

C94I00 Subsequent Injury Fund

Operating Budget Data

(\$ in Thousands)

	FY 05 <u>Actual</u>	FY 06 <u>Working</u>	FY 07 <u>Allowance</u>	FY 06-07 <u>Change</u>	% Change <u>Prior Year</u>
Special Fund	\$1,701	\$1,774	\$1,860	\$86	4.8%
Reimbursable Fund	<u>16</u>	<u>16</u>	<u>60</u>	<u>44</u>	<u>275.0%</u>
Total Funds	\$1,717	\$1,790	\$1,920	\$130	7.3%

- The fiscal 2007 allowance increases \$130,031 to fund increases in health insurance costs and a position transferred from the Uninsured Employers' Fund during fiscal 2006.

Personnel Data

	FY 05 <u>Actual</u>	FY 06 <u>Working</u>	FY 07 <u>Allowance</u>	FY 06-07 <u>Change</u>
Regular Positions	16.60	17.60	17.60	0.00
Contractual FTEs	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Personnel	16.60	17.60	17.60	0.00

Vacancy Data: Regular Positions

Turnover, Excluding New Positions	0.29	1.64%
Positions Vacant as of 12/31/05	0.00	0.00%

- The Subsequent Injury Fund (SIF) added one regular position (Fiscal Accounts Technician I) through a transfer of a position physically located in the SIF but previously funded by the Uninsured Employers' Fund (UEF) appropriation. The position was transferred because it provides more fiscal and information services to the Subsequent Injury Fund than to the UEF.

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

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Analysis in Brief

Issues

Unfunded Liability Goal: An updated unfunded liability estimate based on disabled mortality life expectancy tables places the fund balance at approximately 24% of the total loss liability. The SIF reports that a goal is to increase the fund balance to 50% of the total loss liability. **The SIF should comment on the likelihood of increasing the fund balance to 50% of the total loss liability and the steps required to reach this goal.**

Recommended Actions

1. Concur with Governor's allowance.

Updates

Personnel Needs: The SIF would like to convert a 60% position to 100% in order to address audit recommendations concerning the States' Financial Management Information System.

C94I00 Subsequent Injury Fund

Operating Budget Analysis

Program Description

The Subsequent Injury Fund (SIF) compensates injured workers whose preexisting 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. 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:

