



OCFA Workers' Compensation Report for CY 2008

Human Resources/Risk Management

May 2009

Executive Summary and Table of Contents

This is the annual report on the Orange County Fire Authority (OCFA) Workers' Compensation program for calendar year (CY) 2008.

Each year, OCFA uses an actuary to project workers' compensation losses and to assist in setting the levels of self-insurance reserves. Actuarial projections of ultimate limited losses per approved budget position have mildly increased over the past five years. These increases can be linked to industry-wide trends in medical costs.

In CY2008, medical providers billed OCFA approximately \$9,474,730 for services. The OCFA workers' compensation administrator Southern California Risk Management Associates' (SCRMA) medical audit and management unit—designed to assure the medical provider billing meets State work comp payment standards—reduced over \$2,527,847 of that billing to \$6,946,883.

As part of the workers' compensation program, there will be some claims requiring a financial settlement, typically "stipulations" of permanent disability (PD) benefits with future medical benefits or a compromise and release (C&R). Settlements over \$50,000 are approved by the Executive Committee of the Board. Settlements under \$50,000 are dele-

gated to the Fire Chief or his designee.

Typically the most expensive injuries by body part for OCFA employees are knees, backs, and shoulders. This is a key target of WEFIT. WEFIT provides firefighters with knowledge, support, and opportunities to improve their physical health, wellness and fitness to enhance job performance, which works towards reducing the overall injury rate.

Labor Code (LC) 4850 refers to salary paid to an injured firefighter when he or she is placed off work by a treating physician. There has been an overall downward trend of LC4850 usage since 2005, and a flattening over the past year, despite increased numbers of staff. We believe several factors contribute to that trend, including good case management, light duty (injured firefighters released by their doctors for desk work while recuperating), WEFIT, and the recent retirement patterns of many older firefighters replaced by new recruits.

The OCFA continues to focus on areas to assure program fairness towards employees, and containment of costs. These efforts include legislation, WEFIT, good program management, and a quality Third-Party Administrator (TPA). A new pilot injury and fitness rehabilitation program will be implemented to provide injury prevention and fitness/conditioning. This program is expected to also assist in the containment of costs, benefit the employees, and enhance individual work performance.

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Introduction and History

This report covers the OCFA workers' compensation program for CY 2008, and reviews cost controls, injury trends, LC4850 usage (lost time by firefighters when injured on the job), and workers' compensation settlements.

OCFA Formation and Commercial Insurance

Before 1995, as a department of the County of Orange, Orange County Fire Department used the County's self insurance for worker's compensation. When the Orange County Fire Authority formed on March 1, 1995, it used commercial insurance until the California insurance market began to harden and premiums increased in the late 1990s and early 2000s.

Self Insurance Studied and Implemented

In 2001, the OCFA Board of Directors directed staff to review the workers' compensation program and, if necessary, develop alternative risk financing and loss control recommendations in light of the weakened California commercial insurance market.

A risk management and insurance industry consultant reviewed potential financial savings of a self-insurance program, finding that self-insurance

would help stabilize OCFA finances against rapidly-climbing commercial insurance costs.

Third Party Administrator

Southern California Risk Management Associates, Inc. (SCRMA) is the third party administrator (TPA) for the self-insurance program. All new claims post-March 1, 2002 are handled under self-insurance; previous claims continued to be handled by the insurers under which those claims had been filed.

Excess Loss Insurance

Excess loss insurance is purchased for the program. Excess loss insurance covers losses that exceed a specified dollar amount per incident, regardless of the number of employees per incident, and only covers the portion of those losses that exceeds that particular amount. When used as part of a self-insurance program, the level of coverage is called a self-insurance retention or SIR.

The current OCFA SIR is \$2.0 M and has statutory limits (limited only by state law) on total coverage. This amount, for example, would cover \$500,000 of a \$2.5M loss. OCFA has excess insurance through CSAC-EIA, a major California local government pool. Membership in this pool has brought significant premium savings.

Actuarial Projections of OCFA Work Comp Costs

Annually OCFA uses an independent actuary to project the reserves needed by OCFA to self-insure its workers' compensation program. Below is a graph of "Ultimate Limited Losses Per Position per Fiscal Year" for FY 2004/05 through FY 2008/09.

"Ultimate" refers to the difference between the amount of losses initially estimated by the work comp administrator, and the actuarial-projected long term annual cost of the program. "Limited" refers to OCFA's losses being limited by a \$2.0 M excess insurance "stop-loss" policy. Essentially, the graph gives an overview of how OCFA work comp losses have changed over time per employee.

