

City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 28, 2008

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO #51: 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?”** Eighteen specific steps have been 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 should result in lower actual expenditures in the future.

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 company (Sedgwick Claims Management Services) 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.
2. Because the Sedgwick and Genex contracts are near their end, a risk management committee has been set up to select vendors who will handle the administration of employee workers' compensation claims in the future. This committee will select the vendor(s) through a competitive selection process. The successful applicants will be required to provide the services needed to maintain the appropriate level of medical care

for injured employees; also, to ensure proper and rapid return to work, and maintain vigilant cost control. The selection process will be completed during April 2008.

3. Risk Management staff will continue to urge vendors to provide value along with proper medical service to our injured workers. This means to use all the tools available to control costs while providing a high level of services.

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

4. 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.
5. 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.
6. 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.
7. The Commercial Driver License (CDL) Safety Awards Committee is now considering ways to expand safety incentives throughout the entire employee population. Several incentive methods are being considered to reward safe work practices and to elevate safe job practice awareness throughout the City work force.

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

8. The City has recently joined the Public Entity Risk Institute's (PERI). This database will provide more accurate benchmarks for analyzing Workers' Compensation costs. The City's workers' compensation data have been sent to PERI for review and evaluation. PERI will then provide recommendations to the City.
9. Risk Management and City Attorney staff work closely with City staff, Sedgwick and Genex to ensure proper application of the Virginia Workers' Compensation Act.
10. 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. Sedgwick has reported lag times exceeding 14 days in several of the departments. Risk Management is working closely with those departments to reduce lag time.
11. Risk Management is working to enhance departmental investigation of workers' compensation claims. 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.

12. The City will conduct an audit of the Third Party Administrator (TPA) of workers' compensation costs. The costs for this audit (estimated at \$15,000) will be funded in the Non-Departmental budget. The Risk Manager believes a best practices audit could result in some savings to the City.
13. 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.
14. The City has obtained excess workers' compensation insurance to protect against the exposure of catastrophic injury.
15. 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).

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 Committee continues to devise and promote wellness activities.

16. 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.
17. The City grants free access for all City employees to City recreational facilities and City employees receive discounts at local gymnasiums.
18. 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).

The study of the Personnel Department by the Corbin Company will address ways to enhance the City's wellness program.

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 current audit of the Personnel Department will address this option as noted above.

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 1997 - FY 2007 - GENERAL FUND ONLY)**

FISCAL YEAR	MEDICAL		INDEMNITY (Loss Time)		TOTAL CLAIMS	TOTAL ACTUAL EXPENDITURES ¹
	CLAIMS	ACTUAL EXPENDITURES	CLAIMS	ACTUAL EXPENDITURES		
1997	181	\$438,077	49	\$189,340	230	\$627,417
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

