

City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 27, 2009

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO #45: CITY-WIDE WORKERS' COMPENSATION COSTS

This budget memorandum is in response to Mayor Euille's question: **“what steps/programs are being considered to contain workers' compensation costs and claims?”** Thirteen specific steps are being taken and two more are under consideration. This memorandum also provides additional information and analysis of workers' compensation costs, which show that the history of claims award amounts are trending downward, which is beginning to result in lower actual expenditures. Significant updates and progress during the last 12 months are noted below in bold.

To help manage workers' compensation costs City-wide, the City has implemented the following measures:

The City engages third party contractors to proactively manage workers' compensation cases and claims.

1. The City currently contracts with a Third Party Administrator that investigates City employee workers' compensation claims and processes payments on behalf of the City. The City also contracts with Genex Services to evaluate all newly reported workers' compensation claims. Genex arranges prompt treatment of injured employees by City-approved physicians, ensures that initial treatments are appropriate, provides continuous monitoring of on-going treatment and follow-up with medical providers to expedite employees' return to work, assists in scheduling appointments and provides responses to medical questions. These contractors meet quarterly with City staff, including the City's Risk Manager and representatives from other departments that regularly have workers' compensation issues (Police, Fire and Transportation and Environmental Services). The discussions focus on the status of current workers' compensation claims, return to work issues, and elimination of obstacles that hinder employees from returning to full duty. The meetings also discuss the recovery status of those who have not yet been released from medical care.

In October, 2008 the City switched to a new Third Party Administrator, PMA Management Corp in an effort to modernize claim investigative and handling techniques, maximize savings from medical cost containment, and access a much more modern data tracking system. Although data conversion took longer than expected due to some encryption issues with the prior vendor, that process is now fully complete. Claim handling, employee communication and coordination with the City's nurse case

management firm (GENEX, under a renewed contract) is now more efficient than in the past. This is most evident in claim set-up which is now done by Risk Management. We can input new claims directly into PMA's system, thereby eliminating any lag time from new report to receipt for investigation by PMA personnel. With PMA's advanced systems and reporting capabilities, and with cooperation among City staff and both PMA and GENEX, we expect improved cost control and early proper return to work.

In February, 2009 the initial meeting of the new Citywide Executive Safety Committee was held. Representatives from Risk Management, Fire, Police, Sheriff, Transportation and Environmental Services (T&ES), and Recreation attended. The purpose of the Committee is to share ideas to reduce on-the-job injuries, to promote and support the work of departmental safety committees, and to improve communication among departments most at-risk for at-work injuries. Members feel that having a central committee will help to elevate a culture of safety throughout the City to help protect our employees from injury and disability and preserve city fiscal assets as well.

The City has added safety officers and created employee committees in recent years to improve departmental safety records.

2. A City Safety Officer position was approved in Risk Management in FY 2000 to evaluate safety awareness in departments, workplace inspections, and to respond to departmental requests for assistance on safety-related matters.
3. A Safety Officer position was approved in FY 2006 to develop and implement safety training programs in Transportation and Environmental Services and General Services. Other duties of the position include inspection of work sites, investigation of accidents and coordination of the City's compliance with safety regulations.

During the latter half of 2008, the Alexandria Fire Department finalized the addition of three Shift Safety Officers as authorized by Council. These safety specialists are now fully integrated and are working diligently to prevent at-work injuries for FD personnel by insuring that proper work techniques and habits are followed, proper equipment is used and exploring all means to reduce the severity of injuries that do occur.

4. Risk Management works with departmental safety committees to monitor and encourage safe work practices, to review all accidents and analyze ways to prevent their recurrence, and to ensure proper safety awareness in all City Departments.
5. The Commercial Driver License (CDL) Safety Awards Committee considers ways and incentives to reward safe work practices and to elevate safe job practice awareness throughout the City work force.

In FY2009, to save expenses, the annual awards ceremony, luncheon, and awards were canceled by agreement of the involved departments. Safe drivers will still be recognized via certificates. Safe work practice incentives are still under study.

