

Revenue and Cost Trends Indicate Deficit in Volunteer Safety Workers' Compensation Fund in FY 2020–21

A presentation to the
Joint Legislative Program Evaluation Oversight Committee

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Study Direction

- 2013–15 JLPEOC work plan directed PED to examine six state-administered funds related to fire, rescue, and emergency medical services
- 2nd report in four-part series evaluates
 - Volunteer Safety Workers' Compensation Fund

Report p. 2

Evaluation Team

Meg Kunde, Evaluation Lead

Jim Horne, Senior Evaluator

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Stakeholders

Department of Insurance (DOI)

Volunteer Safety Workers' Compensation
Fund Board (the Board)

Key Risk Management Services

State Fire and Rescue Commission (the
Commission)

Research Questions

- What are the eligibility criteria and benefits of the Fund?
- What is the financial status of the Fund?
- How is the Fund administered, and what are the oversight mechanisms for it?

Report p. 3

Overview: Findings

1. The Fund will run a deficit in the future without an increase in revenue
2. Statute limits DOI's actuarial responsibility
3. The Board could enhance the Fund's cost-containment efforts by using a more data-driven approach
4. The Board does not analyze claims affected by the minimum weekly compensation provision or claims in which volunteers receive indemnity compensation even though they are able to return to their paid occupations
5. The Board's Fund eligibility determinations do not conform with statute

Overview: Recommendations

- General Assembly should
 - direct the Commission to increase member premiums paid by departments
 - expand the actuarial responsibilities of DOI
 - require the Commission to direct the Board to begin tracking and analyzing data
 - amend statute so non-municipal departments staffed exclusively with paid workers are Fund eligible
 - require the Commission to direct the Board to discontinue associations' memberships