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

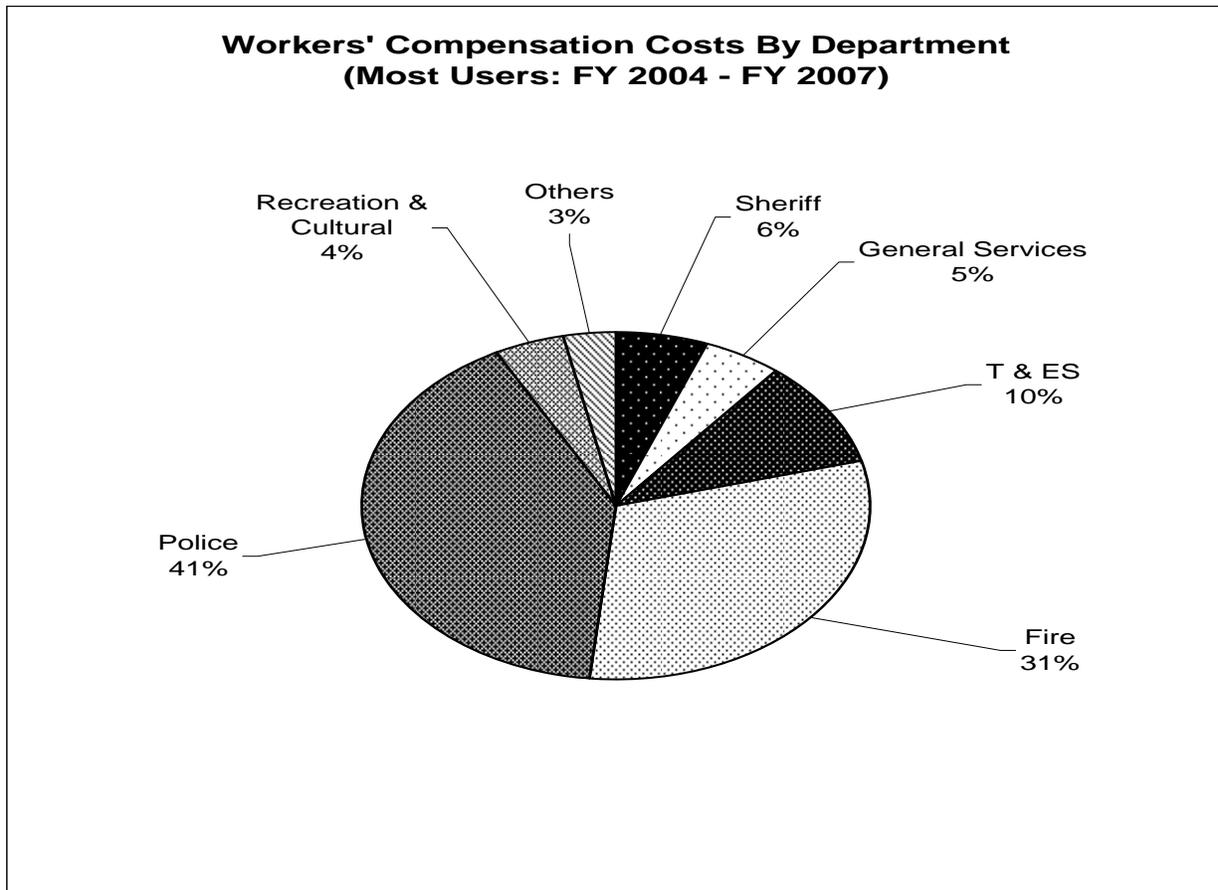
About two-thirds of workers' compensation costs are historically able to be absorbed by the departments through the use of vacancy or other savings. The costs that cannot be absorbed within a department's budget are expended in the Non-Departmental budget. As part of the FY 2009 budget review process, the Non-Departmental workers' compensation budget was reduced by a total of \$112,000, to \$510,000 (Chart II) to reflect a 3-year average actual cost (FY 2005 – FY 2007).

CHART II

CITY OF ALEXANDRIA EMPLOYEES													
WORKERS' COMPENSATION COSTS (FY 1997 - FY 2009 - GENERAL FUND ONLY)													
FISCAL YEAR	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
NON-D BUDGET	\$0	\$139,500	\$173,045	\$582,311	\$415,302	\$672,600	\$423,274	\$444,101	\$398,115	\$721,134	\$964,433	\$622,000	\$510,000

Chart III below shows that over the years (FY 2004 – FY 2007) the Police Department incurred the most workers’ compensation costs (41%); followed by the Fire Department (31%), Transportation and Environmental Services (10%), the Sheriff’s Office (6%), General Services (5%), Recreation (4%), and Others (3%).

