

Minutes
Workers' Compensation Trust Fund
Wednesday, June 8, 2016 - 10:00 AM
Human Resources Training Room
5850 W. Glendale Avenue
Glendale, AZ 85301

Members Present

Tom Duensing, Trustee
Ray Malnar, Councilmember, Acting Chairperson
Julie Stiak, Trustee

Staff Present

Vicki Kettner, Risk & Safety Analyst
Lorena Sanchez, Risk & Safety Analyst
Dianne Shoemake, Risk Manager
Hillary Zagara, Risk Technician

1. Call to Order

Julie Stiak called the meeting to order at 10:35 AM.

2. Approval of April 20, 2016 Workers' Compensation Trust Fund Board Meeting Minutes

The minutes were provided to the Trustees. Julie Stiak moved to approve the minutes as written and it was seconded by Tom Duensing. 3 Ayes, 0 Nays, motion passed.

3. Executive Session

Tom Duensing moved to enter executive session and it was seconded by Julie Stiak, 3 Ayes, 0 Nays, motion passed. Lorena Sanchez provided Trustees an update of workers' compensation claims and those in litigation. Julie Stiak moved to return to regular session. The motion was seconded by Tom Duensing. 3 Ayes, 0 Nays, motion passed.

4. Farewell to Julie Stiak and Appointment of new Trustee and Chairperson

Staff reported that Julie Stiak's term on the Board is ending July 1, 2016 and that she was thanked for her service and provided with a plaque in the Risk Management Trust Fund Board meeting. New member appointed to replace Ms. Stiak is Yvonne Knaack and her term begins on July 24, 2016 and end on July 24, 2019. Mr. Deardorff was re-appointed as Chairperson of the Board. No Action taken.

5. Discussion of Workers' Compensation Trust Fund Fiscal Year 2015/16 Revenue and Expenses

Dianne Shoemake presented the total revenues and expenses for the FY 2015/16 as of June 1, 2016. No action taken.

6. Authorization to Ratify Expenses Paid to Date and Approval of Future Expenses for CorVel Enterprise Comp Inc. Third Party Claims Administration Agreement

Trustees were provided a spreadsheet of the Workers' Compensation Trust Fund representing revenue, expenses and fund balance for FY 7/1/2015/2016. Staff reported the following. As of June 1, 2016 total revenue was \$2,156,084. Of that amount \$35,702 was from interest income, \$12,208 from miscellaneous income and \$2,108,174 from self-insurance premiums.

The total expenses paid from the Fund were \$1,415,992. Of that amount \$1,065,851 from payment of claims, \$357,795 from payment of professional and contractual fees (brokerage and insurance premiums, drug and alcohol testing and actuarial services) and \$105,565 from administrative and general (salaries, mail, office supplies, education, etc.).

The current fund balance was \$8,111,439. The ending revenue for this year will be slightly above the budget and total expenditures will be slight below budget.

Industrial Commission of Arizona (ICA) requires self-funded entities to keep their balance above the 125% of liabilities **or** the actuarial projection of a 55% confidence level **WHICHEVER** is greater. If the entity does not, the ICA can revoke their self-insurance authority and/or require the entity to post a security deposit totaling 125% of the City's liabilities.

The 2016 ICA projection of 125 liabilities is \$2,530,221. The 2015/16 actuarial projection at a 55% confidence level is \$3,831,036. Since the actuarial projection is greater, the Fund cannot fall below \$3,831,036. The fund performed well over that amount at \$4,280,403.

The ICA best practice is to have the fund exceed the minimum required balance plus the amount for projected losses (\$1,369,000) and funds to pay three times the self-insured retention (SIR) ($\$800,000 \times 3 = \$2,400,000$). On the spreadsheet under ICA Best Practice, after subtracting the minimum and the actuarial projected loss the minimum balance is \$5,200,036. The Fund is \$2,922,403 above that amount which is greater than three self-insured retentions. Our Fund is performing very well and is at the ICA recommended level. Risk Management monitors the Fund on a monthly basis.

6. Authorization to Ratify Expenses Paid to Date and Approval of Future Expenses for CorVel Enterprise Comp Inc. Third Party Claims Administration Agreement

Staff reported to Trustees the following information. The Trustees discussed this item at the April 20, 2016 meeting. After further discussions with Procurement, staff wanted to bring this item back for an update.

On November 6, 2013 Trustees recommended to City Council and it was approved on February 25, 2014, awarding the workers' compensation claims third party administration (TPA) contract to CorVel not to exceed \$102,500 for the full duration of the contract. The contract was effective April 1, 2014 for one-year with the option to renew for an additional four years.

At the time of Council approval, reports were done differently. Staff wasn't required to put in the estimated cost of claims expense fees, only the administration fees. This included the annual administration fee and the Medicare reporting, setup and engagement fee. Claims expense fees are paid depending on what medical care is provided due to an injury. The claim expense fees were provided to Council with the report. These fees are paid by the Workers' Compensation Trust Fund and are approved as part of the budget process. The previous amount approved consisted of administration fees only. Trustees were provided a copy of 2/25/14 City Council Report.

The costs exceeded the previous calculation for many reasons. The claims handling fees increased from the previous TPA. Previously the City had no way of capturing the Medicare Claims Reporting costs, as this cost was not incurred with the incumbent TPA, coupled with the fact the City had no way of identifying or predicting Medicare reportable claims. When the contract was bid, on average there were 78 open claims. The City is now averaging approximately 133-148 open claims which increases the per claim cost.

