THE UNIVERSITY OF TEXAS SYSTEM
OFFICE OF RISK MANAGEMENT
Workers' Compensation Insurance
and Risk Management Programs

The Senate Select Interim Committee on Workers' Compensation

Presented by
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Table of Contents

- Description of Workers' Compensation and Risk Management Programs 2
  - History and Establishment of the Programs 3
  - Workers' Compensation Insurance Program Overview 3
  - Program Administration 3
  - Claims Processing 4
  - Risk Control and Insurance Program Overview 4
  - Organizational Chart 7
- Description of Funding and Budget 8
  - Major Categories of Expenditures 10
  - Outsourced Function 10
- Illustration of Medical and Indemnity Costs 11
- Savings Realized By Medical Cost Containment Activities 13
- Illustration of Claims Frequency 14
- Description of Modified Duty Programs 15
- Description of HNAC Participation 17
- Description of Unique U.T. System Aspects 18

Appendix A — U.T. System Components 19

Appendix B — WCI Claim Flow Chart 21

Appendix C— Comprehensive Property Protection Plan Structure 23

Appendix D — Major U.T. System Insurance Policies 25

•DESCRIPTION OF WORKERS' COMPENSATION INSURANCE AND RISK MANAGEMENT PROGRAMS

The University of Texas System (U.T. System) and its 15 component institutions apply the risk management process to eliminate or reduce exposures to accidental and financial loss. This process includes systematic and continuous identification of loss exposures, analysis of these exposures in terms of frequency and severity, and the application of sound risk control and risk financing procedures that are consistent with the U.T. System's financial goals and objectives.

The risk management program is administered by the Office of Risk Management (ORM), which provides comprehensive services to the U.T. System including risk analyses, risk control, risk financing, claim management, fund accounting, and automation development and support. These responsibilities include the administration of system wide self-insurance programs, traditional insurance purchases, and programs that incorporate specialized and innovative risk financing techniques. ORM also provides an array of value-added services that help U.T. System eliminate or reduce its exposure to accidental and financial loss; comply with applicable environmental, health and safety laws and regulations, protect against accidents which could cause injury to faculty, staff, students, patients, or visitors; or impede it's ability to provide a safe and quality educational experience.

It is the mission of the Office of Risk Management to:

> Protect people, property, the community and the environment and to enhance the well being of students, faculty, and staff through the development and implementation of cost effective, efficient business operations and compliant risk control and risk financing techniques for The U.T. System and the fifteen component institutions.

The following report provides a description of the U.T. System's workers' compensation insurance and risk management programs and its funding and budget. It includes the costs of medical and indemnity workers' compensation benefits, medical cost containment savings activities, and frequency of workers' compensation. The report closes with a summary of U.T. System's modified duty programs, its role in the HNAC regional network project, and a synopsis of its innovative programs.

History and Establishment of the Programs

U.T. System's Workers' Compensation Insurance (WCI) program was established by the 52nd Legislature of the State of Texas. Effective September 1, 1952, U.T. System, as directed by the Board of Regents, began administering the WCI program to provide necessary and reasonable medical coverage and income benefit payments to employees who sustain injuries or occupational diseases while in the course and scope of employment. The program's statutory authority is embodied in Chapter 503 of the Labor Code, and is administered by U.T. System's Office of Risk Management (ORM).

Workers' Compensation Insurance Program Overview

The WCI program enhances the well being and physical recovery of employees with work related compensable injuries, through the timely delivery of indemnity payments and the highest quality of health care that is reasonably available under existing statutes and governmental guidelines.

The primary objective of the WCI staff is to process claims efficiently and in a manner that equitably considers the rights and needs of the employees, encourages the prevention of accidents and protects the interests of the UT System. This includes monitoring claims activities, from receiving, investigating, and making liability determinations on claims, to determining whether or not medical treatment and services are reasonable and necessary. The section also generates income benefit payments to injured employees and medical payments to health care providers, represents U.T. System in administrative hearings before the Texas Workers' Compensation Commission (TWCC), and ensures that claims are adjusted in accordance with Texas law. Additionally, the WCI staff recommends premium rates to ensure an appropriate reserve level is maintained to fund the WCI program.

The program provides coverage to all employees of The University of Texas System and its fifteen component institutions (collectively referred to as the U. T. System). A list of the fifteen components is attached as *Appendix A.* In FY 2003, 88,735 employees were covered under the U.T. System WCI program.

Program Administration

U.T. System self-insures and administers the WCI program by using licensed adjusters and a medical cost containment vendor to maximize our savings. The current WCI staff consists of 25 employees, 18 of whom are licensed claims adjusters. The WCI Manager reports to the Director of Risk Management. Claims are managed from field offices in Austin, Dallas, Houston, and El Paso.