Background

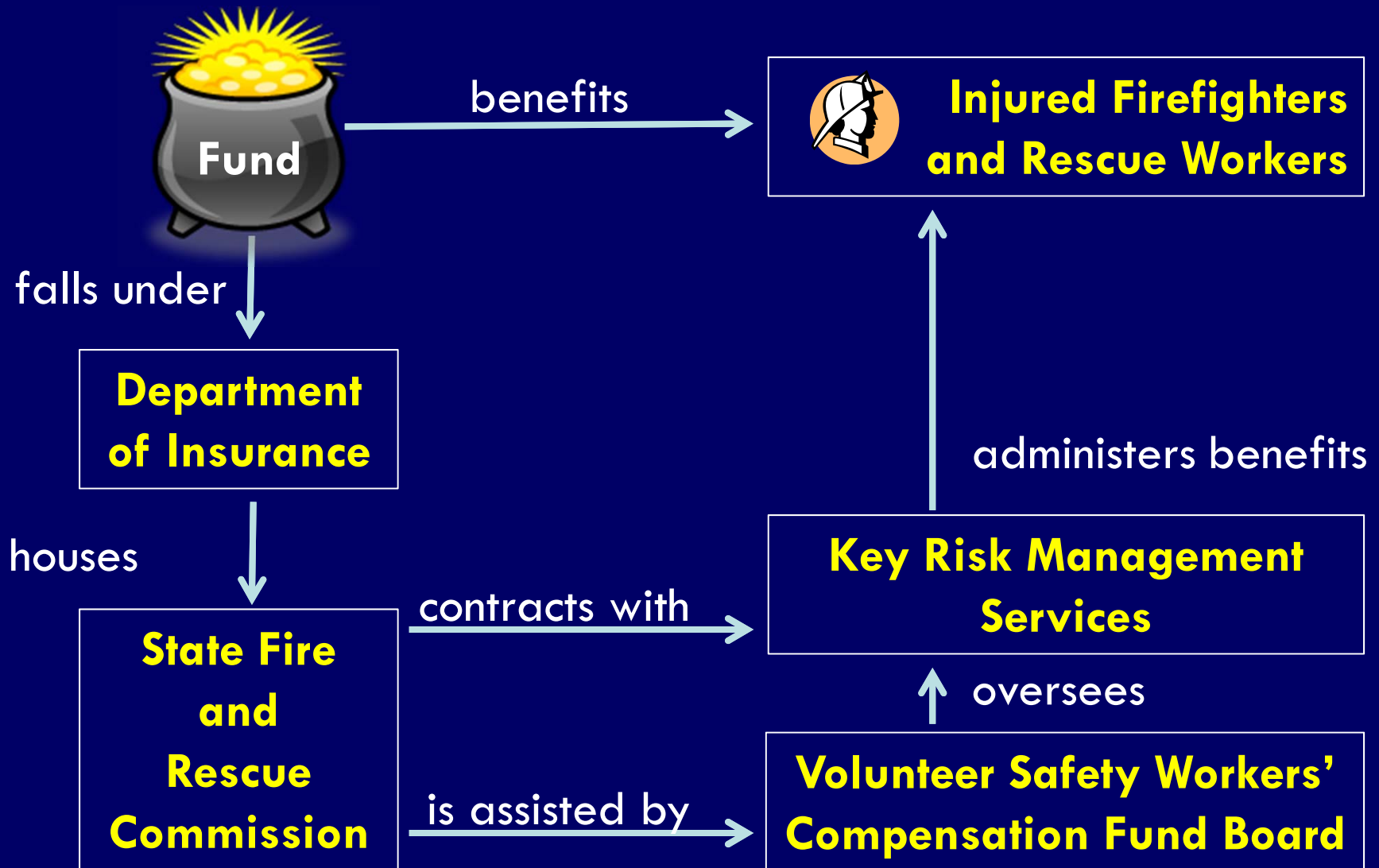


Purpose of Fund

- In 1995, the Fund was created to
 - reduce workers' compensation costs for all volunteer firefighters and rescue workers in non-municipal volunteer and combination departments
 - ensure workers' compensation funding for paid workers in those departments
- As of the end of FY 2013
 - more than 42,000 first responders covered
 - 87% of covered members were volunteers
 - more than 1,100 departments covered