The City has increased its management focus on controlling workers compensation claims and insurance costs.

6. The City has recently joined the Public Entity Risk Institute's (PERI). This database will provide more accurate benchmarks for analyzing Workers' Compensation costs.

With the change in Third Party Administrators, all of the City's data will have to be re-sent to PERI before any benchmarking can be done. This will occur by June, 2009. Some of the local comparator jurisdictions are either not PERI members or are undergoing the similar changes in TPA's. We will continue to work with our local colleagues to make the PERI database a more useful tool.

7. Risk Management and City Attorney staff work closely with City staff, PMA and Genex to ensure proper application of the Virginia Workers' Compensation Act. Risk management continues to aggressively settle claims as appropriate. Settlement of claims involving chronic disability or potentially expensive medical treatment at some future date (e.g. heart/lung claims) shields the City from the risk of dramatically escalated health care expenses in the future.

As in the past, Risk Management will be on the lookout for Workers' Compensation claims that may be settled to limit the City's exposure to potentially very high future medical costs and/or long term payments for disability. When settlement of certain of these claims appears to be of fiscal benefit, they will be brought to Council for consideration. Two settlements have been approved by Council in FY 2009. The settlements avoid significant potential costs in Workers' Compensation dollars, which otherwise could have been paid out over time.

8. Risk Management continually encourages departments to report injuries promptly. Studies indicate that when a claim goes beyond seven days from date of injury to date reported, costs increase significantly and there is more potential for attorney involvement. Previously lag times exceeding 14 days were reported in several of the departments. Risk Management is working closely with those departments to reduce lag time. Prompt investigation of alleged work-related injuries increases the ability to locate witnesses and to examine the circumstances of the incident. This facilitates prompt acceptance of valid claims, and effective defense of claims that are not compensable.

With the same day reporting capability with the new TPA procedures using PMA, we expect lag times from departments to be reduced. First evaluation of this will occur in Spring, 2009.

9. The City has obtained excess workers' compensation insurance to protect against the exposure of catastrophic injury.

10. All City departments make extensive use of modified or light duty assignments for injured employees who cannot return to regular duty during recovery. This enables the City to derive some measure of benefit from injured employees while they mend. (A very small number of employees stay off duty for long periods of time due to on-the-job injuries. Their physical status is monitored weekly).

Currently, six employees are off work due to on-the-job injuries. All are being actively treated by approved medical providers, and are being monitored for return to modified duty work during their recovery.

Establish weight loss programs and other activities in the City Employee Wellness Program to help reduce workers' compensation costs, by improving employee fitness. The City's Wellness Program continues to provide opportunities for employees to improve their health through weight control and exercise, as well as lunchtime seminars to improve knowledge of disease avoidance and proper nutrition to name a few topics. Even with the current financial restraints, we want to encourage employees to take advantage of the health and wellness activities that are available.

11. Weight Watchers classes for employees are held at various locations in the City, including City Hall and the Mt. Vernon Recreation Center. Approximately one hundred employees are enrolled in these classes.

12. The City grants free access for all City employees to City recreational facilities and City employees receive discounts at local gymnasiums.

13. Two yoga classes are held at lunch time for employees at Gadsby's Tavern museum on Thursdays (began Sept. 20, 2007) and on Tuesdays at Mt. Vernon Center (began September 18, 2007).

Some additional actions the City should consider:

1. Since claims under the State's Heart/Lung Presumption have the greatest potential for large costs, this is a prime area for creative loss avoidance. One possibility to be considered is additional pre-employment screening of Firefighters and Police Officers who are eligible for the Presumption (detailed cardio-pulmonary screening may identify candidates at-risk for circulatory or respiratory conditions prior to their being employed by the City).
2. Additional improvements in the wellness program might help contain workers' compensation costs. The study of the Human Resources Department by the Corbin Company suggested improvements in this regard.