Claims Processing

The U. T. System has a WCI management information system that allows component institutions to electronically transmit Employer's First Report of Injury forms through The University of Texas at Austin (U. T. Austin) mainframe. The reports are delivered to the Texas Workers' Compensation Commission (TWCC) by electronic data interchange (EDI). The management information system also allows authorized employer representatives to view relevant claim information, evaluate losses, and take corrective action when possible. Employer representatives are able to view adjuster claim notes and follow the progress of each claim.

A WCI claim is established each time an Employer's First Report of Injury form or any written document is received which provides notice that an on-the-job injury has occurred. A basic WCI claim flow chart is attached as *Appendix B*.

Medical cost containment is achieved through the use of medical bill audit, case management, utilization review, and pre-authorization services. Medical payments are processed through the U.T. Austin Office of Accounting.

Risk Control & Insurance Program Overview

The Risk Control & Insurance programs incorporate the necessary functions and procedures utilized to protect the various assets of the U.T. System. The Associate Director for Risk Management oversees the Risk Control and Insurance Program and reports to the Director of Risk Management.

The property and casualty insurance aspects of the program involve the:

1. Use of insurance as a mechanism for transferring risks from certain property and casualty exposures. Insurance is purchased through pre-qualified brokers that have agreed to specific performance requirements, and that have been briefed regarding the University's risk management philosophy and insurance needs.
2. Use of self-insurance as an alternative to the purchase of insurance coverage when costs become prohibitive.
3. Evaluation of potential exposures created by daily operations, as well as those unique operations that could subject the U.T. System to increased liability exposures.
4. Creation of claims policies and procedures to promote efficient and effective operations in a self-insured or self-funded program.
5. Review of insurance contracts and certificates to ensure that contractors, vendors, and third parties utilizing U.T. System facilities have provided proper coverage and limits.
6. Management of claims to ensure maximum recovery from accidental and financial losses.

7. Delivery of consultative services to U.T. System departments and component institutions regarding risk management and insurance issues.

The following are examples of the large self-insurance and commercial insurance coverages managed under the Risk Control and Insurance Program:

Comprehensive Property Protection Plan - Covers U.T. System's $12.2 billion dollars in property values and $3.3 billion in business income. *Appendix C* illustrates the structure of the plan.

Directors & Officers/Employment Practices Liability Self-Insurance Plan - Covers U.T. System and covered individuals for loss resulting from a claim based on a covered wrongful act or omission by the Insured in the course and scope of the Insured's employment or authorized service on behalf of U.T. System.

Traditional Insurance Purchases - Purchase numerous commerical insurance policies on behalf of individual, multiple or all component institutions. *Appendix D* summarizes the major commerical insurance policies purchased on a System-wide basis.

Rolling Owner Controlled Insurance Program - Provides Worker's' Compensation and General Liability insurance coverage for all contractors working at designated construction projects. The benefits include lower insurance premiums due to bulk purchasing, consistency of insurance provided on each project, enhanced safety and loss control, and cost savings.

