Indiana Worker's Compensation Board
Agency Overview, FY2014-15 Biennium

The Worker's Compensation Board utilizes a general fund and two dedicated funds. The dedicated funds are the Second Injury Fund and the Residual Asbestos Fund. The activities of the Second Injury Fund and Residual Asbestos Fund are described in the fund narrative statements. This letter focuses on the General Fund appropriation.

Mission Statement

The mission of the Indiana Worker's Compensation Board is to efficiently administer the adjudication of worker's compensation disputes through both formal and informal processes, and to provide responsive service to the public when approving and processing claims information and fielding inquiries.

Customers

Our primary customers include injured workers, insurance company representatives, employer representatives, and attorneys. Our secondary customers include medical professionals and special interest groups, such as labor unions, trade organizations, and business associations.

Objective

The Board will, again, focus on two major points in the FY2014-2015 biennium: compliance and provider fee resolution. Development of electronic forms continues to be a secondary objective.

COMPLIANCE

The Board's Director of Compliance, who has been with the Board since March 2012, is working with the Chairman to develop compliance protocols, following the compliance measures set out in the Worker's Compensation Act. The goal is 100% coverage for workplace injuries, along with the timely filing of forms and reports and payment of benefits. This is to be accomplished primarily through education and deterrence measures. However, when these efforts fail to bring offenders within the terms and time frames set out in the Worker's Compensation Act, the escalating penalty provisions added by the Legislature in 2011 will give the Board the teeth it needs to force compliance.

PROVIDER FEE REIMBURSEMENT

On July 1, 2011, a filing fee for provider fee claims was implemented. This fee, which is due only from hospitals bringing provider fee claims on balance bills, has had the desired effect of reducing the number of filings. In 2011, we processed 1,201 such claims, and to date in 2012, only 368 hospital claims have been filed. However, the system, as it applies to hospitals, is still "broken." The language of the statute cannot accurately be applied to the billing system used by hospitals. Further, the process is not transparent to providers and payers. Fixing the system is crucial. Most states have moved away from the "usual and customary" reimbursement system that is still used in Indiana. While there are many variations, approximately 42 states use some system based on Medicare. This most likely will be the direction pushed by the Insurance Institute and supported by the Workers Compensation Research Institute (WCRI). While the Board is not married to this method, it does recognize it provides a transparent, easily implemented system. However, it has the potential to greatly increase the Board's cost of processing these claims, and active involvement in the legislative process will be necessary to insure these costs are absorbed by the users of the system, not the Board.

A secondary focus is the Board's continued work to expand its electronic filing and notification services. Each advancement reduces the Board's budgetary needs by saving on supplies and reducing the workload of the staff. This is discussed further under the Accomplishments section.

Accomplishments

The Indiana Worker's Compensation Board is recognized as the 2nd most efficient worker's compensation agency in the nation. Additionally, an employer's cost of defending a claim in Indiana is lower than in 48 other states, per a WCRI study report. This is a testament to the Board's responsive staff, Board-conducted mediations, and the hearing process.

The Board reached its green target related to the average age of our disputed claims in the third quarter of 2011. Our current green target of 1 year is very ambitious, as the Board does not have control over many of the factors which determine the age of a case when it is closed. This becomes evident when the trends are studied. Consistently, the Board's best quarter is the third. This parallels the insurance industry's desire to close cases before the end of the year, so we find them settling older cases. The average age of our resolved cases tends to be roughly 1½ years, below the national average of 2 years.

The Board has reduced its staff size from 38 in 2007 to 31 current employees. Office staff accounts for 19 of these positions. This reduction is due in large part to simplified processes and the use of electronic communication methods. The Board recently launched an online tool allowing for direct entry of three forms. The immediate response was positive, and we are moving forward with other more complicated forms. Forms requiring responsive action from the Board are more challenging and will take more time to perfect.

The Board completed the administrative rule making process, overhauling Title 631 of the Indiana Administrative Code, in 2012. A large section was added giving direction to medical providers filing claims. While this does not solve the problems with the system as it pertains to hospitals, it does make the process and the expectations of the Board more clear. IAC changes also instituted fees for mediation, which has not deterred the worker's compensation community from seeking Board mediation of contested claims. Since the fee's inception on July 1, 2012, five cases have been mediated, bringing in $1,750.