Confidence levels and Budgeting

OCFA like most local governments, budgets at the 80% confidence level. Confidence level refers to a statistical level of certainty. For example budgeting an 80% confidence level amount means that there is an 80% chance that spending will come in below that projection. The actuary also reviews past years' reserves to re-calculate, if necessary, a more accu-

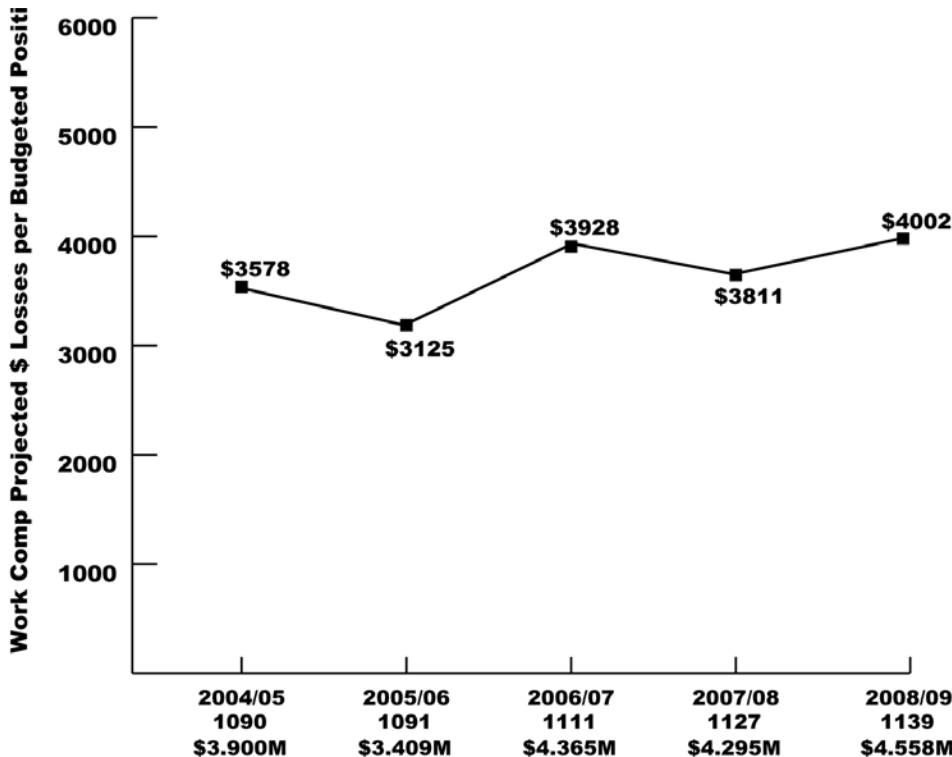
rate level should actual amounts run higher or lower than the original projection.

Costs included in Actuarial Projections

The actuary projects total costs including the workers' compensation third party administrator (TPA) charges, excess insurance, medical costs, legal costs, and other associated case costs. These projections do not include costs for LC4850 or salaries for time lost from the job.

In the graph below, it is difficult to pinpoint an exact cause for the mild increase in projected losses per position. The actuary notes that there is an industry-wide rising claim cost trend, not just limited to OCFA. The major California workers' compensation reforms came in 2004. As time passes, the benefits of the reforms begin to erode as medical cost inflation pushes up costs. Also major WCAB decisions on technical points of work comp law, such as permanent disability determination, have increased costs.

Actuarial Ultimate Limited Projected Losses per Budgeted Approved Positions



Loss data is from the 2009 actuarial study of the OCFA workers' compensation program by Rivelle Consulting Services, Table II-5 "Projected Ultimate Limited Losses"

Cost Controls

Numerous cost controls exist in OCFA's workers' compensation program.

Bill Review

The current TPA has a system of bill review for all charges made by medical providers when treating employees. The bill review assures that medical providers do not exceed state cost standards for treatment and other medial charges. In CY2008, medical providers billed OCFA approximately \$9,474,730 for services. Our administrator Southern California Risk Management Associates' (SCRMA) medical audit and management unit reduced that billing by \$2,527,847 to \$6,946,883.

WEFIT

The WEFIT program is based on the physical demands of the firefighter job. Work comp injury data is part of a feedback loop to better focus WEFIT program direction on injury prevention, physical conditioning, and wellness. In the firefighter academies, the WEFIT program has been successful at reducing injuries, and training and educating recruit firefighters in maintaining good physical conditioning and health.

In FY 2009/10, OCFA, as part of the WEFIT program, will be implementing an injury/fitness rehabilitation pilot program. The program's focus will be on injury prevention and injury/fitness rehabilitation. It is anticipated to be a cost containment method that provides for the individual's well-being and work-related performance improvement.

