

## C94I00 Subsequent Injury Fund

### *Operating Budget Data*

(\$ in Thousands)

|                    | <u>FY 07<br/>Actual</u> | <u>FY 08<br/>Working</u> | <u>FY 09<br/>Allowance</u> | <u>FY 08-09<br/>Change</u> | <u>% Change<br/>Prior Year</u> |
|--------------------|-------------------------|--------------------------|----------------------------|----------------------------|--------------------------------|
| Special Fund       | \$1,814                 | \$1,871                  | \$1,913                    | \$42                       | 2.2%                           |
| Reimbursable Fund  | <u>60</u>               | <u>60</u>                | <u>60</u>                  | <u>0</u>                   |                                |
| <b>Total Funds</b> | <b>\$1,874</b>          | <b>\$1,931</b>           | <b>\$1,973</b>             | <b>\$42</b>                | <b>2.2%</b>                    |

- The fiscal 2009 allowance, absent pay-as-you-go health insurance and Other Post Employment Benefits funding which distort year-to-year comparisons, decreases by \$8,601, or 0.49%, from the fiscal 2008 working appropriation.

### *Personnel Data*

|                        | <u>FY 07<br/>Actual</u> | <u>FY 08<br/>Working</u> | <u>FY 09<br/>Allowance</u> | <u>FY 08-09<br/>Change</u> |
|------------------------|-------------------------|--------------------------|----------------------------|----------------------------|
| Regular Positions      | 17.60                   | 17.60                    | 17.60                      | 0.00                       |
| Contractual FTEs       | <u>0.00</u>             | <u>0.00</u>              | <u>0.00</u>                | <u>0.00</u>                |
| <b>Total Personnel</b> | <b>17.60</b>            | <b>17.60</b>             | <b>17.60</b>               | <b>0.00</b>                |

#### *Vacancy Data: Regular Positions*

|                                   |      |       |
|-----------------------------------|------|-------|
| Turnover, Excluding New Positions | 0.63 | 3.60% |
| Positions Vacant as of 12/31/07   | 1.60 | 9.09% |

- There are no new positions in the fiscal 2009 allowance.
- The 1.6 regular position vacancies represent unfilled positions in the agency's Fiscal Services division.

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

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## *Analysis in Brief*

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### **Major Trends**

***Decline in Primary Managing for Results Performance Measures:*** Both the net cases resolved per year and the operating cost per year performance measures have moved in an unfavorable direction from fiscal 2005 through 2007.

### **Issues**

***Need to Standardize Reporting of Long-term Liability Funded Status:*** With the fund balance and long-term liability growing steadily, standardization of liability reporting is needed. **DLS recommends that the Subsequent Injury Fund provide liability funded status data in its Managing for Results reporting, and that the liability calculation assumes a 3% discounting rate and uses the disabled mortality table.**

***Personnel Levels Yet to Resolve Audit Problems:*** The personnel upgrade foreseen by the Subsequent Injury Fund to address October 2005 audit concerns about separation of financial duties has yet to materialize. **DLS recommends that the SIF describe the actions taken in the absence of the foreseen personnel upgrade to respond to the audit findings and provide a timeline for the final resolution of these concerns.**

### **Recommended Actions**

1. Concur with Governor's allowance.

**C94I00**  
**Subsequent Injury Fund**

***Operating Budget Analysis***

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**Program Description**

The Subsequent Injury Fund (SIF) compensates injured workers whose preexisting injuries, diseases, or congenital conditions are substantially worsened by a current injury. The 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 the 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 liable only for damage caused by current injuries. The SIF incurs the additional liability for damage resulting from the combined effects of all injuries and conditions. The SIF mission addresses the need to:

