

G99G00
Injured Workers' Insurance Fund

Operating Budget Data

(\$ in Thousands)

	<u>CY 05</u> <u>Actual</u>	<u>CY 06</u> <u>Actual</u>	<u>CY 07</u> <u>Budget</u>	<u>CY 06-07</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
Non-budgeted Fund	\$43,176	\$44,582	\$45,995	\$1,413	3.17%
Total Funds	\$43,176	\$44,582	\$45,995	\$1,413	3.17%

- The Injured Workers' Insurance Fund's (IWIF) projected calendar 2007 budget increases by \$1,412,700, or 3.17% in nonbudgeted funds.

Personnel Data

	<u>CY 05</u> <u>Actual</u>	<u>CY 06</u> <u>Actual</u>	<u>CY 07</u> <u>Budget</u>	<u>CY 06-07</u> <u>Change</u>
Regular Positions	400.0	398.0	404.0	6.0
Total Personnel	400.0	398.0	404.0	6.0

- IWIF is showing an increase in its calendar 2007 workforce of 6.0 employees. This increase reflects the intention of the agency to replace six employees that resigned at the end of calendar 2006; it does not reflect the addition of new positions. IWIF does not tally vacant positions as part of its workforce, as does the State, but instead provides a "headcount."

Note: Numbers may not sum to total due to rounding.

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Analysis in Brief

Major Trends

Productivity at the Injured Workers’ Insurance Fund: IWIF showed significant increases in business volumes between calendar 1999 and 2004 and, while still showing long-term growth, there has been a slowing in activity from calendar 2004 through 2006.

Issues

Status of the State Employee Risk Management Administration (SERMA): The impact of SERMA on the number and value of claims is discussed. **The Department of Legislative Services requests that IWIF and the Department of Budget and Management comment on the use of accident leave and discuss the status of the return to work pilot program.**

Recommended Actions

1. Nonbudgeted.

Updates

Workers’ Compensation Assessments Continue to Fluctuate and the Unfunded Long-term Liability Remains High: IWIF has funded a contribution to the long-term liability account through agency assessments, but the unfunded long-term liability remains high.

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Injured Workers' Insurance Fund

Operating Budget Analysis

Program Description

The Injured Workers' Insurance Fund (IWIF) is a nonbudgeted, independent entity. IWIF is governed by a board of nine directors (appointed by the Governor to five-year terms), which approves the operating and capital budgets. By law, IWIF's calendar 2007 budget is submitted to the General Assembly for informational purposes only. The primary purpose of IWIF is to provide workers' compensation insurance to Maryland-based businesses that do not wish, or are not allowed, to self-insure. Financing for IWIF is derived solely from its premium and investment income.

The primary goals of IWIF include:

- to provide insurance coverage and to pay benefits promptly to injured workers and dependents;
- to create an internal organizational structure that will help spur profitable growth;
- to maximize operating efficiencies, enhance management of financial and human assets, and lead in the marketplace by leveraging technology;
- to create and maintain a high-performance culture that motivates, challenges, and rewards employees;
- to brand IWIF with workplace safety; and
- to create and respond to market opportunities.

