

Report of the
Department of Human Resource Management
Workers' Compensation Program
Settlements in Fiscal 2011
and
Experience-based Premium Recommendations
Pursuant to
2011 Virginia Acts of Assembly
Chapter 0890, Item 75.F

August 26, 2011

Workers' Compensation Settlements in Fiscal 2011

The Workers' Compensation Program settled fourteen Workers' Compensation claims during Fiscal 2011 saving \$440,865.18 in expected future costs. Exhibit A provides a list of all settlements. Savings are calculated as follows:

Total Case Reserves (Future Exposure)	\$632,335.17
Total Settlement Amounts	\$191,469.99
Savings due to Settlements	\$440,865.18

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 FY2013 and FY2014 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 FY2013 Premium</u>	<u>Recommended FY 2014 Premium</u>
\$72,672,651	\$74,743,825

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-FY2012 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 FY2013 and FY2014 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 FY2013 and FY2014 under three scenarios:

1. Indicated Undiscounted Actuarial Premium (cashflow) – the premium required to pay the ultimate cost of claims anticipated to occur during FY2013 plus the FY2013 program and administrative expenses.
2. Pay As You Go – projection of loss and expense payments (net of anticipated investment income) to be made during FY2013 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 FY2013 plus the amount required so that the FY2013 ending fund balance is equal to the FY2014 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 1.2 percent increase in overall premiums for FY2013 as compared to FY2012 and a 2.9 percent overall increase in premiums for FY2014 as compared to FY2013.

Total premiums recommended are \$72,672,651 for FY2013 and \$74,743,825 for FY2014. Exhibit B provides recommended workers' compensation premiums by agency on a Pay as You Go (cash flow) basis for FY2013 and FY2014. 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 2011 Workers' Compensation Settlements

Claimant Name	Date of Injury	Settlement Amount	Future Exposure	Savings due to Settlement
Francis C. Breder	10/16/2007	\$14,173.00	\$124,025.61	\$109,852.61
James A. Britton	8/15/2000	\$1,578.43	\$3,400.51	\$1,822.08
Darin Dungee	10/10/2001	\$20,000.00	\$29,295.77	\$9,295.77
Milton S. Franklin *	11/9/2003	\$4,267.00	\$10,168.08	\$5,901.08
William F. Gibbs	4/23/2007	\$31,667.00	\$68,011.17	\$36,344.17
James M. Hale	6/24/2008	\$13,333.33	\$43,525.40	\$30,192.07
Gerald H. Hundley	4/6/2006	\$2,000.00	\$2,318.49	\$318.49
Edward L. Jones	4/10/2006	\$6,041.75	\$7,500.00	\$1,458.25
Thomas A. Kuser	12/6/1996	\$5,976.83	\$12,931.18	\$6,954.35
Alice M. Maxey	7/8/1999	\$6,000.00	\$16,606.14	\$10,606.14
David K. Miles	2/1/2006	\$35,099.13	\$40,000.00	\$4,900.87
Tarris Rodgers	3/22/2007	\$18,226.00	\$132,712.57	\$114,486.57
Hazel Bowman Smith	8/16/2007	\$8,107.52	\$8,836.06	\$728.54
Charles J. Wiggins	10/12/2006	\$25,000.00	\$133,004.19	\$108,004.19
TOTALS		\$191,469.99	\$632,335.17	\$ 440,865.18

