

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

***Operating Budget Data***

(\$ in Thousands)

	<b><u>FY 05</u></b> <b><u>Actual</u></b>	<b><u>FY 06</u></b> <b><u>Working</u></b>	<b><u>FY 07</u></b> <b><u>Allowance</u></b>	<b><u>FY 06-07</u></b> <b><u>Change</u></b>	<b><u>% Change</u></b> <b><u>Prior Year</u></b>
Special Fund	<u>\$913</u>	<u>\$975</u>	<u>\$1,081</u>	<u>\$106</u>	<u>10.8%</u>
<b>Total Funds</b>	<b><u>\$913</u></b>	<b><u>\$975</u></b>	<b><u>\$1,081</u></b>	<b><u>\$106</u></b>	<b><u>10.8%</u></b>

- The fiscal 2007 allowance increases approximately \$106,000, or 10.8% from the fiscal 2006 working appropriation due primarily to increases in workers' compensation expenses and health insurance costs.

***Personnel Data***

	<b><u>FY 05</u></b> <b><u>Actual</u></b>	<b><u>FY 06</u></b> <b><u>Working</u></b>	<b><u>FY 07</u></b> <b><u>Allowance</u></b>	<b><u>FY 06-07</u></b> <b><u>Change</u></b>
Regular Positions	13.00	12.00	11.00	-1.00
Contractual FTEs	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
<b>Total Personnel</b>	<b>13.00</b>	<b>12.00</b>	<b>11.00</b>	<b>-1.00</b>

***Vacancy Data: Regular Positions***

Turnover, Excluding New Positions	0.00	0.00%
Positions Vacant as of 12/31/05	1.00	8.33%

- A vacant position (Legal Secretary) was deleted in the fiscal 2007 allowance because the position had not been filled in over two years, and a position (Fiscal Accounts Technician I) was transferred to the Subsequent Injury Fund (SIF) in fiscal 2006. This position has been physically located in the SIF and has provided fiscal and information technology support to the Uninsured Employers' Fund (UEF) but previously was budgeted through the UEF appropriation.

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

For further information contact: Andrew D. Gray

Phone: (410) 946-5530

## *Analysis in Brief*

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### Issues

***Delinquent Accounts Collection:*** The Office of Legislative Audits found inadequacies in UEF’s collection of delinquent accounts. **The Department of Legislative Services recommends that the UEF consider purchasing claim tracking software to supplement or replace the 105-day Delinquent Account List and to otherwise streamline the collection notice mailings, account referrals to Central Collection Unit, and overall accounts receivable accounting.**

***Bethlehem Steel Bankruptcy:*** The UEF assumed full liability for Bethlehem Steel Corporation claims payments in November 2005. **The Department of Legislative Services recommends that the UEF provide an update of its expected future liability and how it will affect its fund balance.**

### Recommended Actions

1. Concur with Governor’s allowance.

### Updates

***Medical Fee Guide:*** Barring significant increases in the reimbursement code for orthopedic care, UEF does not expect Medical Fee Guide changes to affect operations.

***Proactive Uninsured Employers Investigation:*** UEF is included on an interagency task force to determine responsibility for proactive investigation of uninsured employers.

**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 a 2.0% assessment on (1) awards against employers or insurers for permanent disability or death; and (2) amounts payable by employers or insurers under settlement agreements. 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 the UEF, but one may look to the operating cost per resolved case. The operating cost, which has hovered around \$1,000 per case in recent years, was lowest in fiscal 2004 at \$948. In fiscal 2005 it increased to \$1,014 and is estimated to increase to \$1,138 by fiscal 2007.

**Exhibit 1**  
**Program Measurement Data**  
**Uninsured Employers’ 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>Est.</u> <u>2006</u>	<u>Est.</u> <u>2007</u>	<u>Ann.</u> <u>Chg.</u> <u>01-04</u>	<u>Ann.</u> <u>Chg.</u> <u>04-07</u>
New cases	1,065	1,196	1,111	1,012	907	1,000	1,050	-1.7%	1.2%
Cases resolved	850	875	954	962	901	950	950	4.2%	-0.4%
Agency operating expenditures (\$ in Thousands)	\$882	\$909	\$913	\$912	\$914	\$975	\$1,081	1.1%	5.8%
Operating cost per resolved case	\$1,038	\$1,039	\$957	\$948	\$1,014	\$1,026	\$1,138	-3.0%	6.3%
Total expenditures (\$ in Thousands)	\$3,005	\$2,760	\$2,697	\$3,043	\$3,983	\$7,975	\$8,081	0.4%	38.5%
Total collections (\$ in Thousands)	\$3,228	\$3,214	\$3,108	\$6,194	\$7,321	\$7,545	\$7,702	24.3%	7.5%
Ratio of expenditures to collections for the year	.932:1	.859:1	.868:1	0.491:1	0.544:1	1.057:1	1.044:1	n/a	n/a

