



OCFA Workers' Compensation Update CY 2007

Human Resources/Risk Management

May 2008

Executive Summary and Table of Contents

This is the annual update on the status of the OCFA Workers' Compensation program for calendar year 2007.

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 for the self insurance workers' compensation program have decreased over the past four years.

In CY2007 (calendar year, January through December), medical providers billed OCFA approximately \$3.14M for services. Our administrator Southern California Risk Management Associates' (SCRMA) medical audit and management unit—designed to assure the medical provider billing meets State work comp payment rate standards—reduced \$2.18M of that \$3.14M, with OCFA actually paying \$.957M, a savings of approximately 70%.

As part of the workers' compensation program, there will be some claims requiring a financial settlement, typically permanent disability (PD) 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 delegated 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 and professionals with knowledge, support, and opportunities to improve their physical health, wellness and fitness to enhance job performance, which we believe overall reduces the injury rate.

Labor Code (LC) 4850 refers to salary due an injured firefighter when placed off work by a treating physician. There has been an overall downward trend of LC4850 usage over the last few years. 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).

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Introduction and History

This report is the annual update for the OCFA Workers' Compensation program for calendar year 2007. Cost controls, injury trends, LC4850 usage (lost time by firefighters when injured on the job), and 2007 injury permanent disability settlements are discussed.

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 workers' 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 (TPA)

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 were 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 \$2.0M. 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. This has brought significant premium savings.

Actuarial Projections of Program Cost

Annual Actuary Projections

Annually OCFA requests 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 2007/08. "Ultimate" refers to the difference between the amount of losses initially estimated by the work comp administrator, and the actuarially-projected long term annual cost of the program. "Limited" refers to OCFA's losses being limited by a \$2.0M excess insurance "stop-loss" policy.

Confidence Levels and Budgeting

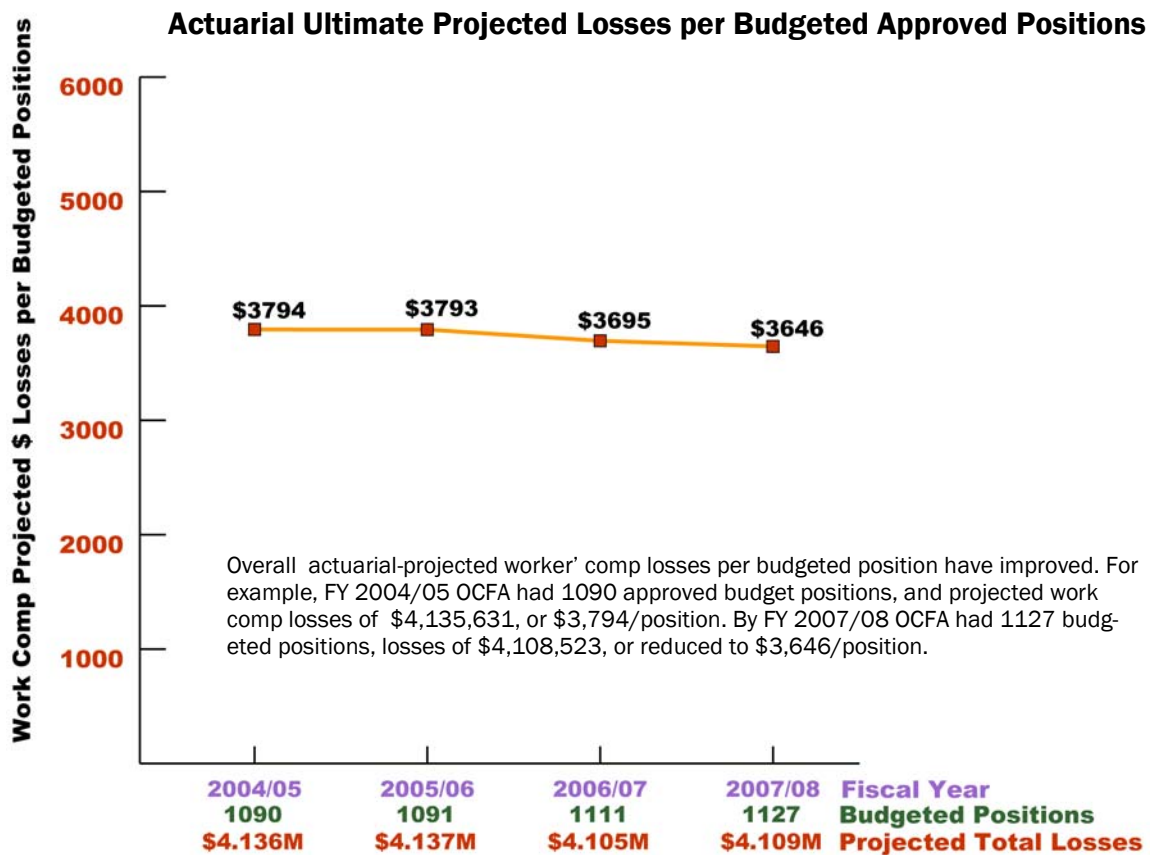
OCFA like most local governments, budgets at the 80% confidence level. Confidence level refers to a statistical level of certainty. For example budgeting an 80% confidence level