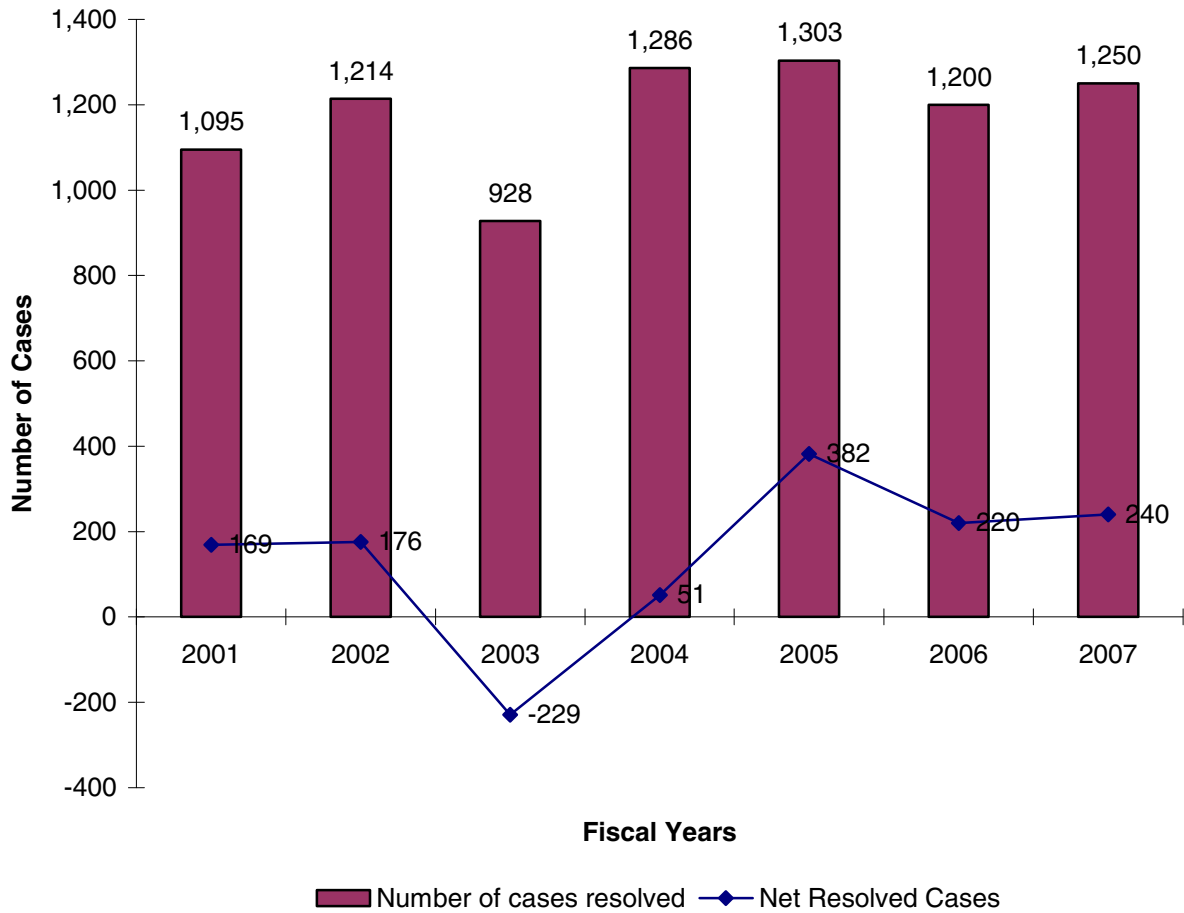
- efficiently defending SIF's resources against inappropriate use;
- providing monetary benefits to qualified disabled workers injured on the job in accordance with awards passed by Workers' Compensation Commission (WCC); and
- maintaining the adequacy and integrity of SIF's fund balance.

Performance Analysis: Managing for Results

The two goals of the SIF are based around efficient and responsible use of the fund resources. These goals include 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.

The net cases resolved is another indicator of the fund's efficiency and is shown in **Exhibit 1**. Since fiscal 2003, when new and reopened cases exceeded resolved cases (a net of -229 cases), the fund has increased its net cases resolved. The number of net cases resolved increased from 51 in fiscal 2004 to 382 in fiscal 2005 and is expected to level off at about 220 in fiscal 2006 and 2007.

Exhibit 1
Number of Resolved Cases and Net Resolved Cases



Net Resolved Cases=Cases resolved less new and reopened cases.

Source: Subsequent Injury Fund

C94100 – Subsequent Injury Fund

SIF tracks operating costs per claim in an effort to gauge administrative productivity (see **Exhibit 2**). While different cases merit different costs in terms of medical exams, depositions, and other legal fees, the cost per claim has decreased in the last year from \$1,390 in fiscal 2004 to \$1,317 in fiscal 2005. This trend is consistent with the 1.9% decrease in annual percent change of cost per claim from fiscal 2001 to 2005. However, from fiscal 2005 to 2007, the cost per claim is estimated to increase 8.0% annually. It is important to remember that this measure does not capture the complexity of cases, rather only the cost expended per case.

