Workers’ Compensation Insurance

- All California employers must provide workers’ compensation benefits to their employees under California Labor Code Section 3700.
- Employers must purchase workers’ compensation insurance from either a licensed insurance company or through the State Compensation Insurance Fund.
- Employers may also have the option to self-insure for workers’ compensation.
Self-Insurance

- KHSD is presently self-insured as part of the SISC I J PA (our funds are pooled with other districts)
- Districts may also self-insure without a J PA
  - Self-insurance requires state approval
  - Annual reporting to the Governing Board and the State Office of Self-Insurance
  - Annual actuarial reviews to determine adequacy of future liability estimates
KHSD WORKERS’ COMPENSATION RATES PER $100 OF PAYROLL (Ex Mod Rate times Base Rate)
Workers’ Compensation Options

- Purchase insurance from licensed insurance company
- Purchase insurance through State Compensation Insurance Fund (State Fund)
- Continue as a member in the SISC I JPA
- Join a different workers’ compensation JPA
- Self-insure with a Third Party Administrator (TPA)
- Self-insure without a TPA (Self Administer)
Independent Actuarial Report

- Provided ten years of District’s workers’ compensation claims, financial information and wages & benefits by classification
- The analysis produced a report addressing:
  - 2018-2019 Self-Funding Rates
  - Confidence Funding Levels
  - Self Insured Retentions
Current Rate vs. Self-Funded Rate

Current rate under SISC I
- 50% Funding (Confidence) level
- $1 million Self Insured Retention

Self-Funded rate by Actuary
- 50% Funding (Confidence) level
- $1 million Self Insured Retention

Savings per $100 of payroll

Savings based upon $284 million payroll $ 1,675,600
Projected Year 1 Net Savings at 50% Confidence Level w/ $1 Million SIR

Savings based upon $284 million payroll $ 1,675,600

Less: Excess Coverage Policy 311,000

Less: TPA and other Fees 388,000

Net Savings compared to SISC I $ 976,600
Cash Flow Attributes

- Under a Self-Insured program, the District would pay into its own fund for the projected losses in each year.
- Since most losses take a number of years to mature, most of the cash contributions to the fund will build quickly over the first few years and be available for rate stabilization or further reductions.
- Our initial proposal would be to set a higher confidence level and a lower SIR in order to build our fund balance.

  Proposed Confidence Level: 70%
  Proposed SIR: $500,000
Proposed Program - 70% Confidence Level w/ $500k Self Insured Retention

Actuary’s Funding Estimate ($1.46) $4,146,000
Excess Coverage 550,000
TPA and other fees 428,000
Total Cost $5,124,000

This is a slight reduction in costs compared to the SISC I rates, but with a higher confidence level, the self-funded rate will likely cover more than the actual claims for the year, thus more likely that our fund balance will increase.
### Cash Flow Example - KHSD WC Fund

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td><strong>Premiums Paid to Fund</strong></td>
<td>$5,124,000</td>
<td>$4,868,000</td>
<td>$4,625,000</td>
<td>$4,394,000</td>
<td>$4,174,000</td>
</tr>
<tr>
<td><strong>Claims Paid</strong></td>
<td>-526,000</td>
<td>-1,300,000</td>
<td>-1,878,000</td>
<td>-2,368,000</td>
<td>-2,806,000</td>
</tr>
<tr>
<td><strong>Excess Policy</strong></td>
<td>-550,000</td>
<td>-561,000</td>
<td>-572,000</td>
<td>-583,000</td>
<td>-595,000</td>
</tr>
<tr>
<td><strong>TPA &amp; Costs</strong></td>
<td>-70,000</td>
<td>-173,000</td>
<td>-250,000</td>
<td>-315,000</td>
<td>-373,000</td>
</tr>
<tr>
<td><strong>Excess Premiums Over Claims &amp; Costs</strong></td>
<td>$3,978,000</td>
<td>$2,834,000</td>
<td>$1,925,000</td>
<td>$1,128,000</td>
<td>$400,000</td>
</tr>
<tr>
<td><strong>Fund Balance</strong></td>
<td>$3,978,000</td>
<td>$6,812,000</td>
<td>$8,737,000</td>
<td>$9,865,000</td>
<td>$10,265,000</td>
</tr>
</tbody>
</table>

- Assumes a 5% reduction in Premiums per year and a 2% increase in Excess Policy costs per year.
- Claims Paid and TPA & Costs provided by Actuary.
Most self-insured employers choose to outsource their workers’ compensation claims handling to a TPA instead of hiring, training and maintaining professional staff.

TPAs provide much more than simply administration of WC claims:
- Claims Investigations
- Loss Control
- Safety Programs
- Risk Management

Very few self-insured employers “self-administer” WC programs.
Third Party Administrators (TPA) in California

Self-Insured School Districts 131
Districts not using a TPA (self-administering) 5
Districts using a TPA 126

Number of TPAs Serving School Districts 13
Most frequently used TPAs
- Corvel Enterprises Comp, Inc.
- Keenan & Associates
- Tristar Risk Management
- York Risk Management
Resource Requirements

- Requirements for the following resources:
  - Personnel – None Anticipated but will consider
    - Continued emphasis on Return to Work, Training, Loss Control, Safety & Risk Management
  - Technology – None Anticipated
  - Finances – Minimal Up Front Costs
  - Products – Excess Coverage Policy
  - Services – Third Party Administrator
Risks and Rewards

- Risk assumed by KHSD (capped at $500k per claim)
- Lower premiums / contributions
- Pricing control and consistency
- Greater awareness and control over claims
- Enhanced focus on loss prevention
- Direct benefit from loss prevention activities
- Enhanced cash flow
Recommendation / Schedule

- Board approves notice to withdraw from SISC I effective 2018-2019 Coverage Year (Required no later than 12/31/17)
- Prepare RFP specifications for a Third Party Administrator for Workers’ Compensation Administration (December 2017)
- Advertise, receive, review proposals and interview respondents (January-February 2018)
- Recommend TPA award for Board approval (March 2018)
- Submit application to Office of Self-Insurance Plans (April 2018)
- Set up Fund Account (June 2018)
- Implementation to be effective July 1, 2018