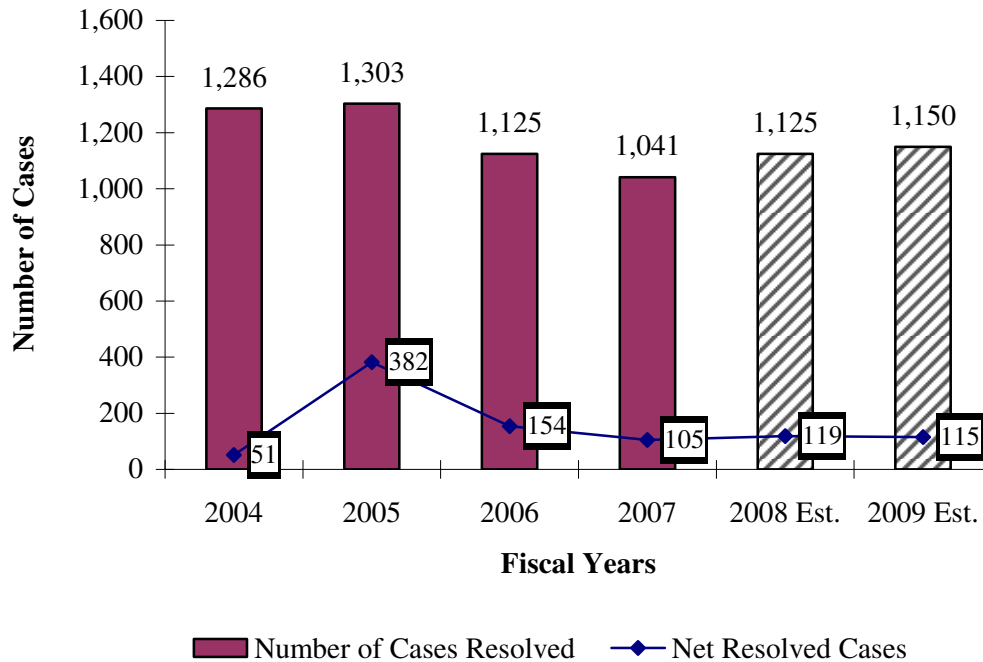
- efficiently defend the SIF's resources against inappropriate use;
- provide monetary benefits to qualified disabled workers injured on the job in accordance with awards passed by the Workers' Compensation Commission (WCC); and
- maintain the adequacy and integrity of the SIF's fund balance.

**Performance Analysis: Managing for Results**

The goals of the SIF focus on the efficient and responsible use of fund resources. These goals are measured against objectives related to the review and preparation of cases and the processing of payments once assessments are awarded by WCC. The average processing time for the authorization of award payments remains at three days. This measure strictly tracks the authorization time, as the Comptroller controls the release of funds.

The net cases resolved figure is another indicator of the fund's efficiency, as it relates the number of cases resolved to the number opened in a given year. This measure is graphed in **Exhibit 1**.

**Exhibit 1  
Cases Resolved, Net and Total  
Fiscal 2004-2009 Estimate**



Source: Subsequent Injury Fund

The SIF has lost ground recently, as the net cases resolved figure has fallen from 382 cases in fiscal 2005 to 105 cases resolved in fiscal 2007. The net cases resolved figure is the difference between the number of new and re-opened cases in a given year, and the number of cases resolved in that year. It should be noted that this fall has occurred during a period in which the total cases opened have also declined. During the 2006 session, the SIF expected the net figure to level off at approximately 220 net cases resolved in fiscal 2006 and 2007, but these results have not materialized.

A complementary gauge of administrative productivity is operating costs per claim. While different cases merit different costs in terms of medical exams, depositions, and other legal fees, **Exhibit 2** demonstrates that the cost per claim has increased during each of the past two fiscal years, up to \$1,800 in fiscal 2007 from \$1,317 in fiscal 2005. The SIF estimates that the figure will decline in fiscal 2008, but the combination of a declining resolution rate and rising operating costs suggest this outcome will not occur.

**Exhibit 2**  
**Subsequent Injury Fund Program Measurement Data**  
**Fiscal 2004-2009 Estimate**

|   | <u>2004</u> | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2008 Est.</u> | <u>2009 Est.</u> |
|---|-------------|-------------|-------------|-------------|------------------|------------------|
| Ratio of fund expenditures to total collections | 0.839:1     | 0.766:1     | 0.825:1     | 0.822:1     | 0.825:1          | 0.806:1          |
| Operating budget cost per resolved claim        | \$1,390     | \$1,317     | \$1,591     | \$1,800     | \$1,717          | \$1,716          |

Source: Subsequent Injury Fund

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Given the unfavorable change in both performance measures, the Department of Legislative Services (DLS) recommends that the fund comment on the changing caseload climate and the declining number of net resolved cases in relation to future demands on the SIF workforce.

### **Governor's Proposed Budget**

As shown in **Exhibit 3**, the fiscal 2009 allowance for the SIF increases by approximately \$42,000. The majority of the increase comes from the inclusion of Other Post Employment Benefits funding in the personnel expenses. Agency vacancies have resulted in a turnover adjustment that removes nearly \$22,000 from the allowance. The remaining growth reflects rising salary and benefit costs while the decreases come primarily from reduced spending on rent from a renegotiated contract and lessened usage of telecommunication services provided by the Department of Budget and Management.