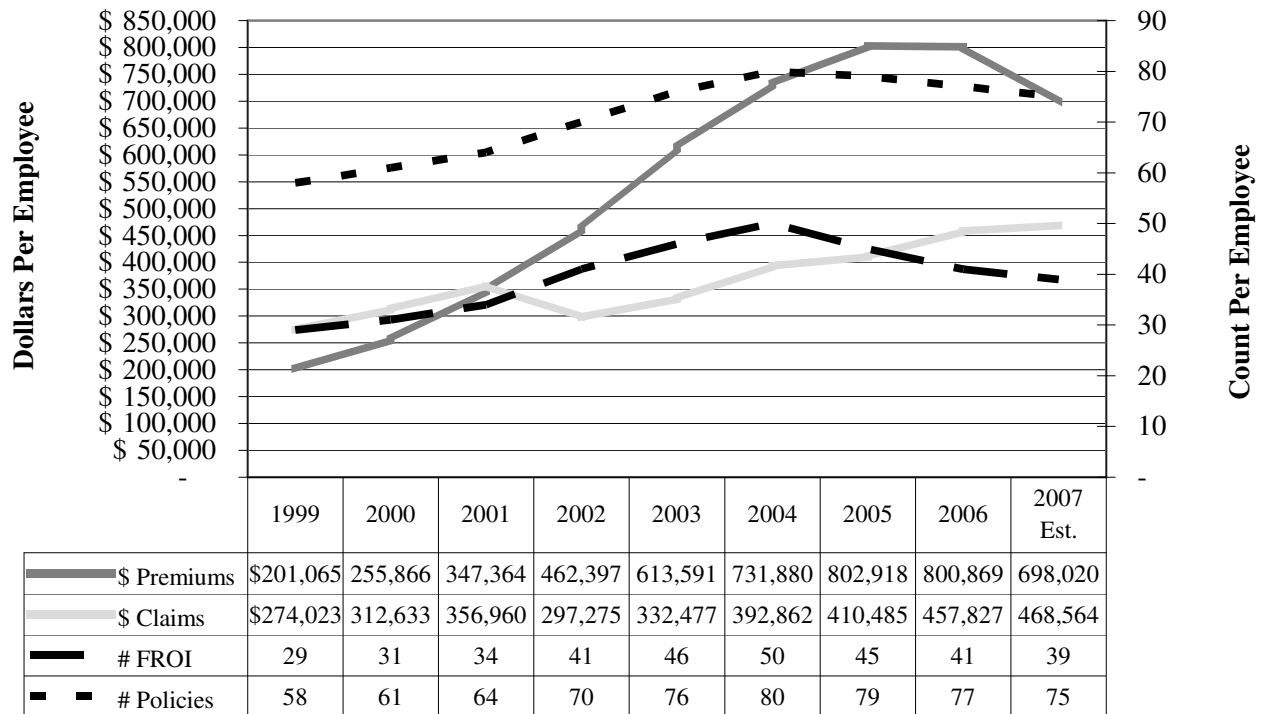
Performance Analysis: Managing for Results

As an independent self-supporting entity, IWIF does not participate in the Managing for Results program. However, it tracks its performance through productivity and financial indicators and has provided these data to the Department of Legislative Services (DLS).

Productivity Indicators

IWIF showed significant increases in business volumes between calendar 1999 and 2004; while still showing long-term growth, there has been a slowing in activity from calendar 2004 through 2006, as demonstrated in **Exhibit 1**. The size of IWIF's workforce increased from 384 in calendar 1999 to 398 in calendar 2006, or 4%. In the same time period, the number of First Report of Injuries and the number of policies per employee has increased 41% and 33%, respectively. Last, premiums per employee have increased 298%, while claims paid have increased 67%.

Exhibit 1
Productivity Per Employee
Calendar 1999-2007



FROI: First Report of Injuries

Source: Injured Workers’ Insurance Fund

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Financial Indicators

In contrast to calendar 2005, when IWIF experienced a decline in net income, in calendar 2006 it is showing robust net gain, as indicated in **Exhibit 2**. While total income is rising by 2.3%, or \$8.8 million, total expenses are decreasing by 0.6%, or \$2.2 million.

Exhibit 2
Injured Workers’ Insurance Fund Status
Calendar 2004-2006
(\$ in Thousands)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>Change</u> <u>05-06</u>	<u>% Change</u> <u>05-06</u>
Balance Sheet Data					
<i>Assets</i>					
Total investments (market value)	\$989,390	\$1,098,709	\$1,155,032	\$56,323	5.1%
Cash and equivalents	176,480	198,256	266,503	68,247	34.4%
Subtotal Cash and Investments	\$1,165,870	\$1,296,965	\$1,421,535	\$124,570	9.6%
Other assets	78,416	85,122	86,433	1,311	1.5%
Total Assets	\$1,244,286	\$1,382,087	\$1,507,968	\$125,881	9.1%
<i>Liabilities</i>					
Accrual unpaid claims and related expense	\$976,313	\$1,086,422	\$1,179,000	\$92,578	8.5%
Dividends payable	2,200	3,051	4,800	1,749	57.3%
Other liabilities	92,868	106,192	96,222	-9,970	-9.4%
Total Liabilities	\$1,071,381	\$1,195,665	\$1,280,022	\$84,357	7.1%
Total fund equity	172,905	186,422	227,946	41,524	22.3%
Total Liabilities and Fund Equity	\$1,244,286	\$1,382,087	\$1,507,968	\$125,881	9.1%
Income Statement Data					
<i>Income</i>					
Net premiums earned	\$286,164	\$321,168	\$318,746	-\$2,422	-0.8%
Other income	700	885	717	-168	-19.0%
Investment income and gains	77,890	65,066	76,501	11,435	17.6%
Total Income	\$364,754	\$387,119	\$395,964	\$8,845	2.3%
Net claim expenses	255,609	281,194	276,215	-4,979	-1.8%
Net operating expenses	61,980	68,982	71,737	2,755	4.0%
Total Expenses	\$317,589	\$350,176	\$347,952	-\$2,224	-0.6%
Net Income/Loss	\$47,165	\$36,943	\$48,012	\$11,069	30.0%

