

C94I00
Subsequent Injury Fund

Operating Budget Data

(\$ in Thousands)

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 02-04</u>	<u>FY 05</u>	<u>FY 04-05</u>
				<u>Change</u>		<u>Change</u>
Operations	\$1,602	\$1,650	\$1,699	\$97	\$1,690	-\$10
Contractual Services	40	32	55	\$14	43	-12
Grants	56	56	34	-\$22	34	0
Contingent & Back of Bill Reductions	0	0	0	\$0	-6	-6
Adjusted Grand Total	\$1,698	\$1,738	\$1,788	\$89	\$1,760	-\$27
Special Funds	1,698	1,732	1,772	\$73	1,750	-21
Contingent & Back of Bill Reductions	0	0	0	\$0	-6	-6
Adjusted Special Funds	\$1,698	\$1,732	\$1,772	\$73	\$1,744	-\$27
Reimbursable Funds	0	6	16	\$16	16	0
Adjusted Grand Total	\$1,698	\$1,738	\$1,788	\$89	\$1,760	-\$27
Annual % Change		2.3%	2.9%		-1.5%	

- The fiscal 2005 allowance decreases \$27,157, or 1.5% from the fiscal 2004 working allowance.

Personnel Data

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 02-04</u>	<u>FY 05</u>	<u>FY 04-05</u>
				<u>Change</u>		<u>Change</u>
Regular Positions	18.6	17.6	16.6	-2	16.6	0.0
Contractual FTEs	0.0	0.0	0.0	0	0.0	0.0
Total Personnel	18.6	17.6	16.6	-2	16.6	0.0

Vacancy Data: Regular Positions

Turnover Expectancy	0.25	1.50%
Positions Vacant as of 12/31/03	0.00	0.00%

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

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- A vacant position was transferred to the Uninsured Employers' Fund in fiscal 2004, but funding was not eliminated until the fiscal 2005 allowance, which accounts for the negative component of the change in personnel expenditures, despite a zero net change in positions from fiscal 2004 to 2005.
- No vacancies exist, and no new positions have been created for fiscal 2005.

Analysis in Brief

Issues

Potential Unfunded Liability Exists: Current awards projected across lifespan tables indicate that a unfunded liability exists for the Subsequent Injury Fund (SIF). **SIF should comment on the results of the newest actuarial study and whether the 6.5% assessment is sufficient to provide for subsequent injury claims.**

Recommended Actions

1. Concur with Governor's allowance.

C94I00 Subsequent Injury Fund

Operating Budget Analysis

Program Description

The Subsequent Injury Fund (SIF) compensates injured workers whose pre-existing injuries, diseases, or congenital conditions are substantially worsened by their current injuries. SIF receives special funds from a legislatively mandated 6.5% assessment on (1) awards against employers or insurers for permanent disability or death; and (2) amounts payable by employers or insurers under settlement agreements, including those agreements approved by the Workers' Compensation Commission (WCC). The purpose of SIF is to encourage the employment of disabled individuals by limiting an employer's liability should a subsequent occupational injury render an individual permanently disabled or result in death. Employers or their insurers are only liable for damage caused by current injuries. SIF is then liable for damage from the combined effects of any injuries and conditions. The SIF mission addresses the need for:

- efficiently defending SIF's resources against inappropriate use;
- providing monetary benefits to qualified disabled workers injured on the job in accordance with awards passed by WCC; and
- maintaining the adequacy and integrity of SIF's fund balance.

Performance Analysis: Managing for Results

The two goals of the SIF are based around efficient and responsible use of the fund resources. The goal includes objectives to review and prepare cases, as well as process payments once assessments are awarded by WCC. The average processing time for the authorization of award payments remains at three days. This only tracks the authorization time, as the Comptroller controls the release of funds.