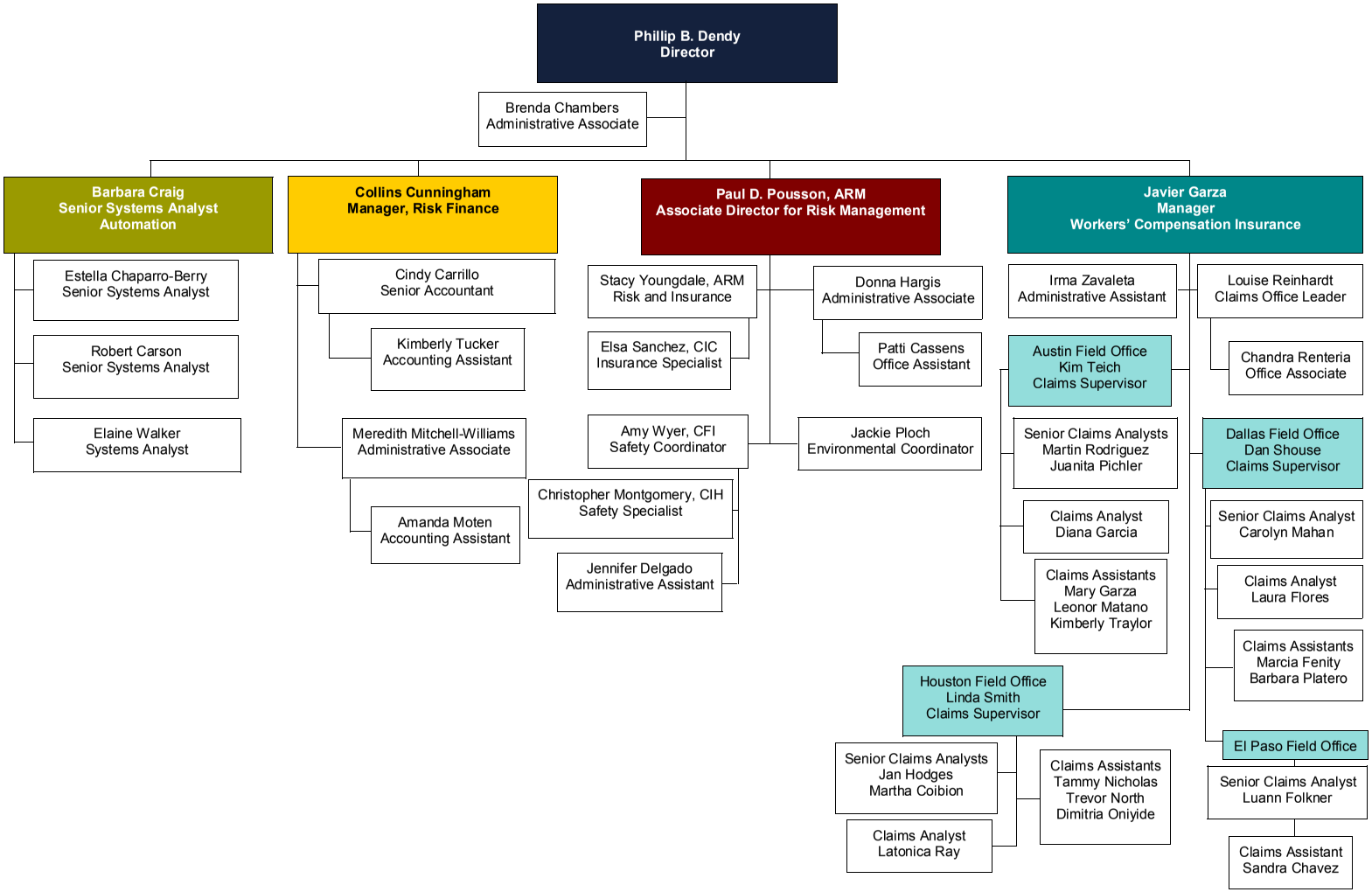
The environmental, health, and safety (EH&S) aspects of U.T. System's education, research, and patient care operations require constant review due to new and increasingly complex requirements and technological advances. EH&S staff provide an array of value-added services that help U.T. System: eliminate or reduce its exposure to accidental and financial loss; comply with applicable environmental, health and safety laws and regulations; protect against accidents which could cause injury to faculty, staff, students, patients and visitors; or impede its ability to provide a safe and quality educational experience. The EH&S staff perform important services such as:

1. Conduct loss analyses to assess the U.T. System's EH&S effectiveness and to recommend appropriate action.
2. Research the latest technology to maintain a state-of-the-art EH&S Program.
3. Develop, update, and disseminate EH&S standards, specifications, procedures and guidelines to optimize risk control efforts.
4. Assist component institutions in providing EH&S training and in resolving crucial or unusual EH&S problems as needed or upon request.
5. Develop activities to promote safe work habits and to increase employee EH&S involvement.

The following are a few examples of EH&S activities undertaken by the EH&S program:

- Administers System-wide contracts for disaster restoration and recovery, spill control and emergency response, radioactive material disposal and hazardous waste disposal.
- Coordinates construction plan reviews and inspections of significant facilities and operations as part of the Comprehensive Property Protection Plan.
- Conducts fire, life, and fleet safety and environmental compliance training for all component institutions.
- Performs peer reviews of EH&S functions at the component institutions to assess the overall effectiveness of the program and to review specific high risk compliance issues.

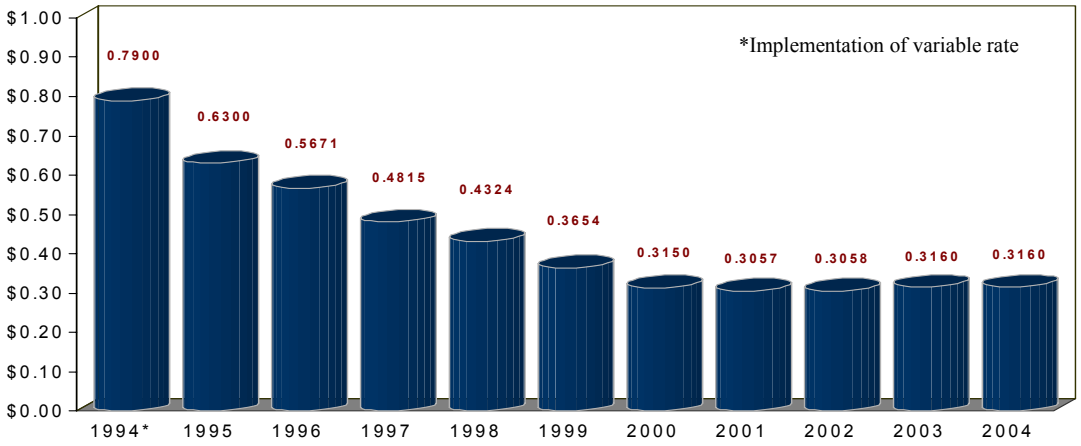
THE UNIVERSITY OF TEXAS SYSTEM ADMINISTRATION
OFFICE OF RISK MANAGEMENT
ORGANIZATIONAL CHART
FEBRUARY 2004



