

**C96J00**  
**Uninsured Employers' Fund**

***Operating Budget Data***

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(\$ in Thousands)

	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 02-04</u> <u>Change</u>	<u>FY 05</u>	<u>FY 04-05</u> <u>Change</u>
Operations	\$873	\$877	\$909	\$36	\$932	\$24
Contractual Services	2	2	3	1	3	0
Grants	34	33	33	0	33	0
Contingent & Back of Bill Reductions	0	0	0	0	-6	-6
<b>Adjusted Grand Total</b>	<b>\$909</b>	<b>\$913</b>	<b>\$945</b>	<b>\$36</b>	<b>\$963</b>	<b>\$18</b>
Special Funds	909	913	945	36	969	24
Contingent & Back of Bill Reductions	0	0	0	0	-6	-6
<b>Adjusted Special Funds</b>	<b>\$909</b>	<b>\$913</b>	<b>\$945</b>	<b>\$36</b>	<b>\$963</b>	<b>\$18</b>
<b>Annual % Change</b>		<b>0.4%</b>	<b>3.5%</b>		<b>1.9%</b>	

- The fiscal 2005 allowance increases approximately \$18,000 from the 2004 adjusted working appropriation. Personnel accounts for 50% of the increase, and small operating changes make up the remaining 50%.

***Personnel Data***

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	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 02-04</u> <u>Change</u>	<u>FY 05</u>	<u>FY 04-05</u> <u>Change</u>
Regular Positions	13.0	13.0	13.0	0.0	13.0	0.0
Contractual FTEs	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total Personnel</b>	<b>13.0</b>	<b>13.0</b>	<b>13.0</b>	<b>0.0</b>	<b>13.0</b>	<b>0.0</b>

***Vacancy Data: Regular Positions***

Turnover Expectancy	0.26	2.00%
Positions Vacant as of 12/31/03	1.00	7.69%

- There is one vacancy at the Uninsured Employers' Fund (UEF), and no new positions have been created. A regular position was transferred to UEF from the Subsequent Injury Fund in fiscal 2004 to replace a position deleted in fiscal 2004 cost containment action, but the funding was not moved over until fiscal 2005.

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

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## ***Analysis in Brief***

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### **Major Trends**

***Fund Balance Continues to Increase:*** The UEF balance continues to grow, increasing 30.2% in the last fiscal year.

### **Recommended Actions**

1. Concur with Governor's allowance.

### **Updates**

***Assessment Increase – Bethlehem Steel Bankruptcy:*** Due to the bankruptcy of Bethlehem Steel, UEF will be impleaded as the insurer for Bethlehem and will incur a liability of up to \$25 million. As a result, UEF has raised the assessment on permanency awards from the Workers' Compensation Commission to 2%, as allowed by statute.

**C96J00**  
**Uninsured Employers' Fund**

***Operating Budget Analysis***

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**Program Description**

The Uninsured Employers' Fund (UEF) protects workers whose employers are not insured under the Workers' Compensation Law. UEF reviews and investigates claims filed by employees, or in the case of death, by their dependents. If the employer does not properly compensate a claimant, the fund will directly pay the compensation benefits and medical expenses. UEF will attempt to recover all benefits paid plus certain assessments from the uninsured employer. The source of the special fund is from assessments imposed by the Workers' Compensation Commission (WCC) on insurance companies and self-insured employers. UEF also collects penalties from sanctions on uninsured employers and revenue from recovery of benefits paid out for uninsured claims. The UEF mission addresses the need for:

- efficiently investigating and defending all designated noninsured cases;
- monitoring awards and following established procedures to ensure prompt payment to claimants and health care providers; and
- tracking and collecting fines, assessments, and awards benefits paid by the fund, and maintaining the adequacy and integrity of the fund balance.

**Performance Analysis: Managing for Results**

As shown in **Exhibit 1**, the UEF Managing for Results (MFR) measures generally track the health of the fund. The measures examine expenditures (compensation and medical payments), operating costs, and collections (assessments on workers' compensation permanency awards, fines for uninsured status, and interest on the fund principal).

Operationally, it is difficult to track productivity of UEF, but one may look to the processing time of payment award authorization, as well as the operating cost per resolved case. The fund has determined through periodic random sampling that it takes three days from the time an award is announced by WCC to the time the payment is authorized for release by the Comptroller. This period has remained constant in recent years. Additionally, it is worth noting that UEF also tracks the operating cost per case – which has hovered around \$1,000 per case in recent years.

