

**REPORT OF THE
DEPARTMENT OF HUMAN RESOURCE MANAGEMENT**

**Workers' Compensation Program
Settlements in Fiscal 2005 and
Experience-based Premium
Recommendations**

**TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA**



HOUSE DOCUMENT NO. 56

**COMMONWEALTH OF VIRGINIA
RICHMOND
2005**

Workers' Compensation Settlements in Fiscal 2005

The Workers' Compensation Program settled twenty-two Workers' Compensation claims during Fiscal 2005 saving \$878,160.57 in expected future costs. Exhibit A provides a list of all settlements. Savings are calculated as follows:

Total Case Reserves (Future Exposure)	\$ 1,290,368.78
Total Settlement Amounts	\$ 412,208.21
Savings due to settlements	\$ 878,160.57

All settlements have been approved by the Virginia Workers' Compensation Commission as being in the best interest of the claimant or the dependents as required by Rule 1.7 of the Rules of the Commission. Prior to the approval of all settlements, the Workers' Compensation Program staff must:

- obtain the most current medical information
- obtain a current rehabilitation report indicating the employee's inability to return to any type of gainful employment
- determine if the employee has taken disability or service retirement through the Virginia Retirement System
- determine if the employee is receiving social security disability benefits
- conduct an analysis of the benefit to the Commonwealth of Virginia when comparing the amount of settlement to the estimated future exposure that would be created for the Virginia Retirement System
- obtain approval from the Director of Workers' Compensation

After it has been determined that it is in both the claimant's and the Commonwealth of Virginia's best interest to settle the claim, it is submitted to the Office of the Attorney General for approval. If the Office of the Attorney General concurs with the recommendation, the proposed compromise settlement is submitted to the Virginia Workers' Compensation Commission for their approval.

Experience-based Premium Recommendations

Objective

The study provides recommendations to the Governor and the General Assembly of the agency-by-agency cost of experience-based premiums for the Department of Human Resource Management's Workers' Compensation Program for FY2007 and FY2008 using the latest actuarial data.

Recommendation

The recommendation is to have workers' compensation premiums equal to the cash flow needs of the program. Total premiums recommended for each fiscal year are:

<u>Recommended FY2007 Premium</u>	<u>Recommended FY 2008 Premium</u>
\$50,983,322	\$52,945,567

Background

Experience-based premiums are based on the marketplace premise that the higher the cost of claims, the higher the premiums. The policyholder's claim history, the number and dollar amount of previous claims, projected payroll, as well as other risk factors determine premiums. With experience-based premiums, the policyholder absorbs any increase in premium costs, and retains savings if premiums decrease. This gives the policyholder a monetary incentive to prevent accidents and control costs.

The Department of Planning and Budget conducted an evaluation study of the Workers' Compensation Program and in December of 1998 issued a report *Experience-Based Premiums for the Commonwealth's Self-Insurance Programs*. They recommended that the Workers' Compensation Program should adopt experience-based premiums. Because of the increased cost of premiums and the cost shifting between agencies, experience-based premiums were phased in over a two-year period. Premiums for FY2000 were capped at no more than a 50 percent increase or decrease, compared to FY1998 premiums. Premiums for FY2001 were experience based with no cap. Premiums for FY2002 were identical to FY2001 and did not reflect loss or payroll trends or exposure (payroll) growth between 2000 and 2002. Premiums for FY2003, FY2004, FY2005 and FY2006 were also experience based.

Since FY1998 total premiums collected equaled the actuarial projection of the expected cash flow needs of the program. There is no requirement that the workers' compensation program be actuarially sound. The workers' compensation program has consistently been in a deficit fund position since 1987.

Benefits of Experience-based Premiums

With so many competing goals existing in the work environment today, claims and loss control receive little attention by agency management when there are no consequences. Experience-based premiums have created agency management awareness of the cost of their claims. It has also provided a financial incentive for agencies to control costs. When an agency has an effective loss control program, premiums typically will be reduced due to improved experience (unless the agency has a significant increase in projected payroll).

Since 1999 agencies have been required to analyze their workplace accidents, develop goals and strategies to reduce or eliminate them, and to create opportunities, whenever possible, to return employees to work. Since implementing experience-based premiums, agencies have made significant headway in controlling workplace injuries. Creating experience-based premiums has definitely increased agency attention to their safety and loss control needs.

