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Written Testimony on the State Self Insurance Fund
to
Committee on Commerce, Labor & Economic Development
by
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Chairman Hutton and members of the Committee, the Kansas Department of Health and Environment (KDHE) appreciates the opportunity to provide written testimony on the State Self Insurance Fund.

The State Self Insurance Fund (SSIF) was established by the Kansas Legislature July 1, 1974, to administer Workers Compensation (WC) claims on behalf of State of Kansas employees. SSIF provides compensation to State employees for injuries arising "out of" and "in the course of employment." Employees who sustain compensable work related injuries or occupational disease may be entitled to payment of medical expense that is reasonable and necessary to treat the work related injury or illness, compensation to replace part of the lost wages due to a work related injury or illness and survivors benefits if death results.

As part of the ongoing process evaluation done by SSIF staff, a review of the possibility of using a Third Party Administrator (TPA) to contract out the current internal operations was undertaken. This overall review included an evaluation of both outsourcing the operation as well as continued use of internal staff and a look at process improvements to gain efficiencies.

The SSIF program has been audited by an external audit firm twice since 2007 and a third external audit is currently in process. The reports provided by each auditor have included recommendations for improved operations. All recommended best practices have been implemented and a review of the following data shows this has resulted in operational efficiencies that have reduced overall plan costs.

There has been a decrease in claims costs of approximately 32% since 2011. This was achieved through the ongoing process evaluations to enhance efficiencies and implementation of best practices from the program audits. Claims are paid based on the Workers Compensation Fee schedule which is set by the Department of Labor. Additional savings have been achieved through a third party contract that provides additional discounts with a contracted network for physician services. External vendors and third party administrators operate in this same manner, utilizing the WC fee schedule and provider networks for additional savings.

With both internal processing changes and the implementation of the best practices recommended from the external audits, there has been a decrease of approximately 29% in disability payments since 2012.

A&M outlined in their report the disincentive for an employee's quick return to work when the Workers Compensation law (K.S.A. 44-510c(b)(1)) allows an individual to receive payment for the first week of disability if they are off work for three consecutive weeks. They also addressed the fact that while an injured employee is in pay status, the injured employee accrues vacation and sick leave according to K.A.R. 1-9-4 and K.A.R. 1-9-5 which may be used to supplement their Temporary Total Disability (TTD) payment.

Implementing A&M's recommendation to change these policies would require changes to Kansas statutes and regulations regardless of whether administration of the State's Workers Compensation program is outsourced or continues to be provided by the SSIF. As a result of changes to the processing of claims involving employees who have obtained legal representation, the SSIF has decreased legal costs by approximately 38%. The SSIF contracts with a third party vendor, CompAlliance, that provides discounted provider networks, bill review, nurse case management and a durable medical equipment network. The data shows that the savings gained from this contract exceeds the annual cost by one (1) million dollars.

Training is provided to staff members through a multipronged approach. Staff is provided in-house training from both staff and contracted attorneys. Additional seminars are held where medical providers present programs on specific topics related to the Workers Compensation area. Staff also regularly participates in webinars and seminars presented by experts in the Workers Compensation field. Based on a recent recommendation on best practices for training staff members, each employee will begin to attend a two week certification training to help them better understand the Workers Compensation process, how to read and understand medical records, understand medical terminology, and to communicate appropriately with the medical community. SSIF finds that it is difficult to attract job applicants who have experience in handling Workers Compensation claims at the salary level that is being paid to current staff.

The ability to Return To Work (RTW) after an injury or illness plays an important role in the injured workers' actual recovery process. Currently, the State does not have a consistent statewide policy on RTW and the process varies by agency.

The SSIF guidelines for RTW include the following: SSIF staff communicates directly with the injured worker's supervisor and human resource staff to assist the employing agency's efforts to return the injured employee to transitional, accommodated, or full employment. SSIF provides the agency with the injured employee's medical restrictions and other records that can be shared which are needed to provide transitional, accommodated, or full employment for an injured employee. SSIF staff regularly communicates on the status of the injured worker with the agency and discusses the options for returning the injured worker to their job or when necessary to other job opportunities available within the agency either on a temporary or permanent basis.

