

DEPARTMENT OF
ADMINISTRATIVE SERVICES

ADMINISTRATION
DIVISION

CITY OF SACRAMENTO
CALIFORNIA

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April 17, 1997

City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: Risk Management and Workers' Compensation Work Plan

LOCATION AND COUNCIL DISTRICT:

City

RECOMMENDATION:

For Information Only

CONTACT PERSON:

Greg Norton, Senior Management Analyst, 264-7728

FOR THE COUNCIL MEETING OF:

April 29, 1997

SUMMARY:

In an effort to ensure the most efficient and effective Risk Management and Workers' Compensation (WC) programs possible, staff of the Administrative Services Department has developed the attached work plan, Attachment A. The purpose of the steps included in the work plan are to further develop

and enhance existing practices in Risk Management and WC; implement new "best" practices where applicable; perform an analysis of existing and alternative practices to ensure the City's best interests are achieved; and to create more efficient, effective and pro-active programs.

The primary objective the work plan, is to reduce the impact of Workers' Compensation and Risk on the City budget. The following objectives are included in the work plan as part of the cost reduction effort:

- Reduce the frequency and cost of vehicle accidents
- Review/evaluate self-funded vs fully insured liability (Risk Management) coverage and non-WC reserving practices
- Enhanced drug/alcohol testing awareness and training
- Enhanced fraud investigation efforts
- Increased citywide cost avoidance efforts/techniques to reduce WC claims and costs
- Equitable allocation of claim costs to City Depts/orgs based on actual claim and cost activity
- Enhanced injury monitoring mechanisms and communication of injury trends and activity by dept/org as an identifier for safety training needs and to monitor the effectiveness of safety training and injury prevention efforts; use for validation of attaining program goals, department goals, etc.
- Elimination/decrease of 100% I-Time Charter provision for non-safety employees; decrease to a reasonable level
- Background checks on all new hires and re-hires
- Enhanced (pro-active) citywide modified duty program
- Enhanced litigation reduction techniques/efforts and resulting cost decrease
- Continue/enhance the WC marketing program to inform employees of services provided, what to expect in the event of an injury, etc.; Include efforts in the areas of fraud, modified duty, etc., to make employees aware of efforts being made on their behalf
- Perform analysis of self insured/administered vs contracted (Third Party Administrator) WC services
- Evaluate excess WC liability coverage and reserving practices

COMMITTEE/COMMISSION ACTION:

None.

BACKGROUND INFORMATION:

In FY 94, an internal audit of the WC program was performed and the report issued June 1, 1994. As a result of the audit and additional WC staff efforts, a work plan was developed. Since that time, a number of changes and improvements have been made in WC services.

Council members have requested City staff to evaluate various aspects of the WC program including the potential use of a third party administrator (TPA). The attached work plan includes input from

Council members, TPA's and associated insurance brokers referred to City staff by Council members, and staff from other City departments. The work plan has been developed to further the prior efforts made and to create more efficient, effective and pro-active WC and Risks programs.

FINANCIAL CONSIDERATIONS:

Fiscal Year 95/96 included the following financial activity:

Workers' Compensation (Approximately 75% of WC costs are to the General Fund):

- \$8.6 million paid out for WC claims;
- \$1.3 million for claims administration; and
- \$21.6 million in reserve for future claims payments.

Risk (Liability & Insurance)

- \$3.3 million paid for claims;
- \$220,000 for claims administration; and
- \$3.2 million in reserve for future claims payments.

There will be financial considerations and costs to implement some of the steps included in the work plan. Where required, these items will be brought to Council for approval. However, it is the goal of this effort to reduce the costs of the WC and Risk Management programs to the City. The savings goal for the first year, FY 97, is a minimum of \$500,000 to the General Fund. The savings goal increases to \$1 million for FY 98.

ENVIRONMENTAL CONSIDERATIONS

This report is for information only and does not request approval of any activities that would have an effect on the physical environment. Any future action taken that would be subject to the California Environmental Quality Act will be so reviewed and returned to Council as required.

POLICY CONSIDERATIONS:

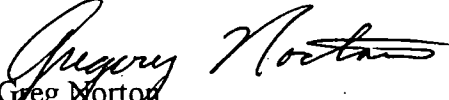
The work plan and planned steps for action and analysis are consistent with City Council

direction to review the workers' compensation program.

