work incurred injuries are generally treated by in-house facilities? Mrs. Heims, University of Virginia said that first aid treatment is provided to the injured worker by the UVA medical center. The entire resources of the UVA Hospital is made available however injured persons may go to private physician.

Mr. Chase, VCU, said that the medical facilities at VCU are used often however injured persons are not required to go there.

Mr. Murphy asked who, at each agency, determines compensability? At the UVA Mrs. Heims is assigned the responsibility.

Mr. Murphy directed several miscellaneous questions as to "in-house" accident procedures - i.e. safety, claims handling, investigation, employee rights, etc.

Mr. Murphy asked the DGS/ORM and the Rutherfoord agency to prepare a paper on the allocation of costs and the opportunities that exist for reduction of cost by claims control and safety.

Mr. Esenberg asked if VCU internally transferred money from their paid loss account to the hospital for the treatment of an injured person? Mr. Chase replied that VCU actually cancels the hopsital bills and by doing this they find the actual cost. The bill for physician services is paid.

elegate Munford said that "basically I think the agencies want the insurance program...I think that Risk Management wants to provide...I think they are very anxious for it to be actuarially sound but on the other hand...is it fiscally prudent to fund today something that is five to six years down the road...".

Mr. Murphy asked Mr. Scott's response. Mr. Scott gave background information on the program. In 1980 the program was started with a mandate that in three years all agencies would be in the program however this has not happened. No precise loss data was available until recently from the Travelers Insurance Company. Once information was developed on the participating agencies and information provided from agencies outside the program, DGS/ORM began looking at a paid loss concept. This was DGS/ORM's ultimate objective by 1983, however the date was changed to 1986 due to the lack of participation.

In 1986 DGS/ORM is mandated to make a decision to continue a paid loss concept or go into a self insurance program.

House Joint Resolution 8 was enacted and DGS/ORM was caught by surprise. Premium was based on payroll and as loss experience was developed premium costs went down.

Mr. Scott said he felt now the program should be "professionally put ogether with sound fiscal responsibility..."

hrough the conversion of the incurred loss concept to a paid loss concept, the Trust Fund realized substantial monies. Mr. Scott emphasized that interest is taken by the legislature.

DGS/ORM is trying to arrive at a common denominator to bring all agencies into the program through the transition period. Mr. Scott proposed to the agencies "we will charge you to come into the program July, 1984 a reasonable figure based upon what your payout was this past year (or the preceding year)." If the agencies agree to go on a pre-funded concept, more money may be needed at a later date. By the agencies coming into the program now, the DGS/ORM can make a determination in 1986 if it is financially prudent to go self insured or continue on a paid loss concept.

Mr. Esenberg feels he can explain how DGS/ORM has developed their figures based on the meeting but he isn't sure he can accomplish this goal regarding the Rutherfoord's proposal. Mr. Esenberg asked if the insured or the Rutherfoord agency would be willing to provide some confirmation, in writing, as to how they developed estimates of the ultimate payout. This information is needed to develop a common base from which to compare the proposals. Mr. Rutherfoord restated that they felt sure that proper and appropriate matrix's were used. Mr. Esenberg expressed that further information is needed to accomplish the task of comparison.

'r. Rutherfoord said "basically we have a definite quotation from a reliable insurance company." He further stated that they could furnish who the underwriter was, their financial stability and their Standard and Poor's rating.

Murphy recalled that Mr. Rutherfoord had said that the cost in their oposal was for the first year. Mr. Rutherfoord added "each year the pre- um is bound to change."

. Rutherfoord stated he could give his cost factors. It was decided that . Rutherfoord will supply the cost factors to Mr. Murphy and Mr. Esenberg letter and he will also respond as to how each agency's experience would ereby generate that agency's cost.

. Rutherfoord stated he would prefer to deliver his proposal to the Joint bcommittee when it meets. Mr. Murphy and Mr. Esenberg anticipate being le to give the Joint Subcommittee an "apples to apples" comparison of the oposals only if the responses to the questions asked of the Rutherfoord ency are received. This includes a review of the proposal information.

. Rutherfoord was requested to submit the proposal to Mr. Esenberg and . Murphy as Delegate Munford indicated that the Joint Subcommittee would t be prepared to act on the proposal if a comparison has not been made.

. Rutherfoord replied "Of course we'll give that some thought... we'll t back in touch with you."

was decided that Mr. Murphy and Mr. Esenberg will write a letter to Mr. therfoord requesting the desired information.

. Hamner commented that the current program was not developed under the w Procurement Act. It is anticipated that in 1986 bids or proposals will solicited at that time for workers' compensation coverage.

he meeting was adjourned at 3:55 p.m.