CHART III

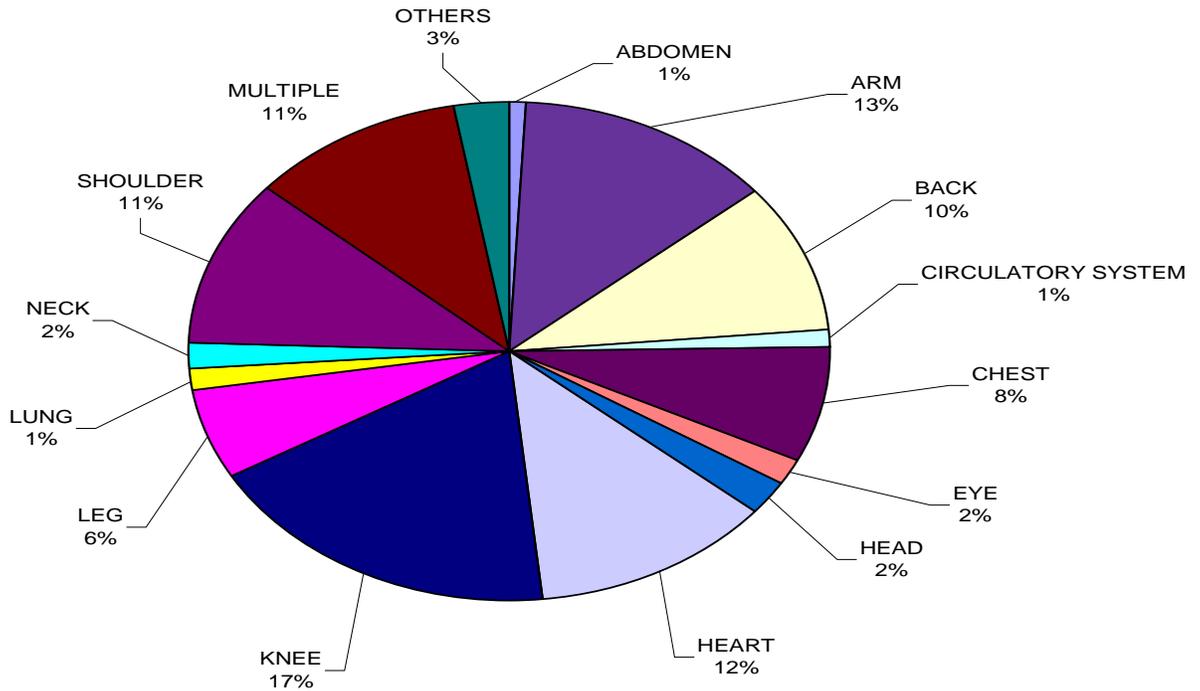


Police and Fire represent the largest portion of workers’ compensation costs because (1) many Police and Fire department employees perform physically demanding work; and (2) State law for determining employer liability for some workers’ compensation claims for public safety personnel is “presumption” 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. Currently in FY 2008, two new cases and \$43,502 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%).

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 as 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 on an average basis for the past three years to about \$1 million a year. 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 1997 - FY 2007 - 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				
1997	181	\$636,396	49	\$283,364	230	\$919,760	\$627,417	\$3,999
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

¹ Source: Sedwig CMS Workers' Compensation Super Composite Report, 1/31/2008.

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.

⁴ Lag time is inherent and payments will continue to be made as long as treatment or loss time continues.

CHART VI

WORKERS COMPENSATION CLAIMS (FY 1997 - FY 2007)