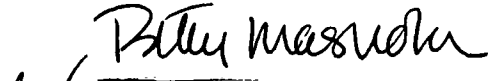
MBE/WBE EFFORTS:

Not Applicable.

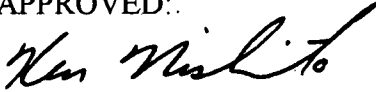
Respectfully submitted,


Greg Norton
Senior Management Analyst

REPORT APPROVED:


William H. Edgar
City Manager

APPROVED:


Ken Nishimoto
Director, Administrative Services Department

Risk Management and Workers' Compensation Work Plan
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RISK MANAGEMENT

Objective: Reduce the frequency and cost of vehicle accidents				
Constraints: Labor issues Cost of implementation Cost of training site construction				
Costs: Short-term: TBD Long-term: Estimated \$5 million for construction of training facility				
Savings Goal: 10.00% decrease in accidents; 23 @ \$11,569 = \$ 266,087; 1-2 years 20.00% decrease in accidents; 45 @ \$11,569 = \$ 520,605; 2-3 years 49.75% decrease in accidents; 112 @ \$11,569 = \$1,295,087; 5-7 years				
Statistical/Supporting data: Per consultant review, a potential for \$1 million in savings exists by reducing the vehicle accident frequency rate to the 1983 level. The 1983 AFR was 8.08 accidents per million miles. Over the past five years the average AFR is 16.08 per million miles. A reduction to the 1983 rate would be a reduction of 49.75%. The average number of chargeable motor vehicle accidents over the past five years is 225 per year. The average cost to the City per accident is \$11,569.				
#	Steps:	Resp Party	Goal	Status/Comments
	Short-Term			
1	Send 6 emps to San Bernadino for defensive drivers training, incl. behind the wheel training for emer vehicles & heavy equip, to become certified trainers: o 1 Safety Specialist; 3 Fire Captains; & 2 Police Officers		FY 97	Completed 3/13/97
2	Investigate potential training avail. through other agencies where feasible			
3	Perform analysis if increased accident freq & costs. Identify specific areas, i.e., ambulance, add'l miles for dump trucks to county land fill, etc., with incr costs. Consider charging rates based on history of accident freq & miles driven			

#	Steps:	Resp Party	Goal	Status/Comments
	Short-Term:			
4	Develop step by step citywide phase in training plan based on accident freq: <ul style="list-style-type: none"> o Initial focus will be on emer. vehicles (ambulances) o Will phase in other areas of City; Fire, Public Works, Util, NSD, Planning, etc. 			
5	Prepare info document for chargeable accidents, including frequency & costs, by org and related costs, for distribution to departments/orgs for past 5 yrs.			
6	Eliminate use of city vehicles for those employees with excessive traffic violations and/or poor driving records. <ul style="list-style-type: none"> o Develop City policy establishing underwriting guidelines for operators of City equipment o Confer with Attorney's Office for legal basis 			
7	Evaluate policy for emps assigned to retain vehicles for use to and from work. Reduced use should lower chances of accidents and liability.			Meet & Confer (M & C)
8	Establish a monitoring system for emps' "proof of insurance" for utilization of personal vehicles on City business			Maybe M & C

#	Steps:	Resp Party	Goal	Status/Comments
	Short-Term:			
9	Enhanced collection from uninsured motorist accidents: <ul style="list-style-type: none"> o Risk Mgmt losing approx \$200,000 yr for non-collection of uninsured motorists hitting traffic signals, fire hydrants, etc. (Per Field Maint Mtg) o Establish data base for property loses and monitoring 			
	Long-Term:			
1	Develop plan for construction of local defensive drivers training facility			
2	Determine potential for joint effort w/County &/or other regional agencies to reduce City costs			
3	Require heavy equip training every 2 yrs & all vehicles training every 3 yrs			M & C
4	Require employees involved in any chargeable motor vehicle accidents to take a refresher defensive driving course			M & C
5	Develop a process for Safety Committee referral of chargeable accidents for discipline.			