Exhibit A - Nine Questions

1) Did Mr. Rutherfoord's firm/Office of Risk Management recognize that the loss figures submitted by the eight self-insured agencies were primarily unaudited, paid losses, and not incurred losses?

2) If this fact was recognized, did Mr. Rutherfoord's firm/Office of Risk Management utilize any type of industry standard payout matrix to develop the ultimate incurred losses?

3) Were underwriters actually contacted for a quote or indication on the cost of excess insurance?

4) If so,

   (a) what loss figures were given?
   (b) were the figures separated into the eight separate agencies, or were they provided in one lump sum?
   (c) were the underwriters made aware that the figures represented only paid losses (or incurred losses developed by Mr. Rutherfoord's firm or the Office of Risk Management)?
   (d) were estimated payrolls provided to the underwriters, and were these broken down by job class?

5) Would Mr. Rutherfoord's firm/Office of Risk Management be so kind as to provide a breakdown of total cost estimates including:

   (a) estimated retained losses (by agency),
   (b) claims administration costs (by agency)
   (c) excess premium costs, indicating the per agency self-insured retention level and the upper limits of the excess insurance for each agency.

6) What procedure would be used by the service agency to pay losses (from a bank account funded by the agency, from a deposit fund held by the service company utilizing monies paid to the service company by the agency, and maintained at a specified level, etc.)?

7) Did Mr. Rutherfoord's firm/Office of Risk Management discount the estimated incurred loss figures to take advantage of any interest income that may be earned by the agencies?

8) Did Mr. Rutherfoord's firm/Office of Risk Management figures represent the total cost to the agencies over a period of years until payments are at their maximum retention, or did the figures represent the expected cash payments during only the first year of the program?

9) Is Mr. Rutherfoord's firm/Office of Risk Management recommending the establishment of a funded reserve for actuarily computed incurred losses?

Exhibit B

Dr. Raymond Haas - University of Virginia - Objectives

1) To learn the cost assessment formulas and the data on which it was based (Risk Management & Thomas Rutherfoord) if only so we can be more effective.

2) We want everyone to know there will be a continuing cost beyond current premiums for past claims.

3) We want to be sure that the accuracy of the University of Virginia cost data (as substantiated by Travelers') is understood.

4) We need to know how claims will be administered because therein lie the greatest potential for costs which are hard to foresee.

5) Any program must offer incentives for good claims management, University of Virginia wants to be excellent in that regard.

6) Unlike some State agencies, the costs of higher education institutions are borne in part by students through tuition.

The University of Virginia does not oppose the State's program. We would like to be a part and need only to have our extra costs funded. We especially commend the work of Mr. Hamner, Mr. Scott and Mr. Williams - they have been excellent to work with.

— Mr. Scott

EXHIBIT II

Thomas Rutherfoord, Inc.
Insurance Agents and Brokers
Home Office: One South Jefferson Street
P. O. Box 12748, Roanoke, Va 24028-2748
Telephone (703) 982-3511 Telex: 82-9419

November 8, 1983

Mr. H. Douglas Hamner, Jr., Director
Department of General Services
209 Ninth Street Office Building
Richmond, Virginia 23219

Dear Mr. Hamner:

We are in receipt and thank you for your letter of November 1, 1983.

Unfortunately, due to certain time parameters we will not be able to respond in writing to the questions provided by Mr. Esenberg.

We would, however, expect to have this information in hand for the November 16th meeting.

Sincerely yours,

William M. Koehler

William M. Koehler

WMK/slm

cc: The Honorable C. Richard Cranwell
The Honorable Joan H. Munford
The Honorable Virgil H. Goode, Jr.

Department of General Services

OFFICE OF RISK MANAGEMENT
NOV 9 1983

EXHIBIT III

December 2, 1983

CERTIFIED MAIL

Mr. Thomas D. Rutherfoord
c/o Thomas D. Rutherfoord, Inc.
One South Jefferson Street
P. O. Box 12748
Roanoke, Virginia 24028-2748

Dear Mr. Rutherfoord:

At the meeting of interested parties called to formulate the most cost-effective method for certain state agencies to enter the state-wide workers' compensation program held Wednesday, November 16, 1983 chaired by us, you and your associate, William M. Coehler, expressed a reluctance to respond to our questions concerning the pertinent parts of a program recommended by your firm for the self insuring of workers' compensation by certain state agencies. You had expressed your intention to deliver a complete proposal to the Joint Subcommittee studying the workers' compensation insurance program, HJR 8. Delegate Joan H. Munford, Chairman of that Subcommittee, indicated that the Joint Sub-Committee would not be prepared to act on a proposal if a comparison had not been made. At that juncture we stated we would submit our questions to you in writing, the answers to which will then give us the opportunity to make an indepth review (an apples to apples comparison) of your proposal vs. the in-force program administered by the Office of Risk Management. Unless complete answers to all our questions are available from you, then no comparison as intended by the Joint Subcommittee can be made.