*C96J00 - Uninsured Employers' Fund*

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**Exhibit 1  
Program Measurement Data  
Uninsured Employers' 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>
New cases	1,065	1,196	1,111	1,200	1,200	2.1%	3.9%
Cases resolved	850	875	954	900	950	5.9%	-0.2%
Operating cost per resolved case	\$1,037	\$1,039	\$957	\$1,050	\$1,020	-3.9%	3.2%
Total expenditures (\$ in Thousands)	\$3,005	\$2,760	\$2,697	\$2,795	\$2,868	-5.3%	3.1%
Total collections (\$ in Thousands)	\$3,228	\$3,214	\$3,108	\$3,175	\$3,237	-1.9%	2.1%
Ratio of expenditures to collections for the year	.932:1	.859:1	.868:1	.880:1	.886:1	n/a	n/a

Source: Uninsured Employers' Fund

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The relative health of the fund can be tracked by looking at the ratio of fund expenditures to collections. The fund balance will maintain positive growth when collections exceed expenditures and the principal amount collects interest. Since 2001, expenditures have fallen from 93% of collections to 87%. This number should decrease further as the assessment level was increased in fiscal 2004 to meet the demands of Bethlehem Steel claimants. The fund balance continues to grow, increasing 30.2% in the last fiscal year. As of the end of calendar 2003, the balance rested at \$5,007,415. **Exhibit 2** indicates recent fund history.

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**Exhibit 2**  
**Uninsured Employers' Fund History**  
**Fiscal 1999 – 2003**

<u>Year</u>	<u>Ending Balance</u>	<u>Annual Change</u>
June 30, 1999	\$2,266,734	n/a
June 30, 2000	\$2,754,491	21.52%
June 30, 2001	\$2,973,850	7.96%
June 30, 2002	\$3,429,543	15.32%
June 30, 2003	\$3,846,782	12.17%
December 31, 2003	\$5,007,415	30.17%

Source: Uninsured Employers' Fund

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**Governor's Proposed Budget**

The fiscal 2005 allowance increases almost \$18,000 after contingent and back of the budget bill reductions. This increase can be attributed to the transfer of one regular employee from the Subsequent Injury Fund to UEF in fiscal 2004. The funding was moved over for fiscal 2005. This and other personnel increments account for 50% of the overall increase. Otherwise, UEF operations receive a \$9,000 increase in special funds. This is made up by furniture replacement (\$4,500) as well as changes in telecommunications and other costs, as shown in **Exhibit 3**.

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**Exhibit 3**  
**Governor's Proposed Budget**  
**Uninsured Employers' Fund**  
**(\$ in Thousands)**

	<u>FY 03</u> <u>Actual</u>	<u>FY 04</u> <u>Approp.</u>	<u>FY 05</u> <u>Allowance</u>	<u>FY 04-05</u> <u>Change</u>	<u>FY 04-05</u> <u>% Change</u>
Special Funds	\$913	\$945	\$969	\$24	2.5%
Contingent & Back of Bill Reductions	0	0	-6	-6	
<b>Adjusted Special Funds</b>	<b>\$913</b>	<b>\$945</b>	<b>\$963</b>	<b>\$18</b>	<b>1.9%</b>
<b>Adjusted Grand Total</b>	<b>\$913</b>	<b>\$945</b>	<b>\$963</b>	<b>\$18</b>	<b>1.9%</b>

*C96J00 - Uninsured Employers' Fund*

**Where It Goes:**

**Personnel Expenses**

Transfer of position.....	\$23
Increments and other compensation .....	12
Elimination of workers' compensation assessment .....	-11
Turnover adjustment and cost containment restoration .....	-17
Other personnel changes .....	2

**Other Changes**

Office furniture replacement .....	5
Adjustment in telecommunications costs.....	3
Software .....	2
Computer equipment.....	-3
Other operating changes.....	2

**Total** **\$18**

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 \$6,021, the appropriation for matching employee deferred compensation contributions up to \$600, contingent upon enactment of a provision in budget reconciliation legislation.

***Recommended Actions***

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1. Concur with Governor's allowance.