Chart I below shows an eleven-year history of workers' compensation claims and actual costs as compared to budget (Chart II). The pie chart on the next page (Chart III) also shows departments that incur the most workers' compensation costs in the City. Note that only a portion of actual costs are budgeted separately.

CHART I

CITY OF ALEXANDRIA EMPLOYEES WORKERS' COMPENSATION COSTS (FY 1998 - FY 2008 - GENERAL FUND ONLY)

FISCAL YEAR	MEDICAL		INDEMNITY (Loss Time)		TOTAL CLAIMS	TOTAL ACTUAL EXPENDITURES ¹
	CLAIMS	ACTUAL EXPENDITURES	CLAIMS	ACTUAL EXPENDITURES		
1998	144	\$263,451	31	\$126,238	175	\$389,689
1999	133	\$249,301	39	\$169,826	172	\$419,127
2000	133	\$390,867	37	\$273,450	170	\$664,317
2001	176	\$399,520	16	\$214,480	192	\$614,000
2002	140	\$722,942	28	\$300,858	168	\$1,023,800
2003	164	\$766,297	33	\$243,375	197	\$1,009,672
2004	188	\$1,106,173	60	\$751,974	248	\$1,858,147
2005	193	\$1,208,257	42	\$711,158	235	\$1,919,415
2006	193	\$1,125,516	48	\$935,229	241	\$2,060,745
2007	188	\$1,163,591	33	\$996,013	221	\$2,159,604
2008	210	\$1,151,363	48	\$816,277	258	\$1,967,640

¹Total actual expenditures not funded out of the Non-Departmental budget are absorbed by departments using salary savings within their General Fund budgets.

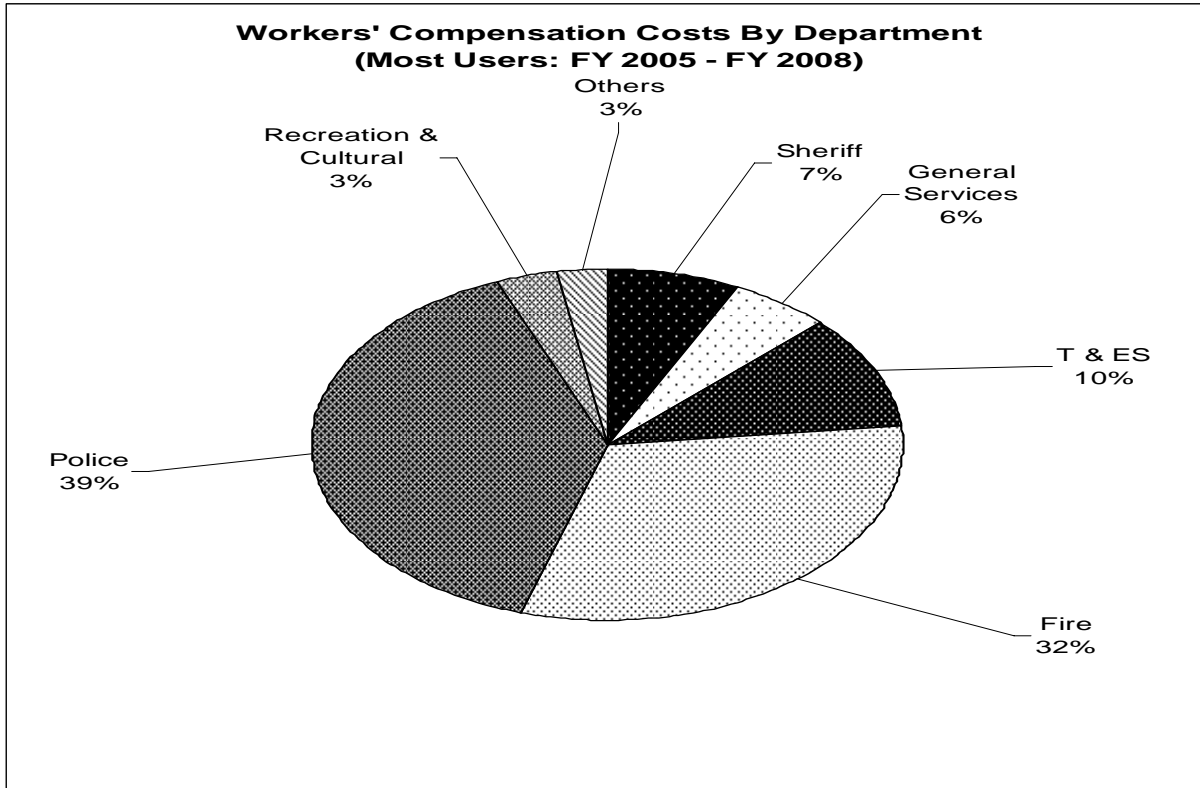
Historically about two-thirds of workers' compensation costs are absorbed by the departments through the use of vacancy or other savings. The costs that cannot be absorbed within a department's budget are expended in the Non-Departmental budget. As part of the FY 2010 budget review process, the Non-Departmental workers' compensation budget was reduced by a total of \$68,000, to \$422,000 (Chart II) to reflect a 3-year average actual cost (FY 2006 – FY 2008). Chart II below shows the history of Non-Departmental budget expenses for workers' compensation.