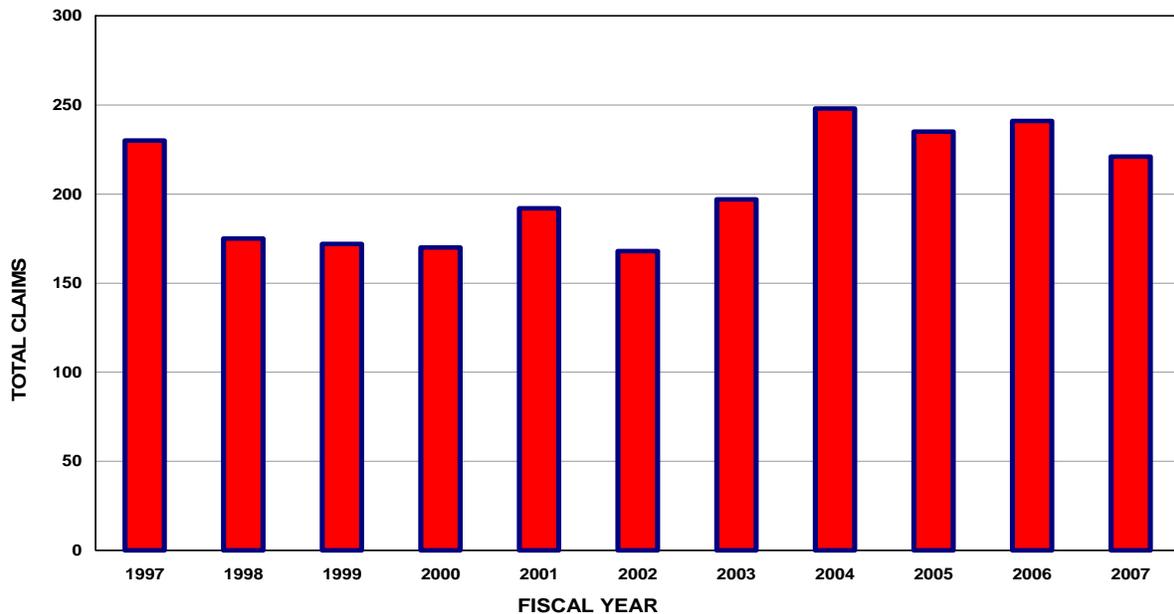
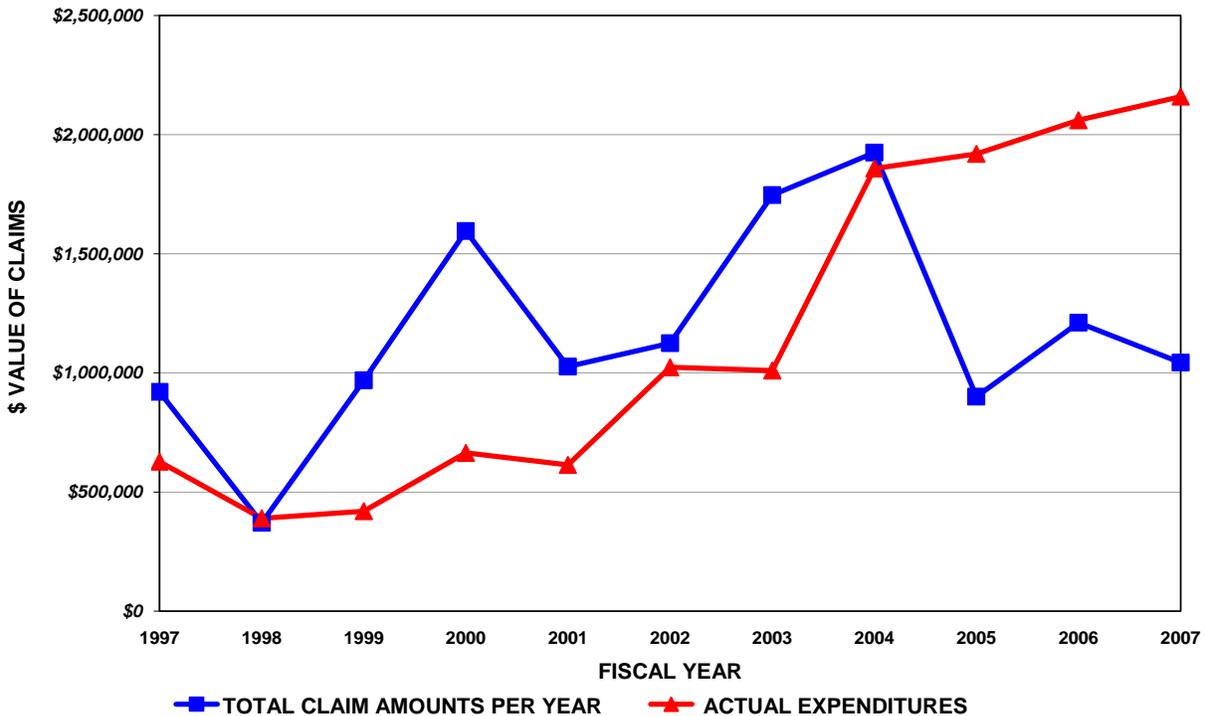


CHART VII

WORKERS COMPENSATION COSTS (FY 1997 - FY 2007)



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 claims paid in the past seven years (FY 2000 – FY 2007) 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) and 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 FY2004, 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.

Of all the claim activity reported above, 85% of the cases involved Public Safety employees, 61% of which were Police Department employees.

Cc: Ignacio Pessoa, City Attorney