If the agency cannot or does not accommodate the injured worker's return to work, this increases the cost of the claim. The SSIF staff continues to provide benefit payments as required by the Workers Compensation Act for the duration of the compensable claim for the period the injured worker is unable to work or their restrictions cannot be accommodated. The SSIF has recommended a statewide Return-to-Work Program to promote consistency for RTW policies in all state agencies. This type of program has to have administrative support which to date has not been provided. SSIF agrees that the adoption of a statewide RTW policy could increase consistency in treatment of injured workers and reduce Workers Compensation costs. The A&M report stated there was a reporting lag time deficiency and that the lag time from the Date of Accident, to date of First Report of Injury, to date of claim setup, can be measured in weeks or months rather than days. Based on SSIF actual data, this is an incorrect statement. The average lag time for all claims is only 9 days.

Within the next quarter real-time accident reporting will be available through the data management system to all of the State agencies. This technology will further reduce the lag time and increase efficiencies and reduce postal costs.

In the A&M report it was stated that there were two fraud reports identified in the last 12 months. The 1-800 Fraud Hotline mentioned in their report is a statewide fraud hotline and not specific to the SSIF. The SSIF investigates each claim to gather the facts and, if fraud is a potential factor, SSIF staff contacts the SSIF's legal counsel to review the claim, and additional investigation is performed by SSIF staff and independent sources as needed. The SSIF continuously reviews the processes for efficiencies in cost and operations. Over the last 5 years, the SSIF has been able to reduce cost significantly through their efforts.

All of the efforts of SSIF staff to improve program efficiencies have driven down the cost for agencies on their Workers Compensation premium over the last 5 years. SSIF staff have partnered with state agencies to make them aware of the cost to provide care to injured workers as well as ways to reduce the risk of injury on the job. SSIF has implemented internal efficiencies, best practices for handling Workers Compensation claims, and agency partnerships including partnering with the Department of Labor workplace safety team, to reduce the cost of providing Workers Compensation coverage to state agencies.

In 2010, the SSIF reviewed the option of outsourcing the administration of the State's Workers Compensation program. A cost analysis of the multiple pricing options provided by Third Party Administrators (TPA) for providing Workers Compensation administration versus the current cost of the SSIF operations was undertaken. The analysis of the average cost for providing similar services to the State by a TPA administering the Workers Compensation program showed that using a TPA would increase the annual program cost by three (3) million dollars. Based upon the higher cost associated with providing the same services, the State decided not to contract out the SSIF operations to a TPA and, instead, it pursued making the current operation more efficient through process improvements. Significant improvement in the handling of Workers Compensation claims has occurred since 2010.

To get an understanding of the vendor options in the market, on January 29, 2010, a Request for Information (RFI) was posted regarding the use of a TPA to handle the Workers Compensation claims. RFI Number 017766 entitled "Third Party Admin, Worker's Comp." was posted by the Kansas Department of Administration, Division of Purchases. Eleven vendors provided a response to the request. Vendor meetings were held with some of the TPAs to get a better understanding of the cost projections submitted. As this was an RFI and not an actual request for proposal, the pricing information is representative of their standard fees but may not be specific to the actual cost they would charge to administer the SSIF program.

The TPAs indicated that they charged a flat fee for each claim handled. Worker Compensation claims are typically broken down by the type of services provided to the injured employee (i.e., Accident Only, Medical Only, and Loss of Time). There are cases where the injured employee has an attorney (i.e., Legal cases). The fees quoted to us by the TPAs were for the cost to administer the claims and were dependent upon the type of claim (Accident Only, Medical Only, Loss of Time, or Legal). Accident Only files require less work and are the least expensive to administer and Legal files are the most expensive. Medical claim cost would be in addition to the per claim fee paid to administer the program.

Another option would be to pay one fee regardless of the type of claim so that the TPA's compensation is not contingent upon the amount of work the TPA is required to do. They make more on Accident Only and Medical Only claims to offset the additional administrative cost to work a Loss of Time or Legal file. The two TPAs we interviewed were not in favor of this type of administrative fee payment. The quotes from the TPAs did not include the cost of hiring attorneys on our behalf to handle litigated claims. This cost would be in addition to the administrative fees quoted and used in the calculations.

The information provided demonstrates that outsourcing the State Self Insurance Fund Workers Compensation program would not save dollars but would increase the cost to the State.

Thank you for the opportunity to provide written comments on this bill.