# EXECUTIVE SUMMARY

## Firefighter Wellness Program Savings

### OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

**Date Issued:** April 8, 2011 **IBA Report Number:** 11-22

**Public Safety & Neighborhood Services Meeting Date:** April 13, 2011

**Item Number:** 4

The Fire-Rescue Department has clearly experienced significant reductions in Worker's Compensation costs during the period of time following implementation of SDSM's Wellness Program. The Wellness Program was put into place in January 2005 and has contributed to these results. A comparison presented by SDSM between the Police and Fire-Rescue Departments supports a link between the existence of the Wellness Program and a higher rate of decline in WC costs for Fire-Rescue as compared to Police, which does not have a Wellness Program.

From FY 2004 through FY 2009, the rate of decline in WC costs per 100 FTE was 52% for Fire-Rescue and 30% for Police. However, the degree to which Fire-Rescue's cost reductions are attributable to the Wellness Program is difficult to isolate. During this same time period, numerous WC reforms, through changes in State law, were put into effect, which also contributed significantly to cost reductions. While not as high as Fire-Rescue, cost declines for the Police Department were also significant, which lends support to the case that a portion of the WC cost reductions are due to the impact of WC reforms and other unknown factors. A portion, but not all WC cost reductions, can be attributed to the Wellness Program. Without an appropriate analysis by an expert in this field, the magnitude of the cost reductions that can be credited to the Wellness Program is uncertain.

Also, in SDSM's presentation of savings, each year's WC cost reductions were compared back to FY 2004 and totaled, to obtain an estimate of savings from the program. SDSM reported a savings figure of $9.6 million (which equals the total WC cost reductions for the five-year period). In our review of the data, we have identified $7.8 million in cost reductions. SDSM had utilized data for the entire department, whereas only sworn Firefighters participate in the Wellness Program.

Additionally, we believe it is appropriate to compare incremental costs from year to year in addition to comparing each year back to the base year of FY 2004. Using this approach shows a total WC cost reduction over the five-year period of $2.0 million as compared to $7.8 million. WC cost reductions attributable to the Wellness Program likely lie somewhere between $2.0 million and $7.8 million. Furthermore, a portion of such cost reductions is likely attributable to the Wellness Program, and a portion is likely attributable to WC reforms and other unknown factors. The specific apportionment is difficult to identify without analysis by an expert in this field.

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# Firefighter Wellness Program Savings

## OVERVIEW

At the September 28, 2010 City Council meeting, Council was asked to approve a contract with San Diego Sports Medicine and Family Health Center (SDSM) to provide services for the Firefighter Wellness Program. Council approved the five-year contract, contingent upon budget approval for years after FY 2011.

The Firefighter Wellness Program includes a Well Fit Exam, costing $900 per participant. This cost includes a myriad of testing, including vital signs, hands-on physician exam, blood testing, chest X-ray, respiratory fitness, hearing, vision, cardiac testing and various cancer screenings. Additional services include certain immunizations, as well as dietary and fitness evaluations and education.

At the Council meeting, it was requested that the Independent Budget Analyst or City Auditor conduct a cost savings analysis of the Wellness Program. Additionally, it was requested that the Fire Chief examine areas for efficiencies and cost savings alternatives for the Wellness Program – to be presented to the Public Safety and Neighborhood Services Committee (PS&NS).

This report examines the savings attributed to the Wellness Program as reported by SDSM in September 2010. It identifies issues encountered in our effort to confirm the stated savings as fully attributable to the Wellness Program, and discusses other factors that enter into this analysis.

# FISCAL/POLICY DISCUSSION

At the September 28, 2010 meeting, SDSM presented information to the Council regarding the Wellness Program, including the history of the program, focus of the program and background statistical information regarding Firefighter deaths and injuries. Also presented was information on Workers' Compensation (WC) savings for the San Diego Fire-Rescue Department. SDSM's presentation of WC savings is based upon the total annual WC cost reductions over the FY 2004 base year – the year prior to the start of the Wellness Program.

Below is a chart which includes SDSM's reported savings to Council (in the "Reported" column). To the right of the "Reported" column is a column which contains actual confirmed WC cost reductions obtained from Risk Management (the "Actual" column).