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

| <b>How Much It Grows:</b>  | <b><u>Special</u><br/><u>Fund</u></b> | <b><u>Reimb.</u><br/><u>Fund</u></b> | <b><u>Total</u></b> |
|--|---------------------------------------|--------------------------------------|---------------------|
| 2008 Working Appropriation   | \$1,871                               | \$60                                 | \$1,931             |
| 2009 Governor’s Allowance  | <u>1,913</u>                          | <u>60</u>                            | <u>1,973</u>        |
| Amount Change  | \$42                                  | \$0                                  | \$42                |
| Percent Change   | 2.2%                                  |                                      | 2.2%                |
| <br><b>Where It Goes:</b>  |                                       |                                      |                     |
| <b>Personnel Expenses</b>  |                                       |                                      |                     |
| Employee and retiree health insurance – Other Post Employment Benefits liability ..... |                                       |                                      | \$56                |
| Increments and other compensation .....  |                                       |                                      | 21                  |
| Employee and retiree health insurance – pay-as-you-go costs .....                      |                                       |                                      | -6                  |
| Turnover adjustments .....   |                                       |                                      | -22                 |
| Other fringe benefit adjustments .....   |                                       |                                      | 5                   |
| <br><b>Other Changes</b>   |                                       |                                      |                     |
| Increased in-state travel expenses .....   |                                       |                                      | 2                   |
| New subscription to federal Social Security Administration database.....               |                                       |                                      | 2                   |
| Reduced need for software applications.....  |                                       |                                      | -3                  |
| Rent reduction from renegotiated contract.....   |                                       |                                      | -5                  |
| Cessation of the Department of Budget and Management telecommunication services.....   |                                       |                                      | -7                  |
| Other.....   |                                       |                                      | -1                  |
| <br><b>Total</b>   |                                       |                                      | <br><b>\$42</b>     |

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

## Issues

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### 1. Need to Standardize Reporting of Long-term Liability Funded Status

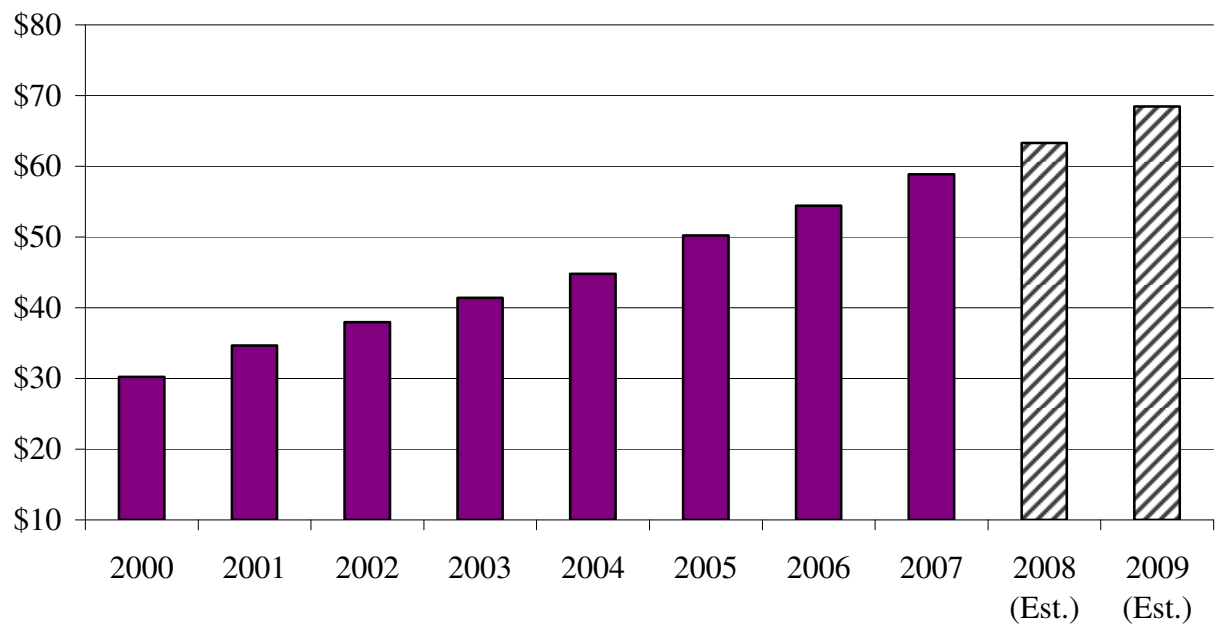
The SIF receives special funds from a 6.5% assessment on awards/settlements against employers or insurers of permanent disability or death. The SIF then pays the workers' compensation benefits to qualified injured workers on a pay-as-you-go basis in each year. Some of the injuries for which the SIF compensates workers will affect workers throughout their lives and thus require a long-term payment stream. So, the fund accumulates resources to enable future payments to workers.