Source: Injured Workers’ Insurance Fund

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Proposed Calendar 2007 Budget

The IWIF budget for calendar 2007 is shown in **Exhibit 3**. IWIF’s budget increases \$1.4 million between calendar 2006 expenditures and those budgeted for calendar 2007. Operating, or “general and administrative” (G&A), expenditures have increased \$2.8 million, or 6.8%, while capital expenditures have decreased \$1.3 million, or 36.0%.

The State’s share of these costs is based on the percentage of total claims paid on behalf of State employees, which is recalculated each month. Some expenditures, such as the cost of marketing, are removed before the calculation is made. At the end of December 2006, the percentage of G&A expenditures paid by the State was 20.19%.

General and Administrative Expenditures

The largest share of G&A increases is attributable to personnel. IWIF does not fully fund positions, as does the State, nor does it count in its total workforce positions that are not filled. Another departure from the way the State does business is that IWIF is budgeting for a 4% merit salary increase in calendar 2007, awarded in much the same way that positions compensated on the Executive Pay Plan in the State are awarded, except that there is no general salary increase component. Other fringe benefit increases include funds for health, prescription, and dental plan cost as well as Social Security.

Exhibit 3
Injured Workers’ Insurance Fund Budget
(\$ in Thousands)

How Much It Grows:	Nonbudgeted Fund	Total
Calendar 2006	\$44,582	\$44,582
Calendar 2007 Budget	<u>45,995</u>	<u>45,995</u>
Amount Change	\$1,413	\$1,413
Percent Change	3.2%	3.2%
Where It Goes:		
State Employee Risk Management Administration		\$98
Personnel Expenses		
4% merit increase, promotions, and equity increases		\$1,018
Employee Retirement and Pension Plan		465
Employee and retiree health insurance		431
Social Security, workers’ compensation insurance, and unemployment insurance		255
Temporary and contractual employees		85
Corporate Achievement Sharing Plan ¹		-318
Other Changes		
Facilities costs		\$234
Consulting (special projects) and contractual (ongoing) services		101
Training, travel, and other staff costs		100
Advertising, promotion, and printing		73
Postage and telecommunications		44
Supplies, computer maintenance, and equipment rental		37
Vehicle maintenance and other automobile expenses		15
Legal expenses		-114
Other operating costs		238
Capital Budget		
Other computer hardware upgrades (e.g., server)		\$638
Laptop and PC replacement		595
Vehicle replacement		227
Other computer expenses (e.g., telecommuting expenses, printer replacements)		96
Building and furnishing upgrades		-2,920
Computer software		-76
Other		91
Total		\$1,413

¹The Corporate Achievement Sharing Plan presents IWIF employees with the opportunity to be rewarded for the successful achievement of IWIF’s goal of reaching the net operating gain approved by the board.

Note: Numbers may not sum to total due to rounding.

Issues

1. Status of the State Employee Risk Management Administration (SERMA)

During the 2003 legislative session, the General Assembly approved a fiscal 2004 transfer of \$1.0 million from the long-term liability account of the State to provide additional financing of the State employee focused risk management program effort. Subsequent to fiscal 2004, a portion of agency assessments totaling \$660,000 to \$800,000 have been devoted to the program (see Update 1).

The program has focused on the eight largest State agencies from which approximately 85% of State employee claims originate. Those agencies are the Department of State Police, the Department of Health and Mental Hygiene, the Department of Human Resources, the Department of Public Safety and Correctional Services, the Department of Juvenile Services, the Maryland Transit Administration (MTA), the remaining Maryland Department of Transportation (MDOT) agencies¹, and the University of Maryland, College Park².

The Program

From fiscal 2004 through 2006, the five risk management consultants³ staffing SERMA have made approximately 1,707 agency and facility visits and have developed 3,279 recommendations. Approximately 6,331 State employees have been trained on various risk management topics such as back injury prevention, accident investigation, driver training, root cause analysis, hazard recognition, and hazard communication.

