

## Attachment A

### CITY OF SAN DIEGO MEMORANDUM

DATE: June 11, 2002

TO: Michael T. Uberuaga, City Manager

FROM: Cathy Lexin, Human Resources Director

SUBJECT: Workers Compensation Cost Increases

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The following is a brief summary of factors contributing to the rapidly escalating cost of Workers Compensation Insurance, as well as the City's plan to contain these costs.

#### Cost Increases: General

- National Underwriters Magazine (2/18/02) reports that private Workers Compensation providers have increased premiums 20% to 50% in the last year to reconcile premiums with increased medical costs and the "hardening" of the insurance market overall since 9/11/01. While the City of San Diego is self-insured, it faces the same cost increases as insurance retailers.
- Employer health care costs for group health policies provided to their employees is projected to rise, on average, by 13% in 2002, following an 11% increase in 2001, according to Business Insurance magazine (2/25/02). This rate of increases for health care premiums has not been seen since the mid-1980's.
- A statewide survey conducted by the Industry Claims Information System (ICIS) indicates that **medical costs for workers compensation in California are increasing at a rate three to five times faster than group health costs** (HMO's and PPO's). This is due primarily to the employer's lack of meaningful controls on employees' utilization of medical services compared to employer provided group health policies.
- The increased costs for health care reflect factors such as the aging workforce, increasing demand for diagnostics and treatments requiring expensive medical technology, and rapidly increasing prices for drugs. For workers compensation health care costs in California, these factors are multiplied by the employer's relative lack of control over the medical services provided, and escalating workers compensation litigation. According to a study conducted by the California Workers Compensation Institute (CWCI), the combination of increased health care costs, claims duration, and litigation have resulted in annual workers compensation cost increases approximating 25% statewide.
- All self-insured public employers in the state are struggling with rapidly escalating workers compensation costs. For example, the Los Angeles Sheriff's Department has

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seen their workers compensation costs increase 121% in five years, from \$39 million to a projected \$86 million.

The points above provide general information regarding escalating Workers Compensation costs. A more detailed discussion regarding the City of San Diego's specific problems is provided below.

### City of San Diego Workers Compensation Cost Increases

Workers' Compensation costs for the City have increased significantly since FY 1997, from \$12.2 million to a projected \$22.7 million in FY 2002, **an increase of \$10.5 million in five years**, as illustrated in the table below.

| <b>Total Workers Compensation Costs</b> |          |          |          |          |          |
|---|----------|----------|----------|----------|----------|
| FY 1997                                 | FY 1998  | FY 1999  | FY 2000  | FY 2001  | FY 2002* |
| \$12.2 Million                          | \$13.7 M | \$16.6 M | \$17.6 M | \$19.6 M | \$22.7 M |

For the same 5-year period, total medical costs, as a subset of total Workers' Compensation costs, is projected to rise \$7.2 million:

| <b>Total Medical Costs for Workers' Compensation</b> |         |         |         |         |          |
|--|---------|---------|---------|---------|----------|
| FY 1997  | FY 1998 | FY 1999 | FY 2000 | FY 2001 | FY 2002* |
| \$5.9 Million  | \$6.8 M | \$8.6 M | \$9.0 M | \$10.5M | \$13.1M  |

Medical costs, as a proportion of total Workers Comp costs, has increased from 48% to 58%.

| <b>Medical Costs as a % of Total Work Comp Costs</b> |         |         |         |         |          |
|--|---------|---------|---------|---------|----------|
| FY 1997  | FY 1998 | FY 1999 | FY 2000 | FY 2001 | FY 2002* |
| 48%  | 50%     | 51%     | 51%     | 54%     | 58%      |

However, the number of claims filed has declined slightly during the same period.

| <b>Workers' Compensation Claims Filed</b> |         |         |         |         |          |
|---|---------|---------|---------|---------|----------|
| FY 1997                                   | FY 1998 | FY 1999 | FY 2000 | FY 2001 | FY 2002* |
| 2,202                                     | 2,330   | 2,082   | 2,159   | 2,160   | 2,065    |

\* Projected 2002 costs and claim numbers, based on period 11 data

This \$7.2 million dollar increase in medical costs over a 5 year period, while the number of claims filed annually have remained relatively flat, highlights that medical costs have increased at an alarming pace. In this case, medical costs have risen approximately 29% per year and comprise nearly 70% of the cost increase to the City's Workers' Compensation expenses for the period detailed above.

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As medical costs make up the single largest cost-driving factor of Workers' Compensation costs, this trend provides a strong stimulus for the implementation of the improved safety and claims management initiatives being undertaken by the City.

### Future Outlook

The major cost driving factors discussed above, such as medical cost inflation and expanding Workers' Compensation entitlements, are not within the control of the City. However, to the extent that the City can promote safety and pre-empt injuries, and effectively manage claims when injuries do occur, we can contain our cost increases. The City is pursuing improvements in both the safety and claims management functions.

Under the direction of the City Manager's Office, the Risk Management Department's Occupational Health and Safety Division has been working aggressively with the City's large operating departments to reduce their injury rates. This effort combines improvements in reporting, clarification of roles and responsibilities, and enhanced accountability. The action plan supporting this effort is detailed in a City Manager's memorandum to department directors signed by Assistant City Manager P. Lamont Ewell, titled "Commitment to Employee Safety" dated May 15, 2002.