SIF also tracks operating cost per claim, in an effort to gauge some sort of administrative productivity measure (see **Exhibit 1**). While different cases merit different costs in terms of medical exams, depositions, and other legal fees, the cost per claim has increased in the last year, from \$1,400 in fiscal 2001 to \$1,872 in fiscal 2003. SIF anticipates a decrease in fiscal 2004 and 2005, to \$1,787 and \$1,606, respectively. It is important to remember that this measure does not capture the complexity of cases, rather only the cost expended per case. Therefore, this is not a particularly instructive measure.

The fund also tracks the funds collected and expended to evaluate the relative health of the fund. The fund balance continues to increase, showing that the 6.5% assessment on permanency awards continues to create growth in the fund. **Exhibit 2** shows the fund balance history for recent years.

C94100 - Subsequent Injury Fund

Exhibit 1
Program Measurement Data
Subsequent Injury Fund
Fiscal 2001 – 2005

	<u>Actual 2001</u>	<u>Actual 2002</u>	<u>Actual 2003</u>	<u>Est. 2004</u>	<u>Est. 2005</u>	<u>Ann. Chg. 01-03</u>	<u>Ann. Chg. 03-05</u>
Cases resolved	N/A	1,214	928	1,000	1,100	N/A	8.9%
Payments made	21,601	22,067	21,934	22,000	22,100	0.8%	0.4%
Total expenditures (\$ in thousands)	\$14,915	\$15,079	\$14,998	\$15,138	\$15,166	0.3%	0.6%
Total collections (\$ in thousands)	\$19,336	\$18,377	\$19,763	\$19,800	\$20,100	1.1%	0.8%
Ratio of fund expenditures to total collections	.771:1	.820:1	.759:1	.765:1	.755:1	N/A	N/A
Operating budget cost per resolved claim	\$1,423	\$1,400	\$1,872	\$1,787	\$1,606	14.7%	-7.4%
Estimated processing days for authorization of award payment	3	3	3	3	3	0.0%	0.0%

Source: Subsequent Injury Fund

Exhibit 2
Subsequent Injury Fund History
Fiscal 1998 through 2003

<u>Date</u>	<u>Balance</u>	<u>Percent Change</u>
June 30, 1998	\$21,938,427	N/A
June 30, 1999	24,905,192	13.52%
June 30, 2000	30,233,978	21.40%
June 30, 2001	34,654,428	14.62%
June 30, 2002	37,967,827	9.56%
June 30, 2003	41,389,674	9.01%
December 31, 2003	42,115,847	1.75%

Source: Subsequent Injury Fund

Governor's Proposed Budget

The fiscal 2005 allowance for the SIF is \$1.76 million, a decrease of approximately \$27,000 from the adjusted 2004 working appropriation. Personnel accounts for 63% of the change, as a previously vacant position was transferred to the Uninsured Employers' Fund in fiscal 2004. However, the funding was not deleted from SIF until the fiscal 2005 allowance. The remaining decrease is explained by the change in medical costs. SIF employs physicians to examine patients to determine the extent of total injury attributable to pre-existing conditions versus the workers' compensation claim in question.

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**Exhibit 3
Governor's Proposed Budget
Subsequent Injury Fund
(\$ in Thousands)**

	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>	<u>FY 04-05</u>	<u>FY 04-05</u>
	<u>Actual</u>	<u>Approp.</u>	<u>Allowance</u>	<u>Change</u>	<u>% Change</u>
Special Funds	\$1,732	\$1,772	\$1,750	-\$21	-1.2%
Contingent & Back of Bill Reductions	0	0	-6	-6	
Adjusted Special Funds	\$1,732	\$1,772	\$1,744	-\$27	-1.5%
Reimbursable Funds	\$6	\$16	\$16	\$0	0.0%
Adjusted Grand Total	\$1,738	\$1,788	\$1,760	-\$27	-1.5%

Where It Goes:

Personnel Expenses

Increments and other compensation	\$18
Turnover and cost containment adjustment	7
Unemployment assessment	2
Retirement	-2
Employee and retiree health insurance	-6
Transfer of position	-34
Other personnel changes	-2

Other Changes

Replacement of office furniture	9
Increased telecommunications costs	5
Completion of information technology improvements	-11
Decrease in medical exams charges	-14
Other operating changes	1

Total **-\$27**

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

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Impact of Cost Containment

The fiscal 2005 allowance reflects the elimination of \$6,033, the appropriation for matching employee deferred compensation contributions up to \$600, contingent upon enactment of a provision in budget reconciliation legislation.

