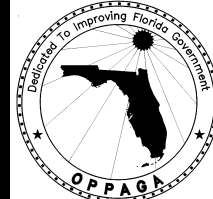




Office of Program Policy Analysis And Government Accountability



John W. Turcotte, Director

January 21, 1997

Follow-Up Report on the Review of the Special Disability Trust Fund Administered by the Department of Labor and Employment Security

Report Abstract

The Department of Labor and Employment Security has taken steps toward implementing our recommendations for determining the future cost of Special Disability Trust Fund claims, improving program administration, and evaluating fund activities. Based on these actions, the Department:

- **Determined the Special Disability Trust Fund has an unfunded liability of \$4.7 billion.**
- **Recommended to the Governor that the program be abolished but that claims already accepted continue to be paid until the unfunded liability is eliminated.**

The Legislature will have the opportunity to consider options for the Trust Fund during the 1997 Legislative Session.

Purpose of Review

In accordance with s. 11.45(7)(f), F.S., this follow-up report informs the Legislature of actions taken by the Department of Labor and Employment Security in response to our Report No. 94-20, which we issued on December 20, 1994. This report presents our assessment of the extent to which the Department has addressed the findings and recommendations included in our report.

Background

The Special Disability Trust Fund was established to encourage the employment of the physically disabled by protecting employers from excess workers' compensation liability for expenses that could arise from work-related injuries to physically disabled workers. The Fund is used to reimburse insurers (i.e., workers compensation insurance carriers, self-insurance funds, and self-insured employers) for eligible workers' compensation expenses. Employers who self-insure are directly reimbursed from the Fund for workers' compensation benefits that they pay for such claims. Employers who insure through insurance carriers or self-insurance, while not directly reimbursed from the Special Disability Trust Fund, should benefit to the extent which fund recoveries are reflected in insurance premiums. Reimbursements paid to insurers equaled \$191 million in fiscal year 1995-96.

Prior Findings

The Special Disability Trust Fund (SDTF) assessment formula yielded sufficient funds to make annual reimbursement payments but may not produce sufficient funds to meet future disbursement needs. In addition, the Department had not determined the value of unfunded liabilities associated with existing claims. We recommended that the Department periodically conduct actuarial studies of the SDTF to determine the fund's claim liabilities and future income needs.

The Department had not obtained sufficient budget authority to pay claims in a timely manner. In addition, new claims and reimbursement requests were not being

processed in a timely manner. We concluded that these conditions might impair the fund's ability to protect employers from excess workers compensation liability caused by employing physically disabled workers. We recommend that the Department streamline the processing of claims and reimbursements.

The Department did not have effective procedures to ensure that self-insurer assessments were made timely and accurately. As a result, some self-insured employers were not paying Special Disability Trust Fund assessments when due. Sanctions to deter the late submission of reports used to calculate the assessment were not effective. In addition, because the Department did not maintain adequate assessment information they could not readily determine whether self-insured employers had paid their assessments. We recommended the Department establish procedures to ensure that Special Disability Trust Fund assessments are paid in a timely manner.

The Department developed measures for reporting output and efficiency of the Special Disability Trust Fund, but had not developed measures to evaluate the success of the Fund or its outcomes. We recommended that the Department develop outcome measures and periodically evaluate the impact of the Special Disability Trust Fund.

Our review of other states and of literature concerning special disability funds identified numerous concerns about rising costs and fund effectiveness. At the time of our review, seven states had eliminated their special disability trust funds for various reasons. These reasons included insufficient funding to finance increasing numbers of approved claims and concerns about the rising use and cost of their special disability trust funds.

Current Status

The Department has taken steps towards implementing our recommendations for improving the Special Disability Trust Fund Program. However, funding is not adequate to pay claims in a timely manner and an actuarial study concluded that the fund does not benefit most employers.

Adequacy of Funding. The Department contracted for an actuarial evaluation of Special Disability Trust Fund liabilities. The completed study reported that the fund had an unfunded liability for accidents occurring on or before June 30, 1995, of \$4.7 billion. The current assessment is not adequate to pay outstanding claims on a timely basis, and there have been no reservations for future costs

associated with current claims. The Legislature has placed a cap on the assessment rate, which will expire on July 1, 1997, to prevent the assessment from becoming a financial burden on employers.

Given the unfunded liability of \$4.7 billion, and the cap in the assessment rate, the Secretary of the Department, in a letter dated March 21, 1996, recommended to the Governor that the program be abolished but that claims already accepted continue to be paid until the unfunded liability is eliminated.

Benefits to Employers. While self-insured employers benefit directly from the fund, an actuarial evaluation of insurance carriers determined that most employers receive little direct benefit from the fund. The study concluded that the insurance industry's experience rating process combined with delays in filing and approving claims results in an inefficient system for distributing fund recoveries to individual employers. As a result the fund does not appear to provide an incentive to most employers to hire workers with physical disabilities.

Process Improvements. The Special Disability Trust Fund Unit has improved processes to increase the speed of claims approval. In addition, the Fund's Advisory Committee has recommended legislation that would mandate a one-year time limit for filing a proof of claim. Both could impact experience ratings; however, without adequate funds to pay claims in a timely manner these changes would have no impact.

Self-Insurer Assessments. The Operations Support Unit has designed and installed a software program to improve their oversight of self-insurer assessments. The system tracks individual employers and creates automated notices to employers who have not submitted their payroll reports or remitted their assessments when due. While the system is relatively new, personnel believe that the mailing of timely delinquency notices is resulting in increased compliance with payroll reporting and assessment payment requirements.

Establishing Outcome Measures. While the Department has taken steps to improve the computerized claims information system, they have not established outcome measures for the Special Disability Trust Fund. They are participating in a national survey to determine if any states have developed sound outcome measures for their Special Disability Trust Funds.

This project was conducted in accordance with applicable evaluation standards. Copies of this report may be obtained by telephone (904/488-1023 or 800/531-2477), by FAX (904/487-3804), in person (Claude Pepper Building, Room 312, 111 W. Madison St.), or by mail (OPPAGA Report Production, P.O. Box 1735, Tallahassee, FL 32302).

Web site: <http://www.state.fl.us/oppaga/>

Project Supervised by: Kathleen A. Neill (487-9279)

Project Conducted by: Janice L. Foley (487-9266)