

Report of the
Department of Human Resource Management
Workers' Compensation Program
Settlements in Fiscal 2009
and
Experience-based Premium Recommendations
Pursuant to
2009 Virginia Acts of Assembly
Chapter 0781, Item 85.F

August 28, 2009

Workers' Compensation Settlements in Fiscal 2009

The Workers' Compensation Program settled sixteen Workers' Compensation claims during Fiscal 2009 saving \$1,231,736.12 in expected future costs. Exhibit A provides a list of all settlements. Savings are calculated as follows:

Total Case Reserves (Future Exposure)	\$1,825,341.39
Total Settlement Amounts	\$ 593,605.27
Savings due to Settlements	\$1,231,736.12

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.

One settlement was independently negotiated by the Office of the Attorney General and Governor's Office and was related to the settlements reached in the Virginia Tech tragedy cases.

Prior to the approval of all other 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
- confirm that the employee does not have health insurance through Department of Human Resource Management COVA Care
- 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 Workers' Compensation Program for FY2011 and FY2012 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 FY2011 Premium</u>	<u>Recommended FY 2012 Premium</u>
\$69,391,228	\$71,828,816

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-FY2010 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

Oliver Wyman Actuarial Consulting, Inc. (Oliver Wyman) was asked to provide an allocation of the projected FY2011 and FY2012 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 State Employee Workers' Compensation Services.

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 FY2011 and FY2012 under three scenarios:

1. Indicated Undiscounted Actuarial Premium (cashflow) – the premium required to pay the ultimate cost of claims anticipated to occur during FY2011 plus the FY2011 program and administrative expenses.
2. Pay As You Go – projection of loss and expense payments (net of anticipated investment income) to be made during FY2011 on all accident years.

3. Pay As You Go Plus One Year's Cashflow – projection of loss and expense payments (net of anticipated investment income) to be made during FY2011 plus the amount required so that the FY2011 ending fund balance is equal to the FY2012 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 13.1 percent increase in overall premiums for FY2011 as compared to FY2010 and a 3.5 percent overall increase in premiums for FY2012 as compared to FY2011.

Total premiums recommended are \$69,391,228 for FY2011 and \$71,828,816 for FY2012. Exhibit B provides recommended workers' compensation premiums by agency on a Pay as You Go (cash flow) basis for FY2011 and FY2012. 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.

EXHIBIT A

Fiscal Year 2009 Workers' Compensation Settlements

Claimant Name	Date of Injury	Settlement Amount	Future Exposure	Savings due to Settlement
Kenneth J. Akers	11/19/2005	\$8,934.22	\$ 21,892.77	\$ 12,958.55
Michael D. Brime	10/7/2006	\$44,248.47	\$ 133,807.21	\$ 89,558.75
Joshua Shane Christian	6/19/2002	\$20,000.00	\$ 407,020.00	\$ 387,020.00
James D. Faulcon	7/25/2008	\$3,184.49	\$ 6,230.13	\$ 3,045.64
Robert A. Hill	11/24/2006	\$17,044.12	\$ 295,656.74	\$ 278,612.62
Horace Alvin Jarratt	4/25/2007	\$14,717.08	\$ 94,096.54	\$ 79,379.46
Randa F. Kendall	11/14/2005	\$2,308.62	\$ 18,632.21	\$ 16,323.59
Phillip N. Knight	9/12/2007	\$2,172.54	\$ 24,408.86	\$ 22,236.32
Joanne Lawson	3/31/2004	\$2,960.93	\$ 5,148.45	\$ 2,187.52
John David Lewis	1/28/2002	\$707.38	\$ 5,500.00	\$ 4,792.62
Bernard Marquis	10/7/2005	\$1,028.97	\$ 1,750.00	\$ 721.03
Ronald R. McGlothlin	6/15/2005	\$27,994.71	\$ 96,188.15	\$ 68,193.44
Tresea Nelson	7/7/2005	\$2,410.56	\$ 4,123.60	\$ 1,713.04
Wayne J. Reed	10/24/2005	\$47,933.00	\$ 312,079.95	\$ 264,146.95
Robert L. Simmons	7/14/2006	\$460.18	\$ 1,306.78	\$ 846.59
Liviu Librescu	4/16/2007	\$397,500.00	\$ 397,500.00	\$ -
TOTALS		\$593,605.27	\$1,825,341.39	\$1,231,736.12