* Calculated with consideration for excessive attorney costs for recovery

**COMMONWEALTH OF VIRGINIA
SELF INSURANCE FUND
WORKERS COMPENSATION PREMIUM FOR FISCAL YEARS 2013 & 2014**

Agency Code	Agency Name	FY 2012 Actual Premium	Recommended Premium	
			Pay As You Go FY 2013	Pay As You Go FY 2014
100	Senate of Virginia	8,308	9,358	9,625
101	House of Delegates	15,067	16,961	17,445
103	Magistrate System	24,592	49,077	50,475
107	Division of Legislative Services	5,792	6,494	6,679
108	VA Code Commission	49	0	0
109	Division of Legislative Automated Systems	1,752	1,998	2,055
110	Joint Legislative Audit Review Commission	3,283	3,652	3,756
111	Supreme Court of Virginia	219,760	197,247	202,868
112	Judicial Inquiry and Review Commission	495	536	551
117	Virginia State Bar	11,075	11,294	11,616
119	Office of Lieutenant Governor	333	323	332
121	Office of the Governor	4,582	4,312	4,434
122	Department of Planning & Budget	6,347	6,451	6,634
123	Department of Military Affairs	351,293	257,970	265,322
127	Department of Emergency Management	15,186	17,740	18,246
129	Department of Human Resources Management	13,103	15,455	15,895
132	State Board of Elections	2,329	2,188	2,250
133	Auditor of Public Accounts	5,411	5,842	6,008
136	Virginia Information Technologies	50,662	35,117	36,118
140	Department of Criminal Justice Services	12,934	10,271	10,563
141	Office of the Attorney General	27,276	28,110	28,912
146	Science Museum of Virginia	19,038	20,637	21,225
148	Virginia Commission for the Arts	407	459	472
151	Department of Accounts	12,749	11,581	11,911
152	Department of the Treasury	8,958	10,419	10,716
154	Department of Motor Vehicles	887,389	606,035	623,307
156	Department of State Police	5,372,083	4,555,275	4,685,101
157	Compensation Board	1,853	1,697	1,745
158	Virginia Retirement System	30,734	30,873	31,753
160	Virginia Criminal Sentencing Commission	947	1,063	1,093
161	Virginia Department of Taxation	72,268	74,124	76,236
163	Department for the Aging	2,234	2,528	2,600
165	Dept of Housing & Community Development	16,037	11,019	11,333
166	Secretary of the Commonwealth	1,627	1,807	1,858
170	Council on Human Rights	543	409	421
171	State Corporation Commission	57,237	71,745	73,789
172	Virginia State Lottery Department	21,125	32,810	33,746
174	Virginia College Savings Plan	5,005	9,464	9,734
175	Virginia Office for Protection and Advocacy	2,681	2,864	2,946
180	Secretary of Administration	1,261	1,229	1,264

181	Virginia Department of Labor and Industry	33,805	36,690	37,736
182	Virginia Employment Commission	84,096	109,369	112,487
183	Secretary of Natural Resources	743	743	764
184	Secretary of Technology	529	737	758
185	Secretary of Education	627	585	602
186	Secretary of Transportation	843	683	703
187	Secretary of Public Safety	615	619	636
188	Secretary of Health and Human Resources	676	553	569
190	Secretary of Finance	650	541	556
191	Virginia Workers' Compensation Commission	48,123	77,326	79,530
192	Secretary of Economic Development	797	669	688
193	Secretary of Agriculture and Forestry	315	320	329
194	Department of General Services	263,207	356,277	366,431
199	Department of Conservation and Recreation	554,502	565,615	581,735
201	Department of Education	38,055	42,451	43,661
202	The Library of Virginia	15,777	18,076	18,592
204	The College of William & Mary	615,524	734,587	755,523
207	University of Virginia	2,132,110	2,853,775	2,935,108
208	Virginia Polytechnic Institute & State University	3,334,252	3,154,435	3,244,337
209	University of Virginia Medical Center	3,637,732	4,111,777	4,228,963
211	Virginia Military Institute	183,990	198,741	204,405
212	Virginia State University	200,636	214,677	220,795
213	Norfolk State University	299,010	319,931	329,049
214	Longwood University	273,043	214,834	220,957
215	University of Mary Washington	211,551	257,852	265,201
216	James Madison University	880,998	892,183	917,610
217	Radford University	446,343	482,192	495,935
218	Virginia School for the Deaf & the Blind	84,362	82,433	84,782
221	Old Dominion University	609,019	706,011	726,133
222	Dept of Professional & Occupational Reg	13,846	17,372	17,867
223	Department of Health Professions	29,897	26,849	27,615
226	Board of Accountancy	637	654	673
232	Dept of Minority Business Enterprise	3,722	2,475	2,546
233	Virginia Board of Bar Examiners	924	1,111	1,143
236	Virginia Commonwealth University	1,450,189	1,495,644	1,538,270
238	Virginia Museum of Fine Arts	54,686	88,939	91,474
239	Virginia Frontier Culture Museum	2,890	4,867	5,005
242	Christopher Newport College	280,717	318,717	327,801
245	State Council for Higher Education	5,246	5,465	5,621
246	University of Virginia at Wise	75,071	87,890	90,395
247	George Mason University	902,727	1,319,280	1,356,879
260	Virginia Community College System	1,538,689	1,775,151	1,825,742
262	Department of Rehabilitative Services	316,313	368,422	378,922
268	Virginia Institute of Marine Science	164,515	198,008	203,651
301	Dept. of Agriculture & Consumer Services	125,808	118,349	121,722
307	Virginia Agricultural Council	43	39	40
319	Chippokes Plantation Farm Foundation	798	619	636
325	Department of Business Assistance	4,170	3,791	3,899
402	Marine Resources Commission	79,404	122,336	125,822