The figures presented by SDSM in the "Reported" column, which total $9.6 million, were based on data for the entire Fire-Rescue Department. Since only sworn Firefighters are eligible to participate in the Wellness Program, the IBA obtained, from Risk Management, data on WC costs for sworn Firefighters only. Using sworn Firefighters' data, the sum of annual WC cost reductions over FY 2004 is actually $7.8 million, as shown in the chart below. However, as discussed later in this report, we do not attribute all WC cost reductions to the Wellness Program.

Workers Compensation
Cost Declines
Compared to 2004

| Year | Reported | Actual |
|---|---|---|
| FY2005 | $621,464 | $469,580 |
| FY2006 | $1,901,619 | $1,586,493 |
| FY2007 | $2,319,518 | $2,006,316 |
| FY2008 | $2,332,525 | $1,754,630 |
| FY2009 | $2,452,083 | $1,960,164 |
| TOTAL | $9,627,209 | $7,777,183 |

Additionally, SDSM noted that the $9.6 million in the "Reported" column only addressed "Direct Medical Cost Savings." Based on the premise that there are other costs to consider, SDSM utilized a 51% factor to calculate the total WC savings, which was presented as a total of $18.9 million in savings.

However, the $9.6 million of "Direct Medical Cost Savings" presented incorporates not just medical cost reductions, but all WC cost reductions (except administrative costs). Consequently, the factor that was utilized to calculate the $18.9 million total savings double-counts the indemnity and other WC costs already included in the $9.6 million.

Thus, the IBA disagrees with inflating the $9.6 million in total WC cost reductions to $18.9 million. However, we agree with SDSM that the City's administrative costs are not included in the WC cost reductions contained in the chart on the previous page. Presumably, because WC costs were decreasing, there would be concurrent administrative cost reductions, all else being equal. Based on the FY 2009 budget, the City's administrative costs are approximately 20% of the FY 2009 actual WC costs reported on the previous page.

***Issues Identified Regarding the Savings Presented***

Attributing All WC Cost Reductions to the Wellness Program

As explained previously, the savings data presented by SDSM reflects total reductions in WC costs from FY 2005 to FY 2009. The IBA does not concur with attributing the entire amount of WC cost reductions to the Wellness Program, as there were other changing variables during the time period of the Wellness Program which could impact WC costs. Particularly relevant is the impact of California WC law reforms. Other changing variables that could affect costs related to WC include unusual cases, an aging workforce, litigation and variations in medical practice patterns and WC case management patterns.

It is very difficult to ascertain the portion of WC savings attributable to a Wellness Program. The Fire Service Joint Labor Management Wellness-Fitness Initiative (WFI)[1] (Third Edition) program document notes that there are difficulties with determining the cost benefit ratio of wellness programs for Firefighters: "Limited scientific data is available on wellness programs in the fire service and no prospective studies exist that examine the potential economic impact of a health promotion program with uniformed personnel."

It is important to note that significant WC cost declines in California have been attributed to the California WC law reforms which became effective in 2004 and 2005. The Fire-Rescue Department and SDSM also acknowledge that the WC reforms would have affected WC experience.

Such legislated changes include decreases in chiropractic and physical therapy visits allowed, as well as a provision for employers to create Medical Provider Networks.

[1] The Fire Service Joint Labor Management Wellness-Fitness Initiative (WFI) is a partnership between the International Association of Fire Fighters (IAFF) and the International Association of Fire Chiefs (IAFC). The goal of the program is improving wellness for Firefighters. The IAFF and IAFC have produced a program document for the WFI that lays out components for a comprehensive annual medical exam, as well as fitness and behavior health plans. SDSM has indicated that the San Diego Firefighter Wellness Program meets the criteria of the WFI.

MPN's are designed to contain costs by providing higher quality treatment from select providers. The City's Risk Management Department acted quickly to develop a MPN, which was approved by the State in March 2005.

Additionally, treatment guidelines for doctors were established as part of California WC reform, with the intention of reducing excessive treatment and diagnostic procedures. Furthermore, temporary disability benefits were reduced, and there were changes in permanent disability benefits – including the apportionment of permanent disability, making the employer liable for only the portion of the disability caused by the injury.