The CorVel contract includes both claims administration fees and claims expense fees which include the following:

Account Management and Technical Support – Ad hoc report programming \$200/hour
Claims Handling fees – Medical only \$150.00, Indemnity \$975.00, for each file,
respectfully

**Annual Administration Fee (includes state filing requirements, etc. \$8,000.00

Bill Review, flat fee \$6.50/bill plus 17% of savings

Telephonic case management, \$95/hour

Field case management, \$95/hour

Vocational rehab services \$100/hour

Specialty services (MSA, LCP, catastrophic), \$200/hour

Utilization review, \$135/per review

Peer review/Physician advisor, \$150/hour

Pharmacy services for brand and generic, average wholesale price -5% +\$5.50
dispensing fee

Pharmacy mail order for brand and generic, average wholesale price -10% + dispensing
fee

Medication Review \$200/hour

**Medicare Agent Reporting set up and engagement \$2,500 one-time fee, monthly maintenance fee \$1,000/per month, quarterly reporting \$10/per claim, Medicare set asides \$200/per hour

A complete listing of all fees is detailed in the Agreement with CorVel, on Exhibit B Fees, which was provided to the Trustees. The items with an asterisk in the above list are administration fees. The remaining items are claims expense fees. The administration fees are billed monthly and the claims expenses are billed on an as-needed per claim basis. The claims expense fees are paid by CorVel out of the City's checking account (set up with CorVel for payment of claims expenses and all medical costs) and are reimbursed monthly after reconciliation. All professional and contractual and claims fees are approved as part of the budget process for the workers' compensation trust fund.

Total management fees paid April 2014 through January 2016 (21 months) is \$148,117.44. This would include claims handling fees, administration fee and Medicare reporting fees. The estimated monthly average totals \$7,053.21.

To provide more comparison, staff ran a report for management fees for the prior five years. The total paid is \$386,606.86 with average monthly payments totaling \$6,443.45. This is somewhat lower than the CorVel monthly average (21 months, above paragraph) due to the increase in management fees when the City changed TPAs.

And, staff ran a report of allocated loss expenses paid to CorVel over the past 21 months. This would include payments for bill review, nurse management and pharmacy review. The total paid is \$253,932.23. The average monthly costs are \$10,580.51.

The amount of management fees and claims expenses paid can vary depending on the type of injury, the type of investigation that needs to be done, amount of medications that are prescribed, multiple physician's visits or hospital stays, outpatient surgeries, etc.

The total estimated cost of administration fees and claims expense fees for this contract, for the five (5) year term is \$1,440,000. The City has paid 21 months under the CorVel contract. There are 39 months remaining. Staff estimated the projected monthly costs to be paid over the life of the contract. Staff took the average monthly costs and increased those just fewer than 30%. This is to account for any extraordinary events that result in major expenses and the increased cost in health care. Staff calculated the projection for all costs to be paid over the life of the contract at \$1,440,000. The cost less the amount already paid is \$1,037,950. The estimated annual cost of this contract is \$288,000.

Tom Duensing made a motion to approve and recommend City Council approve ratification of all fees paid to date and approval of all future fees to be paid during the

five-year (5) term of the CorVel contract not to exceed \$1,440,000. The motion was seconded by Julie Stiak. 3 Ayes, 0 Nays, Motion passed.

7. Authorization to Renew Fiscal Year 2016/17 Workers' Compensation Insurance

Staff provided the following information to the Trustees. City of Glendale Ordinance, Administration, Workers' Compensation Trust Fund, Section 2-219 Insurance provides that "The city risk manager, acting for the city manager, is authorized to enter into, on behalf of the city, any appropriate commercial insurance or alternative risk financing to be in the best interests of the city". The City's Risk Manager has been working with Alliant Insurance, our broker, who has been placing insurance for cities for over 25 years. Their insurance placements include all lines of coverage placed through a proprietary group purchase program for public entities across the United States. Placement is underwritten and priced on a group basis without sharing the risks of the entire group. Alliant obtained quotations for excess workers' compensation insurance with the same coverage terms and self-insured retention (SIR). The not-to-exceed cost to purchase the insurance for FY 2016-17 is \$229,765. The expiring premium was \$204,164. Payroll increased 5.11% and the rate increased 1.72%.

Excess Workers' Compensation

The city purchases statutory excess workers' compensation with an \$800,000 SIR and employer's liability insurance with \$2,000,000 limits. There are only a handful of carriers that will underwrite public entity workers' compensation programs. The current carrier, Safety National has provided a rate of 0.188 per \$100 of payroll and will guarantee that rate for two years, billed annually, with some caveats as follows:

- The SIR, limits and coverage will remain as expiring.
- No significant change in exposure (meaning a 15% change)
- No significant change in business development or non-core business
- No material adverse change in financial condition
- No new individual loss that will exceed 50% of the SIR (\$400,000)
- No development of existing claims greater than 50% of the SIR (\$400,000)
- If any of the above occurs, then they will re-rate the policy and it will be subject to a rate increase

Services included in the current rate are: Safety Essentials on-line training, Best Doctors Catcare, Ask Best Doctors program which provide in-depth case review by world renowned doctors and \$5,000 worth of loss control safety inspections. We are still working with Safety National on finalizing the proposed premiums and to see what additional reductions or enhanced coverage can be provided.

Risk Management recommends placing the coverage with Safety National including the two year rate guarantee. The workers' compensation insurance premiums are paid from the Workers' Compensation Trust Fund. The total cost of renewing the excess workers' compensation and employer's liability insurance shall not exceed **\$229,765**.

This amount is included in the current FY 2016/17 budget being proposed to City Council. Julie Stiak made a motion to approve and recommend to City Council approval of renewal of excess workers' compensation and employer's liability insurance for fiscal year 2016/17 not to exceed \$229,765. 3 Ayes, 0 Nays, Motion passed.

8. Adjournment

Julie Stiak moved to adjourn the meeting which was seconded by Tom Duensing. The meeting was adjourned at 11:28 AM.

Submitted by:
Dianne Shoemake