Report pp. 3-4

Administrative Structure

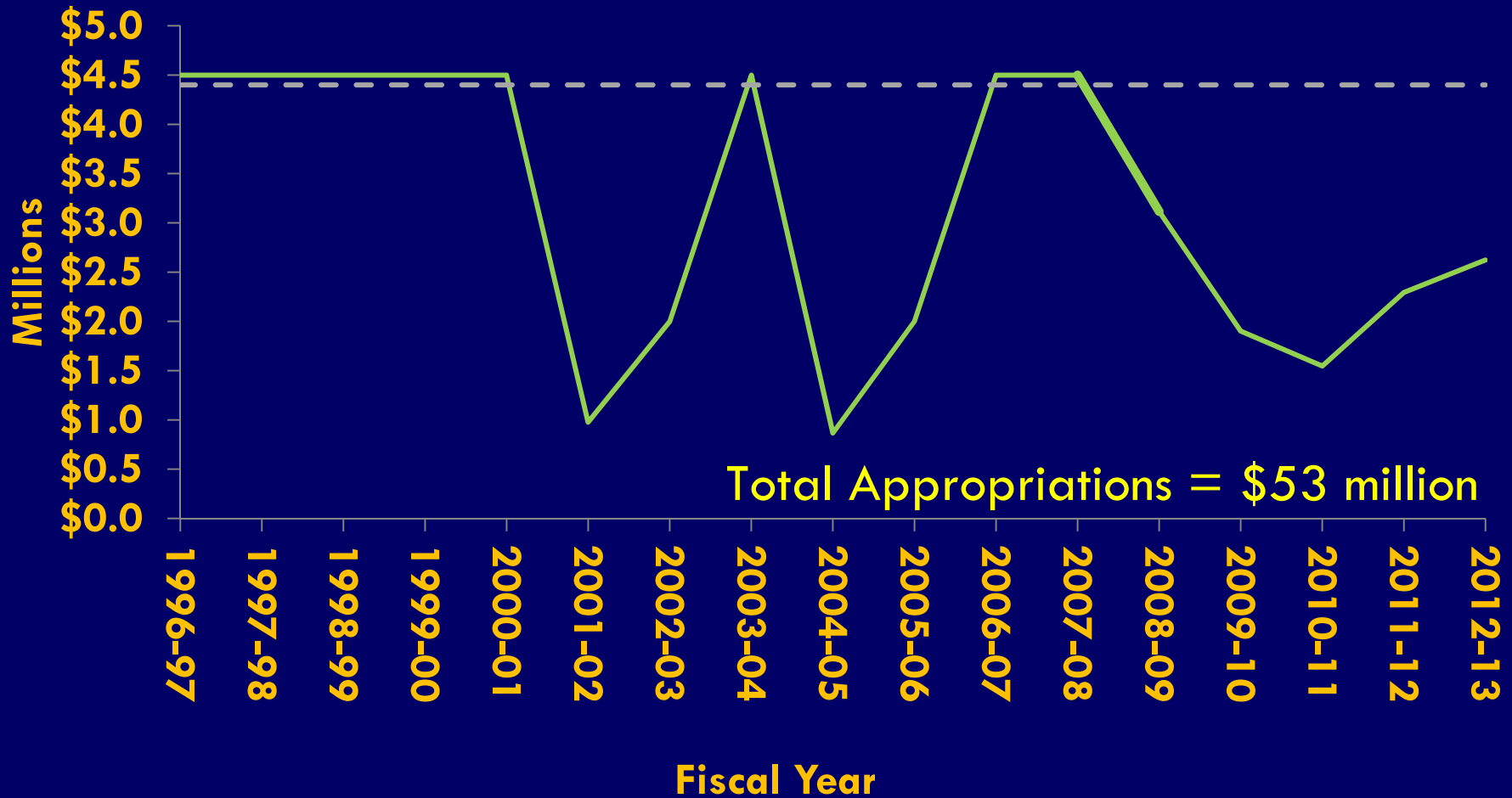


Funding Sources

1. State revenue
2. Annual member premiums
(paid by departments)
3. Investment income (accrues to Fund)

Report p. 6

General Fund Appropriations, FY 1997–2013



— Actual Appropriation — — Department of Insurance Estimated Appropriation



Fund's Net Position Was Negative in FY 2012



General Assembly Amended Statute in 2013 to Create New Source of State Revenue

Insurance companies
pay taxes on gross
premiums from
property insurance



up to 20% of collected taxes go to

**Volunteer Safety Workers'
Compensation Fund**



**FY 2014 Projection:
\$6.1 million**

Findings



Finding 1.