amount means that there is an 80% chance that spending will come in below that projection.

Costs Included In Actuarial Projections

The amounts shown are a total projection for the workers' compensation third party administrator (TPA), 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. We believe the good performance results from:

- Excellent TPA services which includes bill review and utilization review.
- Benefit from State legislative workers' compensation reforms.
- OCFA program management.
- WEFIT.



Cost Controls

Numerous cost controls exist in OCFA's workers' compensation program. These cost controls include injury reduction (such as WEFIT and safety programs), making the program more efficient (such as bill review and utilization review), and quality control leading to cost containment (such as claims auditing and nurse case management).

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 medical charges.

In CY2007, medical providers billed OCFA \$3.14M for services. SCRMA's medical audit and management denied \$2.18M of that amount, with OCFA actually paying \$0.956M, a savings of approximately 70%.

WEFIT

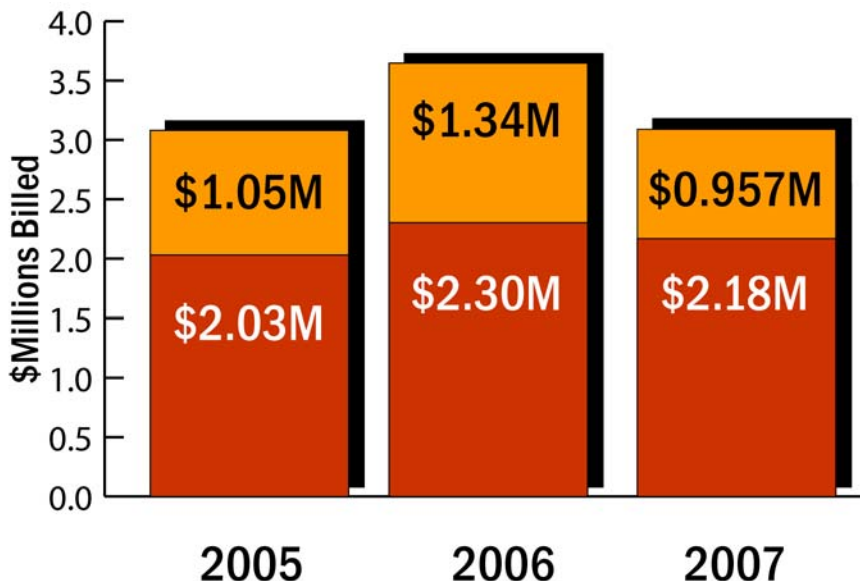
The WEFIT program is based on the physical

demands of the job. Work comp injury data is part of a feedback loop to better focus WEFIT education. In the firefighter academies, injuries have been reduced, and heart rate monitoring is used as a measure of fitness. A good firefighter fitness and health culture is a major cost control for workers' compensation.