The Workers' Compensation Division is working with departments to improve claims management by automating the paper-intensive workers' compensation claim process and by providing management information reports related to their injury rates and trends. The new Injury Tracking and Safety System (ITSS) will come on-line in Fiscal year 2003. The ITSS will improve the time it takes to report an injury and is expected to eliminate self-imposed penalties incurred due to late processing of claims. A centralized Call-In Center for injuries and accidents will also be implemented. This streamlined process will ensure reduced wait time for employees needing medical attention, increase the City's ability to save costs of the industrial health care provided and the industrial leave hours taken, and assist supervisors and managers in processing these correctly.

However, it should be understood that despite our best efforts to improve our injury and claims record, new workers' compensation legislation effective in January 2003 will increase claimant entitlements and the costs associated with claims filed after that date, and medical care cost inflation shows no signs of abating.

### Workers' Compensation Fund

The City's workers' compensation fund is generated from a surcharge to employee salaries. The surcharges are assigned to each City position according to their job classification, and the rates vary from 0% to 6.09% of the employee's pay. These rates have not been reviewed or adjusted for several years, resulting in annual deficits in recent years. The Risk Management Department is conducting a study of these rates for the purpose of better correlating rates based on loss experience, and to adjust for the realities of escalating health care costs. The study results will be submitted to the Financial Management Department for further consideration in October of 2002.

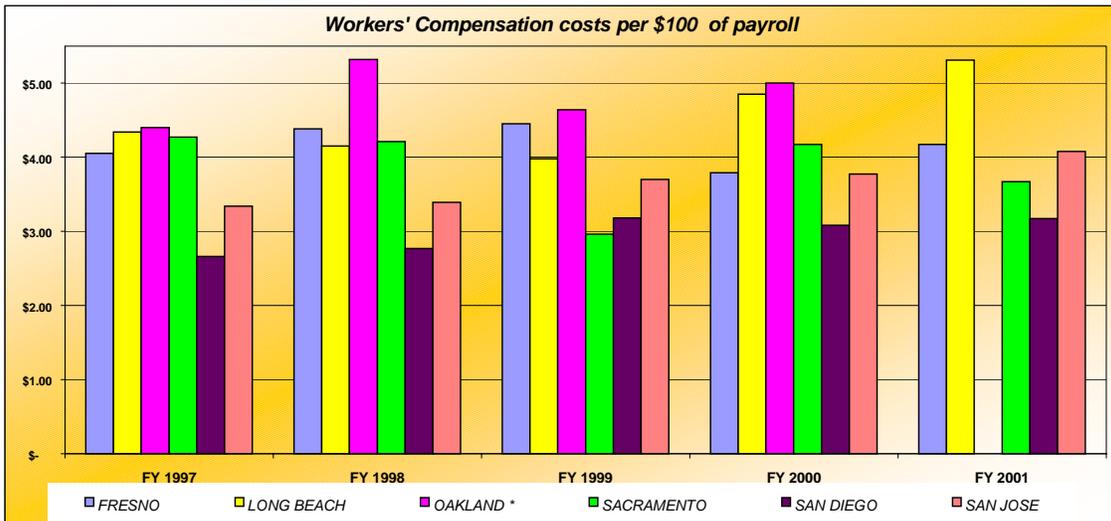
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### Workers' Compensation Cost Benchmark Data

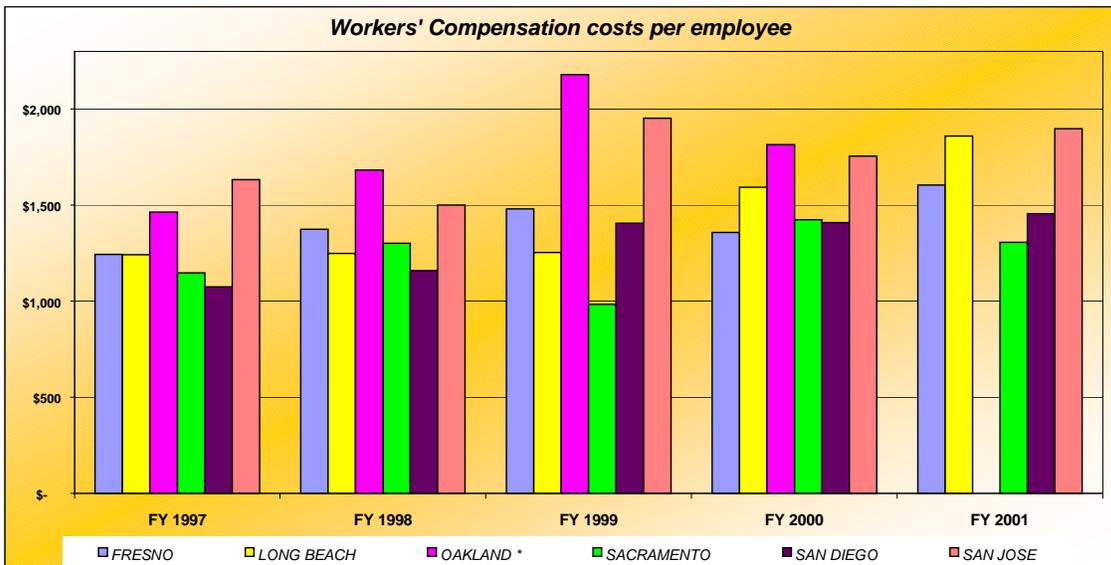
**Attachment 1** demonstrates how the City of San Diego's Workers' Compensation cost compares against five other California cities; Fresno, Long Beach, Oakland, Sacramento and San Jose, for the last five (5) years. For each of these years, San Diego's Workers' Compensation cost per \$100 dollars of payroll and per employee compares favorably with the surveyed California cities. The information was provided by the State of California Office of Industrial Relations.

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\* The Information for the City of Oakland was not available in FY 2001.



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