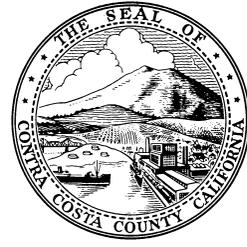


TO: BOARD OF SUPERVISORS

FROM: JOHN CULLEN,  
COUNTY ADMINISTRATOR

DATE: September 25, 2007

SUBJECT: COUNTY'S RETURN TO WORK PROGRAM AND STATUS OF ITS  
WORKERS' COMPENSATION INTERNAL SERVICES FUND



# Contra Costa County

SPECIFIC REQUEST(S) OR RECOMMENDATION(S) & BACKGROUND AND JUSTIFICATION

**RECOMMENDATIONS:**

1. ACCEPT report regarding the status of the County's Workers Compensation Internal Services Fund;
2. ESTABLISH a targeted minimum confidence level of 80%; and
3. ACCEPT report regarding the County's Return to Work Program.

**FISCAL IMPACT:**

The result of the recommendation herein, if implemented, will have a positive future impact on the County's overall fiscal stability and ability to deliver services.

**BACKGROUND:**

On May 26, 2005, the Grand Jury issued a report entitled "Fix Workers' Compensation Now". The report indicated that between June 30, 2001, and June 30, 2004, workers' compensation liabilities increased from \$50.7 million to \$97.2 million, while assets to pay them decreased from \$45.7 million to \$33.0 million. In more inflammatory terms, the net deficit grew from \$5.0 million to \$64.2 million. To address this negative trend, the Board of Supervisors significantly increased premium charges to departments and began an aggressive Loss Control Program and a Return to Work Program. The injury prevention improvements made through the Loss Control Program include the following: initiating web-based ergonomic training; organizing a task force that ergonomically evaluates an employee's work station upon request; capturing, recording, and distributing data on injury frequency and type to departments; working with departmental Loss Control Coordinators to evaluate work activities and work stations for risk of injury; and developing training programs and conducting safety meetings that focus on injury prevention.

In addition to implementing the internal changes listed above, SB 899, which limited certain types of physical therapy treatments, also had a positive impact on medical claim payments.

CONTINUED ON ATTACHMENT:  YES

SIGNATURE:

RECOMMENDATION OF COUNTY ADMINISTRATOR  
APPROVE \_\_\_\_\_ OTHER \_\_\_\_\_

RECOMMENDATION OF BOARD COMMITTEE  
\_\_\_\_\_

SIGNATURE(S)  
:

ACTION OF BOARD ON \_\_\_\_\_ APPROVED AS RECOMMENDED \_\_\_\_\_ OTHER \_\_\_\_\_

VOTE OF SUPERVISORS

I HEREBY CERTIFY THAT THIS IS A TRUE AND CORRECT COPY OF AN ACTION TAKEN AND ENTERED ON MINUTES OF THE BOARD OF SUPERVISORS ON THE DATE SHOWN.

UNANIMOUS (ABSENT \_\_\_\_\_ )  
AYES: \_\_\_\_\_ NOES: \_\_\_\_\_  
ABSENT: \_\_\_\_\_ ABSTAIN: \_\_\_\_\_

Contact Lisa Driscoll 335-1023

Cc: County Administrator  
Auditor-Controller

ATTESTED

\_\_\_\_\_  
JOHN CULLEN, CLERK OF THE BOARD OF SUPERVISORS

BY: \_\_\_\_\_, DEPUTY

The first recommendation in the 2005 Grand Jury's report was that the County establish a target for the

funding level of the Workers' Compensation Trust Fund of not less than an 80% "confidence level" (confidence level is a measure of the probability that the Workers' Compensation Trust Fund will have enough money to cover all benefits and claims that have been incurred). This recommendation was based upon the County's own independent actuary's recommendation that the County strive to fund its incurred benefits and claims at the 80% confidence level or higher. The County responded that an 80% confidence level was unattainable given the current State and County fiscal circumstances and that the amount of funds allocated to pay current and future workers' compensation costs was a policy issue that must be determined by the Board of Supervisors annually in the context of all of the program demands in the County Budget.

Since that time, the County's fiscal situation has improved. Much of the improvement is due to the County's relatively new practice of establishing and following a more formal fiscal policy.