•DESCRIPTION OF FUNDING AND BUDGET

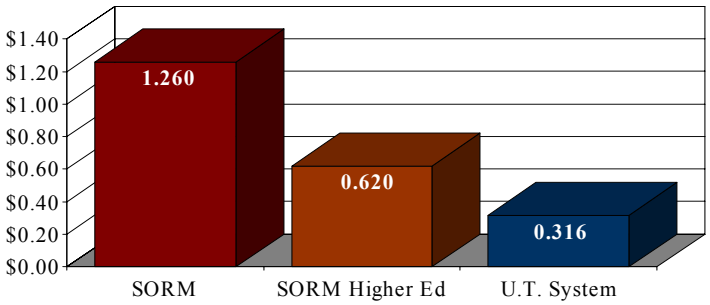
The WCI program funding is accomplished through a variable rating process which factors each component's loss history, payroll, and claim frequency into the rate calculation. In FY 2003, the U.T. System WCI program insured 88,735 employees system-wide. The component institutions pay an average of $0.32 per $100 payroll compared to an average of $2.71 of all Texas classification codes paid by other insureds*.

The U.T. System premium rates have been stable for the past five years. The success of claim management, increased focus on accident prevention, and enhancements to the variable rating system have kept premiums low. The following graph illustrates the progressive lowering and stabilizing of the rate.



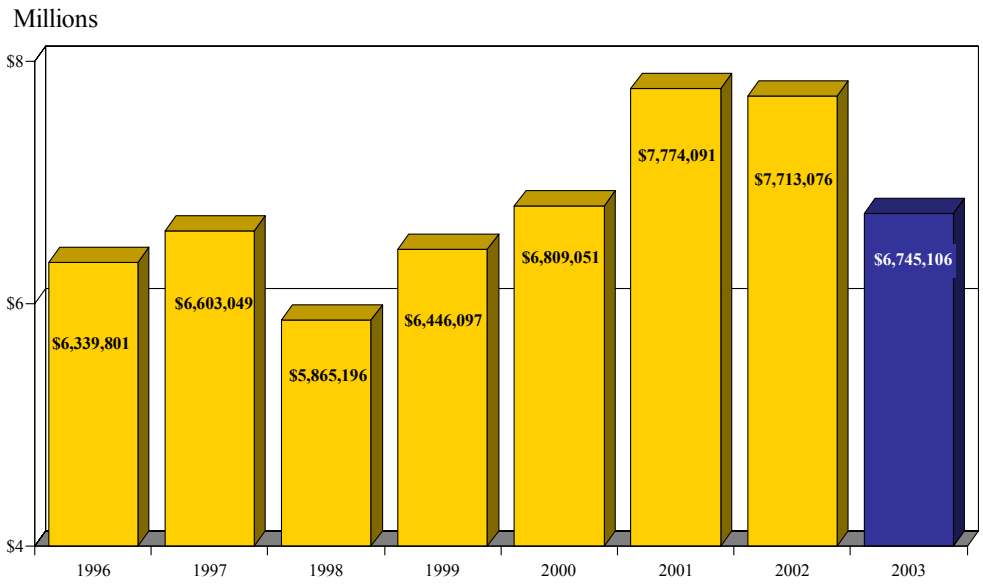
In comparison, the **State Office of Risk Management (SORM) Premium Average for FY 2004 is $1.26/100 while the **SORM Higher Education Premium Average is $0.62/100. The graph below compares SORM premium averages to U.T. System.

FY 2004 Premium Rate Comparison



* Texas Department of Insurance.
**Calculated FY 2004 premium rate comparisons from data extracted in SORM's website for FY 2004 Assessments.

U.T. System experienced a 13% drop in expenses from FY 2002 to FY 2003, reducing benefit expenditures by over $1 million. Claims expenditures decreased by $967,970, from $7,713,076 in FY 2002 to $6,745,106 in FY 2003. The graph below provides a summary of total claim expenditures for fiscal year periods 1996 to 2003.