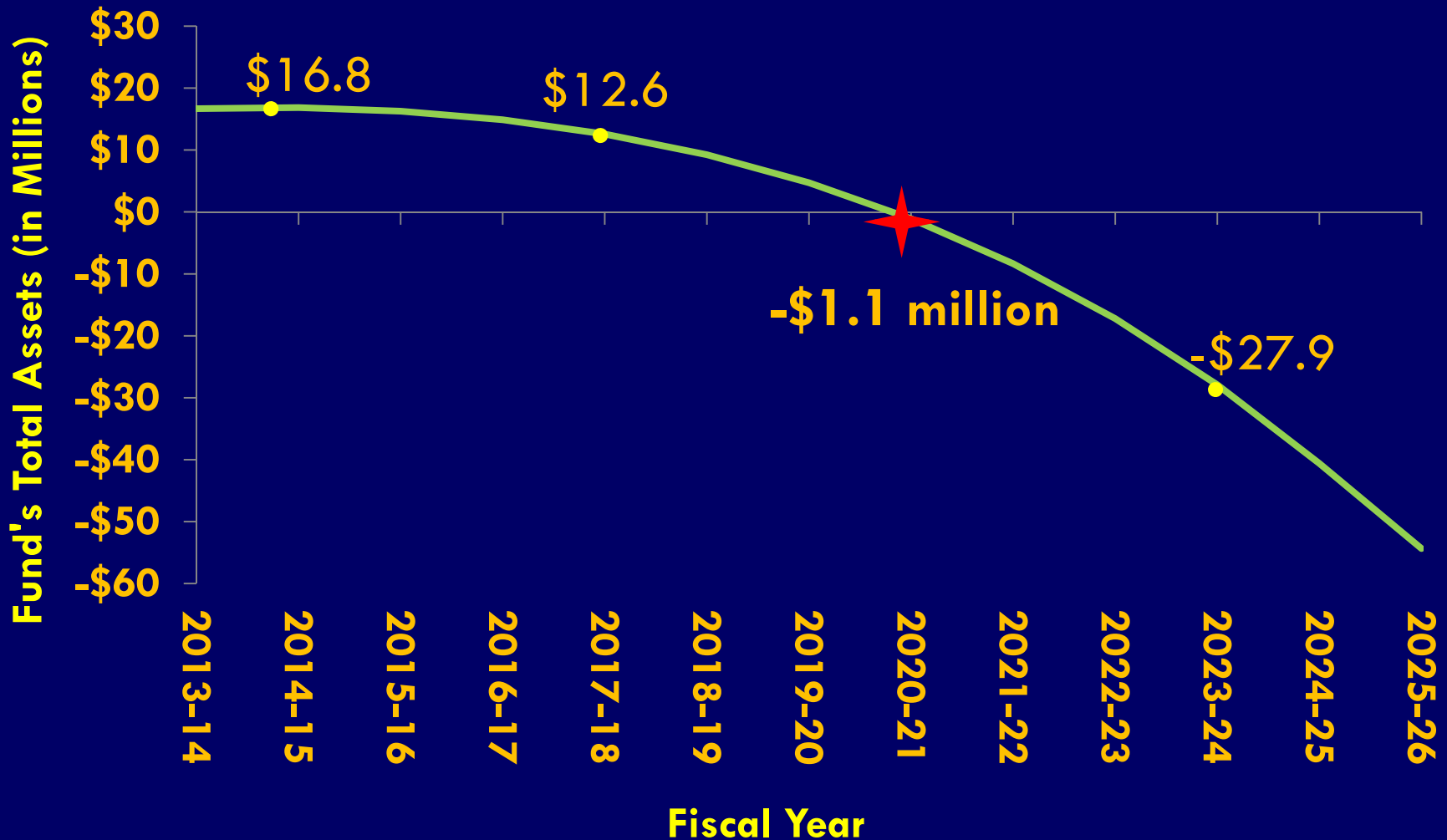
Although 2013 statutory amendments have temporarily relieved Fund shortages, the Fund will run a deficit in the future without an increase in revenue.

Program Evaluation Division's Projection Model

- Assumptions (Appendix A)
 - tax revenue on gross premiums
 - growth of future claim and loss reserve costs
 - operating expenditures
 - enrollment trends
 - investment income
 - membership premiums
 - experience-rating surcharges

