

# ALLOCATION OF WORKERS' COMPENSATION FUNDING SHORTFALL AT UCSC FAQ

## **How is workers' compensation funded?**

UC's workers' compensation program is self-funded. This means that each campus and location contributes to a UC-managed reserve that is used to pay claims and system-wide program expenses attributable to that location. A percentage of each month's payroll is charged as an employee benefit expense and these funds go into our campus' workers' compensation reserve "account" at UCOP. The University's actuary determines the specific percentage, using established methods and campus-specific data from previous years.

## **Why did my unit receive a General Fund assessment?**

Until FY 2000, UCOP provided funding to fully cover the workers' compensation expenses for General Funded employees on each campus. Beginning in FY 2001, a new model was adopted by UCOP - "Base Rate Funding Model" - in which funding is provided at the UC average to encourage poor performing campuses to improve and reward the lower cost campuses. Because UCSC's rate is far above the UC average, this resulted in a significant shortfall. Therefore, the campus adopted its own "incentive model" to align costs with unit managers, who are in the best position to reduce claims and lower costs.

## **What is our campus' General Fund shortfall?**

In 2003-04 and 2004-05 the shortfall exceeded \$1 million. In previous years, the shortfall was less as UCOP phased-in the new funding model.

## **Does that mean that non-General Funded areas do not pay anything?**

No. Non-General Funded areas pay for workers' compensation directly as an employee benefits expense (as a percentage of total payroll). As the rate increases due to higher claims, these units experience a larger cost in benefits. A differential rate structure was implemented to address variances within the campus. If our rate could be reduced to the system-wide average in 2004-05, this would save approximately \$1.25 million to the non-General Funded areas.

## **What is a "differential rate structure"?**

It is a means to assign different workers' compensation rates to different units based on data specific to that unit relative to the campus. For example, the campus average rate might be 2%, but if Unit A has twice as many claims that are twice as costly as the overall campus, that unit might be assigned a differential rate of 4%.

## **How was my General Fund assessment determined?**

In FY 2003, the campus developed a strategy for allocating the "shortfall" back to the units/divisions. Using a 3-year phase-in strategy, in 2004-05, roughly 57% of the total shortfall was distributed to units and the remaining 43% was funded centrally.

The following conditions were applied:

- "indemnity claims" were included; not "medical only claims"
- claims with an ultimate expected cost of over \$50,000 were capped at \$50,000.

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Unit assessments were based on both unit claims experience and unit FTE:

- 75% of the assessment was based on claims experience
- 25% of the assessment was based on unit FTE

How each unit/division fared under these criteria in relation to the rest of the campus determined the "share" of the shortfall that was assessed to that unit/division.

## **Why were indemnity claims, and not medical only claims, considered?**

**It's absolutely imperative that injuries are reported immediately and that reporting of injuries not be suppressed in an attempt to lower injury rates.** Through the early reporting of injuries, a medical only claim can be treated before it turns into an indemnity claim. You can see why this is so important when you compare the cost of medical only claims to indemnity claims. Medical only claims cost on average under \$500, while indemnity claims cost on average over \$30,000. It's the indemnity claims that drive up workers' comp costs. By excluding medical only claims from the allocation formula, we hope to **encourage the early reporting of injuries.**

## **Why are individual claims limited to the first \$50,000?**

While it is important for units with large claims to feel a financial incentive to improve in the future, it is counterproductive (not to mention impractical) to assign an unreasonably large assessment to any one unit due to an unusually large accident.

## **Why is FTE part of the calculation?**

The simple act of having employees exposes a unit to the risk of having workers' compensation claims. Since every manager needs to be diligent in minimizing claims, regardless of whether they've had any in the past, part of the assessment is based on FTE. This partially spreads the total risk across all campus units.

## **How come my assessment increased over last year?**

Several factors come into play that determines each unit's assessment.

- If the overall campus shortfall increases, then absent any other changes, unit assessments will also increase.
- If your unit-specific experience relative to the rest of the campus goes up, your assessment will go up as well.
- Significant changes in FTE would also change the assessment amount, although this would have a lesser impact than other factors.

## **How can I get my assessment to go down?**

By taking action before injuries occur to try to prevent them and addressing injuries immediately after they occur, you can reduce future costs. In addition, you should take advantage of new programs implemented in 2004-05 (such as Transitional Return to Work and Injury/Illness Prevention) to improve working conditions and reduce the cost of injuries. Even simple actions like buying and training employees to use ergonomic

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furniture and encouraging alternate work periods to break up repetitive tasks can go a long way toward preventing claims. Contact the Office of Risk Management for more information.