State Claims Experience and the SERMA Program

Fiscal 2003 through 2007

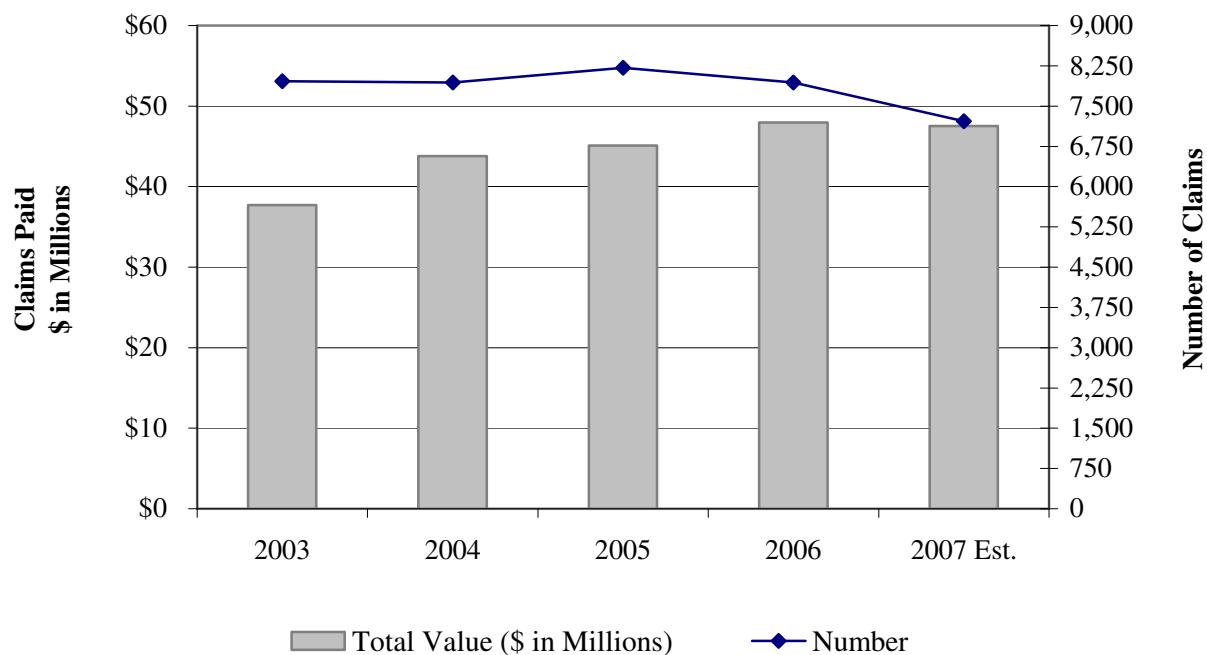
Between fiscal 2003 and 2006, the value of State claims increased 8.4% on average each year, while the number of claims decreased an average of 0.1% each year. In fiscal 2007, it is estimated that the value of claims will decrease by 0.9%, while the number of claims decreases by 9.1%. These aggregate data, shown in **Exhibit 4**, hide wide variation among agencies in the effectiveness of SERMA efforts to improve the State’s workers’ compensation experience, shown in **Exhibit 5** and **6**, and **Appendix 2**.

¹ MTA and the rest of MDOT are handled as two separate units for the purposes of the SERMA program because the value of MTA’s claims comprise about half of the total agency claims.

² Data detail provided to DLS for the current analysis covers five agencies, 66-69% of State claims costs, and 60-65% of claims frequency.

