

MONTANA UNIVERSITY SYSTEM (MUS) SELF-FUNDED WORKERS' COMPENSATION

PROGRAM OVERVIEW

Mission Statement

The Self-funded workers compensation program will aggressively implement "best practices" in loss control and efficiently, expeditiously, and cost effectively handle workers compensation claims in the best interests of the program and the employee.

History

Until 1999 Montana statute required all state agencies, including MUS, to purchase workers' compensation coverage through the Montana State Fund. A legislative change in 1999 allowed MUS the ability to provide workers' compensation coverage through either self-insurance, private insurance, or the Montana State Fund.

In the year 2000, MUS created a Workers' Compensation Management Committee (Committee) and retained a consultant to help conduct a study of its options for workers' compensation coverage. While MUS purchased insurance from a private carrier in fiscal year 2001 and utilized the State Fund in fiscal years 2002 and 2003, the study supported self-insurance as its best long-term option. The Board of Regents adopted the workers' compensation Committee's recommendation that the MUS self-insure workers' compensation insurance effective July 1, 2003 (fiscal year 2004) and issued Policy Statement 118-104-R0303 authorizing the MUS to establish a self-funded workers' compensation program (Program) for the Office of the Commissioner of Higher Education and the Montana University System and agencies.

Organizational Structure

The governance and control of the Montana University System is vested with the Board of Regents. The Board consists of six Regents, each appointed by the Governor to seven year overlapping terms and one student regent appointed to a one-year term, and confirmed by the Senate. The Governor, Superintendent of Public Instruction, and the Commissioner of Higher Education are ex-officio members of the Board.

The Committee responsible for policy and management decisions of the MUS Workers' Compensation Program is comprised of nine voting members, one from each of the eight participating campuses of the Montana University System, and one from the Office of Commissioner of Higher Education (OCHE). The CEO of each institution designates a representative for appointment to the Committee by the Commissioner of Higher Education. Committee members serve 3-year, staggered terms and contribute expertise from Legal, Human Resources, Financial, Risk Management, Operations, or Loss Control perspective and typically participate on either the Finance or the Claims/Loss Control Subcommittee. In addition, there are three ex-officio members of the Committee: The Director of MSU Safety and Risk Management, the Director of UM Environmental Health and Risk Management, who serve non-expiring terms, and a non-university system ex officio selected by the Committee for expertise on work comp related issues to serve a one year term.

A Third Party Administrator was selected through an RFP Process and managed daily operations of the Program from July 2003-July 2007. The Program transitioned from the outside administrator to an internal administrator when the Committee hired a Director of MUS Workers' Compensation in June 2007. The Director is responsible for the day-to-day operations of the Program.

Covered Employees

MUS Self-Funded Workers' Compensation Program covers all workers while they are within the course and scope of their employment with MUS who are residing and/or working within the state of Montana that are employees of one of the following MUS units:

Montana State University (MSU)

- MSU–Bozeman including Agricultural Experiment Stations, Montana Extension Service and Fire Services Training School, and MSU Bozeman College of Technology.
- MSU-Billings including MSU-Billings College of Technology
- MSU-Northern
- MSU-Great Falls College of Technology

The University of Montana (UM)

- UM-Missoula including the Forestry and Conservation Experiment Station and UM-College of Technology Missoula
- UM Western
- UM-Montana Tech including Bureau of Mines and UM Butte College of Technology
- UM-Helena College of Technology.

Office of the Commissioner of Higher Education (OCHE)

Other States' Coverage

MUS employees temporarily working outside Montana are covered by the MUS Self-Funded Workers' Compensation Program. Workers' compensation coverage for MUS employees working and/or residing in other states on a long-term basis is provided in one of several ways depending on the rules of those states. In all but a few states, the MUS "other states" insurance policy purchased through an insurance broker covers MUS non-Montana employees. Monopolistic states are handled on a state-by-state basis by each campus.

Out-of-Country Coverage

MUS employees working and/or residing in foreign countries are provided with an insurance policy through the MUS Benefits Group Life Insurance Plan. That plan provides numerous travel related medical and repatriation benefits and coordinates the transition of coverage to either the MUS Benefits or the MUS Work Comp Program.

Not Covered

Volunteers

Volunteers are currently insured through other commercial insurance programs through Montana's Risk Management and Tort Defense Division and are not covered by the MUS Self-Funded Workers' Compensation Program.

Underwriting

Prior to self insuring, the Committee retained the services of an actuarial firm to complete a comprehensive actuarial study and develop pro forma financials for the Program. The Committee chose to issue five-year revenue bonds in the amount of \$2,000,000 to protect the Program against higher than expected claims in its initial years, to reduce the need for expensive aggregate coverage, and to create a greater level of comfort for the Program and its reinsurance/excess loss partner. The bond was retired in June 2008.

