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Date: November 23, 2015

**TO: MEMBERS, BOARD OF DIRECTORS**

<b>I. AGENDA ITEM # AND TITLE :</b>	Open Agenda Item 3d – Consent Calendar: Authorization to Secure a Renewal Workers' Compensation Program effective January 1, 2016
<b>II. NAME AND PROGRAM:</b>	Randy Hogan, Risk Management
<b>III. ACTIVITY:</b>	<input type="checkbox"/> Informational <input type="checkbox"/> Request for Direction <input checked="" type="checkbox"/> Action Proposed <input type="checkbox"/> Exploratory
<b>IV. JUSTIFICATION:</b>	<input checked="" type="checkbox"/> Standard/Required Item <input type="checkbox"/> Board Request – New Item <input type="checkbox"/> New Topic from Staff

**V. EXECUTIVE SUMMARY:**

State Fund's current program, effective January 1, 2015, with respect to workers' compensation liability for its employees contains three elements: a funded self-insured retention of \$2,000,000 (per accident or illness); a specific excess policy with statutory limits attaching at \$2,000,000; and a third party claim administration (TPA) agreement. The retention and limits of this program have been evaluated and found to be appropriate for State Fund's risk and risk appetite. However, State Fund's specific characteristics and environment have proved incompatible with the current TPA's method of operation, and it is therefore recommended that a new TPA be selected for 2016. Both the excess policy and claims service agreement expire on January 1, 2016 and Risk Management recommends that the President/CEO be authorized to secure a renewal package for 2016 at terms most favorable to State Fund.

**VI. ANALYSIS:**

Review and renewal of insurance policies fulfill a prime Risk Management responsibility. Unlike most other lines, workers' compensation coverage for State Fund's own employees cannot be evaluated solely on the basis of the effectiveness of defense or economic results. As the overall well-being of its employees is of high concern to State Fund, the level of care, respect, and treatment provided to employees is, at minimum, equally important as economic efficiency. The following details State Fund's current workers' compensation insurance program for its own employees:

**Self-Insured Retention:** As a permissibly uninsured public agency, State Fund retains the first \$2 Million of liability for any occupational accident or illness.

**Excess Insurance:** Overlaying the \$2 Million self-insured retention, State Fund maintains an Excess Workers' Compensation policy with The Hartford. The expiring policy has an estimated annual premium of \$429,498 and is anticipated to renew with no change in premium rate.

**Claim Service Agreement:** Since 2012, State Fund has contracted with The Hartford to provide claims administration services. Although The Hartford has performed well in controlling claim costs and has been responsive to the Risk Management department, their method of operating and lack of understanding of the civil service environment often left employees disgruntled and aggravated. The Hartford made several attempts to alter their processes to align with State Fund's needs, but ultimately concluded that it was impractical to make the changes needed to meet State Fund's service level and claimant care requirements.

On January 1, 2015, State Fund contracted with Acclimation Insurance Management Services (AIMS) to provide TPA services for employee claims incurred prior to 2012. Risk Management has been very satisfied with the service AIMS has provided and the level of employee care and attention. AIMS has many state and municipal agency clients and is familiar with the needs of civil service, permissibly uninsured clients.

With the cooperation and assistance of The Hartford, State Fund and AIMS reached a tentative agreement on terms for AIMS to take over TPA services for all employee claims effective January 1, 2016. Under this tentative agreement, and assuming current claim frequency and severity trends continue in 2016, it is anticipated that the cost to State Fund for the administration of claims will be 11.8% lower under AIMS than under the current agreement with The Hartford. It is also anticipated that the quality of service and employee perception will improve.

## **VII. RECOMMENDATION:**

To authorize staff to secure a renewal workers' compensation program effective January 1, 2016.