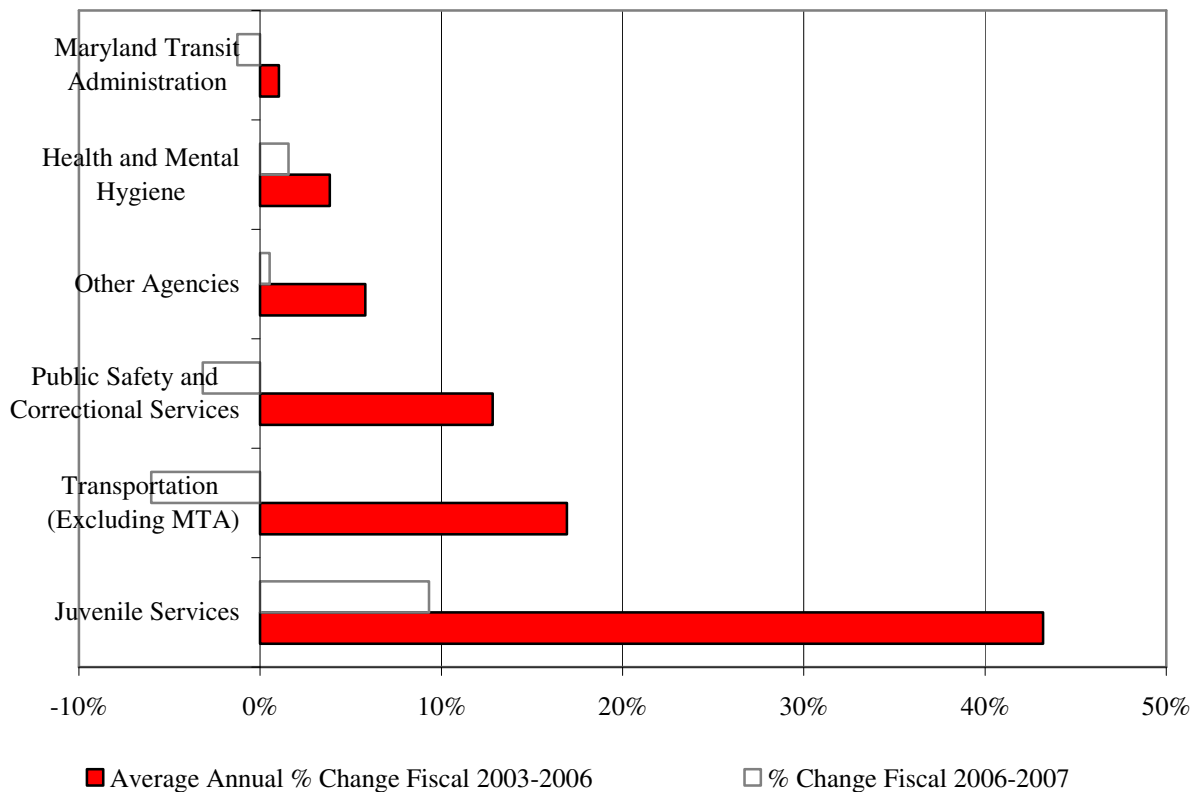
³ SERMA also employs one supervisor and one administrative aide.

Exhibit 4
Number and Value of State Workers’ Compensation Claims
Fiscal 2003-2007



