

## **Primary Workers' Compensation (PWC)** **Program Budget Policy**

Program Goals for the PWC include the following:

### **Short Term Goals**

- Continue to evaluate new service offerings.
- Continue to conduct risk assessments for members and develop solutions for risk control.
- Continue with the development of marketing and educational materials for members.
- Increase the corridor in each of the next couple of years.
- Have all program TPAs using the PRISM's claims system. York, Intercare, Hazelrigg, Adminsure, and LWP are now using the PRISM's claims system. Corvel should be transitioned to the PRISM's claims system during the 2020/21 fiscal year.
- Development of a scorecard to measure the performance of the program's TPAs.
- Continue looking for ways to increase engagement with PWC members.
- Enhance the new committee member onboarding experience.
- Evaluate the cost-benefit of rotating meetings in northern and southern California.
- Continue to review program policies and make revisions where appropriate.
- Continue to evaluate transfer of risk opportunities in the PRISM Captive.

### **Medium Term Goals**

- Preserve a structure that minimizes/eliminates assessment risk.
- Reach resolution on claims in dispute with CIGA on claims they have denied asserting "other insurance" is available.
- Retain 100% of current members and show strategic growth regarding payroll and number of members.
- Continue work on Strategic Goals as updated.

### **Long Term Goals**

- Each member receives annual claims analysis report with benchmark data (frequency, severity, deviation from norm).
- TPAs have consistency in claims handling practices.
- The PWC risk tolerance is low to very low. We will protect pool assets through appropriate risk transfer with a bias toward risk transfer rather than pooling in order to provide members with a guaranteed cost program when possible.

Budget Policies for the PWC Program include the following:

### **Revenues**

- Premiums for retained risk are calculated based on each member's actuarially determined estimate of the discounted ultimate cost of claims. The actuarial confidence level and discount rate is determined annually by the PWC Committee.
- Premiums for transferred risk are calculated based on each member's estimated payroll and experience rate, as determined by the Program's actuary. A two-year smoothing technique is used to minimize rate changes.
- At the end of each year, members are required to update payroll estimates with actual payroll totals. Adjusting for actual payroll is commonly referred to as the payroll audit. Premium changes resulting from the prior year's payroll audit are recognized in the current year as additional or return premiums due to or from each member.
- Unallocated Loss Adjust Expense (ULAE) premium is based on an estimate from the Program's actuaries of the cost of external TPA Fees and Self Insurance Plans fees for the life of the claim, at the confidence level determined annually by the PWC Committee.
- Broker fees are charged to all public entity members. The amount charged is based on our broker contract and is a graduated rate based on premiums. The current broker fee rates are 10% of the first \$100,000 of premiums, plus 5% of premiums from \$100,000 to \$1,000,000, and 3% of premiums excess of \$1,000,000.
- Investment income is budgeted at an estimated earnings rate determined annually and applied to the average daily balance invested in the PRISM Treasury. The estimated earnings rate is determined by the Finance Committee and approved by the Executive Committee and Board of Directors. The estimated earnings rate is also the rate established by the Inter-Fund Borrowing Policy.
- Members may elect to pay their premium on a monthly, or quarterly, basis. Finance fees are charged based on the rate approved in the Inter-Fund Borrowing Policy and the term of the financing.
- Administration fees are based on the budget for program and general administration costs and subsidies. Program costs are defined below.

### **Expenses**

- The PWC Committee annually considers returning available net assets to members in the form of member dividends. The PWC Committee generally evaluates the amount of net assets available for dividends as the balance in excess of the 90% confidence level.
- PWC insurance premiums include the cost of insurance for claims transferred to an insurance company. Coverage limits are determined annually by the PWC Committee. Claim costs in excess of \$125,000 are covered by the EWC Program.
- The provision for claims current and the provision for claims prior years, is the actuarial adjustment to claim liabilities.

- The Provision for ULAE accrues the cost not directly associated with specific claims but related to claims administration and settlement for the remaining life of the claims, and is charged as part of the Admin Fee. The provision includes both the actuarial amount related to the external TPA fees and Self Insurance Plans Fee and the internal (PRISM) program administration costs.
- The Claims Administration line item provides for the fees to the approved PWC claims administrators (Third Party Administrators). TPA contracts are reviewed and considered for renewal by the PWC Committee.
- Member claims audits are scheduled for each TPA every two years, or as determined by the PWC Committee.
- Other program expenses include legal, ISO fees, employment practices legal consulting services, managed care oversight services, and any other expenses approved by the PWC Committee.
- The Risk Management Subsidy Program is a voluntary program that was created to offset the direct costs members incur from securing external risk management products and services. The subsidy is generally \$1,000 per year.
- Banking services and fees are used to maintain separate claim bank accounts for each TPA.
- The California State Office of Self-Insurance Plans assessment fees are levied by the Department of Industrial Relations to pay for the self-insured employer assessments for:
  - Workers' Compensation Administration Revolving Fund
  - Uninsured Employers Benefits Trust Fund
  - Subsequent Injuries Benefits Trust Fund
  - Workers' Compensation Fraud Account
  - Occupational Safety and Health Fund
  - Labor Enforcement and Compliance Fund
- The claims system expense includes the cost to operate our claims system. These expenses also include converting data from the TPAs to our Insurity claims system. Other program expenses include program actuarial and consulting costs, legal expenses, ISO fees, and any other expenses approved by the Committee.
- An expense budget of \$50,000 has been delegated to the PWC Committee for any unforeseen budget expenses. The PWC Committee may allocate these funds to any expense line item with a two-thirds vote of the Committee.

### **Transfers**

- Transfers out to the general administration program are used to pay for the PRISM staff and all other administrative costs. These administration costs are allocated to all PRISM programs based on a three-year average of staff time.
- Based on member election, a risk management subsidy of \$1,000, per member, is transferred to the general administration program and added to each member's risk management subsidy account.
- The claims system transfer is based on program usage.
- Investment Fees are charged on the average daily balance of program funds invested.