403	Department of Game and Inland Fisheries	438,509	583,399	600,026
405	Virginia Racing Commission	2,253	1,875	1,929
409	Department of Mines, Minerals and Energy	53,860	229,776	236,324
411	Department of Forestry	372,457	400,114	411,517
413	Virginia Alcohol Safety Action Program	5,732	549	565
417	Gunston Hall	1,977	2,269	2,334
423	Department of Historic Resources	9,731	9,294	9,559
425	Jamestown-Yorktown Foundation	130,574	127,098	130,720
440	Department of Environmental Quality	156,725	238,444	245,239
454	Office of Commonwealth Preparedness	1,155	1,111	1,143
501	Department of Transportation	15,331,629	13,078,267	13,450,999
507	Board of Towing and Recovery Operations	172	259	267
601	Virginia Department of Health	1,113,768	1,151,427	1,184,243
602	Department of Medical Assistance Services	32,229	36,555	37,597
606	Virginia Board for People w/Disabilities	1,089	1,043	1,073
702	Department for the Blind and Vision Impaired	89,607	124,192	127,731
720	Dept. of Behavioral Health and Developmental Services	14,127,212	13,414,671	13,796,990
750	Department of Correctional Education	214,494	165,945	170,675
751	Virginia Dept for Deaf & Hard of Hearing	1,001	890	916
765	Department of Social Services	200,737	173,509	178,454
766	Virginia Parole Board	948	934	961
777	Department of Juvenile Justice	2,153,996	3,351,341	3,446,854
778	Department of Forensic Science	78,234	101,034	103,913
794	Virginia Center for Behavioral Rehabilitation	131,537	265,305	272,866
799	Department of Corrections	8,969,936	9,814,121	10,093,824
820	Capitol Square Preservation Council	135	145	149
834	Virginia Freedom of Information Advisory Council	192	222	228
839	Virginia Commission of Youth	323	333	342
840	Virginia Housing Study Commission	0	0	0
841	Department of Aviation	22,211	29,876	30,727
844	Joint Commission on Health	657	771	793
847	Comm. on Tech. & Sciences	206	161	166
848	Public Defender Commission	96,717	58,569	60,238
853	Office for Substance Abuse Prevention	318	168	173
859	Virginia Sesquicentennial of the American Civil War Commission	65	100	103
912	Department of Veterans' Services	255,606	385,106	396,082
937	Southern Virginia Higher Education Center	2,416	2,222	2,286
938	New College Institute	803	1,150	1,183
942	Virginia Museum of Natural History	2,923	2,674	2,750
948	Southwest VA High Ed Center	4,793	7,576	7,792
957	Commonwealth's Attorney's Service Council	641	729	750
960	Department of Fire Programs	47,351	99,413	102,246
961	Division of Capitol Police	61,514	68,151	70,094
962	Dept of Employment Dispute Resolution	1,700	1,046	1,076
999	Department of Alcoholic Beverage Control	1,414,655	1,223,719	1,258,595
	Statewide Total	71,828,816	72,672,651	74,743,825