Annually, the Program undergoes an independent financial audit and an actuarial review. The actuarial review includes a projection of ultimate losses including Loss Adjusted Expenses (LAE), proforma financial statements with anticipated premium needs and a composite premium rate. Based on this information, the Committee determines premium rates for each classification code. Two classifications, as defined by the National Council of Compensation Insurance (NCCI) in the current edition of the SCOPES manual, are used to classify all MUS employees: 8868-College Professional Employees and Clerical; and 9101-College All Other Employees. Each participating member applies these rates to monthly payrolls and transfers the appropriate amount per classification to the premium accounts maintained by the MUS Self-Funded Workers' Compensation Program.

The Program does not currently use rate modifiers or other premium adjustment methods. The premium rates charged to campuses were flat between FY2008 and FY2009 and there was a 0.02% increase in FY2010 rates. The Committee regularly evaluates surplus adequacy based on DOL and Industry benchmarks, market conditions, and the Committee's interest in maintaining rate predictability. In August 2009 the Committee approved a Policy for reinvesting a portion of excess Reserves in safety initiatives either proposed by the campuses or identified by the Program. While Policy has been approved, the Procedures for applying for and disbursing the funds are still being developed.

Loss Control

MUS Self-Funded Workers' Compensation Committee has taken an active role in promoting incident, injury and illness prevention, pro-active claim management, and effective Stay-At-Work/Return-to-Work programs. In addition to the strength of the multi-discipline Workers' Compensation Committee, the MUS Program utilizes the expertise of highly competent campus environmental health and safety, loss control, risk management, and legal personnel (this is existing personnel and was not added as a result of self-insuring). Access to expertise at the Montana Risk Management and Tort Defense Division, Montana Professional Development Center, private vendors, and from risk management association groups such as PRIMA (Public Risk Insurance Managers Association), URMIA (University Risk Management Insurance Association), and RIMS (Risk Insurance Management Society) also strengthen the Program. Each MUS unit has an active Safety Committee or Committees that complement and support the loss control efforts of the Program.

Each campus has a designated MUS campus claim coordinator who stays in communication with the employees, supervisors, and claim adjustor, and assists in coordinating alternative transitional work when appropriate.

The MUS loss control programs have evolved since the inception of the Program. One of the most significant improvements since becoming a self-funded organization is the unifying of loss control efforts through implementing system-wide policies and sharing expertise and resources across the numerous campuses.

By operating from a system-perspective, the Program has taken the lead on many issues that are vital to the safety and well being of MUS workers. Key system policies that have been initiated or significantly updated and adopted due to the efforts of the Committee include:

- Workplace Safety Policy (713.1)– Established a workplace safety policy and mandated that each MUS unit designate an individual identified by job description and evaluation criteria with authority and responsibility for campus-wide occupational safety, health, and loss control activities.
- Return-to-Work Policy (713.2) – Requires all units of the MUS to provide return-to-work opportunities for all employees with temporary physical restrictions.

- Vehicle Policy and Procedures (1910)– The MUS Vehicle Policy is more stringent than the State’s policy and extends to all vehicles operated for MUS business. The policy addresses driving behaviors, maintenance requirements, insurance requirements, restricted use hours, and additional training requirements for drivers of vehicles capable of carrying more than 7 passengers.

Other benefits that MUS has recognized since self administrating the workers’ compensation program include:

- Increased understanding and accountability
 - Prior to undertaking the process to become self-funded, top administrators were not kept regularly apprised of workers’ compensation issues. Through the process of becoming self-insured and since, the Board of Regents, Commissioner of Higher Education, campus CEOs, and campus finance and operation administrators all have a higher understanding of the importance of loss prevention and cost control issues related to workers’ compensation.
 - The self-funded program has promoted injury prevention and safety awareness to employees through campaigns and incentives, conducting employee training, and providing additional web-based resources.
- Collaboration between Workers’ Compensation and the MUS Benefits Department
 - The Workers’ Compensation and Employee Wellness programs worked cooperatively to provide ergonomics assessment training for at least one staff member at each campus, to create on-line ergonomic awareness training and self-assessment tools available to all MUS employees, and to integrate these tools into a “WellAwards” incentive program that rewards participation in healthy activities.
 - Workers’ Compensation is participating with injury prevention and workplace safety resources at Benefits’ well-established and highly attended annual Well-Checks (health fairs) at each campus.
- Collaboration between Workers’ Compensation and Risk Management and Torts (RMTD).
 - Outside workers compensation and health benefits, RMTD is responsible for providing for MUS insurance needs. RMTD performs regular risk assessments of MUS properties and operations. Several Committee members and the Director serve as their respective unit’s liaisons to RMTD and as a result gain additional data that enhances the ability to identify workers’ compensation risks as well. This additional risk assessment allows tailoring loss control efforts at high loss potential areas, even when those risks have not manifested in claims, such as with watercraft and aircraft-related activities.
- Premium Rates
 - Annual premium needs are calculated by an actuary exclusively for MUS. This specificity allows rate setting with a high degree of accuracy through a process that is transparent to MUS Program participants and administrators.
 - Achieving financial benchmarks, rate stability, and dedicating funds toward injury prevention, are top financial goals of the Program. The Committee has the authority to pursue its short and long term goals through balancing reserve funds with rate setting and reallocation methods, such as a dividend or safety investments, considering the best interests of the university system.
 - Premium rates in the initial years of operation have been aggressive in order to build adequate surplus, meet MT DOL benchmarks, and retire the bond. All benchmark data indicates the Program has achieved a strong surplus level and the bond debt was retired in fiscal year 2008. Rates have been remained flat during fiscal years 2008, 2009 and 2010.