Report pp. 10, 37-39

Without a Revenue Increase, Fund's Total Assets Will Be Depleted in FY 2021



General Assembly Has Several Options to Increase Fund Revenue

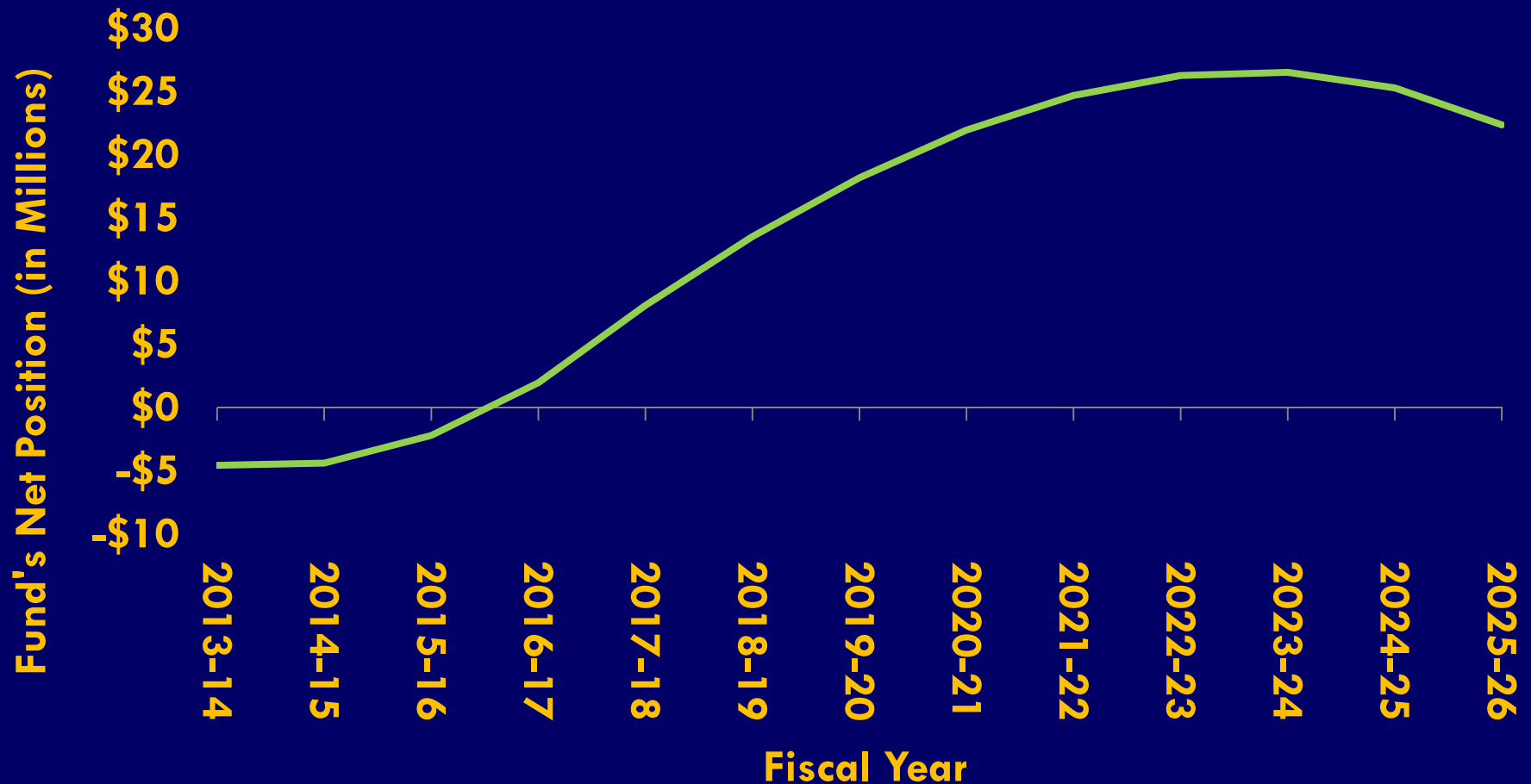
- Use General Fund appropriations
- Increase allotted percentage of net proceeds from tax revenue from gross premiums that goes to Volunteer Safety Workers' Compensation Fund
- Raise member premiums

Report pp. 11-14

Premiums Set by Commission Do Not Solve Revenue Shortage

- FY 2015 annual member premium levels paid by departments
 - \$375 per part-time worker
 - \$750 per full-time worker
 - \$65 per volunteer
- Premium increases will raise premium income approximately \$1 million
- Member premiums must be increased more to maintain the long-term health of Fund

Increasing Premium Income to \$14.3 Million by FY 2018 Will Help Maintain Long-Term Health of Fund



Finding 2.

Statute limits DOL's actuarial responsibility to evaluate different sources of revenue needed to maintain Fund solvency.