Source: Uninsured Employers’ Fund

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*C96J00 – Uninsured Employers’ Fund*

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 earns interest. The ratio of expenditures to revenue fell from 87% of collections in fiscal 2003 to 49% in fiscal 2004 due to an increase in the assessment from 1% to 2% on (1) awards against employers or insurers for permanent disability or death; and (2) amounts payable by employers or insurers under settlement agreements. The increase in the assessment was necessary to generate sufficient fund balance to cover Bethlehem Steel claims. In October 2005, the UEF assumed partial responsibility for the payment of Bethlehem Steel claims, and it assumed full responsibility in November 2005. The fund balance is estimated to increase through fiscal 2006, at which time expenditures will exceed collections and the balance will decrease. **Exhibit 2** shows recent fund history.

The burden on the fund balance can be seen by looking at the number of claim payments and the average payment amount as shown in **Exhibit 3**, which does not include Bethlehem Steel claims. The number of claim payments has been steadily increasing since fiscal 2002 and the average payment amount has increased since fiscal 2003 after decreasing between fiscal 2001 and 2003. The combination of increasing claim payments and average payment amounts would have slowed the rate of fund balance increases over time, even before accounting for Bethlehem Steel claims.

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**Exhibit 2**  
**Uninsured Employers’ Fund History**  
**Fiscal 1999 – 2007**

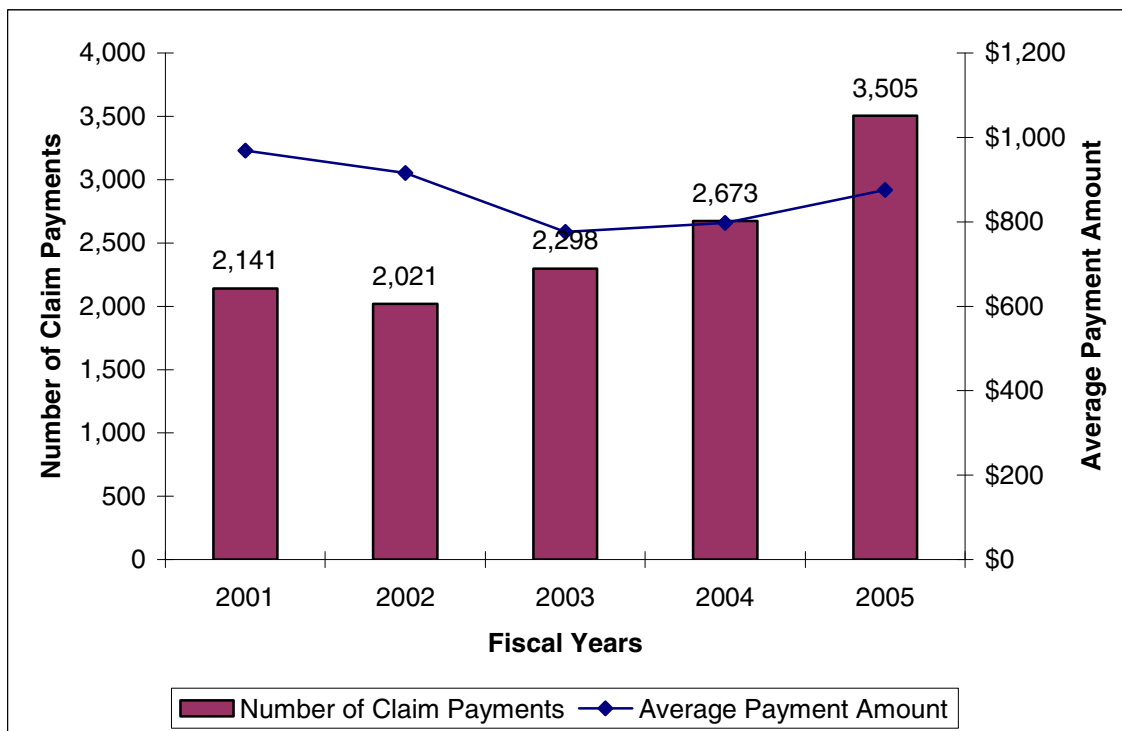
<u>Year</u>	<u>Ending Balance</u>	<u>Annual Change</u>
June 30, 1999	\$2,266,734	n/a
June 30, 2000	2,754,491	21.52%
June 30, 2001	2,973,850	7.96%
June 30, 2002	3,429,543	15.32%
June 30, 2003	3,846,782	12.17%
June 30, 2004	6,983,119	81.53%
June 30, 2005	10,320,738	47.80%
November 30, 2005	12,009,919	n/a
Estimated June 30, 2006	13,660,000	32.35%
Estimated June 30, 2007	13,230,000	-3.15%

Note: In fiscal 2004, UEF increased the assessment on permanency awards from 1% to 2%.

