



City of Sunnyvale

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REPORT TO COUNCIL

SUBJECT

Update and Recent Trends Regarding City Workers' Compensation Programs (Information Only)

BACKGROUND

Part of the City's risk management program focuses on protecting City employees, including proactive safety programs to reduce potential hazards, and managing the City's workers' compensation program. The workers' compensation system provides benefits to employees for work-related injuries or illnesses. These benefits may include medical treatment, payments for lost wages, payments that compensate the injured employee for having a permanent impairment or limitation, paid time off when an injured worker is temporarily off work, and death benefits. Workers' compensation benefits are tax free and are not subject to Social Security deductions. Laws and regulations on workers' compensation are set forth in California Workers' Compensation Law.

As an alternative to purchasing commercial insurance coverage, the City of Sunnyvale began its self-insured workers' compensation program on July 1, 1963. Its current self-insured retention is \$500,000, and excess coverage is provided by the CSAC Excess Insurance Authority, a California Joint Power Authority (JPA) that provides insurance to its members. This JPA is a member-directed risk sharing pool which is currently comprised of 55 counties and 273 California public entities, including cities, educational institutions, housing authorities, and other California JPAs. Annual premium deposits are made by the City for its pro-rated share on risk of loss. Claims administration services are currently provided by AIMS (Acclamation Insurance Management Services), a Third-Party Administrator (TPA).

DISCUSSION

The first step in the process of managing workers' compensation risk is identifying and classifying the prospective risk. Risk prevention measures are always being considered when it comes to employee wellness and safety. The City provides safety training for employees and coordinates ergonomic evaluations, as needed. A City-wide Safety Committee reviews all injury reports and identifies hazards and recommends alternative solutions, when possible.

When an employee is injured on the job, managing the claim and the employee's treatment for their injury, is top priority. The City has a proactive return to work program and Risk Management coordinates with departments to identify and provide modified duty assignments while an employee is recovering from an injury. If an employee has permanent work restrictions, the City engages in an interactive process with the employee to determine if permanent accommodations can be made. Risk Management has quarterly file review meetings with the TPA to discuss workers' compensation claims in depth and to ensure injured workers are receiving treatment and on the path to returning to work full duty.

The cost of Workers' Compensation claims is driven by two factors, the number of claims and the severity of claims. Workers' compensation costs have been on the rise over the years largely due to the severity of claims. Cost of claims include medical expenses, legal expenses, permanent disability payouts, paid time off when an injured worker is temporarily off from work, and payments to a third-party administrator. Another cost driver is Labor Code Sections 3212-3213, which define injuries/illnesses that are presumed to be work related for Public Safety Officers such as cancer, heart trouble, pneumonia, hernia and lower back impairment. Presumption claims can be very costly (e.g., cancer) and can be disputed, which results in additional costs for investigation and legal fees. In 2011, the cancer presumption was extended to allow public safety officers to file a cancer claim up to 10 years from the last date worked.

In order to help plan for the financing of the workers' compensation program, the City retains an independent actuary to provide near-term estimates and the total liability for outstanding claims. This review provides a guide to determine reasonable funding levels for the City's self-insurance program and complies with Governmental Accounting Standards Board (GASB) Statements No. 10 and No. 30 to report workers' compensation costs and liabilities.

The most recent actuarial review in January 2017 estimated the total cost of claims incurred during the FY 2016/17 and FY 2017/18 program years at \$3.9 million and \$4.1 million, respectively. The total estimated liability for outstanding claims (net of investment income) is \$17.4 million as of June 30, 2017. This review is based on loss experience, exposure data, and other requested information provided to the actuary by the City.

Staff uses the actuarial information in development of annual workers' compensation budget and twenty year projections. The Employee Benefits and Insurance Fund - Workers' Compensation Sub-Fund (Fund 640/300) provides a mechanism to cover expenditures while applying the principles of full-cost accounting, by charging a rate to staff salaries wherever personnel hours are budgeted and expended. This rate is based upon actual usage of the City's Workers' Compensation program. For this reason, the City charges a variable rate depending upon the classification of the employee. Job classifications that perform higher risk work, such as a Public Safety Officer, carry a higher rate than administrative employees based on a projected fair share of these costs. FY 2017/18 rates by group are:

Clerical risk group	1.431%
Manual risk group	7.322%
Non-Manual risk group	2.238%
Public Safety risk group	13.882%

Estimated annual costs mentioned above, plus excess coverage premiums and TPA fees are planned while also charging rates that gradually increase the fund's reserve balance over five years to reach \$17.4 million by FY 2021/22. This reserve amount is maintained for the remainder of the twenty-year plan period. Future reserve amounts will be adjusted, based on actuarial reports, as appropriate.

The City's workers' compensation costs have been steadily rising since FY 2006/07 and especially in the immediate prior three fiscal years (FY 2013/14 - FY 2015/16), on higher medical costs and severity of the claims (FY 2016/17 is still being closed and will be reported out with the Comprehensive Annual Financial Report). In addition, the State has steadily increased the temporary

disability rate each year. Since 2013, the temporary disability rate has increased by 15.2%. Labor Code Section 4850 provides Public Safety employees up to one year of full salary while on temporary disability. As salaries increase, this will also result in an increase that is paid out towards workers' compensation benefits.

While not the largest personnel related expense, workers' compensation costs are significant for the City. For FY 2017/18, the cost for claims, leave, insurance and administration total \$5.4 million or 1.1% of the total Citywide budget. As such, staff remains focused on injury prevention and employee wellness, as well as continuing a robust return to work program for injured employees.

Staff will continue to highlight this program and its financial impacts as part of the budget process, with an annual update provided during the Recommended Budget Workshop.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, at the Sunnyvale Senior Center, Community Center and Department of Public Safety; and by making the agenda and report available at the Sunnyvale Public Library, the Office of the City Clerk and on the City's website.

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