Workers' Compensation: Self-Insured Program

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Introduction

- History of our workers’ compensation program
- What does a self-insured program look like?
- Things to consider
- Why now?

City of Franklin WC Program History

- City was insured through insurance pool from 1979 – 2012
- For many years, we had guaranteed cost WC coverage.
    - Paid premium at beginning of year and all claims were paid by pool
    - As we continued to grow and we maintained a good loss experience, we started utilizing a per occurrence deductible
        - Started at $1,000 per occurrence (mid-1990’s)
        - Then raised to $5,000 and then $10,000 per occurrence

City of Franklin WC Program History

- In FY 2011, we switched to a modified self-insurance program
  - Had for two years
  - We assumed risk up to an attachment point for all claims
- Went out to bid in 2012, switched to Travelers Insurance, commercial insurance
  - Large Deductible program
  - Similar to what we had with insurance pool, but had a $100,000 protection cap per claim
  - More efficient claims administration, while saving City dollars with excellent bill review and repricing.

City of Franklin WC Program History

- Since we have been with Travelers for six years, our attachment point has grown due to increase in our payroll and number of employees
  - Max retention started out at $701,026
  - Current year is $823,800
  - Basically for the past eight years (including the SIR program with the pool) we already have assumed a greater level of risk.
  - Premise behind it is if loss experience is good we have an opportunity to control WC costs through good loss experience.

Previous WC Loss History

- FY 2013: $231,218
- FY 2014: $363,277
- FY 2015: $277,355
- FY 2016: $161,480
- FY 2017: $466,752
- FY 2018 (as of 4/20/2018): $162,922

What does it mean to be self-insured?

- Rather than paying an insurance company to pay workers compensation claims, we pay the claims ourselves, using a third-party administrator to process the claims on our behalf.
- Rather than sending a yearly cash collateral to an insurance company, the money stays in our budget and is controlled by the City.
- The workers compensation coverage doesn’t change, just the method we use to pay the claims changes.

Things to consider:

- When moving to a self-insurance program, we trade known risk for unknown risk.
- Determine appetite for risk and make a commitment to this type of program.
- Financial feasibility
- Potential savings due to network savings and lower expenses associated with administering the program

Why Now?

- We have five years of credible loss history with Travelers
- Performed an actuarial study to determine feasibility

Aggregate Loss Distribution
For 7/1/18-19
Workers Compensation

(A) Probability That Losses Will Be Less Than Or Equal to Column (B)	(B) Estimated Ultimate Losses Limited to $100,000	(C) Probability That Losses Will Be Greater Than Column (B)
50%	$290,000	50%
60%	$319,000	40%
70%	$353,000	30%
80%	$397,000	20%
90%	$469,000	10%

Expected Losses

$311,000

Why Now?

Actual Travelers Cost FY 2017

- Cash Collateral (annual) $418,000
- Additional Cash Collateral $186,911
- Max Retention $832,000

- Administrative Costs $38,768
- Per Claim Fee 8% of paid claims $28,885
- Pure Premium $378,100
- Paid WC losses $361,066
  - 9 Indemnity Claims
  - 56 Medical Only Claims
  - 3 Open Claims

Potential Self-Insured Costs for FY 2019

- Loss Funding
- Max Retention

- Administrative Costs
- Per Claim Fee Estimate
- Excess Premium
- Paid WC Losses
  - Example: $361,066

Next steps:

- Evaluate all the pieces and parts to determine if this is a route we want to take
- We need to have a Third-Party Administrator to administer our WC claims
  - The TPA must maintain current level of customer service to employees
- We need to have a excess insurance carrier to pick up claims if we reach attachment point. If we reach our attachment point, we have guaranteed payments from that point forward.
- We need to have an actuary to indicate what our potential future losses could be.