Case Management

OCFA case management also includes the following:

- Injured firefighters who are not ready for full duty can be released by their doctor back to "light" duty, typically desk work at Headquarters, helping speed transition back to full duty.
- Workers' compensation program staff emphasize customer service to assist any employee injured on the job through the sometimes complex workers' compensation process.
- Executive Management and OCFA staff meet monthly with SCRMA Executive Management and claims examiners to discuss and troubleshoot key cases and procedures.

Workers' Compensation Control Techniques



Workers' Compensation Settlements

Permanent Disability Settlement Is a Legal Benefit

Workers compensation may require a financial settlement, either "stipulations," which include permanent disability (PD) benefits and future medical (FM) or a compromise and release (C&R).

Permanent disability is paid when an employee does not completely recover from the effects of an injury, and so the employee may be entitled to a monetary award, depending on how the injury limits his or her activities, as well as other factors including age, occupation, and earnings at the time of injury. Future medical benefits are often typically a statutory addition to this benefit. A compromise and release is a settlement between employer and employee when the employee agrees to end a workers compensation liability for an agreed upon sum.

Settlement Authority Process

The Board delegated approval settlements of \$50,000 and under to the Fire Chief or his designee. The Fire Chief has delegated settlements of \$25,000

and under to the Risk Manager. Settlements over \$50,000 are brought to the Executive Committee of the Board of Directors for review and approval.

Factors affecting PD ratings and future medical coverage are defined in state law, often leaving employers little choice but to agree with the determination. For example, State law directs our TPA to begin payment of permanent disability (if permanent disability is owed) within 14 days of the last payment of temporary disability.

Greater administrative and legal leeway is given for a C&R settlement. C&R negotiations give greater flexibility to attorneys for both sides, or the TPA and the employee (if no attorney is retained), to come to an agreement on a sum to end all liability that the employee has with OCFA. For example, in the opinion of our attorney, a C&R may be desirable if an unfavorable court opinion is more likely than a reasonable settlement, or that the future medical costs would be likely higher than a one-time settlement.

Injury Trends

OCFA's injuries are categorized by the TPA as body part injured (e.g., foot, knee, or lower back). In addition, every injured workers' case has an "incurred cost." This cost includes charges already paid, along with an estimate of future charges. For example, a back injury case that occurred in December 2006 may have already incurred costs of immediate treatment, but SCRMA claim examiners will include an estimate for treatment that will occur during 2008, and permanent disability payments, if expected.

CY 2006 through CY 2008 Injury Costs

The bar chart on this page shows the combined estimated medical, salary, legal, and other costs of injuries of OCFA employees broken down by body part. For example in CY 2007, injured knee claims cost approximately \$1.6 million

Most Costly Injuries

Typically the most expensive injuries by body part for OCFA employees are backs, knees, shoulders, and hearts.