RISK MANAGEMENT

Objective: Review/evaluate self-funded vs fully insured liability coverage and non-WC reserving practices				
Constraints: Prior practice				
Costs: Cost of policy(ies)				
Savings Goal:				
Statistical/Supporting data:				
#	Short-Term Steps:	Resp Party	Goal	Status/Comments
1	Perform an evaluation of outside liability costs and coverages. Compare to cost of self funded program.			
2	Consider how current coverage fits into overall Risk strategy			
3	Consider actuary study based on current trends and practices			
4	Analysis of attorney cost and results for auto & general liability cases	Bragg & Assoc		
5	Evaluate the catastrophic loss reserve amount for appropriateness			
6	Discontinue funding of ULA (Unallocated Loss Adjustment) expenses in the Risk Fund, they are already funded.			
	Long-Term:			
1	Determine best practice for Risk attorney use			

WORKERS' COMPENSATION

Objective: Enhanced drug/alcohol testing awareness & training				
Constraints: Federal & State constitution may impact citywide random testing Labor issues Cost of implementation Administration & monitoring requirements				
Costs: Add'l costs of increased number of tests				
Savings Goal: Decrease in number of vehicle accidents & on-the-job injuries resulting in decrease in related workers' compensation claims & costs.				
Statistical/Supporting data: No direct evidence that drugs or alcohol directly contributed to all of the following statistics. However, these numbers may increase the awareness of the problem & cost to the City: o DOT drug/alcohol testing results (Since March 1995) o 38 positives; These employees involved in the following: 116 chargeable MVA's at an est. Cost of \$1,342,004 241 W/Comp claims filed at a cost of \$549,072 (not incl I-Time) o Non-DOT drug/alcohol testing results/Probable Cause (Since 1986) o 41 positives: These employees involved in the following: 42 chargeable MVA's at an est. Cost of \$486,000 Roughly 200 WC Claims at a cost of nearly \$600,000 (not incl I-Time)				
#	Steps:	Resp Party	Goal	Status/Comments
	Short-Term:			
1	Review Glendale case ruling			
2	Review City's written policy, consider need for enhancement, and expand testing where possible			
3	Meet with Attorney's office to determine legality issues			
4	Negotiate changes with bargaining units where necessary			

#	Steps:	Resp Party	Goal	Status/Comments
	Short-Term:			
5	Train managers/supervisors on recognition of individuals under the influence and the appropriate steps for proceeding with probable cause.			
6	Gather & share testing information &, for positives, costs associated with accidents & WC claims			
7	Ensure testing is random enough to eliminate determination of testing trends			
8	Require post accident testing in all serious motor vehicle accidents			M & C
	Long-Term:			

WORKERS' COMPENSATION

Objective: Enhanced fraud investigation efforts

Constraints: Time & effort

Costs: Cost of investigation, attorneys' fees, etc. for preparation and prosecution

Savings Goal: Decrease in the number of WC claims; Avoidance of paying fraudulent claims and industrial disability retirements.

Statistical/Supporting data: To date 4 emps have been convicted of W/Comp fraud. As a result of these four convictions savings in excess of \$2.7 million based on expectancy estimates. Of this \$2.7 million, approximately \$700,000 would have been paid from the City's WC for future medical, permanent disability, temporary disability, rehabilitation and health premiums. \$2.0 million would have been paid by PERS for retirement pension which would result in increased premiums to the City. Of these 4 emps, 3 were GF and 1 a non-GF emp.

#	Steps:	Resp Party	Goal	Status/Comments
	Short-Term:			
1	Obtain mgmt directive to aggressively pursue WC fraud			
2	Increase WC staff direct time commitment to fraud I.D. and investigation			
3	Provide managers/supervisors training on fraud indicators, "red flags", that may be recognized in work place (Curriculum Prepared)			
4	Establish criteria for use of investigators & legal counsel (Spent more than \$700,000 in FY '93), and monitor results to decrease expenditure except where likely return anticipated. o Monitor results by investigator/legal counsel to determine those with most effective efforts.			
5	Survey other jurisdictions for fraud detection & prevention efforts			
6	Determine steps/issues necessary to increase publication of fraud investigation and convictions. Educate mgrs, supervisors, emps on the cost of fraud to the City			