CHART II

CITY OF ALEXANDRIA EMPLOYEES													
WORKERS' COMPENSATION COSTS (FY 1998 - FY 2010 - NON DEPARTMENTAL GENERAL FUND ONLY)													
FISCAL YEAR	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Budget	Budget
NON-D BUDGET	\$0	\$0	\$582,311	\$409,303	\$672,600	\$423,275	\$335,740	\$398,115	\$427,038	\$508,507	\$390,628	\$510,000	\$442,000

Chart III below shows that over the years (FY 2005 – FY 2008) the Police Department incurred the most workers' compensation costs (39%); followed by the Fire Department (32%), Transportation and Environmental Services (10%), the Sheriff's Office (7%), General Services (6%), Recreation (3%), and Others (3%).

CHART III

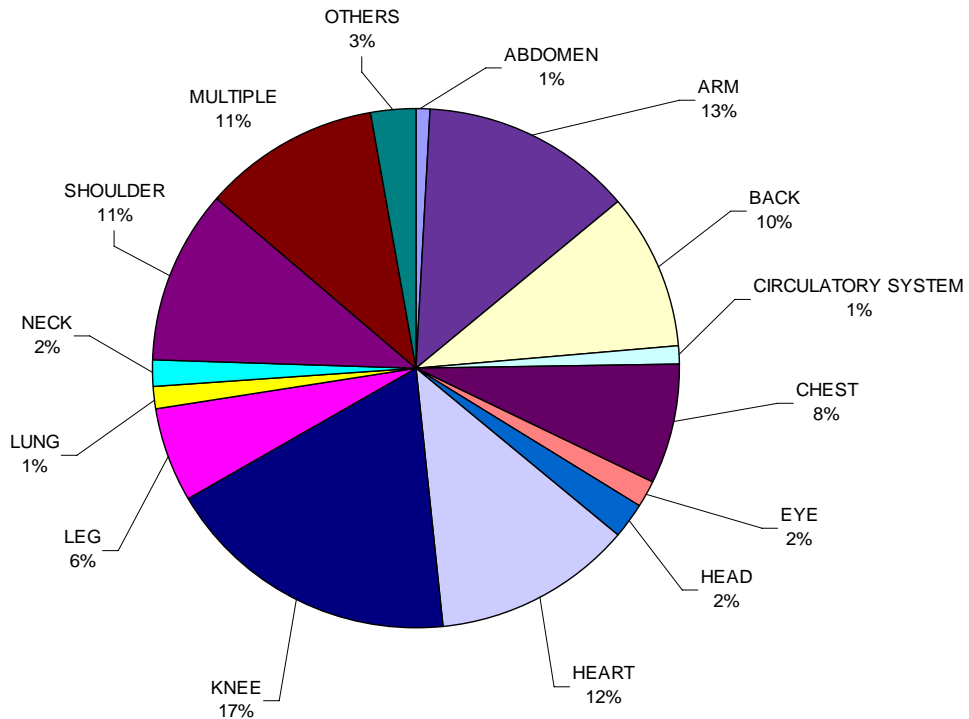


Police and Fire represent the largest portion of workers' compensation costs because (1) many Police and Fire department employees perform physically demanding work; and (2) State law for determining employer liability for some workers' compensation claims for public safety personnel is "presumption" based. This means that public safety workers' compensation claims involving cardiovascular disease, lung disease, and certain types of cancer and infectious diseases (i.e. Hepatitis, Meningococcal Meningitis, Tuberculosis, or HIV) are required by law to be accepted by the employer as job related under Virginia law. It is difficult, if not impossible, for the public employer to rebut this presumption in most cases. In FY 2008, seven new cases and \$61,761 in workers' compensation costs for Police and Fire employees, fall into this presumption category. Other injuries and illnesses, however, are subject to investigation to determine if they meet the definition of compensability under the State law.

Chart IV below shows the nature of City workers compensation cases from FY1997 to FY2007. Most of these cases are attributable to knee (17%), arm (13%), heart (12%), shoulder (11%), back (10%), chest (8%) and lung (1%). This chart will be updated when more current information becomes available for FY 2008 and beyond.

