

Report of the
Department of Human Resource Management
Workers' Compensation Program
Settlements in Fiscal Year 2013
and
Experience-based Premium Recommendations
Pursuant to
2013 Virginia Acts of Assembly
Chapter 806, Item 83.F

September 3, 2013

Workers' Compensation Settlements in Fiscal 2013

The Workers' Compensation Program settled fourteen Workers' Compensation claims during Fiscal 2013 saving \$1,096,854.95 in expected future costs. Exhibit A provides a list of all settlements. Savings are calculated as follows:

Total Case Reserves (Future Exposure)	\$1,287,784.32
Total Settlement Amounts	\$190,929.37
Savings due to Settlements	\$1,096,854.95

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
- confirm that the employee does not have health insurance through Department of Human Resource Management
- 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 FY2015 and FY2016 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 FY2015 Premium</u>	<u>Recommended FY 2016 Premium</u>
\$77,865,188	\$ 79,527,136

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-FY2014 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 FY2015 and FY2016 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 FY2015 and FY2016 under three scenarios:

1. Indicated Undiscounted Actuarial Premium (cashflow) – the premium required to pay the ultimate cost of claims anticipated to occur during FY2015 plus the FY2015 program and administrative expenses.
2. Pay As You Go – projection of loss and expense payments (net of anticipated investment income) to be made during FY2015 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 FY2015 plus the amount required so that the FY2015 ending fund balance is equal to the FY2016 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 4.2 percent increase in overall premiums for FY2015 as compared to FY2014 and a 2.1 percent overall increase in premiums for FY2016 as compared to FY2015.

Total premiums recommended are \$ 77,865,188 for FY2015 and \$ 79,527,136 for FY2016. Exhibit B provides recommended workers' compensation premiums by agency on a Pay as You Go (cash flow) basis for FY2015 and FY2016. 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 2013 Workers' Compensation Settlements

Claimant Name	Date of Injury	Settlement Amount	Future Exposure	Savings due to Settlement
Virginia Arrington	11/3/2009	\$ 66,666.67	\$ 366,666.67	\$ 300,000.00
Timothy Cochran	2/2/2010	\$ 440.00	\$ 181,962.00	\$ 181,522.00
Soubun L. Hay	10/7/2008	\$ 3,553.00	\$ 8,909.31	\$ 5,356.31
Veronica Lewter	9/26/2007	\$ 18,666.20	\$ 34,797.20	\$ 16,131.00
Carly M. Merriam	2/2/2001	\$ 12,898.20	\$ 34,098.10	\$ 21,199.90
Donald Thomas	5/24/2001	\$ 17,658.55	\$ 421,282.55	\$ 403,624.00
Michelle Call	8/19/2001	\$ 45,000.00	\$ 194,872.49	\$ 149,872.49
Gary L. Whisman	11/20/2007	\$ 26,046.75	\$ 45,196.00	\$ 19,149.25
TOTALS		\$ 190,929.37	\$ 1,287,784.32	\$ 1,096,854.95

EXHIBIT B

**COMMONWEALTH OF VIRGINIA
SELF INSURANCE FUND
WORKERS COMPENSATION PREMIUM FOR FISCAL YEARS 2015 & 2016**

Agency Code	Agency Name	FY 2014 Actual Premium	Recommended Premium	
			Pay As You Go FY 2015	Pay As You Go FY 2016
100	Senate of Virginia	9,625	11,603	11,851
101	House of Delegates	17,445	13,476	13,764
103	Magistrate System	50,475	36,194	36,966
107	Division of Legislative Services	6,679	5,076	5,185
108	VA Code Commission	0	0	0
109	Division of Legislative Automated Systems	2,055	1,986	2,029
110	Joint Legislative Audit Review Commission	3,756	2,905	2,967
111	Supreme Court of Virginia	202,868	216,963	221,592
112	Judicial Inquiry and Review Commission	551	458	468
117	Virginia State Bar	11,616	9,185	9,381
119	Office of Lieutenant Governor	332	226	231
121	Office of the Governor	4,434	6,508	6,647
122	Department of Planning & Budget	6,634	4,677	4,777
123	Department of Military Affairs	265,322	370,133	378,030
127	Department of Emergency Management	18,246	11,572	11,819
129	Department of Human Resources Management	16,972	8,596	8,779
132	State Board of Elections	2,250	2,398	2,450
133	Auditor of Public Accounts	6,008	5,114	5,223
136	Virginia Information Technologies	36,118	25,720	26,269
140	Department of Criminal Justice Services	10,563	12,246	12,507
141	Office of the Attorney General	32,497	38,655	39,480
146	Science Museum of Virginia	21,225	23,491	23,993
147	State Inspector General	5,192	4,871	5,659
148	Virginia Commission for the Arts	472	340	347
151	Department of Accounts	11,911	9,086	9,280
152	Department of the Treasury	10,716	10,873	11,105
154	Department of Motor Vehicles	623,307	528,694	539,974
156	Department of State Police	4,685,101	5,918,696	6,044,971
157	Compensation Board	1,745	1,330	1,358
158	Virginia Retirement System	31,753	48,394	49,426
160	Virginia Criminal Sentencing Commission	1,093	758	774
161	Virginia Department of Taxation	76,236	59,990	61,270
162	DOA Transfer Payments	34	97	113
165	Dept of Housing & Community Development	11,333	8,779	8,967
166	Secretary of the Commonwealth	1,858	1,292	1,320
171	State Corporation Commission	73,789	79,607	81,306
172	Virginia State Lottery Department	33,746	25,443	25,986
174	Virginia College Savings Plan	9,734	8,815	9,003
180	Secretary of Administration	1,264	1,035	1,057
181	Virginia Department of Labor and Industry	37,736	34,298	35,030