In the September 28, 2010 presentation to Council, SDSM presented a comparative chart, showing declining WC costs for both the Police and Fire-Rescue Departments for FY 2004 through FY 2009. The Police Department does not participate in the Wellness Program. SDSM's chart (see page 6) shows the rate of cost decline for the Fire-Rescue Department is higher than the rate of cost decline for the Police Department. From FY 2004 through FY 2009, the rate of decline in WC costs per 100 FTE was 52% for Fire-Rescue and 30% for Police. Although not as high as Fire-Rescue, cost declines for the Police Department were significant, which lends support to the case that a portion of the WC cost reductions are due to the impacts of WC reforms, and not all WC cost reductions can be attributed to the Wellness Program.

Incremental Annual Savings Versus Total Savings Over FY 2004

SDSM has indicated that if the Wellness Program were to be eliminated, Firefighter behavior and corresponding health and fitness would likely return to the level that existed before implementation of the Wellness Program. Therefore, in SDSM's presentation of savings, each year's cost reduction as compared to the FY 2004 level is summed in order to obtain the total savings from the program. We agree that without consistent reinforcement of a wellness program, over a period of time there would be some level of diminished fitness and health among the workforce.

However, if the program has changed the lives and health of our Firefighters, and they are now living under a "new normal" in terms of health and injury rates, we do not assume that the WC costs for the Firefighters would immediately or completely return to FY 2004 levels in the absence of the Wellness Program. Therefore, we believe it is appropriate to compare the incremental cost declines from year to year to the savings over the FY 2004 base year, as presented by SDSM. This comparison is presented in the chart below.

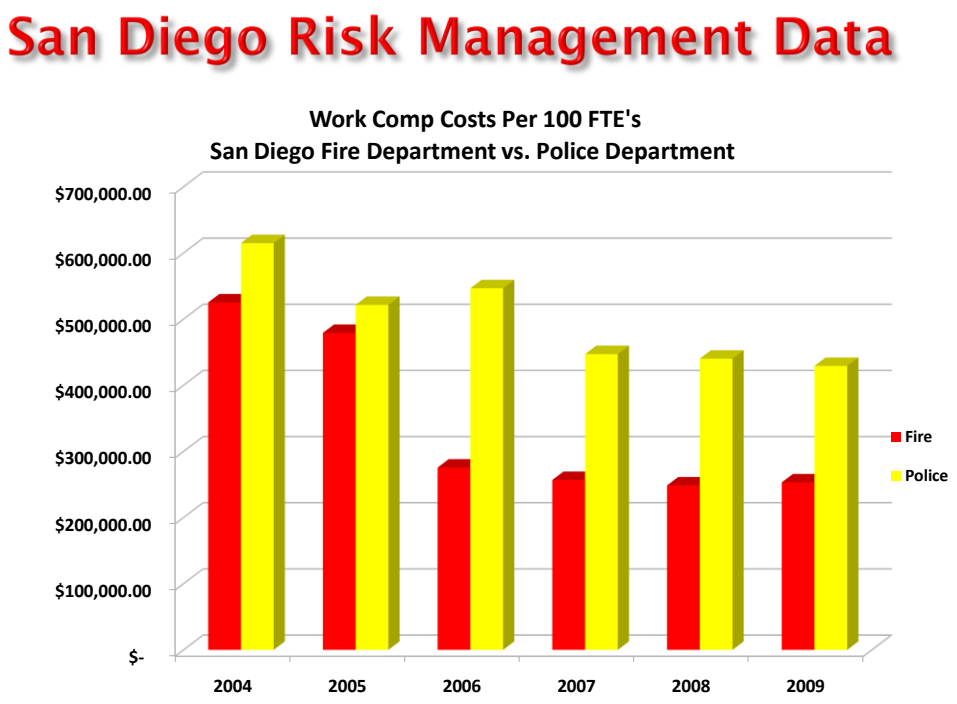
Sworn Firefighters
Workers Compensation
Cost Declines

| Year | Costs | Reduction Over FY2004 | Year-by-Year Incremental Reduction |
|---|---|---|---|
| FY2004 | $5,525,820 | | |
| FY2005 | $5,056,240 | $469,580 | $469,580 |
| FY2006 | $3,939,327 | $1,586,493 | $1,116,913 |
| FY2007 | $3,519,504 | $2,006,316 | $419,823 |
| FY2008 | $3,771,190 | $1,754,630 | ($251,686) |
| FY2009 | $3,565,656 | $1,960,164 | $205,534 |
| TOTAL | $19,851,917 | $7,777,183 | $1,960,164 |

The WC cost reductions attributable to the Wellness Program probably lie somewhere between the incremental cost reductions of $2.0 million and the reductions over the FY 2004 base year of $7.8 million. As noted earlier, if the Wellness Program were to be eliminated, costs could increase over time. However, we cannot predict the extent to which lifestyle and fitness changes previously made by Firefighters would be diminished if the Wellness Program were to be eliminated.