While many factors influence appropriate premium rate setting, the Program anticipates premium rate stability in fiscal year 2011.

- The Program received reductions in excess insurance premium rates in both FY09 and FY10, due in large part to the increased confidence in the MUS Program by the re-insurance market. MUS has not filed an excess insurance claim in its history of self insurance.
- Performance Measures
 - All DOL benchmarks for self-insured workers' compensation programs have been met or exceeded. Industry Risk Based Capital
 - The number of Medical Only claims has declined over the period of self-funding.
 - The total number of Time Loss claims has declined over the period of self-funding.
 - Average claim cost have been maintained at or below the average cost prior to self-insuring, while nationwide annual medical cost increases have risen steadily and as much as 7-12% annually over the same time period.
- Other
 - The MUS Self-Funded Workers' Compensation program invests premium funds not immediately required for claim payments or operational expenses in STIP, earning modest returns rather than being forfeited to a carrier.
 - Consistency in staffing was recognized by the campus claim coordinators as a significant advantage since self-funding. In the 5 years of self-insuring, the same claim adjustor has managed each claim from its initial filing.
 - The program has one paid full time employee with access to significant expertise and resources both internal and external to the university system.

Excess Insurance

The MT Department of Labor requires each self-insured workers' compensation program in the state to purchase excess insurance. MUS purchases an excess policy that reimburses the Program for claim costs that exceed \$500,000 on any one claim; or that exceed \$1,000,000 on any aircraft-related claim. Outside of direct claims expenses, this policy is the largest single expense of the Program. The MUS Program has never filed a claim against its excess policy. The excess premium rates charged to the Program have dropped each of the past 2 years due in part, according to the Program's excess broker, to the strong performance that MUS has established in its 6 year history and its increased identification and control of risks.

MUS Payroll

The total number of MUS employees each of the past two years has been approximately 23,000 as measured by the number of W2s issued. However, as the MUS hires a significant number of short-term, temporary, and student employees, the actual number of employees on any given day is significantly less; an annual aggregate of the monthly average number of employees on MUS payroll ranges between 16,000 and 17,000. Data reported to the U.S. Department of Education, Integrated Post-Secondary Education Data System (IPEDS) shows total full time and part time employees of the MUS at approximately 7,000 in years 2005- 2008.

Risk Class 8868 (professional) accounts for approximately 83-86% of the total payroll while Risk Class 9101 (other) accounts for 14-17% of the total. FY09 MUS work comp payroll was approximately \$383,167,000.

Claims Adjusting and Management

Claims are handled by a third party claims administrator (TPA) with a full-time claim adjustor and claims assistant based in Montana. The current claims administrator is Intermountain Claims, a regional multi-line TPA and independent adjusting company that was established in 1981.

Included in the services they provide to the MUS are claims adjusting and bill paying, with contract-provided bill review and medical case management services. A 2009 audit of 3 years of claim files managed by the current TPA, Intermountain Claims, measured over 40 specific objective and subjective performance components resulted in a performance satisfaction level of 98%. State procurement rules require that MUS issue an RFP for third party claims administration services beginning fiscal year 2011. The RFP was issued on 1/8/2010.

Regulatory Oversight

The Montana Department of Labor and Industry (DOLI) is the regulatory agency for workers' compensation insurance programs in the state. The statutes and rules that the Program operates under are found in the Montana Code Annotated (MCA) and the Administrative Rules of Montana (ARM).

MUS must re-apply to the MT Department of Labor for self-funding authority on an annual basis. To maintain self-funding authority the Program must achieve DOL standards for a financially strong self-funding organization.

Commitment

The MUS Self-Funded Workers' Compensation Program focuses on enhancing the safety culture throughout MUS by focusing on the value of employee well-being, the prevention of injuries and illnesses, and providing the best, fair outcome in the event of a work-related injury or illness, and returning employees to productive work as soon as it is safe to do so. The Program is committed to accomplishing its mission and to support the mission of MUS and each unit of the system by providing:

- Resources to promote a safe and healthy working environment throughout the MUS.
- Thoughtful management of injured employees to promote healing and return to work.
- Fair and timely payment of medical bills and time loss compensation throughout the claim life.
- Responsible management of MUS funds.
- Strategic planning through consultation with actuary, audit, insurance, regulatory, and other experts that help meet the best interests of MUS.
- Careful and diligent selection of partners to help accomplish our vision.

We recognize that it is vital that employees at all levels within the universities understand that losses don't just *happen*, they are *caused* and they can be *prevented*. Each Committee member is expected to actively participate in Committee meetings and to keep top administrators informed about Committee activities, workers compensation-related losses, how injuries hinder effectiveness and how they affect the bottom line. We are committed to using the Program's early successes to build sustainable success for the future.