**COMMONWEALTH OF VIRGINIA
SELF INSURANCE FUND
WORKERS COMPENSATION PREMIUM FOR FISCAL YEARS 2011 & 2012**

Agency Code	Agency Name	FY 2010 Actual Premium	Recommended Premium	
			Pay As You Go FY 2011	Pay As You Go FY 2012
100	Senate of Virginia	8,243	8,042	8,308
101	House of Delegates	14,866	14,583	15,067
103	Magistrate System	21,350	23,803	24,592
107	Division of Legislative Services	5,750	5,606	5,792
108	VA Code Commission	42	47	49
109	Division of Legislative Automated Systems	1,989	1,696	1,752
110	Joint Legislative Audit Review Commission	3,437	3,178	3,283
111	Supreme Court of Virginia	176,553	212,710	219,760
112	Judicial Inquiry and Review Commission	505	479	495
117	Virginia State Bar	8,665	10,719	11,075
119	Office of Lieutenant Governor	355	322	333
121	Office of the Governor	4,812	4,435	4,582
122	Department of Planning & Budget	8,283	6,144	6,347
123	Department of Military Affairs	292,901	340,037	351,293
127	Department of Emergency Management	14,427	14,701	15,186
129	Department of Human Resources Management	10,599	12,683	13,103
132	State Board of Elections	2,435	2,255	2,329
133	Auditor of Public Accounts	5,486	5,237	5,411
136	Virginia Information Technologies	59,437	49,042	50,662
140	Department of Criminal Justice Services	11,075	12,519	12,934
141	Office of the Attorney General	23,335	26,401	27,276
146	Science Museum of Virginia	25,956	18,427	19,038
148	Virginia Commission for the Arts	427	394	407
151	Department of Accounts	9,811	12,340	12,749
152	Department of the Treasury	15,310	8,671	8,958
154	Department of Motor Vehicles	995,037	858,969	887,389
156	Department of State Police	4,266,359	5,201,285	5,372,083
157	Compensation Board	2,043	1,793	1,853
158	Virginia Retirement System	26,493	29,749	30,734
160	Virginia Criminal Sentencing Commission	960	916	947
161	Virginia Department of Taxation	72,614	69,961	72,268
163	Department for the Aging	2,624	2,162	2,234
165	Dept of Housing & Community Development	15,244	15,522	16,037
166	Secretary of the Commonwealth	1,764	1,575	1,627
170	Council on Human Rights	500	525	543
171	State Corporation Commission	67,184	55,400	57,237
172	Virginia State Lottery Department	23,957	20,448	21,125
174	Virginia College Savings Plan	4,255	4,845	5,005
175	Virginia Office for Protection and Advocacy	3,726	2,595	2,681
180	Secretary of Administration	1,406	1,220	1,261
181	Virginia Department of Labor and Industry	41,413	32,720	33,805
182	Virginia Employment Commission	96,061	81,400	84,096
183	Secretary of Natural Resources	814	719	743
184	Secretary of Technology	144	512	529
185	Secretary of Education	864	606	627
186	Secretary of Transportation	865	816	843
187	Secretary of Public Safety	941	595	615
188	Secretary of Health and Human Resources	960	655	676