State Law Has Varied with Regard to DOI's Actuarial Responsibility

- **For 2012 actuarial study, DOI was directed to**
 - recommend level of funding needed
 - assess claims-related trends
 - recommend appropriate levels of premiums
 - project Fund revenues from different sources
- **Future periodic actuarial studies**
 - calculate how much of 20% of premium tax proceeds is required to meet needs of Fund
 - based on greater of premium amount set by Commission for year of actuarial study or amount set for FY 2013

Implications of 2013 Statute

- DOI's Chief Actuary's interpretation
 - study to focus exclusively on amount of money needed to keep Fund actuarially sound
 - investigation of appropriate premium levels and claim trends are beyond scope of the study
- DOI does not have to consider how premium rates are affecting financial status of Fund or propose ways to adjust this variable

Report p. 15

Finding 3.

The Fund's claim frequency and claim cost trends are not out of line with industry rates, but the Board could use a more data-driven approach to enhance cost-containment efforts.

Cost-Containment Efforts

Loss Prevention

Experience-Rating
Premium Surcharges

Settlement

Fraud Investigation

A More Data-Driven Approach Would Enhance Cost-Containment Efforts

- Loss Prevention
 - data analytics software
 - performance management system
 - cost model
- Experience-Rating Modification Model
 - relationship between loss prevention and experience ratings
- Legal and Fraudulent Claims
 - tracking and compilation of data needed

Report pp. 22-23

Finding 4.

The Board does not cumulatively track or analyze claims affected by the minimum weekly compensation provision or claims in which volunteer firefighters or rescue workers receive indemnity (loss of wages) compensation even though they are able to return to their paid occupations.

Minimum Weekly Compensation

- Intended to protect people without an income who could become permanently injured while volunteering
- Set minimum weekly compensation amount at $\frac{2}{3}$ of maximum weekly benefit (\$884)
 - current minimum: \$589
- Volunteers with a paid occupation receive $\frac{2}{3}$ of regular wages (if between minimum and maximum)

Report p. 24

Implications of Indemnity Compensation Determinations

- Volunteers can be compensated more than their normal wages from their regular occupation
- Volunteers draw indemnity (loss of wages) compensation regardless of whether they can return to their paid occupations

Report pp. 24-26

Indemnity Compensation Can Exceed Pay from Regular Occupation

Occupation, weekly income	Teachers' Aide, \$430	
Injury	Broken fingers	Broken foot
Can perform regular job	No	Yes
Can perform volunteer job	No	No
Weekly income received from regular job	\$0	\$430
Weekly indemnity wages received	\$589	\$589
Total weekly income + indemnity wages	\$589	\$1019
Earning more than weekly income from regular job	Yes	Yes

More Data Needed to Determine Impact

- Number of recipients whose indemnity wages exceed weekly income
- Number of recipients who can return to regular occupation but not volunteer duties
- Number of recipients who receive no weekly income because they can return to volunteer duties but not regular occupation
- Dollar amount of indemnity compensation awarded for each claim
- Total dollar amount of indemnity compensation expended for all claims

Finding 5.

The Board's Fund eligibility determinations do not conform with statute.

Departments Must Meet 3 Criteria to be Considered an “Eligible Unit”

- Eligible unit: “volunteer fire department or volunteer rescue/EMS unit that is not part of a unit of local government and is exempt from State income tax”
- Departments must meet three requirements
 - must be a volunteer fire department or volunteer rescue/EMS unit
 - must be a non-municipal department
 - must be considered a non-profit organization

Report p. 29

Fund Covers Non-Municipal Departments Staffed Exclusively with Paid Personnel

- The Board applies only 2 criteria
 1. non-municipal designation
 2. non-profit designation
- However, statute requires a third criterion
 3. volunteer department

Report p. 30

The Board Allows Fire and Rescue Associations to Participate in Fund

- Participating associations
 - North Carolina State Firemen’s Association
 - North Carolina Association of Rescue and Emergency Medical Services, Inc.
 - North Carolina Association of Fire Chiefs
- The board’s inclusion of associations in the Fund is a violation of statute

Report p. 30

Recommendations



Recommendation 1.

The General Assembly should direct the Commission to increase member premiums paid by departments that participate in the Fund.