CHART IV

WORKERS COMPENSATION CASES (FY1997 - FY2007)



Charts V, VI and VII on the next two pages show total claims per year as well as the comparison of total claims amounts awarded per year with total actual expenditures. Total actual expenditures include claims from a previous fiscal year that are paid in a subsequent fiscal year. So even though actual expenditures have been increasing since the late 1990's, these payments are a result of claim amount awards made earlier for injuries sustained at that time. The claims amount awards have been volatile from year to year, but generally have been declining from a peak of \$1.9 million in FY 2004 to \$0.8 million in FY 2008. This reduction in claim amounts awarded should translate into lower actual expenditures as old claims are paid out.

CHART V

CITY OF ALEXANDRIA EMPLOYEES

WORKERS' COMPENSATION COSTS (FY 1998 - FY 2008 - TOTAL CLAIMS AMOUNTS AWARDED) ¹

FISCAL YEAR	MEDICAL ²		INDEMNITY (LossTime) ³		TOTAL CLAIMS	TOTAL CLAIM AMOUNTS PER YEAR ⁴	ACTUAL EXPENDITURES	AVERAGE CLAIM PAID
	CLAIMS	CLAIM AMOUNT	CLAIMS	CLAIM AMOUNT				
1998	144	\$250,888	31	\$120,124	175	\$371,012	\$389,689	\$2,120
1999	133	\$374,904	39	\$593,884	172	\$968,788	\$419,127	\$5,632
2000	133	\$740,965	37	\$854,297	170	\$1,595,262	\$664,317	\$9,384
2001	176	\$548,023	16	\$478,429	192	\$1,026,452	\$614,000	\$5,346
2002	140	\$646,653	28	\$477,860	168	\$1,124,513	\$1,023,800	\$6,694
2003	164	\$916,529	33	\$830,289	197	\$1,746,818	\$1,009,672	\$8,867
2004	188	\$978,108	60	\$946,772	248	\$1,924,880	\$1,858,147	\$7,762
2005	193	\$641,004	42	\$259,672	235	\$900,676	\$1,919,415	\$3,833
2006	193	\$958,126	48	\$253,070	241	\$1,211,196	\$2,060,745	\$5,026
2007	188	\$954,254	33	\$88,929	221	\$1,043,183	\$2,159,604	\$4,720
2008	210	\$646,843	48	\$167,593	258	\$814,436.00	\$1,967,640	\$3,157

¹ Source: Sedwig CMS Workers' Compensation Super Composite Report, 1/31/2008; also, PMA Management Corporation, CINCH online system 3/26/2009.