Although you responded generally to the questions submitted to you by Mr. Hamner in his letter of November 1, 1983, those questions are attached as Exhibit I. We ask that you respond in writing to each question. We also ask that you complete Exhibit II in its entirety. In addition, please respond to the following queries so a complete analysis can be made of your proposal.

1. Is this a true self-insurance proposal; i.e., losses paid by the self-insured up to a predetermined per loss

limit above which excess insurance reponds? If not, what type plan are you proposing?

2. Assuming this is a self-insurance proposal, what is the per loss limit?

3. Is there an annual aggregate limit in the plan? If so, what is it? Is it an overall plan limit or is it a per participant limit?

4. Does the excess insurance provide coverage for marine, longshoremen & harbor workers, employers' liability and extraterritorial exposures?

5. In your plan, what is the basis of assumed losses? Paid? Incurred?

6. What development factors, if any, have been used?

7. What trending factors, if any, have been used?

8. What claims handling service will be employed and what is the basis for the claims handling charge; i.e., percentage of the claim or a predetermined per claim charge? What percent or per claim charge?

9. How will the administrative fee charged by your firm be determined? If it is included in the premium charged for the excess insurance, please indicate the percentage of the commission charged.

10. What underwriter will provide the excess insurance? Please indicate the Bests rating and the Standard and Poors ability to pay claims rating.

11. Since you stated the costs charged in your plan were guaranteed, please provide the complete cancellation clause under the excess policy.

Your prompt response to these questions will enable us to provide the Joint Subcommittee with the information it has requested. Please address your replies to William H. Murphy c/o Reynolds Metals Company, P. O. Box 27003, Richmond, Virginia 23261.

Sincerely,

William H. Murphy

R. W. Esenberg

cc: Joan H. Munford, Chairman of Joint Subcommittee Studying Workers' Compensation Self Insurance, HJR 8
H. Douglas Hamner, Jr., Director - Department of General Services, Commonwealth of Virginia

1. Did Mr. Rutherfoord's firm/Office of Risk Management recognize that the loss figures submitted by the eight self-insured agencies were primarily unaudited, paid losses, and not incurred losses?

2. If this fact was recognized, did Mr. Rutherfoord's firm/Office of Risk Management utilize any type of industry standard payout matrix to develop the ultimate incurred losses?

3. Were underwriters actually contacted for a quote or indication on the cost of excess insurance?

4. (a) what loss figures were given?
   (b) were the figures separated into the eight separate agencies, or were they provided in one lump sum?
   (c) were the underwriters made aware that the figures represented only paid losses (or incurred losses developed by Mr. Rutherfoord's firm or the Office of Risk Management)?
   (d) were estimated payrolls provided to the underwriters, and were If so,these broken down by job class?

5. Would Mr. Rutherfoord's firm/Office of Risk Management be so kind as to provide a breakdown of total cost estimates including:
   (a) estimated retained losses (by agency),
   (b) claims administration costs (by agency)
   (c) excess premium costs, indicating the per agency self-insured retention level and the upper limits of the excess insurance for each agency.

6. What procedure would be used by the service agency to pay losses (from a bank account funded by the agency, from a deposit fund held by the service company utilizing monies paid to the service company by the agency, and maintained at a specified level, etc.)?

7. Did Mr. Rutherfoord's firm/Office of Risk Management discount the estimated incurred loss figures to take advantage of any interest income that may be earned by the agencies?

8. Did Mr. Rutherfoord's firm/Office of Risk Management figures represent the total cost to the agencies over a period of years until payments are at their maximum retention, or did the figures represent the expected cash payments during only the first year of the program?

9. Is Mr. Rutherfoord's firm/Office of Risk Management recommending the establishment of a funded reserve for actuarily computed incurred losses?

Exhibit

FIVE YEAR CA FLOW EXHIBIT
SELF IN NCE PLAN
WORKERS' MPENSATION

	First Year	Second Year	Third Year	Fourth Year	Fifth Year
I. Payments on Loss Incurred in the:					
First Year					
Second Year					
Third Year					
Fourth Year					
Fifth Year					
Total Payments In:					
II. Other Costs					
A) Excess Insurance					
B) Claims Handling Fee					
C) Plan Administration Fee including Loss Prevention Services					
D) Financial Guarantee Cost (If Required)					
E) Self Insurers' Tax					
Total Other Costs					
Total I & II					
III. Payments on Prior Losses					
Total Cash Flow					