Major Categories of Expenditures

The WCI administrative expenditures for FY 2003 are illustrated below. Costs include claims management, accounting and automation activities.

Unaudited Administrative Expenditures for WCI (FY 2003)	
Types of Expenditures	**Dollars ($)**
Classified Salaries	$1,227,186.54
Administrative Salaries	75,261.00
Wages	385.53
Fringe Benefits	378,981.86
Maintenance, Operation, & Equipment	344,002.49
Travel	65,386.68
TOTAL	$2,091,204.10

The U.T. System contracts certain functions of its case management in order to more effectively and efficiently provide all reasonable and necessary medical care that will restore the injured worker to a physical and mental condition as close as possible to the one he or she enjoyed prior to the injury and return him or her to gainful employment as rapidly as possible.

Cost management services are provided by Medical Business Management Services, Inc. (MBMS) and National Choice Care (NCC). MBMS reviews and audits each healthcare provider bill, pre-authorizes medical services, conducts utilization reviews and medical case management. NCC offers preferred provider organizations (PPO) and exclusive provider organizations (EPO) services.

Outsourced Functions

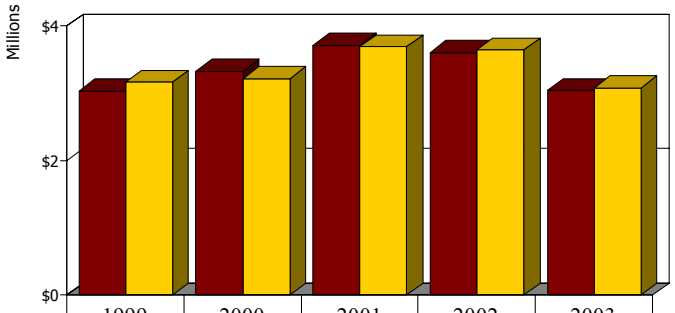
Medical cost containment activities are outsourced. In FY 2003, MBMS audited a total of 28,191 healthcare provider bills for U.T. System. It reconsidered 3,131 denials and referred for external case management 227 claims. Of the 28,191 bills MBMS audited this fiscal period for U.T. System, only 100 bills were contested by healthcare providers in the TWCC Medical Dispute Resolution process. The cost of outsourcing these services in FY 2003 totaled $464,913.20.

MBMS Medical Activities	
Audit	28,191
Reconsideration Denials	3,131
Case Management	227
Medical Dispute Resolution Responses	100

•ILLUSTRATION OF MEDICAL AND INDEMNITY COSTS

Medical expenditures decreased by $564,746.18 (15.5%) from FY 2002 while expenditures for the weekly disability income benefits decreased by $567,015.74 (15.72%). The graph below illustrates U.T. System's fiscal year end costs for indemnity and medical expenditures.

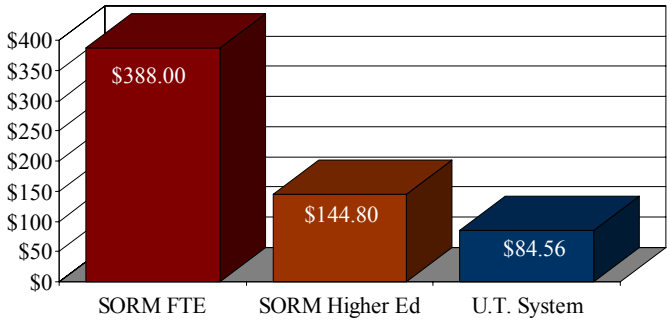
Fiscal Year-End Cost Comparisons



	1999	2000	2001	2002	2003
Indemnity**	$3,031,027	$3,323,432	$3,709,819	$3,607,753	$3,040,737
Medical***	$3,163,279	$3,219,521	$3,687,360	$3,643,344	$3,078,598

Medical and income benefit payment costs decreased by $15.60 per covered employee, from $84.56 in FY 2002, to $68.96 in FY 2003. In comparison, *SORM FY 2002 cost per FTE totaled $388.00 and SORM's, Higher Ed cost per FTE totaled $144.80. The graph below compares the benefit payment costs per FTE covered by SORM, SORM Higher Education, and U.T. System.

Payment Cost Comparison for FY 2002



*Calculated FY 2004 premium rate comparisons from data extracted in SORM's website for FY 2004 Assessments.