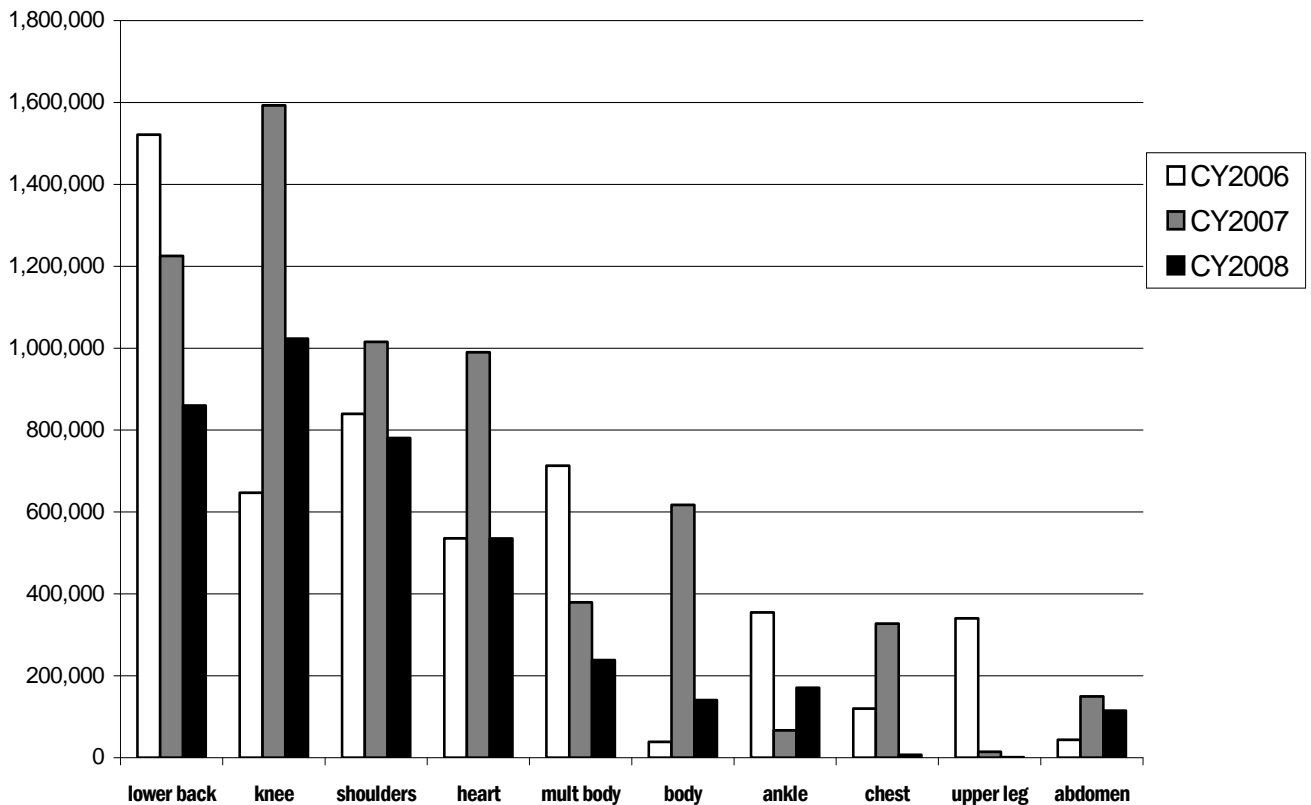
Presumptive Illnesses for Firefighters

Many injuries were presumptive illnesses, including heart-related disease and cancers. Presumptive illnesses or injuries mean that—per the California labor code—if a particular type of employee is diagnosed with a presumptive medical condition, the workers compensation system assumes the condition is proximately caused by employment and is compensable unless the employer, OCFA in this case, can present evidence that rebuts the presumption.

Control of injuries and costs

The goal of the OCFA is to control workers compensation costs through a number of techniques, especially the illness and injury prevention plan, WE-FIT, an aggressive return to work program, medical bill review, injury and investigation follow-up, and good case management.

The Injury and Illness Prevention Plan (IIPP) is a mandated state program to reduce lost workdays and



CY 2006—CY 2007 Cost of Injuries by Body Part

Injury Trends, con't

associated costs by correcting hazards. This includes the objectives of increasing communication at all levels within the organization on safety issues, and maintaining compliance with health and safety regulatory requirements, such as OSHA.

It's the responsibility of OCFA battalion chiefs and section managers to require captains and supervisors to observe safe working practices, and to follow up and investigate the causes of work-related injuries and illnesses.

WEFIT has had a big impact on health and fitness. More than 90% of the firefighters participate. More than 90% of the firefighters completed the WEFIT disease screening and immunization program. The WEFIT program was developed based on the demands and movements of the job. Firefighter recruits in the firefighter academy are trained in the fitness program, and the techniques learned can be used throughout their careers to help reduce occupational injuries and illnesses.

LC4850 Trends—Firefighter Time Lost Due to Injury

LC 4850 refers to salary due to an injured firefighter when placed off work by a treating physician. While healing, firefighters are entitled to their regular salary, up to one year.