The Workers' Compensation Program has created an extensive training and inspection program that assists agencies with their initiatives to:

- eliminate or reduce premises hazards
- reduce or control exposures
- create training programs to increase control of risk
- improve workplace safety
- reduce program costs
- reduce the frequency and severity of claims
- return employees to work in a transitional or modified duty capacity

Methodology

Mercer Oliver Wyman (Mercer) was asked to provide an allocation of the projected FY2007 and FY2008 costs of the workers' compensation self-insurance program to the Commonwealth's agencies. The allocation was to reflect the historical experience of the individual agencies. It was also requested that they rely on their annual analysis of the overall reserve requirements of the self-insurance program.

The Department of Planning and Budget provided payroll information. Actual premiums charged to each agency and their claims history was provided by the Office of Workers' Compensation.

The actuary provides three premium options based upon their reserve analysis. The figures represent the total of the projected program and administrative expenses and projected losses for FY2007 and FY2008 under three scenarios:

1. Indicated Undiscounted Actuarial Premium (cashflow) – the premium required to pay the ultimate cost of claims anticipated to occur during FY2007 plus the FY2007 program and administrative expenses.
2. Pay As You Go – projection of loss and expense payments (net of anticipated investment income) to be made during FY2007 on all accident years.

3. Pay As You Go Plus One Year's Cashflow – projection of loss and expense payments (net of investment income) to be made during FY2007 plus the amount required so that the FY2007 ending fund balance is equal to the FY2006 cash flow.

It is the recommendation of the Department of Human Resource Management that the program continue to allocate premiums on the Pay As You Go basis. This scenario represents a 4.9 percent increase in overall premiums for FY2007 as compared to FY2006 and a 3.8 percent overall increase in premiums for FY2008 as compared to FY2007.

Total premiums recommended are \$50,983,322 for FY2007 and \$52,945,567 for FY2008. Exhibit B provides recommended workers' compensation premiums by agency on a Pay as You Go (cash flow) basis for FY2007 and FY2008. The complete actuarial study is attached (Exhibit C) which provides details of the individual calculations that were performed to arrive at the final premium recommendations.

Fiscal Year 2005 Workers' Compensation Settlements

Claimant Name	Date of Injury	Settlement Amount	Future Exposure	Savings due to Settlement
Lynn K. Bremby	4/24/2002	\$14,828.77	\$ 49,000.00	\$ 34,171.23
Ronnie R. Campbell	5/22/2001	\$40,557.73	\$ 100,000.00	\$ 59,442.27
Charles W. Carrico	7/28/1998	\$17,000.00	\$ 49,995.00	\$ 32,995.00
Charles Mark Cosslett	10/23/2002	\$86,977.04	\$ 173,293.29	\$ 86,316.25
Clyde Faulkner, Jr.	1/23/2003	\$18,666.28	\$ 40,000.00	\$ 21,333.72
James T. Graham	10/19/2000	\$30,932.72	\$ 80,000.00	\$ 49,067.28
Kathryn Clark Hall	4/23/2003	\$7,219.52	\$ 40,000.00	\$ 32,780.48
Walter Harris	12/12/2001	\$5,386.47	\$ 13,500.00	\$ 8,113.53
Mary Harris Hayes	4/11/2002	\$33,540.00	\$ 160,430.00	\$ 126,890.00
John P. Houlberg	11/22/2001	\$33,000.00	\$ 152,000.00	\$ 119,000.00
Ravinder Kahlon	7/20/1999	\$10,032.83	\$ 15,000.00	\$ 4,967.17
Nasima Kandahari	4/21/2000	\$9,215.12	\$ 35,000.00	\$ 25,784.88
Carolyn May	5/13/2003	\$265.75	\$ 5,000.00	\$ 4,734.25
Michael Alvin McCrickard	4/2/2001	\$5,000.00	\$ 8,026.34	\$ 3,026.34
Phillip J. McMullen	10/29/2001	\$8,333.33	\$ 16,333.67	\$ 8,000.34
Matthew D. Okuley	1/30/2001	\$8,291.15	\$ 13,000.00	\$ 4,708.85
George Samoszenko	8/9/2002	\$16,667.18	\$ 52,000.00	\$ 35,332.82
Frances L. Sink	7/31/2000	\$8,258.47	\$ 10,000.00	\$ 1,741.53
Joyce Ann Sutton	2/24/1999	\$7,700.49	\$ 80,000.00	\$ 72,299.51
Kenneth S. Walker	7/23/1996	\$20,835.36	\$ 43,690.23	\$ 22,854.87
Paul M. Williams	7/6/1999	\$17,500.00	\$ 77,382.00	\$ 59,882.00
Alfred N. Wise	6/12/2003	\$12,000.00	\$ 76,718.25	\$ 64,718.25
TOTALS		\$412,208.21	\$1,290,368.78	\$878,160.57