Exhibit 2
Program Measurement Data
Subsequent Injury Fund
Fiscal 2001 – 2007

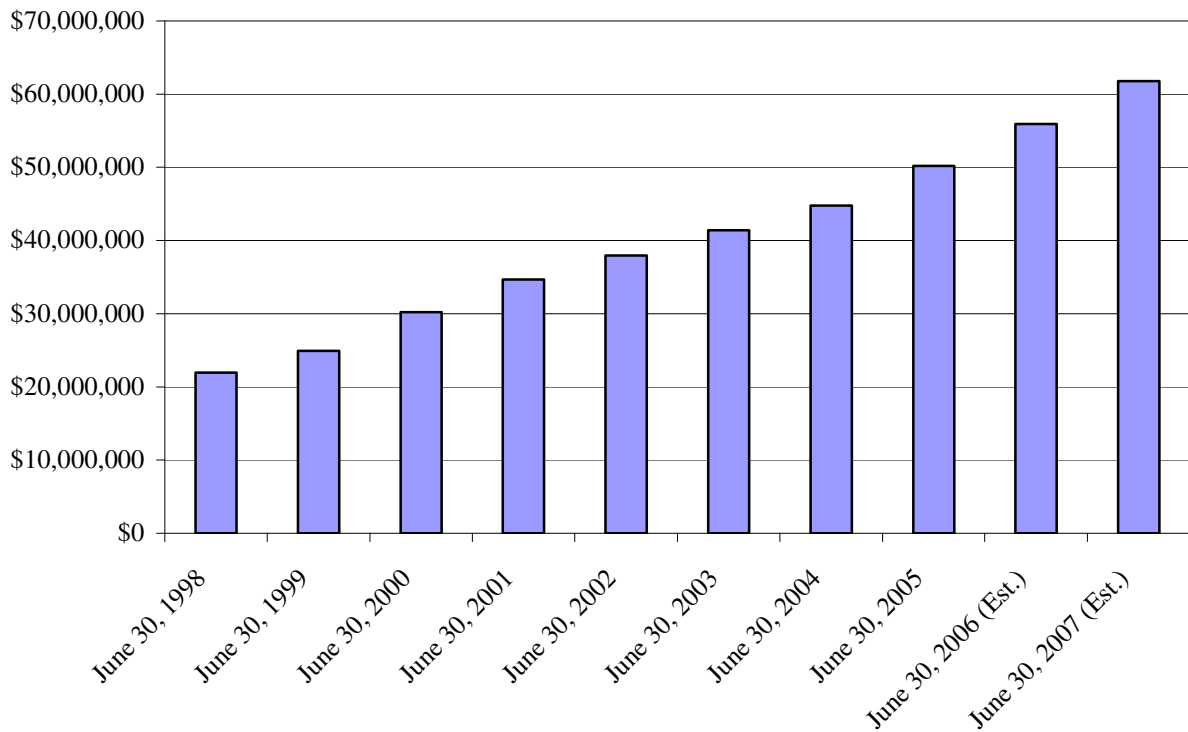
	<u>Actual</u> <u>2001</u>	<u>Actual</u> <u>2002</u>	<u>Actual</u> <u>2003</u>	<u>Actual</u> <u>2004</u>	<u>Actual</u> <u>2005</u>	<u>Estimated</u> <u>2006</u>	<u>Estimated</u> <u>2007</u>	<u>Ann.</u> <u>Chg.</u> <u>01-05</u>	<u>Ann.</u> <u>Chg.</u> <u>05-07</u>
Total expenditures (\$ in thousands)	\$14,915	\$15,079	\$14,998	\$17,740	\$17,812	\$17,990	\$18,220	4.5%	1.1%
Total collections (\$ in thousands)	\$19,336	\$18,377	\$19,763	\$21,135	\$23,238	\$23,800	\$24,150	4.7%	1.9%
Ratio of fund expenditures to total collections	.771:1	.821:1	.759:1	.839:1	.766:1	.756:1	.754:1	n/a	n/a
Operating budget cost per resolved claim	\$1,423	\$1,399	\$1,872	\$1,390	\$1,317	\$1,492	\$1,536	-1.9%	8.0%

Source: Subsequent Injury Fund

C94100 – Subsequent Injury Fund

The fund also tracks the dollars 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 provides more than sufficient funding to cover annual costs. **Exhibit 3** shows the fund balance history for recent years.