#	Steps:	Resp Party	Goal	Status/Comments
	Long-Term:			

WORKERS COMPENSATION

Objective: Increased citywide cost avoidance efforts/techniques to reduce WC claims/costs				
Constraints: Cost of training Cost of administration and monitoring				
Costs: Training				
Savings Goal: Reduction in number of claims and claim costs				
Statistical/Supporting data:				
#	Steps:	Resp Party	Goal	Status/Comments
	Short-Term:			
1	Perform trend analysis & evaluation to determine cause of increased costs per claim.			
2	Increased citywide safety training & injury prevention efforts: o Develop, initiate and monitor proactive safety programs to include safety committees in all orgs at the division & work unit level as appropriate o Increased availability/access to injury prevention training for employees (Required ergonomics training for selected classifications)			
3	Monitor all safety programs, whether Safety Unit or org initiated, find out results and what does/doesn't work o Develop goals/standards for injury prevention programs/safety training o Create citywide consistency of application where appropriate			

#	Steps:	Resp Party	Goal	Status/Comments
	Short-Term:			
4	Survey other jurisdictions for cost containment/reduction best practices <ul style="list-style-type: none"> o Meet with Fire District (Meet first with Chief Costamagna & Special Districts Insurance) o Review information provided and statistical differences between City and Fire District WC costs o Contact County regarding results of their injury prevention incentive program 			
5	Investigate legalities and issues with early retirement of QIW's <ul style="list-style-type: none"> o Discuss w/Attorney's Office o Perform analysis of cost of QIW's remaining on I-Time leave. Current & past cases from point of QIW determination to retirement. o Consider length of time & impact of being unable to fill FTE 			
6	Provide training and require mgmt & supervisors to become more involved in communication with injured emps <ul style="list-style-type: none"> o Promote regular contact 			
7	Involve employees and Recognized Employee Organizations (REO's) in injury prevention plans			
8	Monitor pilot incentive program in Utilities, designed to raise awareness and encourage employees to avoid injuries, accidents, etc.			
9	Return to work efforts (See modified duty efforts)			
	Long-Term:			

WORKERS' COMPENSATION

Objective: Equitable allocation of claim costs to depts/orgs based on actual claim and cost activity, (EMF)				
Constraints: Current system has limited capabilities Require development of experience factor Require change in method of charging/allocating w/comp costs Require training of dept/org staff to understand experience rating and costs charged to depts Once new system is implemented the injury experience ratings will be able to be monitored for use in applying rates				
Costs: Training Program development (Customized programming)				
Savings Goal: Increase in awareness and direct impact to department/org budgets				
Statistical/Supporting data:				
#	Steps:	Resp Party	Goal	Status/Comments
	Short-Term:			
1	Begin to increase awareness: Provide org info on numbers of occurrences, costs, lost time etc. Share direct costs of claims by org.			
2	Provide training to depts/orgs to ensure understanding of statistics & trends			
3	Establish and monitor reduction goals by dept/org/unit			
4	Perform analysis on contribution by org vs claim pymts by org			
5	Survey other jurisdictions for methods of charging depts, measurement criteria, etc. o Include questions regarding dept incentive for incident &/or claim cost reduction o Fire District WC rates much lower than City Fire			
6	Perform pilot costing measurement and allocation to determine impact on departments/orgs.			

#	Steps:	Resp Party	Goal	Status/Comments
	Long-Term:			
1	Equitable cost allocation/Loss sensitive basis. o Develop experience modification rate factors for allocation			
2	Develop economic incentive to incr claim and cost reduction - must involve tangible reward to dept budget o Incentive to be based on goal attainment & exceeding goals o Hold depts accountable o Impact must be to org bottom line			
3	Consider, where dept is at fault, charging depts directly for fines incurred			
4	Evaluate implementation of a Safety Awards program similar to the State of California			

WORKERS' COMPENSATION

Objective: Enhanced Injury monitoring mechanisms and communication of injury trends and activity by dept/org as identifier for safety training needs and to monitor effectiveness of safety training and injury prevention efforts; use for validation of attaining program goals, dept goals, etc.