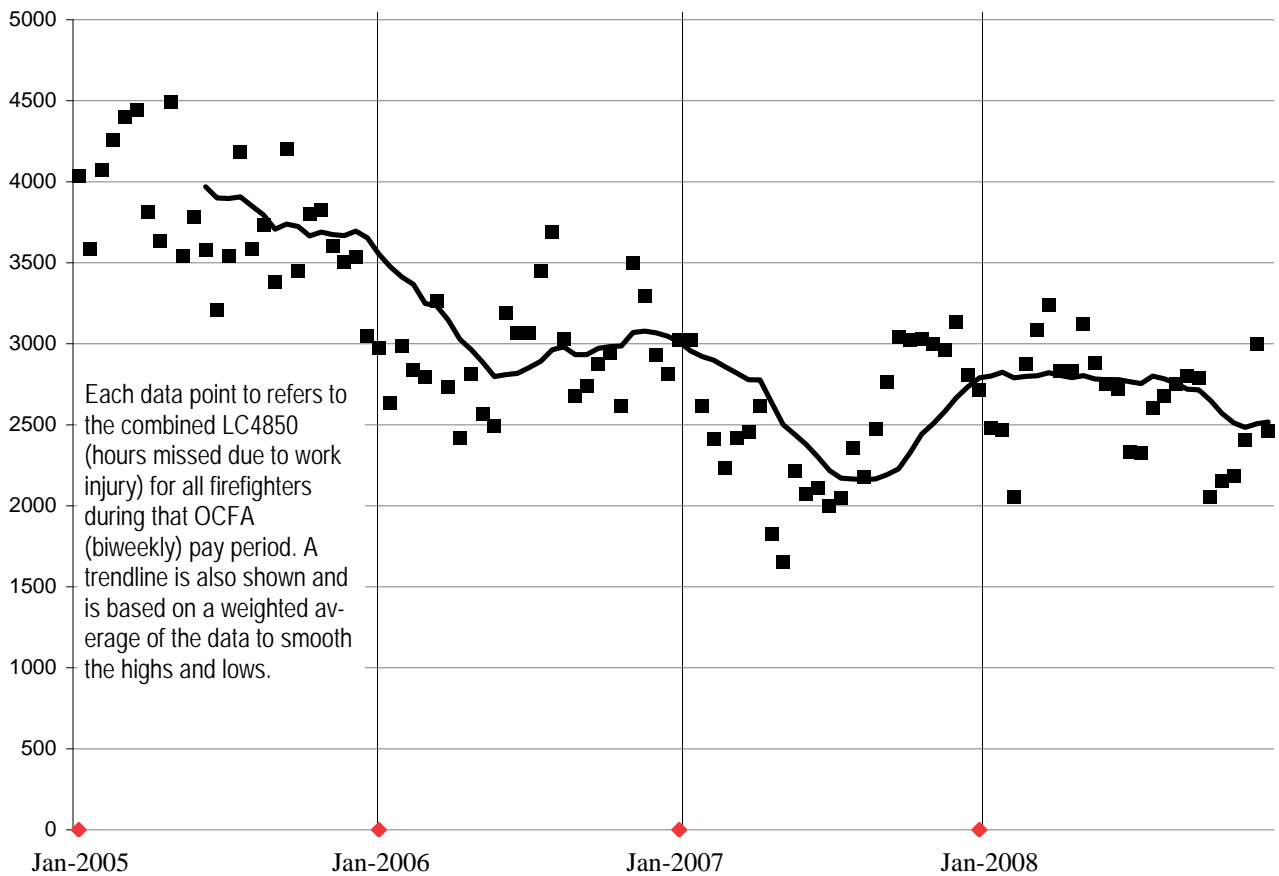
The graph below shows the hours of LC 4850 used each biweekly pay period. The amount for each pay period is the total of all the firefighters' lost time during that pay period. The lower the number, the less the hours of work missed due to injury by firefighters.

There is an overall downward reduction since 2005 as shown in the graph, despite increases in staff size. We believe several factors contribute to the

overall trend:

- Good case management, including improved medical treatment management allowed by legislative reforms.
- Effective use of temporary modified (light) duty to bring a firefighter back to work through desk work and other light office tasks while healing.
- Retirement of older workers and the hiring of new recruits.
- WEFIT

As previously noted, we believe the forthcoming pilot program in injury/fitness rehabilitation will also contribute to reducing LC4850 demands.



Conclusions

We believe the self-insurance workers' compensation program has been effective, and it is our goal to continue to improve its effectiveness through a focus on the following areas:

Legislation

The OCFA must use legislative advocacy to protect workers compensation reforms. It's expected that various special interest groups will continue to introduce legislation to weaken the recent reforms, which in turn could reverse the downward trends in time lost and medical costs.

WEFIT

The OCFA must continue to emphasize employee wellness, especially through programs such as WEFIT. The most expensive injuries still tend to be strains and sprains to knees, backs, and shoulders, and these injuries can be reduced through better fitness, conditioning, and rehabilitation. In addition, many illnesses such as cancers and cardiovascular

diseases can be reduced through lifestyle changes. The WEFIT program directly affects these medical conditions and promotes a good health and fitness culture.

Program Management and Customer Service

The OCFA must continue to closely manage the workers' compensation program through good communication with its employees and its third-party administrator. The OCFA workers' compensation staff strive to work closely with injured employees, and assist them throughout the workers' compensation process.

Quality TPA

The OCFA must maintain the use of a quality TPA. Our current TPA, Southern California Risk Management Associates, can best administer the program through a close relationship with injured employees and a close partnership with OCFA program staff. Workers' compensation rules, policies, and procedures are mandated primarily by the state, but the high quality implementation of those rules can improve the workers compensation experience of an injured employee, and more quickly get him or her back to health and to the workplace. In the large picture, this reduces the OCFA's overall workers' compensation costs.