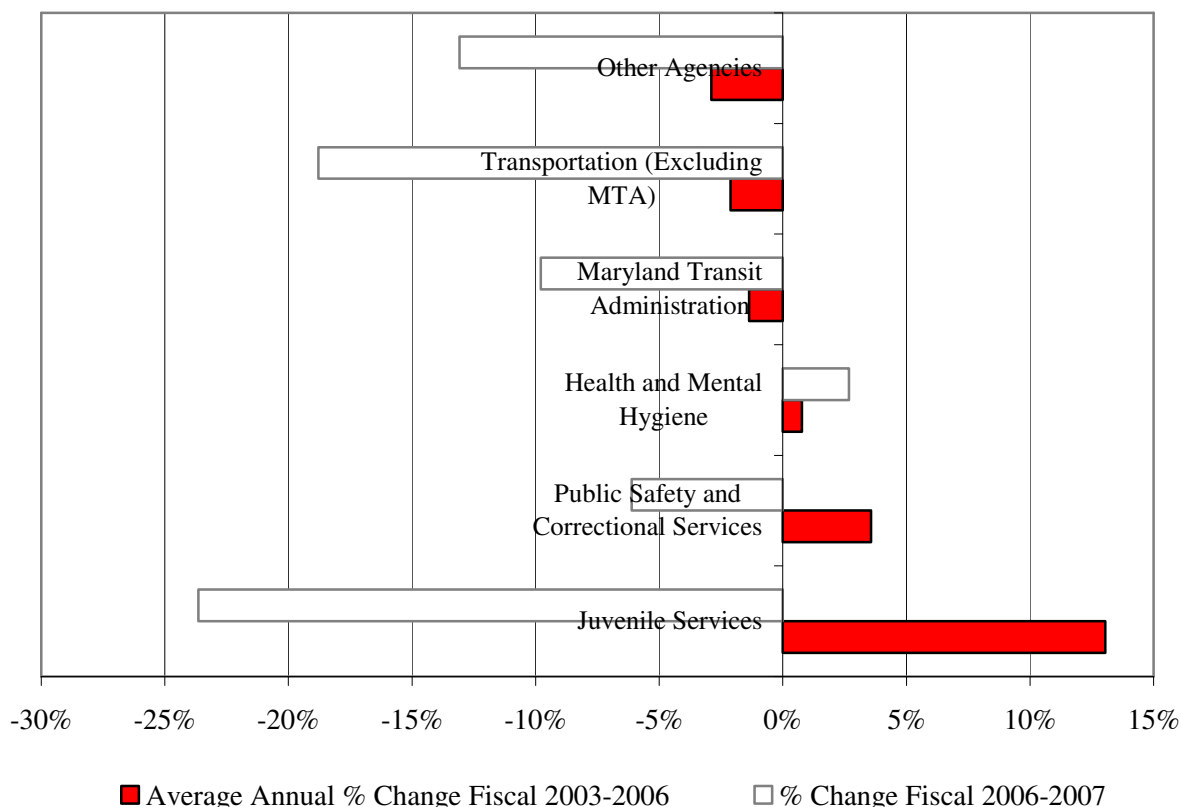
Source: Injured Workers’ Insurance Fund

Exhibit 5
Value of State Workers’ Compensation Claims in Select Agencies
Fiscal 2003-2007



Source: Injured Workers’ Insurance Fund

Exhibit 6
Number of State Workers’ Compensation Claims in Select Agencies
Fiscal 2003-2007



Source: Injured Workers’ Insurance Fund

Both the aggregate data and the agency-level data suggest that the number of State claims is decreasing. The value of claims is not decreasing as consistently, but the value of claims is affected by very small numbers of catastrophic events, which have an impact for a number of years after the actual injury. For example, two catastrophic injuries in the State Highway Administration accounted for claims payments of \$650,906 in fiscal 2005 and \$664,093 in fiscal 2006, and comprise 16% and 12% of total claims in the agency, respectively.

Accident Leave and Return to Work Program

IWIF points out that there are two issues that are beyond the ability of IWIF to monitor or the SERMA program to affect. There is inconsistent management of the use of accident leave and an absence in the State of a comprehensive return to work program.

Accident Leave

Accident leave is an alternative to temporary total workers’ compensation benefits where sick leave is used in the alternative. IWIF believes that costs to the agencies for the failure to use accident leave are substantial. **DLS requests that IWIF and the Department of Budget and Management (DBM) comment on the use of accident leave, any problems related to the benefit, and explain how DBM intends to encourage the use of the benefit.**

Return-to-work Pilot Program

The Department of Budget and Management is leading a task force to implement a comprehensive return-to-work program at the request of the Senate Finance Committee. In 2003, DBM appointed a workgroup consisting of representatives from DBM, IWIF, the State Medical Director’s office, and the two agencies chosen to pilot the program, the Department of Mental Hygiene and the Department of Public Safety and Correctional Services. The workgroup studied successful return-to-work programs that had been implemented in other jurisdictions to determine best practices.

In June 2004, DBM issued the initial draft policy. Effective July 1, 2005, the pilot program was implemented at the Western Maryland Hospital Center and the Maryland Correctional Institution at Hagerstown. On July 1, 2006, it was extended to include the Potomac Center, the Washington County Health Department, Roxbury Correctional Institution, and the Maryland Correctional Training Center.

The pilot program is available to employees who have sustained on-the-job injuries and are not yet able to return to full duty. It allows employees to perform suitable, productive work appropriate for their medical restrictions. Transitional duty assignments are limited to 75 days. The philosophy behind the program is that injured employees who return to work in some capacity recover more quickly than those who stay out the entire time on accident leave.

To date, a total of 1,835 work days were affected by on-the-job injuries in four of the facilities referenced above. Injured employees worked 915 of those days in transitional assignments, resulting in a 49.8% savings in lost productivity.

DBM and IWIF are asked to comment on plans to make the return-to-work program available more widely.

Recommended Actions

1. Nonbudgeted.

Updates

1. Workers’ Compensation Assessments Continue to Fluctuate and the Unfunded Long-term Liability Remains High

The State of Maryland is self-insured for workers’ compensation claims. The State contracts with the Injured Workers’ Insurance Fund for claims processing and maintains two accounts with the fund. The operating account, reviewed below in **Exhibit 7**, is utilized to pay annual claims against the State and to cover administrative costs. The long-term liability account, reviewed in **Exhibit 8**, provides a reserve against the State’s future workers’ compensation liabilities.

Agency Assessments

Agency assessments have fluctuated greatly from fiscal 2003 to 2006 but have moderated in recent years as demonstrated in Exhibit 7.