² Payment for medical treatment; also includes services fees for the City's nurse case manager, currently contracted with Genex Services.

³ Loss Time also includes any disability awards approved by the Workers' Compensation Commission.

CHART VI

WORKERS COMPENSATION CLAIMS (FY 1998 - FY 2008)

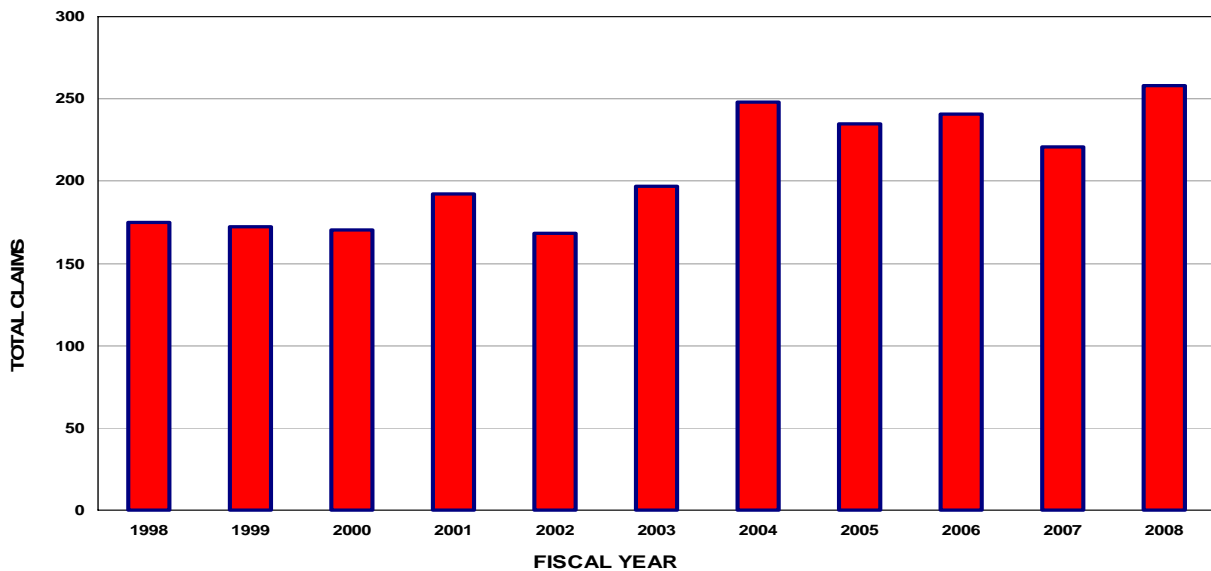
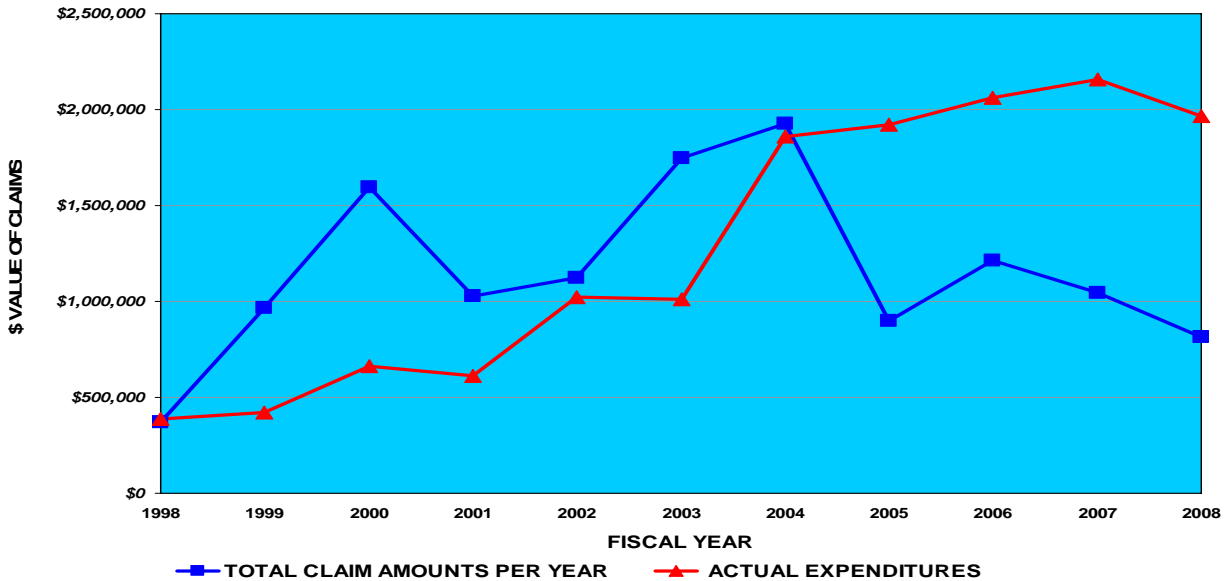