Challenges

Our most creative efforts come into play when devising ways to provide our desired level of service with limited resources. Following are some of our concerns.

The vast majority of our budget needs are salaries. Our 19 staff members are all cross-trained to cover for sick or vacationing employees. All but one staff reduction has been made in the clerical area. It is expected that the focus on compliance may give rise to the need for an additional college-educated staff member. Likewise, if the Legislature adopts a fee schedule for hospitals, especially one based on Medicare, an additional employee familiar with medical billing will be required by the Board.

Programming enhancements may be required if/when a new method of reimbursing for medical care is passed by the Legislature. The Board's single IT expert could not handle this workload alone, and the Board anticipates additional need for space on the State's server, which would also increase the Board's costs. The hospital and insurance industries have committed to shouldering these additional costs through filing fees and miniscule additions to worker's compensation insurance premiums. Again, the Board will closely monitor any legislation in this area.

Reallocations

As done in previous years to meet the Board's shortfall from the General Fund appropriation, the Board is planning to use $145,007 from the Supplemental Administrative Fund. The Board has paid this amount for approximately five years. IC 22-3-5-6 establishes the Supplemental Administrative Fund and states that this money is not to be used to replace funds otherwise appropriated to the Board. The Board would like to phase out the use of this fund to pay salaries, as its revenue will be reduced significantly in two years time.

Currently, the Supplemental Administrative Fund collects revenue from five statutory programs: Independent Contractor Certifications, the Self Insurance program, hospital provider claim filing fees, mediation fees, and fines and penalties. Since these programs went into effect on July 1, 2011, $8,640 has come in through filing fees, and $8,200 has been paid in fines and penalties. This revenue, along with fees from mediation, is expected to remain consistent or fall as education continues and if a better reimbursement system for hospitals is adopted by the Legislature. In the last fiscal year, independent contractor certificates brought in $126,120 and self-insured employers paid $29,000 in application and renewal fees.

Effective January 1, 2007, the Legislature gave the Board authority to assess insurance carriers and self-employed businesses for the cost of administering the Second Injury Fund, and collect the debt owed by the Fund. The agreed-upon amount of each loan installment is $192,400. However, this repayment will only be received by the Board through 2014, at which time the loan will be satisfied.

In light of this scheduled decrease in outside income and the projected need for at least one additional mid-level staff member, the Board is seeking to increase its General Fund appropriation through a change package. It is requesting an additional $145,007 in order to meet its salary and benefit needs without resorting to the Supplemental Administrative Fund.

The Board would like to better accommodate mediations and meetings currently held in private offices of the Chairman and/or Executive Administrator, as well as providing more privacy to executive staff members handling sensitive matters. Currently, the Board only has three offices with doors. Thereafter, this Supplemental Administrative Fund would provide a stream of income for education and training of its staff and Board members, along with scheduled replacement of outdated equipment. The Board looks to this fund as its rainy day savings for emergencies, such as unemployment and worker's compensation obligations not budgeted for and any shortfall of the Second Injury Fund in a particular year. The Board has not had an opportunity to rebuild this Fund since its balance was offered to the State to cover shortfalls two years ago.

Above sections of this document verify actions of the Board to reduce its budgetary needs, but without qualified, specialized staff to handle the daily obligations of administering Indiana's Worker's Compensation laws, the Board will not succeed. Our

needs in this area will most likely increase in the next year or two, and without sufficient funds to even cover our current staffing needs, the Board will fail. We have no place to cut staff or money from our budget.

New Initiatives

The cost of medical care provided to injured workers continues to rise, affecting the cost of insurance and thus of doing business in our state. Indiana has one of the highest medical reimbursement costs, while its benefits to workers are some of the lowest. We would better serve business and industry through a proactive approach to compensating medical providers, taking the cue from other states that have already addressed this concern. The Board understands this is a process and has been pursuing it for more than five years. We will continue these efforts in an appropriate manner for a state agency which recognizes and respects the interests of all involved industries. It will not offer any legislation in this area but will be active in the process by responding to bills introduced by other stakeholders.