Exhibit 7
IWIF Assessments of State Agencies
Fiscal 2003-2008
(\$ in Thousands)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Claims Paid ¹	\$42,756	\$41,087	\$37,549	\$43,811	\$45,218	\$48,220
Administration Costs ²	9,094	8,969	10,772	10,899	10,177	10,067
State Risk Management Program			800	749	800	660
Adjustment for Operating Cash Shortfall/(Surplus) ³	16,543	-22,200	5,000	5,000	3,500	3,980
Subtotal	\$68,393	\$27,856	\$54,121	\$60,459	\$59,695	\$62,926
Contribution to Reduce Future Liability ⁴	\$20,000	\$0	\$0	\$10,000	\$10,000	\$6,078
Total Agency Assessment/Appropriation	\$88,393	\$27,856	\$54,121	\$70,459	\$69,695	\$69,005
Change in Total Assessments/Appropriations	\$19,102	-\$60,537	\$26,265	\$16,338	-\$765	-\$690
Percent Change in Total Assessments/Appropriations	28%	-69%	94%	30%	-1%	-1%

¹ Estimated to equal the claims paid in the most recent fiscal year for which actual data are available (two years prior).

² Estimated to equal the administration cost from two years prior.

³ Fiscal 2005 and 2006 agency assessments/appropriation include \$5.0 million deficiency appropriations; fiscal 2007 includes a “paid claims cushion.”

⁴ Transferred to the unfunded liability account.

Source: Injured Worker’s Insurance Fund; Department of Budget and Management

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In fiscal 2006 and 2007, after two years without contributions to the long-term liability account, the Governor chose to appropriate \$10.0 million to offset future liability in each fiscal year. These funds are collected as part of agency assessments, along with estimated claims payment, administration costs, and funding for the SERMA program. In fiscal 2008, a similar contribution was made but was reduced to provide funds to reimburse the federal government for the federal portion of funds transferred from the IWIF long-term liability fund to the general fund in fiscal 2003.

Long-term Liability

The long-term liability fund is commonly called the “unfunded liability” account; this refers to the difference between what the actuaries have determined is adequate to cover future workers’ compensation liability and what the State has deposited in the account. In fiscal 2003, two transfers out of the long-term liability account into the general fund were made in accordance with the Budget Reconciliation and Financing Act of 2002 and 2003, in the amount of \$39.2 million and \$75.0 million, respectively. In both fiscal 2004 and 2005, no funds were paid into the account. The \$20.0 million total appropriation to the unfunded liability account in fiscal 2006 and 2007, and the \$6.1 million appropriation in fiscal 2008 will mitigate growth in the State’s long-term liability. These budgetary decisions have resulted in a projected unfunded long-term liability to the State of approximately \$231.9 million at the end of fiscal 2008, as shown in **Exhibit 8**.

Exhibit 8
Maryland’s IWIF Long-term Liability Account
Fiscal 2003-2008
(\$ in Thousands)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Estimated Reserves Needed (June 30)	\$212,103	\$222,334	\$231,000	\$244,148	\$256,000	\$268,000
Estimated Long-term Liability Account Balance						
Beginning balance	\$97,543	\$4,854	\$4,188	\$4,279	\$14,796	\$25,874
State's contribution (June 30)	20,000			10,000	10,000	6,078
Transfer – 2002 BRFA (June 30)	-39,200					
Transfer – 2003 BRFA (June 30)	-75,000					
State's Risk Management Office (July 2003)		-800				
Interest	1,511	134	91	517	1,078	1,278
Total balances at IWIF (June 30)	\$4,854	\$4,188	\$4,279	\$14,796	\$25,874	\$33,230
Balance of operating account ¹ (June 30)	28,748	2,548	1,065	3,556	4,636	2,875
Unfunded Long-term Liability (June 30)	\$178,502	\$215,598	\$225,656	\$225,796	\$225,491	\$231,895

¹The balance of the operating account offsets the long-term liability of the State.