Constraints: Information limited in current system, will be improved in new system
Current lack of understanding citywide

Costs: Cost of implementation of: Injury monitoring tools & Injury prevention training

Savings Goal: Reduction in claims & claim costs through awareness & recognition of injury & cost trends/impacts & potential for injury prevention training

Statistical/Supporting data:

#	Steps:	Resp Party	Goal	Status/Comments
	Short-Term:			
1	Determine current report content and distribution			
2	Download current data base into Paradox for summary report development			
3	Provide dept/org training on understanding of statistics & trend in incidents, costs, loss time, etc. o Increase efforts and provide training to assist with the understanding of cost and work impact on dept/org budgets o Begin this effort immediately with info available from old system using Paradox o Develop high level, one page, summary reports for Managers Office, Dept Heads, etc, that reflect \$ impact and significant trends			
4	WC staff meet with dept mgmt & supervisors on a monthly basis to share WC claim & accident statistics			

#	Steps:	Resp Party	Goal	Status/Comments
	Short-Term:			
5	Safety specialists meet with all depts field & office staffs on a quarterly/annual basis TBD & share prevention program results			
6	Survey other jurisdictions for useful tools			
	Long-Term:			
1	Regular/standard monthly reporting to all depts/orgs o Reports should break down by level: - Dept as a whole - Organization - Section - Work Unit/Team where appropriate o Reports should require some sort of response to ensure review and to begin to establish accountability			
2	Develop goals for incident & cost reduction; reflect actual activity to goals			
3	Track/monitor trend results & communicate as appropriate			

WORKERS' COMPENSATION

Objective: Elimination/Decrease of 100% I-Time Charter provision for non-safety employees; decrease to reasonable level				
Constraints: Will require ballot vote for change in City Charter Any change to the Charter may apply only to employees hired subsequent to the change Labor Code 4850 covers 100% salary continuation for Public Safety for up to one year REO's meet & confer prior to submission of Charter change				
Costs: Legal fees for public vote and change to City Charter				
Savings Goal: Consultant report indicates annual savings of \$330,000 are achievable if current City charters were not in place & the WC minimums were paid \$150,000 if employees were only "made whole" Additional savings potential through reduction in number of days off Additional savings potential through reduction in claims filed Reduce O.T. of employees to cover those off on I-Time				
Statistical/Supporting data: 1995: 248 lost time injuries to non-Public Safety employees, averaging 31 days absent and a total of \$2.7 million in IOD dollars paid; approx \$1.7 million to Safety employees and \$1.0 million to miscellaneous				
#	Steps:	Resp Party	Goal	Status/Comments
	Short-Term:			
1	Consider ending funding of P-Vouchers (IOD time pay) in the Risk Fund. Paid for through Dept budgets, therefore is double budgeted			
2	Review AA I-time consultant report			
3	Determine & draft all steps necessary to proceed o Meet with Attorneys Office to determine process necessary			
4	Investigate potential for change being retroactive, or at least for all employees for injuries occurring after effective date, rather than only for new hires.			
5	Develop a proposal for meet & confer with REO's			

#	Steps:	Resp Party	Goal	Status/Comments
	Long-Term:			
1	Pursue related revision to City Charter			
2	Place on ballot for public vote			

WORKERS' COMPENSATION

Objective: Back ground checks on all new hires & re-hires				
Constraints: Limits to ability to investigate until an offer has been made				
Costs: Cost of background checks Administration/monitoring				
Savings Goal: Avoid costs associated with pre-hire injuries and other falsifications Enhance quality of hires				
Statistical/Supporting data:				
#	Steps:	Resp Party	Goal	Status/Comments
	Short-Term:			
1	Determine associated costs and method			
2	Contact other jurisdictions for use and results statistics to determine value			
3	Discuss with City Attorney's Office & LR			
4	Prepare RFP if determined to be of value			
5	Determine method of application and administration			
	Long-Term:			

WORKERS' COMPENSATION

Objective: Enhance pro-active citywide modified duty program				
Constraints:				
Costs: Training of management in development & use of light duty positions Administration & monitoring				
Savings Goal: Decrease in number of days off and cost of I-Time				
Statistical/Supporting data:				
#	Steps:	Resp Party	Goal	Status/Comments
	Short-Term:			
1	Review results of program to date and determine potential for enhancement o Develop plan to improve existing program			
2	Develop a comprehensive City wide modified duty position library o Many managers/supervisors are not aware of positions available			
3	Provide mgmt/supervisory training on development & use of light duty positions			
4	Develop mechanisms for recognition & development of additional positions o Consider seasonal needs			
5	Develop reports for sharing of light duty position use and results			
	Long-Term:			