Exhibit 3
Subsequent Injury Fund History
Fiscal 1998 – 2007



Source: Subsequent Injury Fund

Governor's Proposed Budget

As shown in **Exhibit 4**, the fiscal 2007 allowance for the SIF is \$1.92 million, an increase of approximately \$130,000 from the fiscal 2006 working appropriation. Employee increments and a new position account for the largest increase. SIF added one position (Fiscal Accounts Technician I) during fiscal 2006, but the associated funding is not reflected in the budget until the fiscal 2007 allowance. The position was always physically located in the SIF office but was previously paid for by the Uninsured Employers' Fund (UEF) appropriation. Most of the remaining growth reflects rising salary and benefit costs. A \$53,000 decrease in the funding for independent medical exams of claimants is explained by the difficulty in determining how many medical exams will be necessary. SIF reports that independent medical exams are its most effective tool for determining the extent of total injury attributable to preexisting conditions versus the workers' compensation claim in question.

Exhibit 4
Governor's Proposed Budget
Subsequent Injury Fund
(\$ in Thousands)

How Much It Grows:	Special Fund	Reimbursable Fund	Total
2006 Working Appropriation	\$1,774	\$16	\$1,790
2007 Governor's Allowance	1,860	60	1,920
Adjusted Allowance	<u>1,860</u>	<u>60</u>	<u>1,920</u>
Amount Change	\$86	\$44	\$130
Percent Change	4.8%	275.0%	7.3%

Where It Goes:

Personnel Expenses

Fiscal Accounts Technician Transferred to Subsequent Injury Fund.....	\$47
Employee increments	44
Increase in employee and retiree health insurance due to fiscal 2006 underfunding	34
Increase in employee and retiree health insurance due to rising costs in fiscal 2007	33
Employees' retirement system charges	11
Budget assumes lower turnover in fiscal 2007	3

Other Changes

Increase in new postage meter, copier rent, rug cleaning, and computer contracts	11
Increase in private vehicle mileage reimbursement rate for travel	9
Increase in software upgrades, anti-virus protection, and office supplies	3
Decrease in independent medical exams of claimants reflecting actual fiscal 2005 experience	-53
Decrease in postage and telecommunication charges.....	-12
Total	\$130

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

Issues

1. Unfunded Liability Goal

In fiscal 2004, SIF commissioned Deloitte & Touche, LLP to update an actuarial study previously conducted in 1996. The study was commissioned to provide an updated assessment of the unfunded liability that exists from outstanding claim awards due. Deloitte & Touche used life expectancy tables of permanency award recipients and determined the expected payouts based on the lifespan expectancy. The original assumption of healthy mortality (lifespan not shortened by disabilities) was joined by a new assumption of disabled mortality (lifespan shortened by injury) for comparison purposes.

While the 1996 study indicated that there would be a \$408.3 million unfunded liability, the updated study estimated liability that ranged from a high of \$511.1 million (healthy mortality and no discounting) to a low of \$125.6 million (disabled mortality and 5% discounting). The discounting reflects different assumptions about earned interest on the fund balance. For planning purposes, the study indicates that the assumptions of 3% discounting and disabled mortality are appropriate and support the 6.5% assessment rate. Updated liability estimates based on the fiscal 2004 study are provided in **Exhibit 5**.

With 3% discounting and disabled mortality, the current unfunded liability is \$168.1 million and the fund balance (\$54.1 million as of December 31, 2005) is approximately 24% of the total loss liability. In 1988, SIF reports the fund balance was approximately 0% of the total loss liability and reflected pay-as-you-go funding. SIF reports that a goal for the fund balance is 50% of the total loss liability or approximately \$110 million. **SIF should comment on the likelihood of increasing the fund balance to 50% of the total loss liability and the steps required to reach this goal.**

Exhibit 5
Subsequent Injury Fund
Components of Unfunded Liability as of November 26, 2003
(\$ in Millions)

<u>Mortality Type</u>	<u>3.0% Discount</u>	
	<u>Disabled</u>	<u>Healthy</u>
Total Loss Liability	\$222.2	\$312.1
Fund Balance	<u>54.1</u>	<u>54.1</u>
Unfunded Liability	\$168.1	\$258.0
% Funded	24%	17%

Note: The fund balance is \$54.1 million as of December 31, 2005.

This assumes Total Loss Liability has not changed since February 2004.