Case Management

Good case management has many other cost controls including:

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



SCRMA's bill review assures that medical providers do not exceed state cost standards for treatment and other medical charges. The chart shows billing disallowed (■) and billing paid (■) by SCRMA in 2005 through 2007.

Workers' Compensation Settlements

Permanent Disability (PD) Settlement is a Legal Benefit

Workers' compensation may require a financial settlement, either permanent disability (PD) benefits 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 time of injury. 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 delegates approval settlements of \$50,000 and under to the Fire Chief or his designee. The Fire Chief delegates settlements of \$25,000 and under to the Risk Manager. Should there be settlements over \$50,000, they would be brought to the Executive Committee of the Board of Directors for review and

settlement.

Factors Affecting Permanent Disability and Compromise & Release

Factors affecting PD ratings are defined in State law, often leaving the employer little choice but to agree with the determination. State law directs our TPA to begin payment of permanent disability, where permanent disability is owed, within fourteen 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 the OCFA. For example, in the opinion of our attorney, a C&R may be desirable if a favorable court opinion is less likely than a reasonable settlement, or that the future medical costs would be likely higher than a one-time settlement.

Compromise and Release (C&R) Settlements in 2007 For Workers' Compensation Injuries

Date of Injury	C&R Settlement	Body Parts
11/18/02	\$68,000	Lower extremities, heart, hypertension, and internal
02/05/03	\$35,000	Shoulder, Elbow, Spine
4/30/03	\$20,000	Right Knee
05/07/03	\$5,000	Internal & diabetes
4/1/04	\$11,000	Bilateral hips, knees
04/15/05	\$35,000	Spine/Back
09/14/06	\$6,000	Right Knee

Note: Date of Injury (DOI) is often well before the date of final settlement due to the length of medical treatment, recovery time, and legal processes. C&R amounts over \$50,000 (as well as standard permanent disability/future medical settlements) are reviewed and approved by the Executive Committee of the Board of Directors.

Injury Trends

OCFA’s injuries are categorized by the TPA by body part injured (e.g., foot, knee, or lower back). In addition, every injured worker’s 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 from immediate treatment, but SCRMA’s claim examiners will include an estimate for treatment that will occur during 2008, and permanent disability payments, if expected.