COMMONWEALTH OF VIRGINIA
SELF INSURED WORKERS' COMPENSATION FUND
WORKERS COMPENSATION PREMIUM FOR FISCAL YEARS 2007 & 2008

Agency Code	Agency Name	FY 2006 Actual Premium	Recommended Premium	
			Pay As You Go FY 2007	Pay As You Go FY 2008
100	Senate of Virginia	6,568	6,417	6,649
101	House of Delegates	9,882	11,132	11,497
103	Magistrate System	29,605	23,641	22,092
107	Division of Legislative Services	4,463	5,795	6,298
108	VA Code Commission	59	47	37
109	Division of Legislative Automated Systems	1,795	1,433	1,130
110	Joint Legislative Audit Review Commission	2,830	3,421	3,552
111	Supreme Court of Virginia	179,836	149,883	155,662
112	Judicial Inquiry and Review Commission	406	417	433
117	Virginia State Bar	9,272	7,404	6,615
119	Office of Lieutenant Governor	286	324	337
121	Office of the Governor	1,782	2,314	2,982
122	Department of Planning & Budget	5,078	4,994	5,182
123	Department of Military Affairs	208,621	179,969	185,732
127	Department of Emergency Management	11,630	12,671	13,107
129	Department of Human Resource Management	12,708	10,148	8,001
132	State Board of Elections	1,688	1,567	1,626
133	Auditor of Public Accounts	4,876	3,894	3,908
136	Virginia Information Technologies	29,051	37,724	39,599
140	Department of Criminal Justice Services	99,808	12,367	12,846
141	Office of the Attorney General	16,004	17,403	18,076
146	Science Museum of Virginia	24,801	19,804	19,070
148	Virginia Commission for the Arts	320	329	341
151	Department of Accounts	8,854	7,070	5,575
152	Department of the Treasury	9,665	12,449	12,921
154	Department of Motor Vehicles	783,581	625,716	647,081
156	Department of State Police	4,345,957	3,962,079	4,114,083
157	Compensation Board	1,789	1,429	1,392
158	Virginia Retirement System	19,028	15,195	15,054
160	Virginia Criminal Sentencing Commission	810	707	734
161	Virginia Department of Taxation	72,446	60,151	62,377
163	Department for the Aging	1,793	1,729	1,794
165	Dept of Housing & Community Development	20,074	16,030	14,592
166	Secretary of the Commonwealth	1,212	1,273	1,319
170	Council on Human Rights	337	273	284
171	State Corporation Commission	49,242	51,706	53,706
172	Virginia State Lottery Department	28,747	22,955	18,100
173	Charitable Gaming Commission	2,206	2,307	2,386
174	Virginia College Savings Plan	2,236	2,328	2,418
175	Virginia Office for Protection and Advocacy	1,265	1,643	2,117