Agency Code	Agency Name	FY 2010 Actual Premium	Recommended Premium	
			Pay As You Go FY 2011	Pay As You Go FY 2012
190	Secretary of Finance	798	629	650
191	Virginia Workers' Compensation Commission	64,072	46,580	48,123
192	Secretary of Economic Development	1,070	771	797
193	Secretary of Agriculture and Forestry	543	304	315
194	Department of General Services	293,701	254,810	263,207
199	Department of Conservation and Recreation	403,419	536,728	554,502
201	Department of Education	36,899	36,834	38,055
202	The Library of Virginia	16,389	15,271	15,777
204	The College of William & Mary	605,602	595,811	615,524
207	University of Virginia	1,594,235	2,063,863	2,132,110
208	Virginia Polytechnic Institute & State University	2,293,983	3,227,309	3,334,252
209	University of Virginia Medical Center	2,143,642	3,373,580	3,637,732
211	Virginia Military Institute	139,116	178,085	183,990
212	Virginia State University	169,223	194,207	200,636
213	Norfolk State University	302,189	289,428	299,010
214	Longwood University	254,625	264,286	273,043
215	University of Mary Washington	199,278	204,769	211,551
216	James Madison University	864,256	852,747	880,998
217	Radford University	534,438	432,037	446,343
218	Virginia School for the Deaf & the Blind	139,812	81,661	84,362
221	Old Dominion University	575,089	589,495	609,019
222	Dept of Professional & Occupational Reg	18,795	13,402	13,846
223	Department of Health Professions	34,125	28,939	29,897
226	Board of Accountancy	551	616	637
232	Dept of Minority Business Enterprise	1,966	3,603	3,722
233	Virginia Board of Bar Examiners	965	895	924
236	Virginia Commonwealth University	1,437,520	1,403,718	1,450,189
238	Virginia Museum of Fine Arts	45,703	52,933	54,686
239	Virginia Frontier Culture Museum	3,805	2,798	2,890
242	Christopher Newport College	214,679	271,729	280,717
245	State Council for Higher Education	5,336	5,078	5,246
246	University of Virginia at Wise	80,916	72,664	75,071
247	George Mason University	816,249	873,782	902,727
260	Virginia Community College System	1,407,613	1,489,334	1,538,689
262	Department of Rehabilitative Services	329,544	306,177	316,313
268	Virginia Institute of Marine Science	171,546	159,242	164,515
301	Dept. of Agriculture & Consumer Services	136,397	121,789	125,808
307	Virginia Agricultural Council	39	41	43
319	Chippokes Plantation Farm Foundation	443	773	798
325	Department of Business Assistance	5,099	4,036	4,170
402	Marine Resources Commission	115,589	76,855	79,404
403	Department of Game and Inland Fisheries	478,385	424,508	438,509
405	Virginia Racing Commission	2,230	2,181	2,253
409	Department of Mines, Minerals and Energy	72,396	52,132	53,860
411	Department of Forestry	313,674	360,544	372,457
413	Virginia Alcohol Safety Action Program	2,555	5,548	5,732
417	Gunston Hall	1,880	1,914	1,977
423	Department of Historic Resources	10,008	9,419	9,731
425	Jamestown-Yorktown Foundation	107,843	126,387	130,574
440	Department of Environmental Quality	153,454	151,695	156,725
454	Office of Commonwealth Preparedness	931	1,118	1,155
501	Department of Transportation	15,071,338	14,844,448	15,331,629
507	Board of Towing and Recovery Operations	94	167	172
601	Virginia Department of Health	984,911	1,078,038	1,113,768
602	Department of Medical Assistance Services	34,530	31,195	32,229
606	Virginia Board for People w/Disabilities	1,158	1,054	1,089
702	Department for the Blind and Vision Impaired	79,595	86,735	89,607

Agency Code	Agency Name	FY 2010 Actual Premium	Recommended Premium	
			Pay As You Go FY 2011	Pay As You Go FY 2012
720	Dept. of Behavioral Health and Developmental Services	9,700,514	13,679,976	14,127,212
750	Department of Correctional Education	197,402	207,610	214,494
751	Virginia Dept for Deaf & Hard of Hearing	1,224	969	1,001
765	Department of Social Services	265,102	194,299	200,737
766	Virginia Parole Board	984	917	948
777	Department of Juvenile Justice	2,511,259	2,085,088	2,153,996
778	Department of Forensic Science	75,740	75,728	78,234
794	Virginia Center for Behavioral Rehabilitation	37,403	127,325	131,537
799	Department of Corrections	7,503,486	8,683,126	8,969,936
820	Capitol Square Preservation Council	121	131	135
834	Virginia Freedom of Information Advisory Council	214	186	192
839	Virginia Commission of Youth	336	313	323
840	Virginia Housing Study Commission	0	0	0
841	Department of Aviation	15,427	21,498	22,211
844	Joint Commission on Health	503	636	657
847	Comm. on Tech. & Sciences	208	199	206
848	Public Defender Commission	40,690	93,613	96,717
853	Office for Substance Abuse Prevention	212	307	318
859	Virginia Sesquicentennial of the American Civil War C	0	63	65
912	Department of Veterans' Services	180,746	247,503	255,606
937	Southern Virginia Higher Education Center	2,387	2,339	2,416
938	New College Institute	631	777	803
942	Virginia Museum of Natural History	3,139	2,830	2,923
948	Southwest VA High Ed Center	4,088	4,640	4,793
957	Commonwealth's Attorney's Service Council	602	621	641
960	Department of Fire Programs	42,362	45,831	47,351
961	Division of Capitol Police	75,438	59,541	61,514
962	Dept of Employment Dispute Resolution	1,859	1,645	1,700
999	Department of Alcoholic Beverage Control	1,571,393	1,369,367	1,414,655
	Statewide Total	61,359,986	69,391,228	71,828,816