#### Fund Balance Levels

**Exhibit 4** shows the fund balance history for recent years. The balance has steadily increased throughout the decade, growing by over \$4 million a year since fiscal 2004. Given recent performance, there is no reason to doubt it will continue to do so.

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**Exhibit 4**  
**Subsequent Injury Fund History**  
**June 30, 2000 – June 30, 2009 Estimate**  
(\$ in Millions)



Source: Subsequent Injury Fund

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## **Long-term Liabilities and Funded Status**

With solid growth in the fund balance, the question becomes how the liabilities these monies are intended to pay for in the future are growing. The last actuarial accounting of the liability was undertaken in fiscal 2004 by Deloitte & Touche, LLP. The study was an update of a 1996 actuarial review that placed the liability at \$173 million, assuming a 5% discounting rate. In fiscal 2004, the liability had grown to \$201 million at the same discounting rate. The current value of the long-term liability is difficult to ascertain. The uncertainty stems from the high price of actuarial studies, which is especially prohibitive for a small agency like the SIF. So, the liability figures have not been officially updated since the 2004 study, and the current reckoning is derived in-house by the SIF.

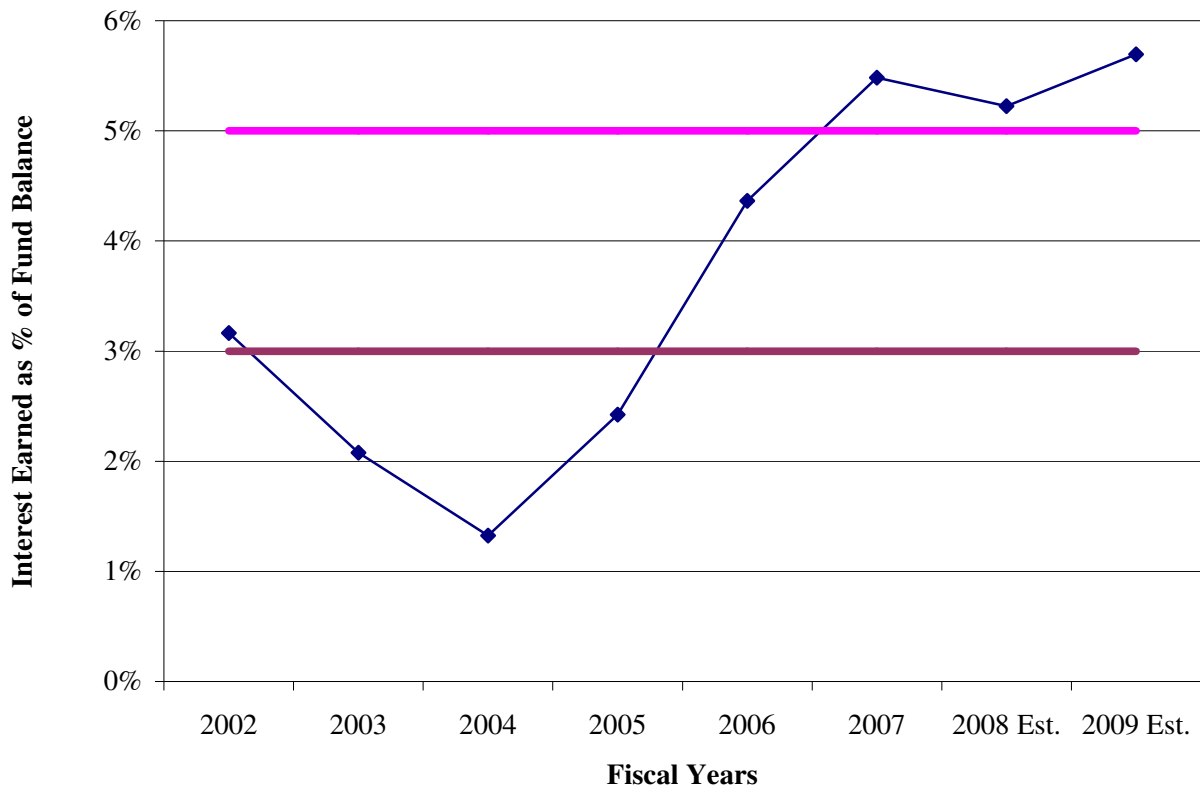
The funded status – the ratio of the total assets in the fund divided by the total actuarial liability – is the prime measure of the projected ability of the fund to meet its obligations. The fund balance at the time of the last study in fiscal 2004 was \$41.3 million, which put the funded status at 20.5%. The SIF currently estimates the liability to be between 25% and 30% funded. However, given the current fund balance of approximately \$61.0 million, the liability would have to have grown by only \$4.0 million since fiscal 2004 to achieve a 30% funded status. A long-term liability of \$247.0 million, (or 25% funded status), would be more in line with historical growth patterns of the liability. While a 25% funded level would represent positive movement since the 2006 session, the agency is still far from its long-held goal of 50% funded status. **DLS recommends that the SIF comment on its plans for the next study updating the actuarial valuation of the liability and possible actions to achieve the desired 50% funded status level.**