Direct the Commission to Increase Member Premiums

- Beginning in FY 2016, gradually increase annual member premiums by approximately \$2.8 million per year
- Premium income should amount to at least \$14.3 million annually by FY 2018
- Commission should decide how these premium cost increases are distributed among paid full-time, paid part-time, and volunteer positions

Report p. 31

Recommendation 2.

The General Assembly should expand the actuarial responsibilities of DOI regarding the Fund.

Require DOI to Conduct Annual Actuarial Study

- General Assembly should amend N.C. Gen. Stat. § 58-87-10(e) to direct DOI to
 - conduct an annual, rather than a periodic, actuarial study
 - either conduct the actuarial study itself or contract with a third-party actuary

Report pp. 31-32

Components of Actuarial Study

- Investigate nature of claims paid by Fund and any claims-related trends that impact its financial status
- Recommend level of funding needed to ensure Fund solvency for the next 5 years
- Determine how much revenue is needed from state tax revenue vs. member premiums

Recommendation 3.

The General Assembly should direct the Commission to require the Board to begin tracking and analyzing data that would inform the Fund's cost-containment efforts.

Collect and Analyze Data to Enhance Cost-Containment Efforts

- Loss prevention
- Experience-Rating Modification Model
- Legal and fraudulent claims
- Report to the Fiscal Research Division and the House and Senate appropriations committees on General Government by January 1, 2015

Report pp. 32-33

Recommendation 4.

The General Assembly should direct the Commission to require the Board to begin tracking and analyzing data.

Track and Analyze Data Regarding Minimum Weekly Compensation

- Track data on claims affected by the minimum weekly compensation provision
- Track data on claims in which volunteers receive indemnity compensation even though they can return to regular, paid occupations
- Develop a model return-to-work program and test it over a two-year time period
- Report to the Fiscal Research Division and the House and Senate appropriations committees on General Government by January 1, 2015

Report pp. 33-35

Recommendation 5.

The General Assembly should amend N.C. Gen. Stat. § 58-87-10 so Fund eligibility requirements allow non-municipal departments staffed exclusively with paid personnel to participate in the Fund and require the Commission to direct the Board to discontinue Fund memberships of fire and rescue associations.

Allow Non-Municipal Paid Departments and Prohibit Associations

- Amend N.C. Gen. Stat. § 58-87-10(a) by removing the two references to “volunteer”
- Require the Commission to direct the Board to discontinue fire and rescue associations’ memberships in the Fund starting in FY 2015

Report p. 35

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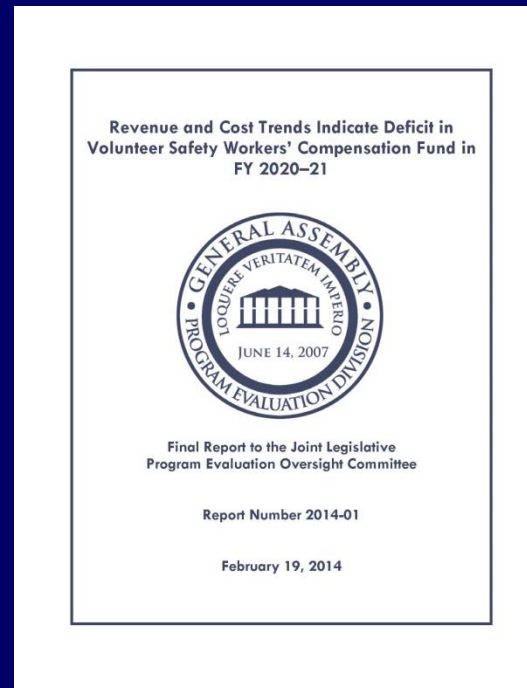
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Legislative Options

- Accept the report
- Refer it to any appropriate committees
- Instruct staff to draft legislation based on any of the report's recommendations

**Report available online at
www.ncleg.net/PED/Reports/reports.html**



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Annual Member Premiums

Member Type	FY 1996	FY 2003	FY 2012	FY 2015
Volunteer	\$50	\$55	\$65	\$65
Paid, Part-time	\$50	\$125	\$250	\$375
Paid, Full-time	\$50	\$250	\$500	\$750