CY 2005 through 2007 Injury Costs

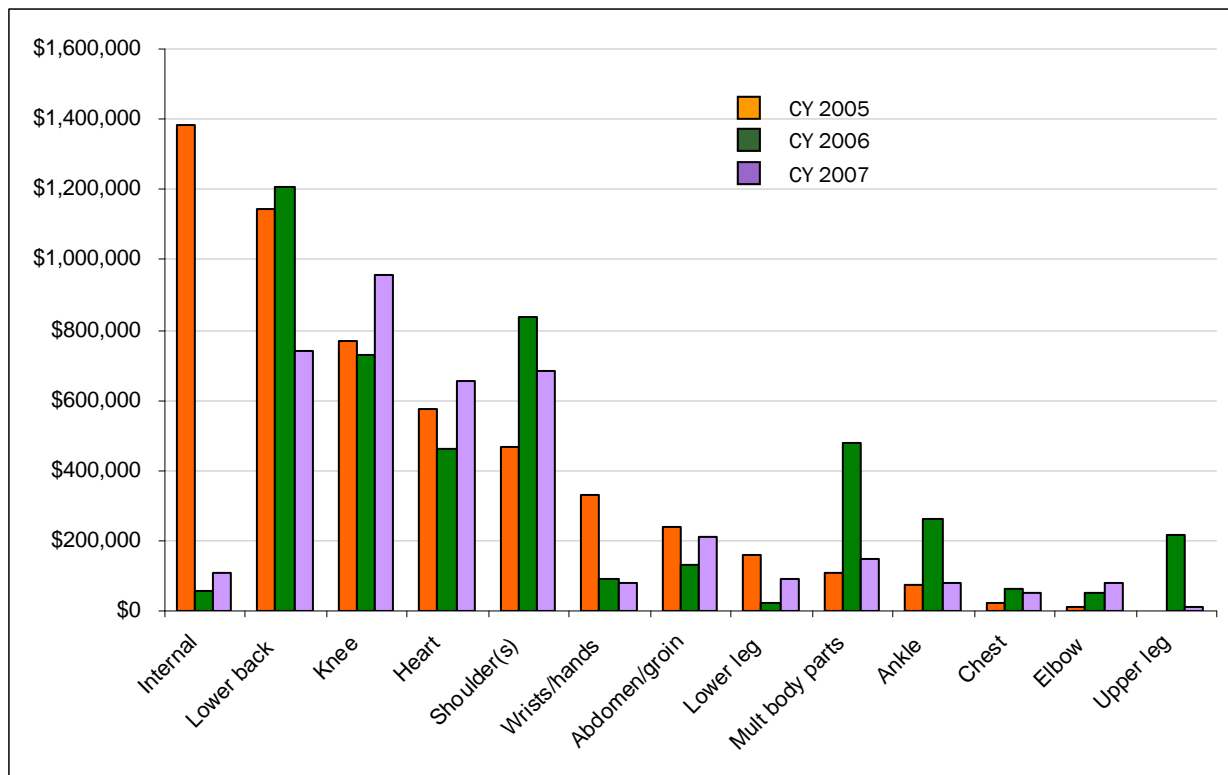
The bar chart on page shows the combined estimated medical, salary, legal, and other costs of injuries of OCFA employees broken down by body part. For example in CY2005, injured lower back areas caused costs over \$1.2M

Most Costly Injuries

Typically the most expensive injuries by body part for OCFA employees are knees, backs, shoulders, and hearts. An exceptionally expensive cancer treatment for a single employee for internal organs drove the cost of that body part(s) over \$1 M in CY 2005.

Presumptive Illness for Firefighters

Some of the most expensive injuries were presumptive illnesses, including heart-related disease and cancers. Presumptive illness or injury means 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



CY2004-2007 Cost of Injuries by Body Part

Injury Trends (con't)

evidence that rebuts the presumption.