Source: Uninsured Employers' Fund

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**Exhibit 3**  
**Number of Claim Payments and Average Payment Amount**  
**Fiscal 2001 – 2005**



Note: Does not include Bethlehem Steel noninsured claims paid by Injured Workers' Insurance Fund over last three years.

Source: Uninsured Employers' Fund

## **Governor’s Proposed Budget**

The fiscal 2007 allowance increases almost \$106,000 despite the transfer of a position to the Subsequent Injury Fund and the deletion of a position in fiscal 2006 as shown in **Exhibit 4**. The largest increase is for an increase in payments to the SIF for fiscal and information technology services provided by the position transferred to SIF in fiscal 2006. Another large increase is the amount of workers’ compensation premiums paid to the Injured Workers’ Insurance Fund for employee claims in the past. Most of the remaining growth reflects rising salary and benefit costs.

**Exhibit 4**  
**Governor's Proposed Budget**  
**Uninsured Employers' Fund**  
**(\$ in Thousands)**

<b>How Much It Grows:</b>	<b>Special Fund</b>	<b>Total</b>
2006 Working Appropriation	\$975	\$975
2007 Governor's Allowance	<u>1,081</u>	<u>1,081</u>
Amount Change	\$106	\$106
Percent Change	10.8%	10.8%
 <b>Where It Goes:</b>		
<b>Personnel Expenses</b>		
Increase in workers' compensation payments.....		\$33
Increase in employee salary increments .....		18
Budget assumes no turnover in fiscal 2007 .....		17
Increase in employee and retiree health insurance premiums due to rising costs .....		17
Increase in employee and retiree health insurance premiums due to underfunding in fiscal 2006.....		11
Increase in employees' retirement system payments .....		7
Vacant Legal Secretary position abolished and Fiscal Accounts Technician transferred to Subsequent Injury Fund .....		-57
<b>Other Changes</b>		
Increase in payment to the Subsequent Injury Fund for fiscal and information technology services provided by the transferred position .....		44
Increase in DBM paid telecommunications.....		14
Increase in outside information technology consulting services, travel, printing, copier and mail equipment rent, and subscriptions.....		7
Decrease in legal support and communications.....		-5
<b>Total</b>		<b>\$106</b>

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

## ***Issues***

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### **1. Delinquent Accounts Collection**

The Office of Legislative Audits audited UEF for February 7, 2002, to May 17, 2005. The audit found inadequacies in UEF’s collection of delinquent accounts: 8 of 15 accounts sampled had not had collections notices sent at the required 30-day intervals; and 7 of these 8 accounts had been delinquent from 3 to 46 months past the referral date to the Department of Budget and Management’s Central Collections Unit (CCU). The current accounts receivable total is \$18,891,418 (as of December 14, 2005).

UEF reports that several of the accounts sampled by the auditors were not delinquent because they were on appeal or there had been a claimant worsening of condition which kept the accounts under UEF jurisdiction. UEF reports that the accounts that were delinquent were missed by a new fiscal clerk unused to using the SIF/UEF fiscal unit’s 105-day Delinquent Account List. To correct this situation, either the executive director or the administrative officer now monitors the 105-day Delinquent Account List.

UEF reports that it does not know the amount of accounts receivable that has been referred to CCU. **The Department of Legislative Services recommends that the UEF consider purchasing claim tracking software to supplement or replace the 105-day Delinquent Account List and to otherwise streamline the collection notice mailings, account referrals to CCU, and overall accounts receivable accounting.**

### **2. Bethlehem Steel Bankruptcy**

The Bethlehem Steel Corporation (Bethlehem) filed for Chapter 11 protection under federal bankruptcy laws in October 2001. Bethlehem negotiated a bond with the State of Maryland and Kemper Insurance Company to cover workers’ compensation claims against Bethlehem; however, this bond was inadequate and the Injured Workers’ Insurance Fund (IWIF) temporarily took on the liability. Responsibility for the remaining liability began to shift to UEF in October 2005 when UEF funded \$21,000 of the \$336,000 paid by IWIF to Bethlehem claimants. UEF took full responsibility for the Bethlehem claims in November 2005 with a \$195,000 payment and expects to continue to receive monthly bills from IWIF. IWIF will continue to administer the liability while UEF will provide the payments.

