

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 seven 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 \$896,400
 - Basically for the past nine 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 Incurred WC Loss History

- FY 2013: \$231,218
- FY 2014: \$365,538
- FY 2015: \$277,355
- FY 2016: \$203,519
- FY 2017: \$554,492
- FY 2018: \$309,727
- FY 2019 as of 3/4/2019: \$263,021

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.
- The City has more control over how claims are managed

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 potential network savings and potential lower expenses associated with administering the program

Why Now?

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

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

<i>(A) Probability That Losses Will Be Less Than Or Equal to Column (B)</i>	<i>(B) Estimated Ultimate Losses Limited to \$100,000</i>	<i>(C) Probability That Losses Will Be Greater Than Column (B)</i>
50%	\$290,000	50%
60%	\$319,000	40%
70%	\$353,000	30%
80%	\$397,000	20%
90%	\$469,000	10%
<i>Expected Losses</i>		
\$311,000		

Why Now?

Actual Travelers Cost FY 2018

- Cash Collateral (annual) \$329,523
- Additional Cash Collateral \$79,464
- Max Retention \$823,800

- Administrative Costs \$41,287
- Per Claim Fee 8% of paid claims \$22,256
- Pure Premium \$402,527
- Paid WC losses \$278,198
 - 6 Indemnity Claims
 - 58 Medical Only Claims
 - 3 Open Claims
- Total WC Incurred Losses \$309,727

Potential Self-Insured Costs for FY 2020

- Loss Funding
- Max Retention

- Administrative Costs
- Per Claim Fee Estimate
- Excess Premium
- Paid WC Losses
 - Example: \$278,198

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.