Issues

1. Potential Unfunded Liability Exists

SIF commissioned an actuarial study by Deloitte & Touche, LLP to assess the unfunded liability that exists from outstanding claim awards due. This study looks at the lifetime expectancy tables of permanency award recipients and determines the expected payouts based on the lifespan expectancy. This study, done in 1996, revealed that if claims were to end as of the date of publication of the study, there would be an unfunded liability of \$408.3 million. This accounts for outstanding award payments, less the fund balance.

SIF commissioned an updated study of the same issue in fiscal 2004, and the results are due to SIF before the budget hearings. SIF anticipates a similar unfunded liability will be revealed from this current study. **SIF should comment on the results of the newest actuarial study and whether the 6.5% assessment is adequate to provide for the subsequent injury claims of Maryland workers.**

Recommended Actions

1. Concur with Governor's allowance.

Current and Prior Year Budgets

**Current and Prior Year Budgets
Subsequent Injury Fund
(\$ in Thousands)**

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2003					
Legislative Appropriation	\$0	\$1,732	\$0	\$8	\$1,740
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Cost Containment	0	0	0		0
Reversions and Cancellations	0	0	0	-2	-2
Actual Expenditures	\$0	\$1,732	\$0	\$6	\$1,738
Fiscal 2004					
Legislative Appropriation	\$0	\$1,772	\$0	\$16	\$1,788
Cost Containment	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Working Appropriation	\$0	\$1,772	\$0	\$16	\$1,788

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

**Object/Fund Difference Report
Subsequent Injury Fund**

<u>Object/Fund</u>	<u>FY03 Actual</u>	<u>FY04 Working Appropriation</u>	<u>FY05 Allowance</u>	<u>FY04 - FY05 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	17.60	16.60	16.60	0	0%
Total Positions	17.60	16.60	16.60	0	0%
Objects					
01 Salaries and Wages	\$ 1,204,893	\$ 1,233,245	\$ 1,222,702	-\$ 10,543	-0.9%
02 Technical & Spec Fees	285,786	326,000	313,000	-13,000	-4.0%
03 Communication	21,941	23,917	29,333	5,416	22.6%
04 Travel	22,394	27,000	27,000	0	0%
08 Contractual Services	31,956	54,500	42,900	-11,600	-21.3%
09 Supplies & Materials	16,316	19,600	20,500	900	4.6%
10 Equip - Replacement	33,776	6,000	15,000	9,000	150.0%
11 Equip - Additional	2,498	0	0	0	0.0%
12 Grants,Subsidies,Contr	55,860	33,930	33,930	0	0%
13 Fixed Charges	60,439	62,348	62,051	-297	-0.5%
14 Land & Structures	1,721	1,000	0	-1,000	-100.0%
Total Objects	\$ 1,737,580	\$ 1,787,540	\$ 1,766,416	-\$ 21,124	-1.2%
Funds					
03 Special Fund	\$ 1,731,780	\$ 1,771,540	\$ 1,750,416	-\$ 21,124	-1.2%
09 Reimbursable Fund	5,800	16,000	16,000	0	0%
Total Funds	\$ 1,737,580	\$ 1,787,540	\$ 1,766,416	-\$ 21,124	-1.2%

Note: The fiscal 2004 appropriation does not include deficiencies and the fiscal 2005 allowance does not reflect contingent reductions.