UEF is working with IWIF to determine the total future liability from Bethlehem claims. **The Department of Legislative Services recommends that the UEF provide an update of its expected future liability and how it will affect its fund balance.**

***Recommended Actions***

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1. Concur with Governor’s allowance.

## ***Updates***

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### **1. Medical Fee Guide**

The Medical Fee Guide (MFG) Committee revised the Medicare reimbursement amount for each type of service on September 1, 2004. Subsequently, orthopedic groups raised concerns about the significant decrease in their reimbursements, which has raised concerns about reduced access to care if providers decide not to engage in workers’ compensation. The MFG is reviewing the reimbursement coding system, and the UEF reports that barring a significant increase in the reimbursement codes, any medical fee guide change would have an insignificant impact on its operation.

### **2. Proactive Uninsured Employers Investigation**

UEF is included on an interagency task force to determine responsibility for proactive investigation of uninsured employers. The interagency task force is looking into which agency or agencies should be responsible and the possible investigative and enforcement options based on a comparison with other states. UEF is an unlikely candidate for this responsibility due to its limited personnel (three inspectors, three lawyers, one collector) and mandate to pay claims when properly required to do so.

## *Current and Prior Year Budgets*

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

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
<b>Fiscal 2005</b>					
Legislative Appropriation	\$0	\$963	\$0	\$0	\$963
Deficiency Appropriation	0	0	0	0	0
Budget Amendments	0	0	0	0	0
Reversions and Cancellations	0	-49	0	0	-49
<b>Actual Expenditures</b>	<b>\$0</b>	<b>\$914</b>	<b>\$0</b>	<b>\$0</b>	<b>\$914</b>
<b>Fiscal 2006</b>					
Legislative Appropriation	\$0	\$975	\$0	\$0	\$975
Budget Amendments	0	0	0	0	0
<b>Working Appropriation</b>	<b>\$0</b>	<b>\$975</b>	<b>\$0</b>	<b>\$0</b>	<b>\$975</b>

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

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*C96J00 – Uninsured Employers’ Fund*

**Fiscal 2005**

The fiscal 2005 appropriation was reduced by \$49,260 due to not filling a clerical position and lower than anticipated expenditures for communications, travel, supplies and materials, and equipment.

## ***Audit Findings***

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Audit Period for Last Audit:	February 7, 2002 – May, 17, 2005
Issue Date:	August 2005
Number of Findings:	1
Number of Repeat Findings:	0
% of Repeat Findings:	0%
Rating: (if applicable)	

**Finding 1:** Accounts Receivable: The fund was inconsistent in sending the monthly collection notices and failed to submit some delinquent accounts to the Department of Budget and Management’s Central Collection Unit by the required referral date.

**Object/Fund Difference Report  
Uninsured Employers' 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>
<b>Positions</b>					
01 Regular	13.00	12.00	11.00	-1.00	-8.3%
<b>Total Positions</b>	<b>13.00</b>	<b>12.00</b>	<b>11.00</b>	<b>-1.00</b>	<b>-8.3%</b>
<b>Objects</b>					
01 Salaries and Wages	\$ 816,814	\$ 863,555	\$ 909,238	\$ 45,683	5.3%
02 Technical & Spec Fees	3,484	5,000	4,000	-1,000	-20.0%
03 Communication	8,340	15,500	25,965	10,465	67.5%
04 Travel	5,665	8,000	9,000	1,000	12.5%
08 Contractual Services	4,064	6,500	10,450	3,950	60.8%
09 Supplies & Materials	3,698	6,100	6,100	0	0%
10 Equip - Replacement	2,219	0	0	0	0.0%
12 Grants, Subsidies, and Contributions	33,218	33,218	77,218	44,000	132.5%
13 Fixed Charges	35,919	37,254	38,695	1,441	3.9%
<b>Total Objects</b>	<b>\$ 913,421</b>	<b>\$ 975,127</b>	<b>\$ 1,080,666</b>	<b>\$ 105,539</b>	<b>10.8%</b>
<b>Funds</b>					
03 Special Fund	\$ 913,421	\$ 975,127	\$ 1,080,666	\$ 105,539	10.8%
<b>Total Funds</b>	<b>\$ 913,421</b>	<b>\$ 975,127</b>	<b>\$ 1,080,666</b>	<b>\$ 105,539</b>	<b>10.8%</b>

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