CHART VII

WORKERS COMPENSATION COSTS (FY 1998 - FY 2008)



As demonstrated below, a small number of claims can account for a large percentage of claims paid in a particular fiscal year. These small number of claims, usually involving very serious cases, can have payment activity for the years following the year of injury or illness.

Examples of large claims paid in the past eight years (FY 2000 – FY 2008) include:

- In FY 2000, three claims were filed under the Virginia Workers' Compensation Act's Heart/Lung presumption. The City has paid \$869,351 on these three claims through February 2008. This represents 54.5% of the total paid (\$1,595,262) but only 1.8% of total claims (170) for that fiscal year. Excluding these three claims, total claims paid for that fiscal year drops to \$725,911.
- In FY 2001, three claims accounted for 1.5% of total claims (192) and 72.5% of total claims paid (\$1,026,452) for that fiscal year. These three claims (\$743,582) include one traumatic leg injury (\$390,922), one knee injury (\$183,765), and one under the Virginia Workers' Compensation Act's Heart/Lung presumption (\$168,895). Excluding these three claims, the total paid for that fiscal year drops to just \$282,870.
- In FY 2002, three claims including two Heart /Lung claims (\$405,134) and one eye injury claim (\$122,874) totaling \$528,008, accounted for 1.8% of the total claims (168) and 47.0% of the total claims paid (\$1,124,513) for that fiscal year.
- In FY 2003, ten top claims, (5.1% of the total claims of 197) including one heart/lung claim (\$167,411), four knee injuries (\$490,173) and five musculo-skeletal injuries (\$629,702) totaled \$1,356,502, or 77.7%, of the total claims paid (\$1,746,818) for that fiscal year.

- In FY 2004, five claims (1.2% of the total claims of 248) including three back injuries (\$654,495), one knee injury (\$152,858) and one Heart/Lung claim (\$160,284) accounted for \$967,637, or 50.3%, of the total claims paid (\$1,924,880) for that fiscal year.
- In FY 2005, one knee injury claim (0.4% of the total claims of 235) totaled \$125,486, or 13.9%, of the total claims paid (\$900,676) for that fiscal year.
- In FY 2006, three claims (1.2% of the total claims of 241) including a hip, an arm, and a shoulder claim totaled \$75,000, or 6.2%, of the total claims paid (\$1,211,196) for that fiscal year.
- In FY 2007, two claims (0.9% of the total claims of 221) including a shoulder and a knee claim, totaled \$50,000, or 4.8%, of the total claims paid (\$1,043,183) for that fiscal year.
- In FY 2008, 14 claims (5% of the total), accounted for 58% of the total paid to date. All but one of these claims were for Public Safety employees. Most frequent injuries included Knee (3), Heart/Lung (2), Shoulder (2) and Multiple Injuries (2).

Of all the claim activity reported above, 88% of the cases involved Public Safety employees, 50% of which were Police Department employees.