DEPARTMENT OF ADMINISTRATIVE SERVICES
STATE OF CONNECTICUT

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FY 11 Deficiency Hearing

Appropriations Committee
November 15, 2010

Good morning Senator Harp, Representative Geragosian, Senator Debicella, Representative Miner, and members of the Appropriations Committee. My name is Martin Anderson, and I am Commissioner of the Department of Administrative Services.

I am here to request your support for a deficiency appropriation for the state Workers' Compensation General Government account.

By way of background, the legislature appropriates money into seven different accounts to pay workers' compensation benefits for all state employees. While DAS is the central administrator for the State of Connecticut workers' compensation program, some of the larger agencies receive their own appropriation. Specifically, the Departments of Children & Families, Developmental Services, Mental Health & Addiction Services, Correction, and Public Safety pay their own claims. DAS manages the State Transportation Fund ("STF"), which pays the workers' compensation benefits for employees of the Department of Transportation and the Department of Motor Vehicles. We also manage the General Government ("GG") account, which pays the workers' compensation benefits for all other state employees, including those working for the legislative and judicial branches. The projected status of that fund brings me here today.

Based on our analysis of paid losses following the first quarter of this fiscal year, we project that the workers' compensation costs for this year will exceed the budgeted amount for the GG account by $1,000,000. We expect that an additional appropriation to the GG account at this level will be sufficient, barring any unforeseen events during the last three quarters of the fiscal year.

Several factors combined to create the deficiency in the GG account, including:

- Increased costs associated with providing medical care, which accounts for the lion share of the projected deficiency;
- Increased utilization of the Selective Duty Program available to the healthcare employees; and
- A pre-existing deficiency from FY 2010.

Medical care costs within the industry are increasing. The increases are directly related to greater medical utilization per claim and general medical inflation. The state's program is no exception. Medical expenditures represent most of the identified deficiency.

Another factor that has affected the GG workers' compensation account is the increased activity in the Selective Duty Program. This is a return-to-work program that was negotiated in the health care employees' union contracts. DAS promotes such return-to-work programs to help employees return to duty as soon as they are able because they benefit the employees and reduce lost-time claims.

With the Selective Duty Program, however, our success in getting employees back to work into light duty positions means additional expenditures for the GG account. While an employee who is out on workers' compensation is paid benefits out of his/her agency's workers' compensation account, an employee who returns to restricted duty through the Selective Duty Program is paid from the GG account - regardless of the agency or branch for whom s/he works. The GG account spent $400,000 for the Selective Duty Program last fiscal year and we anticipate that participation in this program will continue to grow this year.

Finally, some of the projected deficiency in the GG account relates to the fact that the FY 11 appropriation for the GG account did not reflect the account's FY 2010 appropriation deficiency.

I urge the Committee to remember that the job of projecting annual workers' compensation expenses is complex, since it is based on unforeseen events and numerous cost variables. As such, annual projections made with the benefit of only one quarter of data available may be subject to change. As the fiscal year progresses, and additional data are available, DAS will continue to update these projections.

DAS Efforts to Reduce Expenses

I would like to emphasize that, although we continue to see workers' compensation costs rise, DAS has been persistent in our efforts to improve the program and bring costs down. Over the last two years, cost containment initiatives within the medical delivery system have been our highest priority. The initiatives centered around a single objective, which is to maximize cost efficiencies for the state while maintaining a responsive program for our injured employees. We established preferred specialty networks with associated discount pricing for diagnostic imaging and prescription drugs. In October 2009, a new Preferred Provider Directory established the first PPO re-contracting for physicians within the network in 17 years. Lower reimbursement rates for many procedures were achieved along with the administrative costs to process the medical bill review and re-pricing lowered by 2 percentage points off of each dollar saved. Total savings of $1,500,000 were realized in FY 10 in these areas of the program.

DAS has also focused on increasing safety throughout the state in an effort to reduce workers' compensation injuries, and therefore costs. We work with agencies to help them develop internal Safety and Health Committees. Thus far, DAS has facilitated the

establishment and certification of 76 Safety and Health Committees throughout state government and continues to work on incorporating these committees into the culture of each agency. Moreover, through our Loss Control Program, DAS staff works directly with state employees to identify and remediate the triggers that cause the employee injuries.

Equally as important to the cost savings are the administrative steps DAS has taken to create efficiencies in agencies' administrative processes; thereby reducing processing time and improving consistency and accuracy. These initiatives include the following:

- Finalized phase two of the DAS Core-CT processing manual. This phase provides agency claim processors with a streamlined guide to internal claim processing at the agency level. The decentralized agency processing will now have uniform standards and quick guide instruction to deliver consistent credible information within Core-CT. To date 21 agencies and 130 staff have been trained. The next training date is scheduled for November 18, 2010.

- Developed a Core-CT report to extract injured employees' wages for indemnity benefits. This initiative will free up processing time and deliver more consistent and accurate results.

- Implemented a computer application that standardizes first check reconciliation for all state agencies. The application will provide more accurate and consistent results, and will drastically decrease agency time on this process.