Additionally, the funded status number has yet to be normalized. Because the figure relies on two key assumptions, the discounting rate and the mortality table used to calculate probable payout timelines, these assumptions need to be clearly described to facilitate continuity of discussion. For the discounting rate, the rate at which the fund earns investment income, the 5% rate discussed appears overly favorable. As **Exhibit 5** shows, annual interest earnings as a percentage of the fiscal year's starting fund balance have only been above 5% once in the last six fiscal years. A 3% discounting rate seems much more reasonable as interest earnings average to approximately this level over the past six years.

On the other hand, the liabilities discussed above assume a healthy life table for payment recipients. The SIF believes that the disability mortality table best reflects their claimant group given the high percentage of payees that have shortened life expectancies due to their multiple injuries. This assumption change would lower the size of the liability because the duration of the payouts is shorter than that for healthy claimants. This assumption is reasonable. **Therefore, DLS recommends that a standardized reporting of the liability funded status be adopted and included in the SIF Managing for Results data reporting. The funded status should show the liability (estimated in-house annually between official updates) at a 3% discounting rate and using the disabled mortality table.**

Section 9-806 (d) of the Labor and Employment article states that the SIF Director shall remit all assessment dollars the fund receives to the State Treasurer to hold and manage. **Given the historical return on the fund balance and the funded status concerns cited above, DLS recommends that SIF investigate alternative investment mechanisms that could generate a higher return than is presently being earned.**

**Exhibit 5**  
**Interest Earned on Fund**  
**Fiscal 2002-2009 Estimate**



Source: Subsequent Injury Fund

## 2. Personnel Levels Yet to Resolve Audit Problems

The Office of Legislative Audits found room for improvement in the SIF's use of the State's Financial Management Information System and separation of financial duties in its October 2005 audit. During the 2006 session, the SIF reported that it planned to address these concerns by upgrading a part-time position associated with these processes to a full-time position with expanded responsibilities. This action never occurred. In fact, the SIF is currently attempting to reclassify a fiscal services administrator to an information technology specialist, although still at the 60% basis to respond to the audit's concerns. The separation of financial duties called for in the audit challenges the SIF due to its small size and the time sensitive nature of financial transactions, but the length of time the matter has gone without being properly addressed is worrisome. **DLS recommends that the SIF describe the steps taken since the 2006 session in response to the audit findings in the absence of the foreseen personnel upgrade and provide a timeline for the final resolution of the audit concerns.**

***Recommended Actions***

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1. Concur with Governor's allowance.