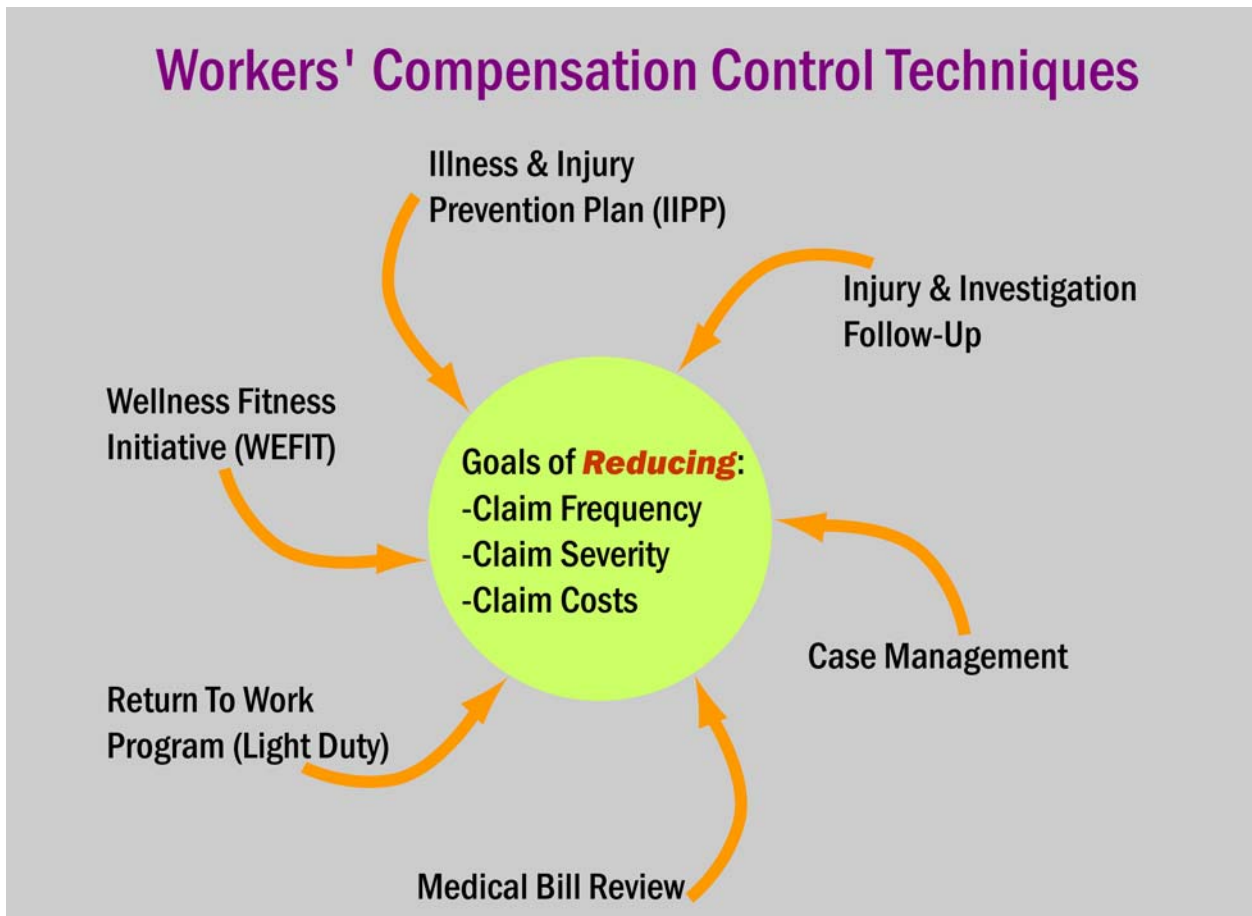
Control of Injuries and Costs

It's the goal of the OCFA to control workers' compensation costs through a number of techniques, especially the Illness and Injury Prevention Plan (IIPP), WEFIT, an aggressive return to work program, medical bill review, injury and investigation follow-up, and good case management.

The IIPP is a mandated state program to reduce lost work days and 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 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 fitness program was developed based on the demands and movements of the job. Firefighter recruits in the firefighter academy are trained in the fitness program, which they will carry throughout their careers and help reduce occupational injuries and illnesses.