Overall, the number of claims and the severity of those claims filed by U.T. System employees has decreased over the past five years. The following table provides a detailed summary of the indemnity and medical claims for fiscal years 1999 through 2003:

*Claims By Fiscal Year With Expenditures Through 12/31/03							
Fiscal Year	**Claims (#)**	**Lost Time Claims (#)**	**Indemnity Claims (#)**	**Indemnity Payments (#)**	**Medical Payments (#)**	**Indemnity Cost ($)**	**Medical Cost ($)**
FY 1999	2,309	1,033	333	9,553	16,176	$2,821,648.23	$2,594,476.55
FY 2000	2,367	1,098	360	10,384	18,452	3,309,199.61	3,713,894.66
FY 2001	2,352	1,075	359	10,151	18,808	3,365,207.52	3,089,766.49
FY 2002	2,153	980	280	6,751	14,021	2,222,109.96	2,174,990.01
FY 2003	2,173	922	241	3,776	11,590	$1,306,767.94	$1,790,539.30

* Methodology: Costs are provided by year of injury for fiscal year 1999 to 2003 and by year of payment for 1999 to 12/31/2003.

•SAVINGS REALIZED BY MEDICAL COST CONTAINMENT ACTIVITIES

The average cost savings provided by bill audits for the past five years approximates 57%. A breakdown of the cost savings from medical bill audits for the past five years is provided below:

SAVINGS FROM BILL AUDITS								
Fiscal Year	**No. of Bills**	**Amount of Bills**	***Payments Made**	**Total Savings**	**Audit Fees**	**PPO Savings**	****Audit Savings**	**Savings (%)**
1999	28,275	$ 6,725,609	$ 3,152,715	$ 3,572,894	$ 159,705	$ 44,513	$ 3,368,676	50%
2000	26,821	7,368,843	3,168,358	4,200,483	166,990	86,465	3,947,028	54%
2001	30,461	9,353,689	3,680,730	5,672,959	227,412	234,776	5,210,771	56%
2002	31,603	9,925,852	3,583,072	6,342,780	209,557	174,645	5,958,578	60%
2003	28,191	9,792,053	3,064,626	6,727,427	264,550	128,665	6,334,212	65%
Total	145,351	$ 43,166,046	$ 16,649,501	$ 26,516,543	$ 1,028,214	$ 669,064	$ 24,819,265	57%

*Payments Made is also known as Maximum Allowable Reimbursements (MARs).
** Audit Savings is also known as Bill Review

•ILLUSTRATION OF CLAIMS FREQUENCY

Indemnity payments have been consistently lower in the past five years. The following table provides a detail of the indemnity payments for fiscal years 1999 through 2003.

Detail of Indemnity Payments For Fiscal Years 1999 thru 2003

FY	Claims (#)	Indemnity Claims (#)	Claims Receiving Indemnity (%)	Claim Filing Rate per 100 Employees (%)	Average Indemnity Payment Per Claim ($)	Average Weekly Indemnity Payment ($)
1999	2,309	333	14.42	3.03	$8,473.42	$295.37
2000	2,367	360	15.21	2.98	9,192.22	318.68
2001	2,352	359	15.26	2.89	9,373.84	331.51
2002	2,153	280	13.01	2.50	7,936.11	329.15
2003	2,173	241	11.09	2.45	$5,422.27	$346.00

•DESCRIPTION OF MODIFIED DUTY PROGRAMS

All component institutions work with injured workers, supervisors, and medical providers to return employees to work as soon as possible. After receiving documentation from an employee's treating physician that indicates the employee is capable of performing modified work, the employer representative typically communicates with the employing department and the WCI adjuster to determine the feasibility of returning the employee to work. Requests are evaluated on a case-by-case basis to determine the best solution for the employee and the institution. The following is a summary of the return to work program policies in place at our component institutions:

U.T. System Administration
Modified duty is implemented at the department level.

U.T. Arlington
Accommodates, when possible, an injured worker released to modified duty for 3 months with the possibility of a 3-month extension. The injured worker receives full pay and allowances while participating in this program.

U.T. Austin
It is the policy, when possible, to modify work assignments for a limited period to assist the employees who are temporarily restricted from performing their regularly assigned duties due to an on-the-job injury.

U.T. Brownsville
Modified duty is implemented at the department level.

U.T. Dallas
Assists employees injured on the job and temporarily restricted from performing their regularly assigned duties by modifying their work assignments for a limited period of time or until they are able to resume their regular duties, when feasible. For employees who are unable to resume their regular duties, U.T. Dallas will attempt to transfer them to a position suited to their capabilities.

U.T. El Paso
Accommodates any modified duty release, when possible, for a period of up to 3 months.

U.T. Pan American
Modified duty is implemented at the department level.

U.T. Permian Basin
Modified duty is implemented at the department level.

U.T. San Antonio
Modified duty is implemented at the department level.

U.T. Tyler
Modified duty is implemented at the department level.

U.T. Southwestern
Encourages temporary modified duty for on-the-job injuries, with medical approval. This program is implemented at the department's discretion and is temporary in nature, subject to periodic review, and contingent upon the treating doctor's approval. It does not exceed 60 days.