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

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

|                                  | <b><u>General<br/>Fund</u></b> | <b><u>Special<br/>Fund</u></b> | <b><u>Federal<br/>Fund</u></b> | <b><u>Reimb.<br/>Fund</u></b> | <b><u>Total</u></b> |
|----------------------------------|--------------------------------|--------------------------------|--------------------------------|-------------------------------|---------------------|
| <b>Fiscal 2007</b>               |                                |                                |                                |                               |                     |
| Legislative<br>Appropriation     | \$0                            | \$1,860                        | \$0                            | \$60                          | \$1,920             |
| Deficiency<br>Appropriation      | 0                              | 0                              | 0                              | 0                             | 0                   |
| Budget<br>Amendments             | 0                              | 17                             | 0                              | 0                             | 17                  |
| Reversions and<br>Cancellations  | 0                              | -63                            | 0                              | 0                             | -63                 |
| <b>Actual<br/>Expenditures</b>   | <b>\$0</b>                     | <b>\$1,814</b>                 | <b>\$0</b>                     | <b>\$60</b>                   | <b>\$1,874</b>      |
| <b>Fiscal 2008</b>               |                                |                                |                                |                               |                     |
| Legislative<br>Appropriation     | \$0                            | \$1,848                        | \$0                            | \$60                          | \$1,908             |
| Cost<br>Containment              | 0                              | 0                              | 0                              | 0                             | 0                   |
| Budget<br>Amendments             | 0                              | 24                             | 0                              | 0                             | 24                  |
| <b>Working<br/>Appropriation</b> | <b>\$0</b>                     | <b>\$1,871</b>                 | <b>\$0</b>                     | <b>\$60</b>                   | <b>\$1,931</b>      |

Note: Numbers may not sum to total due to rounding

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*C94100 – Subsequent Injury Fund*

**Fiscal 2007**

The fiscal 2007 budget for the Subsequent Injury Fund increased by \$17,005 due to a budget amendment that distributed statewide funds across agencies for a 2% cost-of-living adjustment that was centrally budgeted in the Department of Budget and Management.

**Fiscal 2008**

The fiscal 2008 budget for the Subsequent Injury Fund increased by \$23,524 due to a special fund budget amendment that distributed statewide funds across agencies for a 2% cost-of-living adjustment that was centrally budgeted in the Department of Budget and Management.

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

| <u>Object/Fund</u>                      | <u>FY07<br/>Actual</u> | <u>FY08<br/>Working<br/>Appropriation</u> | <u>FY09<br/>Allowance</u> | <u>FY08 – FY09<br/>Amount Change</u> | <u>Percent<br/>Change</u> |
|---|------------------------|---|---------------------------|--------------------------------------|---------------------------|
| <b>Positions</b>                        |                        |   |                           |                                      |                           |
| 01 Regular                              | 17.60                  | 17.60                                     | 17.60                     | 0                                    | 0%                        |
| <b>Total Positions</b>                  | <b>17.60</b>           | <b>17.60</b>                              | <b>17.60</b>              | <b>0</b>                             | <b>0%</b>                 |
| <b>Objects</b>                          |                        |   |                           |                                      |                           |
| 01 Salaries and Wages                   | \$ 1,381,910           | \$ 1,442,237                              | \$ 1,496,096              | \$ 53,859                            | 3.7%                      |
| 02 Technical and Spec. Fees             | 279,152                | 260,000                                   | 260,000                   | 0                                    | 0%                        |
| 03 Communication                        | 27,624                 | 30,442                                    | 23,500                    | -6,942                               | -22.8%                    |
| 04 Travel                               | 23,714                 | 22,000                                    | 24,000                    | 2,000                                | 9.1%                      |
| 08 Contractual Services                 | 37,172                 | 43,710                                    | 43,223                    | -487                                 | -1.1%                     |
| 09 Supplies and Materials               | 23,960                 | 25,500                                    | 22,000                    | -3,500                               | -13.7%                    |
| 10 Equip. – Replacement                 | 2,439                  | 0   | 0                         | 0                                    | 0.0%                      |
| 12 Grants, Subsidies, and Contributions | 33,930                 | 33,930                                    | 33,930                    | 0                                    | 0%                        |
| 13 Fixed Charges                        | 64,271                 | 73,414                                    | 70,337                    | -3,077                               | -4.2%                     |
| <b>Total Objects</b>                    | <b>\$ 1,874,172</b>    | <b>\$ 1,931,233</b>                       | <b>\$ 1,973,086</b>       | <b>\$ 41,853</b>                     | <b>2.2%</b>               |
| <b>Funds</b>                            |                        |   |                           |                                      |                           |
| 03 Special Fund                         | \$ 1,814,172           | \$ 1,871,233                              | \$ 1,913,086              | \$ 41,853                            | 2.2%                      |
| 09 Reimbursable Fund                    | 60,000                 | 60,000                                    | 60,000                    | 0                                    | 0%                        |
| <b>Total Funds</b>                      | <b>\$ 1,874,172</b>    | <b>\$ 1,931,233</b>                       | <b>\$ 1,973,086</b>       | <b>\$ 41,853</b>                     | <b>2.2%</b>               |

Note: The fiscal 2008 appropriation does not include deficiencies.