182	Virginia Employment Commission	112,487	120,835	123,413
183	Secretary of Natural Resources	764	622	635
184	Secretary of Technology	758	507	518
185	Secretary of Education	602	588	600
186	Secretary of Transportation	703	847	865
187	Secretary of Public Safety	636	730	745
188	Secretary of Health and Human Resources	569	876	895
190	Secretary of Finance	556	545	556
191	Virginia Workers' Compensation Commission	79,530	109,264	111,595
192	Secretary of Economic Development	688	591	604
193	Secretary of Agriculture and Forestry	329	281	287
194	Department of General Services	366,431	328,128	335,129
199	Department of Conservation and Recreation	582,372	776,017	792,573
201	Department of Education	43,661	32,229	32,917
202	The Library of Virginia	18,592	12,387	12,651
204	The College of William & Mary	755,523	521,998	533,135
207	University of Virginia	2,935,108	2,756,332	2,815,138
208	Virginia Polytechnic Institute & State University	3,244,337	3,614,718	3,691,838
209	University of Virginia Medical Center	4,228,963	5,221,952	5,333,363
211	Virginia Military Institute	204,405	190,907	194,980
212	Virginia State University	220,795	265,616	271,283
213	Norfolk State University	329,049	444,481	453,964
214	Longwood University	220,957	202,906	207,235
215	University of Mary Washington	265,201	238,412	243,498
216	James Madison University	917,610	916,506	936,060
217	Radford University	495,935	532,744	544,110
218	Virginia School for the Deaf & the Blind	84,782	72,718	74,269
221	Old Dominion University	726,133	684,286	698,885
222	Dept of Professional & Occupational Reg	17,867	14,268	14,572
223	Department of Health Professions	27,615	28,926	29,543
226	Board of Accountancy	673	738	754
232	Dept of Minority Business Enterprise	2,546	1,321	1,349
233	Virginia Board of Bar Examiners	1,143	898	917
236	Virginia Commonwealth University	1,538,270	1,538,430	1,571,252
238	Virginia Museum of Fine Arts	91,474	106,803	109,082
239	Virginia Frontier Culture Museum	5,005	3,819	3,901
242	Christopher Newport College	327,801	319,032	325,839
245	State Council for Higher Education	5,621	3,984	4,069
246	University of Virginia at Wise	90,395	95,437	97,474
247	George Mason University	1,356,879	1,235,937	1,262,305
260	Virginia Community College System	1,825,742	2,041,026	2,084,571
262	Department of Aging and Rehabilitative Services	381,522	315,338	322,066
268	Virginia Institute of Marine Science	203,651	152,247	155,495
301	Dept. of Agriculture & Consumer Services	118,558	101,693	103,863
307	Virginia Agricultural Council	40	35	36
325	Department of Business Assistance	3,899	2,536	2,590
330	Virginia Israel Advisory Board	0	129	132
402	Marine Resources Commission	125,822	161,103	164,540
403	Department of Game and Inland Fisheries	600,026	431,212	440,412
405	Virginia Racing Commission	1,929	1,411	1,441
409	Department of Mines, Minerals and Energy	236,324	237,237	242,298

411	Department of Forestry	411,517	338,496	345,718
413	Virginia Alcohol Safety Action Program	565	645	659
417	Gunston Hall	2,334	1,328	1,356
423	Department of Historic Resources	9,559	8,757	8,944
425	Jamestown-Yorktown Foundation	130,720	139,503	142,480
440	Department of Environmental Quality	245,239	213,332	217,884
454	Office of Commonwealth Preparedness	1,143	1,255	1,282
501	Department of Transportation	13,450,999	12,880,144	13,154,941
601	Virginia Department of Health	1,184,243	1,070,448	1,093,286
602	Department of Medical Assistance Services	37,597	32,419	33,111
606	Virginia Board for People w/Disabilities	1,073	866	885
702	Department for the Blind and Vision Impaired Dept. of Behavioral Health and Developmental Services	127,731	117,083	119,581
720		14,069,856	15,059,419	15,380,711
750	Department of Correctional Education	0	6,180	6,312
751	Virginia Dept for Deaf & Hard of Hearing	916	778	795
765	Department of Social Services	178,454	135,691	138,586
766	Virginia Parole Board	961	1,399	1,429
777	Department of Juvenile Justice	3,521,900	3,641,660	3,719,355
778	Department of Forensic Science	103,913	108,116	110,423
799	Department of Corrections	10,189,453	10,767,129	10,996,845
820	Capitol Square Preservation Council	149	0	0
834	Virginia Freedom of Information Advisory Council	228	219	224
839	Virginia Commission of Youth	342	320	327
840	Virginia Housing Study Commission	0	0	0
841	Department of Aviation	30,727	28,310	28,914
842	Chesapeake Bay Commission	0	88	90
844	Joint Commission on Health	793	628	642
847	Comm. on Tech. & Sciences	166	95	97
848	Public Defender Commission	60,238	34,303	35,035
859	Virginia Sesquicentennial of the American Civil War Commission	103	152	155
912	Department of Veterans' Services	396,082	500,741	511,425
937	Southern Virginia Higher Education Center	2,286	2,396	2,447
938	New College Institute	1,183	843	861
942	Virginia Museum of Natural History	2,750	3,569	3,645
948	Southwest VA High Ed Center	7,792	6,751	6,895
957	Commonwealth's Attorney's Service Council	750	598	611
960	Department of Fire Programs	102,246	112,969	115,379
961	Division of Capitol Police	70,094	71,849	73,382
999	Department of Alcoholic Beverage Control	1,258,595	1,185,537	1,210,831
	Statewide Total	74,745,666	77,865,188	79,527,136