### ***Establishing a Recommended Funding Level***

Historically, the County's informal funding policy regarding Workers' Compensation has been to partially pre-fund based upon available resources rather than a targeted funding level<sup>1</sup>. Clearly, an important factor in the County's fiscal health is how it manages its financial long-term obligations. The national rating agencies – Moody's Investors Service (Moody's), Standard & Poor's (S&P) and Fitch Ratings (Fitch) – treat financial long-term obligations as if they are debt obligations and factor their management into the overall credit assessment. In addition, other parties – such as the California State Association of Counties (CSAC) and the Legislative Analyst's Office (LAO) – have offered guidance on certain financial long-term obligations.

Contra Costa is a member of the CSAC-Excess Insurance Authority, a Joint Powers Authority whose membership includes 51 California counties, and participates in its Excess Self-Insurance program. In their publication *Underwriting and Claims Administration Standards*, the following guideline regarding funding of Workers' Compensation liabilities is prescribed: "Based upon actuarial recommendations, the Member should maintain reserves and make funding contributions equal to or exceeding the present value of expected losses and a reasonable margin for contingencies."

### ***Actuarial Analysis of County's Workers' Compensation Fund***

The June 30, 2004 Milliman Consultants and Actuaries (Milliman) Report indicated that the County's reserve reflected approximately a 19% probability level on a discounted basis. The June 30, 2005 report indicated a 24% probability level on a discounted basis, and the June 30, 2006 report indicated that the County's reserve reflected approximately a 46% probability of a discounted basis. On September 12, 2007, Milliman issued their latest actuarial analysis through June 30, 2007. The report states, "During the past twelve months, the strength of the County's self-insurance reserves have increased significantly. We commend the County's efforts and recommend the County continue to strive for discounted funding in the higher probability levels. The County's total reserves reflect approximately an 86% probability level reserve on a discounted basis."

In order to maintain an adequate funding level regardless of other budgetary constraints, it is important that the County establish a formal minimum level. Therefore, it is recommended that the County establish an 80% minimum confidence level and a formal annual review of that level. The County achieved an 86% probability level due not only to losses that have developed favorably, but also and more significantly due to increased funding on the County's part. Now that the liability is adequately funded, the County will be able to reduce the amount of funds annually earmarked for the purpose of strengthening the reserve. Annual funding can now be established based upon maintaining the targeted funding level rather than increasing it.

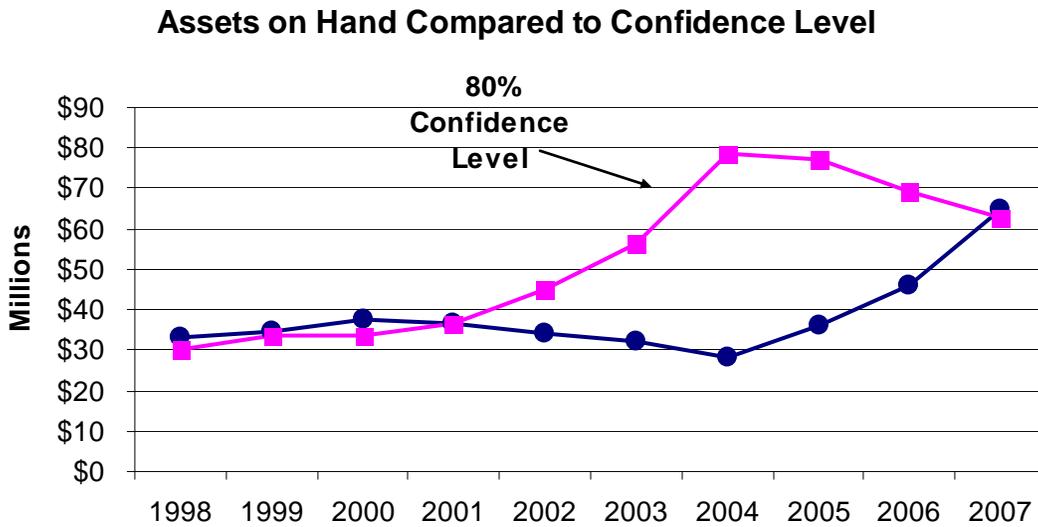
In acknowledgment of this improvement, the Board of Supervisors adopted a pre-funding policy for Other Post Employment Benefits (OPEB), which included a redirection of resources from workers' compensation to OPEBs.

For illustrative purpose, the following chart shows the last ten years of assets on hand (line with circles)

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<sup>1</sup> Although the funding level has been below the levels recommended, the County has managed the liability and believes its reserves have been adequate, as noted in Note 17 of the Comprehensive Annual Financial Report (CAFR).

compared to an 80% confidence level (line with squares). As can be seen, the County maintained 80% and above funding until 2002, under-funded liabilities through 2004, and then began to rebuild reserves.