U.T. MB Galveston-CMC
Provides permanent reasonable accommodations or, to the extent reasonably able and without causing undue hardship or direct threat to safety, provides temporary modifications for individuals with disabling conditions for a period not to exceed six months.

U.T. Health Science Center at Houston
Accommodates employees to the extent possible, by temporarily modifying work assignments or duties or arranging for a temporary transfer until the employee is able to resume regular duties for a period of time not to exceed 6 months.

U.T. Health Science Center at San Antonio
Modified duty is implemented at the department level.

U.T. M.D. Anderson Cancer Center
Assists employees injured on the job and temporarily restricted from performing their regularly assigned duties, by modifying their work assignments for a limited period of time or until they are able to resume their duties.

U.T. Health Center at Tyler
Accommodates any modified duty release for up to a 3-month period, with an extension of 3 months in certain circumstances.

•DESCRIPTION OF HNAC PARTICIPATION

U.T. System has historically affiliated with various healthcare organizations throughout Texas to provide medical care to our injured employees and has established an Exclusive Provider Organization (EPO) that allows us several desirable features, including:

- Selection of doctors employed by the network.
- Ability to negotiate the cost of treatment.
- Better communication between parties.
- Emphasis on return-to-work.
- Doctors are accountable for their actions.

The HNAC pilot project shares similar features to our existing program. By implementing the HNAC project, we anticipate several disadvantages:

- U.T. System' s role changes to one of a fiscal intermediary.
- Loss of control of medical case management and utilization review.
- Injured workers have little incentive to join the network.
- A voluntary program will allow a difficult claimant to remain with doctors outside the network.
- Unclear medical dispute resolution process.
- Feasibility study indicates our average medical cost per claim is $3,465. Actual U.T. System average medical cost per claim is $1,417.
- Administrative burden of handling two separate claims processes.

•DESCRIPTION OF UNIQUE UT SYSTEM PROGRAMS

Risk Management Advisory Committee (RMAC)

The RMAC is a multi-disciplinary committee comprised of members from each of the 15 component institutions and System Administration. The purpose of the committee is to provide advice and make recommendations on the structure, policies and operation of U.T. System's risk management programs, and to serve as the mechanism for the open exchange of information and ideas among component institutions. The committee is supported by two sub-committees. One focuses on property risk issues and the other focuses on liability risk issues.

Environmental Advisory Committee

EH&S staff provides consultative and technical assistance to the U.T. System Environmental Advisory Committee (EAC) and its workgroups which consist of a Radiation Safety Officer Advisory Group, Biological and Chemical Safety Advisory Group, and a Fire Life and General Safety Advisory Group. EH&S staff also participated in two (2) EAC meetings and two (2) of each of the workgroup meetings to facilitate the implementation of the committee and workgroups' objectives.

Resource Allocation Program (RAP)

In FY 1998, The Office of Risk Management initiated a program to help component institutions maintain a safe work environment and reduce employee accidents, injuries and the severity of claims.

RAP is a unique and innovative program to disburse funds and meet the following objectives:

1. Reward component institutions that have experienced fewer and less severe WCI claims.
2. Provide component institutions with funds to address their environmental health and safety risks and thereby reduce the probability and severity of accidental and financial loss.
3. Provide component institutions that are experiencing a higher frequency and severity of WCI claims with funds to help reduce claims.
4. Address System-wide environmental health and safety issues affecting all component institutions.

This program provides component institutions with funding that will allow them to implement creative, environmental health and safety initiatives that, while complementing existing efforts, are outside the scope of their existing budgets. The initiatives focus on correcting unsafe behaviors, employee training, improving the physical work environment and other influential organizational issues affecting occupational safety and health. Each component institution is eligible to receive financial resources from the WCI fund. To date, approximately $12.5 million has been allocated for System-wide and component initiatives.

Appendix A

THE UNIVERSITY OF TEXAS SYSTEM COMPONENTS

The following is a list of the component institutions that comprise U.T. System:

Academic Components:
The University of Texas at Arlington
The University of Texas at Austin
The University of Texas at Brownsville
The University of Texas at Dallas
The University of Texas at El Paso
The University of Texas at Pan American
The University of Texas at Permian Basin
The University of Texas at San Antonio
The University of Texas at Tyler

Medical Components:
The University of Texas MD Anderson Cancer Center
The University of Texas Medical Branch at Galveston
The University of Texas Health Science Center Houston
The University of Texas Southwestern Medical Center at Dallas
The University of Texas Health Science Center at San Antonio
The University of Texas Health Center at Tyler