Agency Code	Agency Name	FY 2006 Actual Premium	Recommended Premium	
			Pay As You Go FY 2007	Pay As You Go FY 2008
180	Secretary of Administration	918	1,069	1,109
181	Virginia Department of Labor and Industry	61,799	49,349	50,145
182	Virginia Employment Commission	111,655	96,255	99,496
183	Secretary of Natural Resources	551	582	605
184	Secretary of Technology	49	64	82
185	Secretary of Education	624	694	720
186	Secretary of Transportation	507	653	678
187	Secretary of Public Safety	731	808	838
188	Secretary of Health and Human Resources	865	827	856
190	Secretary of Finance	534	566	588
191	Virginia Workers' Compensation Commission	40,761	35,079	36,407
192	Secretary of Economic Development	521	624	648
194	Department of General Services	218,203	258,622	268,522
199	Department of Conservation and Recreation	274,453	232,270	239,849
201	Department of Education	31,605	25,238	21,150
202	The Library of Virginia	13,182	11,154	11,569
204	The College of William & Mary	469,341	421,849	437,342
207	University of Virginia	1,418,306	1,247,137	1,292,701
208	Virginia Polytechnic Institute & State University	3,022,520	2,413,586	2,413,490
209	University of Virginia Medical Center	2,132,851	1,923,179	1,987,461
211	Virginia Military Institute	254,124	202,927	160,005
212	Virginia State University	144,153	119,216	123,660
213	Norfolk State University	204,459	249,036	258,418
214	Longwood University	123,814	160,777	206,926
215	University of Mary Washington	167,920	139,398	144,520
216	James Madison University	754,709	602,661	602,431
217	Radford University	415,063	442,463	458,783
218	Virginia School for the Deaf & Blind Staunton	50,388	45,678	47,351
219	Virginia School for the Deaf & Blind Hampton	87,274	93,879	97,220
221	Old Dominion University	470,209	517,552	536,391
222	Dept of Professional & Occupational Reg	9,157	10,525	10,919
223	Department of Health Professions	30,865	32,829	34,012
226	Board of Accountancy	361	302	313
232	Dept of Minority Business Enterprise	2,304	1,840	1,451
233	Virginia Board of Bar Examiners	541	641	664
236	Virginia Commonwealth University	913,015	1,088,101	1,127,688
238	Virginia Museum of Fine Arts	50,138	51,001	52,927
239	Virginia Frontier Culture Museum	5,850	5,386	5,571
242	Christopher Newport University	194,634	155,422	129,523
245	State Council for Higher Education	2,645	2,922	3,032
246	University of Virginia at Wise	54,412	54,734	56,782
247	George Mason University	655,313	655,687	679,106
260	Virginia Community College System	958,461	854,934	886,635
262	Department of Rehabilitative Services	201,952	180,421	187,253
268	Virginia Institute of Marine Science	165,866	132,450	135,736
301	Dept. of Agriculture & Consumer Services	150,137	119,890	110,940
307	Virginia Agricultural Council	18	22	23
319	Chippokes Plantation Farm Foundation	935	747	649
325	Department of Business Assistance	4,300	5,564	5,772
402	Marine Resources Commission	127,634	136,903	142,210
403	Department of Game and Inland Fisheries	382,412	380,639	395,243
405	Virginia Racing Commission	1,184	1,294	1,332
409	Department of Mines, Minerals and Energy	58,383	67,630	70,247

Agency Code	Agency Name	FY 2006 Actual Premium	Recommended Premium	
			Pay As You Go FY 2007	Pay As You Go FY 2008
411	Department of Forestry	244,237	196,690	203,965
413	Virginia Alcohol Safety Action Program	868	1,127	1,452
417	Gunston Hall	3,304	2,638	2,290
423	Department of Historic Resources	10,445	8,341	8,558
425	Jamestown-Yorktown Foundation	61,680	74,940	77,377
440	Department of Environmental Quality	181,099	150,499	156,249
454	Office of Commonwealth Preparedness	423	511	529
501	Department of Transportation	8,966,566	11,643,394	12,738,534
601	Virginia Department of Health	840,874	898,224	932,173
602	Department of Medical Assistance Services	19,456	22,618	23,455
606	Virginia Board for People w/Disabilities	543	635	658
702	Department for the Blind and Vision Impaired	50,298	62,971	65,289
720	Dept. of Mental Health & Mental Retardation	7,861,619	8,539,237	8,862,578
750	Department of Correctional Education	234,418	187,191	148,332
751	Virginia Dept for Deaf & Hard of Hearing	1,046	1,021	1,060
765	Department of Social Services	146,335	158,547	164,584
766	Virginia Parole Board	970	779	805
777	Department of Juvenile Justice	2,699,401	2,155,564	1,877,936
778	Department of Forensic Science	0	83,346	86,578
794	Virginia Center for Behaviorial Rehabilitation	0	20,494	21,253
799	Department of Corrections	5,780,276	7,091,165	7,364,677
820	Capitol Square Preservation Council	79	88	91
834	Virginia Freedom of Information Advisory Council	156	160	166
839	Virginia Commission of Youth	319	255	246
840	Virginia Housing Study Commission	118	153	163
841	Department of Aviation	15,090	12,050	11,724
844	Joint Commission on Health	406	324	286
847	Comm. on Tech. & Sciences	170	150	156
848	Public Defender Commission	21,194	22,258	23,121
853	Office for Substance Abuse Prevention	0	289	299
912	Department of Veterans' Services	139,887	117,108	121,487
942	Virginia Museum of Natural History	2,306	2,199	2,282
948	Southwest VA High Ed Center	2,823	3,260	3,374
957	Commonwealth's Attorney's Service Council	439	351	342
960	Department of Fire Programs	19,121	23,404	24,071
961	Division of Capitol Police	69,597	56,738	58,909
962	Dept of Employment Dispute Resolution	1,133	1,129	1,171
963	Virginia Liaison Office	312	343	355
999	Department of Alcoholic Beverage Control	793,190	911,922	940,292
	Statewide Total	48,623,415	50,983,322	52,945,567