BRFA: Budget Reconciliation and Financing Act

Source: Injured Workers’ Insurance Fund; Department of Budget and Management

Injured Workers' Insurance Fund
Calendar 2002-2007 Budget
(\$ in Thousands)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>06-07</u>	<u>06-07</u>
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Budget</u>	<u>Change</u>	<u>% Change</u>
Positions								
Regular Positions	393.0	386.0	391.0	400.0	398.0	404.0	6.0	1.5%
Objects								
Salaries and Fringe Benefits	\$26,091.3	\$27,775.5	\$29,528.0	\$30,472.0	\$32,328.9	\$34,265.0	\$1,936.1	6.0%
Training	229.9	160.0	142.0	214.0	258.4	295.0	36.6	14.2%
Travel	164.4	160.0	161.0	213.7	232.5	300.0	67.5	29.0%
Facility Costs	511.0	504.3	507.0	682.6	685.6	920.0	234.4	34.2%
Postage Costs	437.7	640.0	653.0	619.3	726.7	735.0	8.3	1.1%
Telecommunications	428.1	363.3	310.0	340.1	369.3	405.0	35.7	9.7%
Advertising/Promotion	895.7	1,219.7	1,108.0	1,131.3	1033.8	1090.0	56.2	5.4%
Staff Costs	187.4	186.5	198.0	205.9	209.6	205.0	-4.6	-2.2%
Printing	152.5	175.6	138.0	159.5	133.4	150.0	16.6	12.4%
Contractual Services	236.8	432.1	719.0	845.7	879.8	820.0	-59.8	-6.8%
Consulting Services	540.0	832.1	716.0	1,081.6	738.9	900.0	161.1	21.8%
Legal Expenses	290.8	837.3	222.0	255.0	314.4	200.0	-114.4	-36.4%
Automobile Expense	83.9	73.9	111.0	133.6	144.6	160.0	15.4	10.7%
Supplies	521.3	621.3	556.0	727.3	718.1	695.0	-23.1	-3.2%
Computer Maintenance	353.3	233.2	213.0	238.9	235.4	295.0	59.6	25.3%
Equipment Rental	0.0	1.2	0.0	0.0	0.0	0.0	0.0	0.0%
Other Operating Costs	659.0	923.6	950.0	1,081.0	1197.3	1435.0	237.7	19.9%
State-only Risk Management Program		185.0	581.0	616.1	626.6	725.0	98.4	15.7%
Total G&A Objects	\$31,783.0	\$35,324.5	\$36,813.0	\$39,017.6	\$40,833.3	\$43,595.0	\$2,761.7	6.8%
Capital Budget	\$2,916.0	\$2,010.0	\$1,899.0	\$4,158.0	\$3,749.0	\$2,400.0	-\$1,349.0	-36.0%
Total	\$34,699.0	\$37,334.5	\$38,712.0	\$43,175.6	\$44,582.3	\$45,995.0	\$1,412.7	3.2%
Funds								
Nonbudgeted Funds	\$34,699.0	\$37,334.5	\$38,712.0	\$43,175.6	\$44,582.3	\$45,995.0	\$1,412.7	3.2%

G&A: General and Administrative

Source: Injured Workers' Insurance Fund

Value and Number of State Workers' Compensation Claims
State Agencies
Fiscal 2003-2007

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	Average Annual % Change 2003-2006	% Change 2006-2007
Value of Claims							
Health and Mental Hygiene	\$6,282,511	\$7,465,812	\$7,266,632	\$7,034,262	\$7,144,176	3.8%	1.6%
Public Safety and Correctional Services	8,583,615	10,107,672	10,455,138	12,331,932	11,941,382	12.8%	-3.2%
Juvenile Services	627,868	970,448	1,011,596	1,843,602	2,015,396	43.2%	9.3%
Transportation (excluding MTA)	3,449,532	3,820,673	4,131,054	5,514,310	5,182,634	16.9%	-6.0%
Maryland Transit Administration	6,320,691	7,312,999	6,952,500	6,518,096	6,436,082	1.0%	-1.3%
Other Agencies	12,429,394	14,108,588	15,269,283	14,719,457	14,795,318	5.8%	0.5%
Total Value of Claims	\$37,693,611	\$43,786,192	\$45,086,203	\$47,961,659	\$47,514,988	8.4%	-0.9%
Frequency of Claims							
Health and Mental Hygiene	1,572	1,480	1,527	1,609	1,652	0.8%	2.7%
Public Safety and Correctional Services	1,561	1,679	1,901	1,734	1,628	3.6%	-6.1%
Juvenile Services	243	294	392	351	268	13.0%	-23.6%
Transportation (excluding MTA)	772	767	728	724	588	-2.1%	-18.8%
Maryland Transit Administration	617	597	604	592	534	-1.4%	-9.8%
Other Agencies	3,199	3,120	3,062	2,929	2,546	-2.9%	-13.1%
Total Frequency of Claims	7,964	7,937	8,214	7,939	7,216	-0.1%	-9.1%

MTA: Maryland Transit Administration

Source: Injured Workers' Insurance Fund