Although new developments at the Board can be found on our website, the Board has never produced an annual statement. As mentioned over the last two years, it is a goal of the Board to develop one. This is raised here as much as an incentive for the Board as a goal to fit this report’s needs. Without additional IT help in gathering relevant data reported by other states, this will remain a pipe dream. Any annual report would only be available on our website.

Program Measures and Goals

Following is a summary of the performance measures developed by the Worker’s Compensation Board, relevant to efforts underway to improve the Board’s delivery of services:

<u>Key Performance Indicators</u>

- **Age of disputed claims (in years)**
  - This KPI correlates directly to the Board's ability to resolve disputed worker's compensation claims in an efficient manner. Reductions to the number of years required to resolve such claims can only be achieved by improving our efficiency. Current target is 1 year.

- **Fees collect versus benefits paid**
  - This KPI conveys our ability to effectively administer the Second Injury Fund (SIF). Previously, the annual assessment calculation was outsourced. After the Board prepared the numbers, an accounting firm put them into a formal report, which was then used as the basis for the assessment. In 2007, the Legislature gave the Board the responsibility of coming up with the assessment. Administration of the fund has always

been in the hands of the Board. This KPI was established to demonstrate our ability to cover costs while establishing and maintaining a prudent reserve. Failure to meet our target would compromise the viability of the fund.

Goals and Measures

1. Informal resolution of disputed cases:

   One of our goals is to reduce the number of cases that must be resolved via our formal hearing process. Our case coordinators facilitate the resolution of worker's compensation disputes without the need for a formal hearing. Using tools such as mediation and alternate dispute resolution, they act as impartial third parties who work to accommodate the demands of all involved parties. Currently, 54% of all disputed cases are resolved without the need for a formal hearing. Board mediations boast an 85% success rate.

2. Reduction of time it takes to resolve a case through the formal hearing process:

   We proactively work to reduce the amount of time a claim heard by a Single Hearing Member remains open from date of filing. Initially, our goal was two years, the industry average. This goal was met in 2007. In 2008, we set our goal at one year and met this goal the 4th quarter of 2009. Currently, cases are regularly resolved within 1 ½ years.

3. Reduction of time from formal hearing to issued decision:

   Historically, our hearing members have rendered their decisions in 40 days or less, an industry-wide acceptable time frame. Due to the success of our case coordinators and mediators, fewer cases need to be scheduled on the hearing docket. This, in turn, has allowed our hearing members to reduce the amount of time it takes to write decisions and enter Orders on disputed claims. Our ideal goal has been 25 days for over a year, although our realistic aim is 30 days. Our current average is 32 days, as we push to hear and resolve all cases older than three years.

4. Accurately calculate annual assessment rate for Second Injury Fund (SIF):

   The Board calculates the assessment using relevant historical averages and data supplied by the Indiana Compensation Rating Bureau (ICRB). Prudent reserves have been built in to cover unforeseen needs or shortfalls in the amounts collected.

   The Board necessarily uses ICRB data from 2 prior years, which is as soon as certified numbers are available. In turn, 2 year old worker's compensation insurance data has not been accurate enough to adequately provide for an assessment rate that would satisfy the projected needs of the SIF, so adjustments have been made to account for the difference in the employment rate for the current year versus that of the year of the ICRB

data by adding an inflation factor. No significant shortfall has occurred other than in 2010, and the prudent reserve covered that deficit. An inflation factor is also added to the prosthetics amount, due to the increasing cost of replacing ever-more sophisticated limbs.

In addition to using historical data to estimate the needs of the fund, the Board has begun collecting information from current cases. When an injured worker is found permanently and totally disabled (PTD), the relevant statistics to factor in the additional draw on the fund are logged. For example, Joe Sample will have received his maximum benefit due from his employer in June of 2015 and will receive $300 per month. He is currently 65, so the number of years he will receive benefits can be actuarially calculated. This will help ensure the assessment for 2015 and thereafter is sufficient to pay Joe's benefits.

Thank you for your consideration of this request for the Indiana Worker's Compensation Board.

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Linda Peterson Hamilton
Chairman