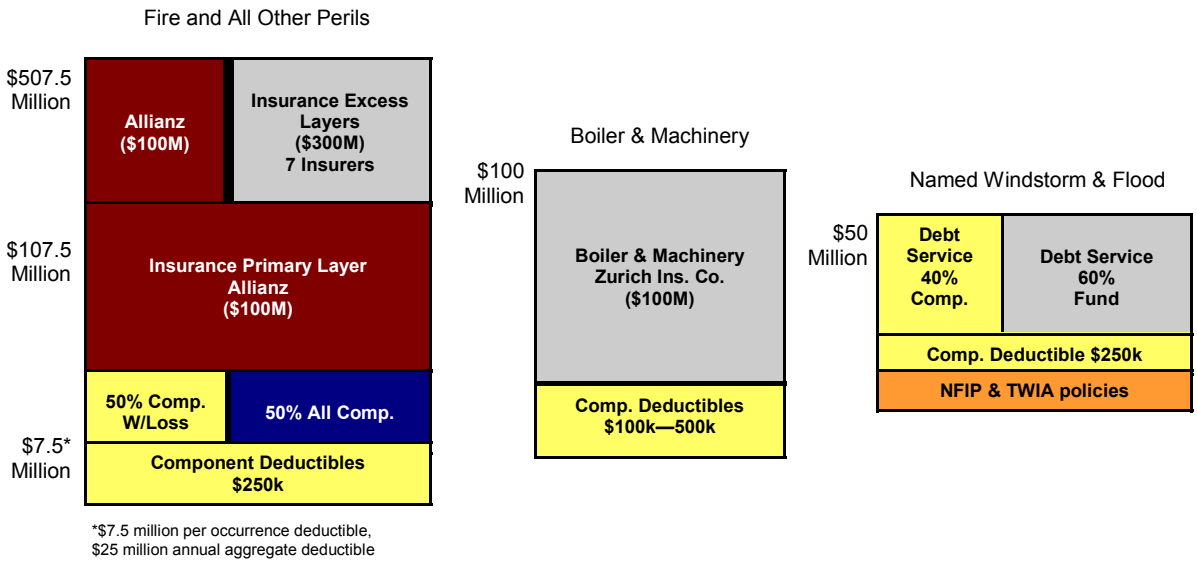
The University of Texas System Administration

Appendix B

WCI Claim Flow Chart

Appendix C

Comprehensive Property Protection Plan Structure



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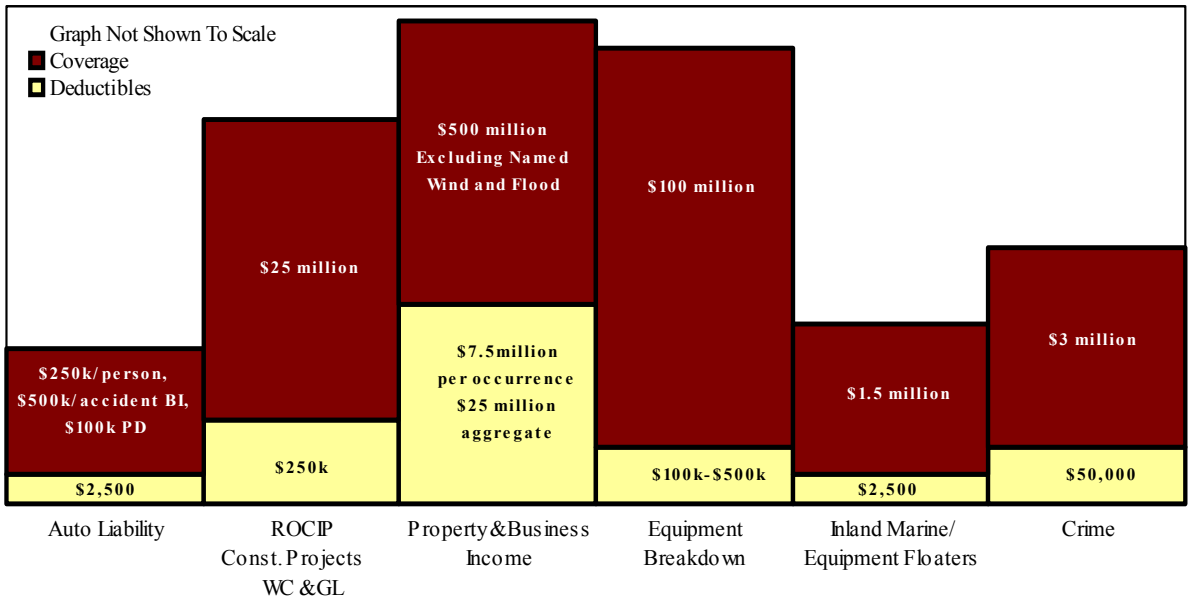
Major U.T. System Insurance Policies