WORKERS' COMPENSATION

Objective: Enhanced litigation reduction techniques/efforts & resulting cost decrease				
Constraints: Legal issues				
Costs:				
Savings Goal: Reduction in litigated claims & attorney fees				
Statistical/Supporting data: Per Arthur Anderson report, based on a 1994 survey, on average (three years) 11.5% of City claims have resulted in litigation versus 6.5% for other cities.				
#	Steps:	Resp Party	Goal	Status/Comments
	Short-Term:			
1	Develop a litigation management plan			
2	Develop a communication/goodwill program: o Immediate claimant contact policy o Let all employees know services provided and rights of the employee o Direct and timely personal contact with all claimants o Increased communication with bargaining units			
3	Provide training and encourage management & supervisors to become more involved in communication with injured employees			
4	Perform analysis of City's litigation frequency rate			
5	Visit to homes of injured employees by contracted 3 rd party. Discuss with LR & Attorneys Office			Maybe M & C
6	Survey other jurisdictions for litigation frequency and determine best practices			

#	Steps:	Resp Party	Goal	Status/Comments
	Short-Term:			
7	Negotiate compromised legal & flat fee arrangements with law firms			
	Long-Term:			
1	Perform analysis of attorney cost and results for WC			
2	Determine best practice for WC attorney &/or hearing reps use			

WORKERS' COMPENSATION

Objective: Continue/enhance W/Comp marketing program to inform employees of services provided, what to expect in the event of an injury, etc. include efforts in areas of fraud, modified duty etc. to make them aware of efforts being made on their behalf.				
Constraints: Time & effort				
Costs: Development of plan and approach Administration				
Savings Goal:				
Statistical/Supporting data:				
#	Steps:	Resp Party	Goal	Status/Comments
	Short-Term:			
1.	Develop a pro-active WC/Risk Mgmt marketing program, include: <ul style="list-style-type: none"> o What to expect & rights of emps o Include efforts & results of work plan, i.e., drug testing, drivers training, modified duty, fraud detection & prevention, etc o Identify improvements that have been made o Identify audit recommendations implemented o Reflect efforts of staff o Document & share results of cost reduction and injury prevention efforts o Market successes 			
2	Consider development of a quarterly newsletter. <ul style="list-style-type: none"> o Include results of safety efforts o Share trend improvements o Highlight selected organizations with positive results. 			
	Long-Term:			

WORKERS' COMPENSATION

Objective: Perform analysis of self insured/administered vs contracted (TPA) WC services				
Constraints: Impact on current staff				
Costs: Contract costs				
Savings Goal: Timed saved for implementation of pro-active program				
Statistical/Supporting data:				
#	Steps:	Resp Party	Goal	Status/Comments
	Short-Term:			
1	Perform cost/service analysis of self vs TPA administered. Provide alternatives ranging from: o Fully self administered o Fully administered by a TPA o Ranges in-between o Ask other cities			
2	Perform cost/service analysis of self vs fully insured. Provide alternatives ranging from: o Fully self-insured o Fully insured, private carrier o Ranges in-between o Ask other cities			
3	Consider for a portion, vs all, of claims administration			
4	If a portion of administration is contracted, develop plan to permit existing City staff to become more pro-active.			
5	Survey results/cost at other jurisdictions			
6	Investigate contract services provided			

#	Steps:	Resp Party	Goal	Status/Comments
	Long-Term:			
1	Prepare RFP for proposals if determined necessary			
2	Once pro-active measures are in place, evaluate benefit of taking back contracting portion of claims			
3	Monitor effectiveness of TPA vs City staff experience			

WORKERS COMPENSATION

Objective: Evaluate excess liability coverage and reserving practices				
Constraints:				
Costs:				
Savings Goal:				
Statistical/Supporting data:				
#	Short-Term Steps:	Resp Party	Goal	Status/Comments
1	Perform analysis of excess coverage policy, vary amounts. Determine cost and impact to City.			
2	Consider change in actuary confidence level from 80% to 70%			
3	Evaluate claims reserving practices. o Consider Claims Rep time, effort and consistency o Remember that reserves are adjusted per Actuary study			
	Long-Term Steps:			