LC4850 Trends—Firefighter Injury Time Lost Due to Injury

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

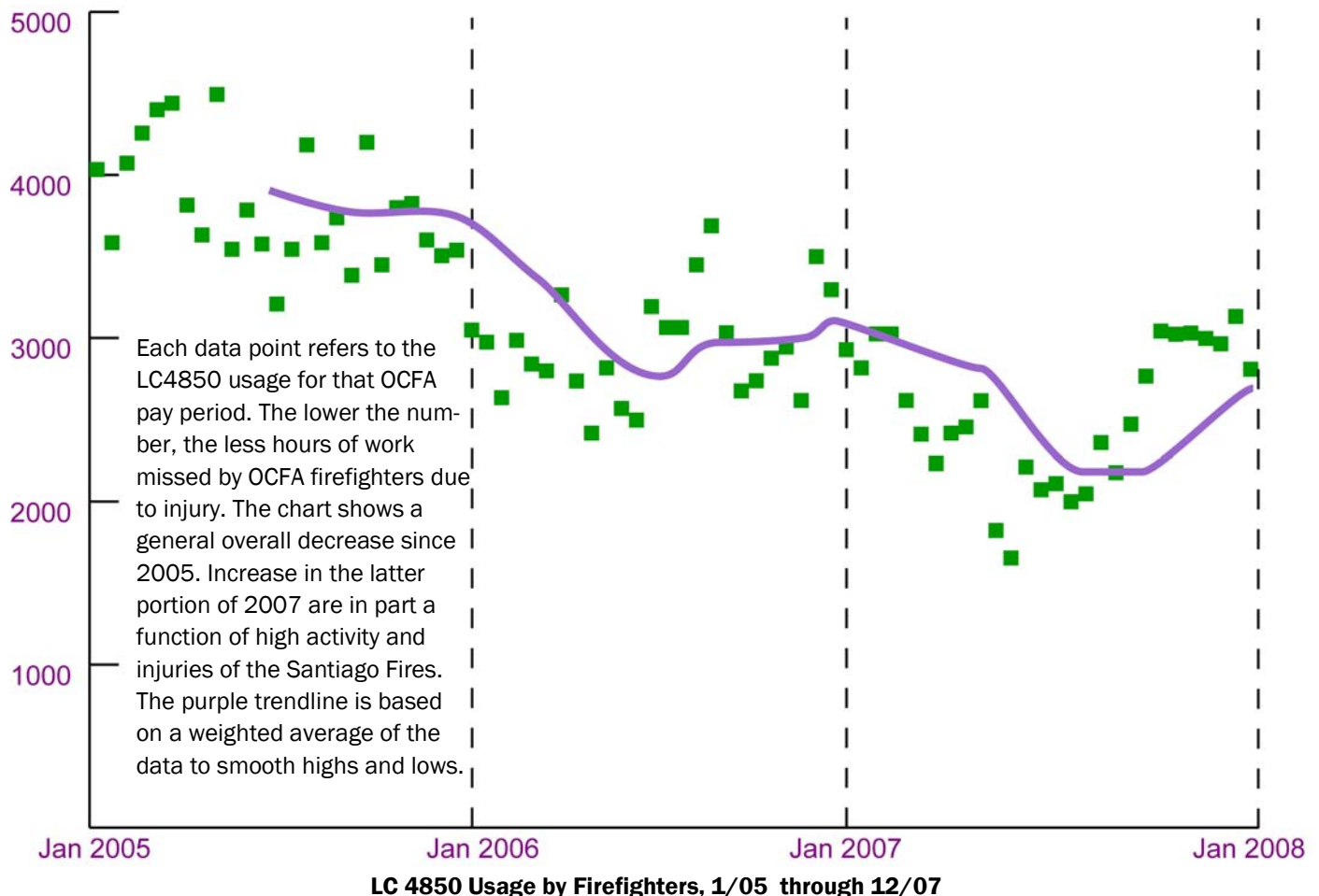
The following line chart shows the hours of LC4850 used each biweekly pay period from PP #1 2005 through PP#26 2007 (approximately January 2005 through December 2007). The lower the number, the less hours of work missed due to injury by firefighters.

There is an overall downward trend over the last few years. Towards the end of 2007, there were increases which can be attributed to heightened

activity during the Santiago Fire.

We believe several factors contribute to the overall positive trend:

- Good case management, including improved medical treatment management allowed by legislative reforms.
- Good 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 hiring of new recruits.
- WEFIT.



Conclusions

Though we believe the self-insurance workers' compensation program has been effective, we seek to continue these benefits through focus on certain 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 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 fitness. 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 (TPA). OCFA workers' compensation staff strive to work closely with injured employees, and assist those employees with the sometimes-complex workers' compensation process.

Quality TPA

The OCFA must maintain a quality TPA. Our current TPA, Southern California Risk Management Associates (SCRMA), can best administrate 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 OCFA's overall workers' compensation costs.