Comparison of Firefighters and Police

The chart below, which was presented to Council by SDSM, shows declining WC costs for both the Police and Fire-Rescue Departments. The Police Department does not participate in the Wellness Program. The chart below illustrates the rate of cost decline for the Fire-Rescue Department is higher than the rate of cost decline for the Police Department.




This comparison implies a link between the existence of the Firefighter Wellness Program and the higher rate of decline in WC costs for the Fire-Rescue Department, as compared to the Police Department which does not have the Wellness Program. From FY 2004 through FY 2009, the rate of decline in WC costs per 100 FTE was 52% for Fire-Rescue and 30% for Police. The higher rate of decline for Fire-Rescue lends support to the impact of the Wellness program.

Additionally, although not as high as Fire-Rescue, cost declines for the Police Department were also significant, which lends support to the case that a portion of the WC cost reductions are due to the impacts of WC reforms, and not all WC cost reductions can be attributed to the Wellness Program.

Other issues also need to be taken into consideration when comparing the two departments' WC experience. In order to perform a comparison, one would have to compensate for a multitude of differences between the groups. For example, statistical

adjustments could be calculated regarding differences in the participants' ages, sex, cholesterol, blood pressure, body mass index and existing cardiovascular and musculoskeletal conditions. Age at the time of injury may be a factor in the difference in incidence and cost of claims, with older workers often more prone to injury/incurring more costs. Types of assignments are also important, for example, whether the workers are in the field or at a desk job.

Some portion of the difference between rates of declining WC costs (between the Police and Fire Departments) appears to be attributable to the Wellness Program. Without an appropriate analysis by an expert in this field, the scope of savings is uncertain.

Annual Costs of the Wellness Program

Based on data provided by the Fire-Rescue Department, the average annual cost for the Wellness Program for FY 2006 through FY 2010 is approximately $926,000. The program began January 2005, so the reduced amount for FY 2005 is not included in the average.

During the September 28, 2010 presentation to Council, it was stated that if the Wellness Program were to be eliminated, the City would incur costs for required exams, such as Department of Motor Vehicles (DMV) physicals. The Wellness Program currently covers these exams, so without the Wellness Program, the City would incur annual costs estimated at $250,000 to $300,000. Additionally, Fire-Rescue has indicated that the Wellness Program covers the Physical Ability Evaluation requirement, which would cause $30,000 annually in Firefighter overtime without the Wellness Program. Therefore, the net cost for the Wellness Program is estimated to be $596,000 to $646,000 annually, which is an offset to any attributable savings.

# CONCLUSION

Wellness programs do have potential for return on investment because a significant portion of medical expenditures and lost time are potentially preventable. Healthcare costs continue to escalate much faster than other economic components, so preventative measures can be cost effective. Additional benefits outside WC cost reductions could include decreases in costs of the City's medical plans over time, and increases in worker productivity.

The Fire-Rescue Department has clearly experienced significant reductions in Worker's Compensation costs during the period of time following implementation of SDSM's Wellness Program. The Wellness Program was put into place in January 2005 and has contributed to these results. A comparison presented by SDSM between the Police and Fire-Rescue Departments supports a link between the existence of the Wellness Program and a higher rate of decline in WC costs for Fire-Rescue as compared to Police, which does not have a Wellness Program.

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At the September 2010 Council meeting, members of the Council had encouraged SDSM and the Fire Chief to continue to explore options for reducing Wellness Program costs, such as avoiding duplication of medical tests provided through the City's health insurance, and the possibility of reducing the City's health care premiums as a result of the Wellness Program. We recommend that these issues continue to be explored and reported back to Committee.

**[SIGNED]**

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