Source: Deloitte Consulting LLP (February 2004) with updated fund balance information from SIF

Recommended Actions

1. Concur with Governor's allowance.

Updates

1. Personnel Needs

The Office of Legislative Audits found room for improvement in use of the State's Financial Management Information System and separation of financial duties in its recent audit of SIF. The SIF reports that one way to handle these concerns would be to convert a soon-to-be vacant 60% information technology position to a 100% position and have the position reflect a mix of 60% information technology and 40% fiscal functions. Overall, the separation of financial duties called for in the audit challenges SIF due to SIF's small size and the time sensitive nature of financial transactions. With its current staffing, SIF believes that it can comply with some but not all of the audit recommendations relative to separation of duties.

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 2005					
Legislative Appropriation	\$0	\$1,744	\$0	\$16	\$1,760
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Reversions and Cancellations	0	-44	0	0	-44
Actual Expenditures	\$0	\$1,700	\$0	\$16	\$1,716
Fiscal 2006					
Legislative Appropriation	\$0	\$1,774	\$0	\$16	\$1,790
Budget Amendments	0	0	0	0	0
Working Appropriation	\$0	\$1,774	\$0	\$16	\$1,790

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

C94100 – Subsequent Injury Fund

Fiscal 2005

The fiscal 2005 appropriation was reduced by \$43,775 due to fewer than anticipated expenditures for medical exams. Higher than anticipated expenditures for salaries and benefits partially offset the cancellation.

Audit Findings

Audit Period for Last Audit:	January 11, 2002 – April 24, 2005
Issue Date:	October 2005
Number of Findings:	8
Number of Repeat Findings:	1
% of Repeat Findings:	13%
Rating: (if applicable)	

- Finding 1:** Cash Receipts: Inadequate internal separation of cash receipts and accounts receivable duties was found.
- Finding 2:** Accounts Receivable: Inadequate internal separation of non-cash credit adjustments and verification duties was found.
- Finding 3:** **Disbursements: Inadequate internal separation of disbursement transaction initiation and approval duties was found.**
- Finding 4:** Payroll: Inadequate internal separation of online payroll time report preparation and approval duties was found.
- Finding 5:** Procurement: Failure to competitively bid out information technology services was found.
- Finding 6:** Information Systems Security and Control: Minicomputer access was insufficiently limited, system security settings were not to specification, and system auditing features were disabled.
- Finding 7:** Information Systems Security and Control: Inadequate monitoring and minicomputer access limitations were placed on contractors.
- Finding 8:** Information Systems Security and Control: Inadequate backup of critical files and lack of a disaster recovery plan.

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

<u>Object/Fund</u>	<u>FY05 Actual</u>	<u>FY06 Working Appropriation</u>	<u>FY07 Allowance</u>	<u>FY06 - FY07 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	16.60	17.60	17.60	0	0%
Total Positions	16.60	17.60	17.60	0	0%
Objects					
01 Salaries and Wages	\$ 1,281,973	\$ 1,271,283	\$ 1,443,246	\$ 171,963	13.5%
02 Technical & Spec Fees	236,040	313,000	260,000	-53,000	-16.9%
03 Communication	18,620	49,149	36,965	-12,184	-24.8%
04 Travel	20,485	17,000	25,500	8,500	50.0%
08 Contractual Services	32,021	26,450	37,222	10,772	40.7%
09 Supplies & Materials	18,029	17,000	19,500	2,500	14.7%
10 Equip - Replacement	10,597	0	0	0	0.0%
11 Equip - Additional	820	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	33,930	33,930	33,930	0	0%
13 Fixed Charges	64,093	62,258	63,738	1,480	2.4%
Total Objects	\$ 1,716,608	\$ 1,790,070	\$ 1,920,101	\$ 130,031	7.3%
Funds					
03 Special Fund	\$ 1,700,608	\$ 1,774,070	\$ 1,860,101	\$ 86,031	4.8%
09 Reimbursable Fund	16,000	16,000	60,000	44,000	275.0%
Total Funds	\$ 1,716,608	\$ 1,790,070	\$ 1,920,101	\$ 130,031	7.3%

Note: The fiscal 2006 appropriation does not include deficiencies, and the fiscal 2007 allowance does not reflect contingent reductions.

C94100 - Subsequent Injury Fund

Appendix 3