Besides increased funding, Milliman points to losses that have developed favorably as a reason for the fund's solid position. These losses are consistent with recent statewide experience. However, it is important to note that there is a substantial degree of uncertainty inherent in all projections of future insurances losses. A change in Governor, for example, could have a significant impact on recent workers' compensation reform. The workers' compensation environment in California, particularly the recently enacted reforms and future legislative actions could change. Therefore, the County Administrator's Office will continue to keep a close watch on the workers' compensation program and budget workers' compensation accordingly to maintain an 80% confidence level.

One area of loss prevention that our office is very proud of is the County's Return to Work Program. The Return to Work Program was recently reorganized in an effort to reduce disability duration in Contra Costa County.

### **Return to Work Program "OUR System"**

Risk Management implemented a trial Return to Work Program with the Health Services Department in FY 2004/05. The program, known as the Optimum Utilization of Resources System ("OUR System") is a unique proactive transitional work program. OUR System places injured workers back at the job site almost immediately after injury. While recuperating, workers are moved through a series of temporary jobs that aid in their recovery. Most return quickly to their original positions. OUR System was chosen for Contra Costa County due to its proven track record and guaranteed results. Statistics shows that companies implementing the OUR System have seen a 50% reduction in lost worker days and a 20% reduction in workers' compensation costs.

OUR System works by offering solutions to maintain productivity for injured workers. The System takes a proactive approach to early return-to-work by identifying temporary transitional work assignments in advance of injury. These "Bridge Assignments" are then presented to the treating physician for approval upon the initial visit and progress with increased physical capacities. The return-to-work process is thus expedited, helping employers maintain and reduce compensation costs even in the first year of implementation. Injured workers are back to work quickly, often within one day thus reducing the number of days lost to work-related injuries. Because workers are back in a work environment earlier, medical and workers' compensations costs are reduced.

During the pilot program, OUR System reduced Temporary Disability Payments in the Health Services Department by \$250,000 in the first six months and an additional \$500,000 in the first full fiscal year of implementation (FY 2005/06). Due to the success of the pilot, Risk Management began implementing OUR System throughout the County.

Since inception of the program 194 employees have returned to modified duty. Accident frequency at this point in time is the lowest it has been since FY 1999/00. The reductions in key categories are outlined below:

	FY 04/05	FY 05/06	FY 06/07
Accident Frequency	-1%	-15%	-2%
Temporary Disability <sup>2</sup>	\$4,409,369	\$3,654,299	\$3,245,310
Permanent Disability	\$4,141,560	\$3,743,960	\$3,518,206
Medical Costs	<u>\$7,066,535</u>	<u>\$7,207,507</u>	<u>\$6,471,762</u>
Total Benefits Paid	\$17,706,095	\$15,661,264	\$15,208,969

Additionally, there has been a significant reduction in the cost of the average paid claim from \$15,121 in FY 2004/05; \$15,057 in FY 2005/06; and a low of \$9,284 in FY 2006/07. Because Countywide implementation is fairly recent, it is anticipated that the number of assignments will increase over the next year. The number of current assignments is broken down by Department below:

- Child Support                    4
- Sheriff                                28
- General Services                7
- Probation                            11
- Employment & Human Services   42
- East County Fire                3
- Consolidated Fire               13
- Health Services                   76
- Public Works                      10

Since January 2007, Temporary Disability Benefits were reduced by 15.5% on a Countywide basis (18.6% for the six largest Departments). Implementation in the Public Works, General Services, Probation, Department of Information Technology, Library, Fire District, and Employment and Human Services Departments has been completed.

Health Services has shown a decline in temporary disability payment frequency for the third straight year. Their decline in frequency in the first half of FY 2006/07 was 12.8%. In FY 2005/06 temporary disability payments were reduced 34.8%. The first six months of this calendar year also shows a reduction of approximately an additional \$200,000. Total liabilities were reduced from \$22 million late FY 2003/04 to \$17.5 million in the first half of FY 2006/07. As more departments were added to the program they also experienced favorable results in the frequency of claims filed. For example, during the first six months of FY 2006/07 there was a reduction in frequency of 22.4% in claims filed within the Sheriff's Department; and General Services decreased 22% in frequency for FY 2005/06, and another 22% in FY 2006/07.

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<sup>2</sup> The decreases in Temporary and Permanent Disability benefits occurred despite an increase in State rates.