## ***Updates***

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### **1. Assessment Increase - Bethlehem Steel Bankruptcy**

The State of Maryland negotiated a \$9.2 million bond with Bethlehem Steel Corporation (Bethlehem) and the Kemper Insurance Company (as underwriter), to cover workers' compensation claims against Bethlehem in the event of bankruptcy or other sort of financial collapse. Bethlehem filed for Chapter 11 protection under federal bankruptcy laws in October 2001. Subsequently, \$2.5 million in workers' compensation claims were then assessed against the bond. In December 2003, to combat any possible financial instability of the underwriter, a cash buyout was negotiated for the present-value of the remainder of the bond. This buyout yielded a \$4.6 million payment to the Injured Workers' Insurance Fund (IWIF) on December 24, 2003. About the same time, the Assistant Attorney General for the Workers' Compensation Commission negotiated a \$6 million settlement in the Bankruptcy Court for the Southern District of New York, on behalf of the State of Maryland as creditor of Bethlehem Steel. This payment brought the total of available funds for Bethlehem-derived workers' compensation claims to \$10.6 million. An actuarial study by Deloitte & Touche, LLP estimates that the total liability for potential Bethlehem workers' compensation payments lies between \$24 million and \$29 million.

As a result of Bethlehem's bankruptcy, UEF became the insurer for Bethlehem-derived workers' compensation claims. In light of the potential \$25 million liability, UEF administratively raised its assessment against WCC permanency awards to 2%, as permitted by statute. Rough estimates predict that UEF will generate \$2.5 million per year with a 2% assessment on permanency awards. UEF also anticipates that the \$10.6 million already collected by IWIF and WCC will cover three years worth of Bethlehem claims. At the \$2.5 million/year growth rate, UEF will have \$7.5 million in funds available when the \$10.6 million is finally exhausted.

## ***Current and Prior Year Budgets***

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### **Current and Prior Year Budgets Uninsured Employers' Fund (\$ in Thousands)**

	<b><u>General Fund</u></b>	<b><u>Special Fund</u></b>	<b><u>Federal Fund</u></b>	<b><u>Reimb. Fund</u></b>	<b><u>Total</u></b>
<b>Fiscal 2003</b>					
Legislative Appropriation	\$0	\$924	\$0	\$0	\$924
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Cost Containment	0	-1	0	0	-1
Reversions and Cancellations	0	-10	0	0	-10
<b>Actual Expenditures</b>	<b>\$0</b>	<b>\$913</b>	<b>\$0</b>	<b>\$0</b>	<b>\$913</b>
<b>Fiscal 2004</b>					
Legislative Appropriation	\$0	\$945	\$0	\$0	\$945
Cost Containment	0	0	0	0	0
Budget Amendments	0	0	0	0	0
<b>Working Appropriation</b>	<b>\$0</b>	<b>\$945</b>	<b>\$0</b>	<b>\$0</b>	<b>\$945</b>

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

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### **Fiscal 2003**

The fiscal 2003 appropriation was reduced by \$1,056 due to employee transit subsidy reduction.

**Object/Fund Difference Report  
Uninsured Employers' 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>
<b>Positions</b>					
01 Regular	13.00	13.00	13.00	0	0%
<b>Total Positions</b>	<b>13.00</b>	<b>13.00</b>	<b>13.00</b>	<b>0</b>	<b>0%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 799,774	\$ 834,077	\$ 849,268	\$ 15,191	1.8%
02 Technical & Spec Fees	298	0	0	0	0.0%
03 Communication	21,447	16,668	18,500	1,832	11.0%
04 Travel	7,983	11,500	11,500	0	0%
08 Contractual Services	2,162	3,000	3,000	0	0%
09 Supplies & Materials	4,845	6,950	9,200	2,250	32.4%
10 Equip - Replacement	9,566	6,998	9,000	2,002	28.6%
11 Equip - Additional	0	0	1,200	1,200	N/A
12 Grants, Subsidies, Contr.	33,441	33,218	33,218	0	0%
13 Fixed Charges	33,232	32,412	33,816	1,404	4.3%
<b>Total Objects</b>	<b>\$ 912,748</b>	<b>\$ 944,823</b>	<b>\$ 968,702</b>	<b>\$ 23,879</b>	<b>2.5%</b>
<b>Funds</b>					
03 Special Fund	\$ 912,748	\$ 944,823	\$ 968,702	\$ 23,879	2.5%
<b>Total Funds</b>	<b>\$ 912,748</b>	<b>\$ 944,823</b>	<b>\$ 968,702</b>	<b>\$ 23,879</b>	<b>2.5%</b>

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