



JUDICIAL COUNCIL OF CALIFORNIA

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REPORT TO THE JUDICIAL COUNCIL

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Judicial Branch Workers' Compensation
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Judicial Branch Workers' Compensation
Advisory Committee
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Executive Summary

The following is an informational report on the origins of the Judicial Branch Workers' Compensation Program, its advisory committee, and the current status of the program. Included is an explanation of the share of cost (allocation) model for the program.

Previous Council Action

On October 29, 2010, the council approved adjusting the cost allocation model so that administrative program fees, that include costs for a third party claims administrator (TPA) and risk consultant, were evenly distributed among all member participants.

Methodology and Process

In fiscal year (FY) 2003–2004, the Judicial Branch created and implemented the Judicial Branch Workers' Compensation Program (JBWCP). The development of the program initially focused on developing a process for providing workers' compensation coverage to the trial courts. During that first year, 47 trial courts voluntarily joined the program. Since FY 2012–2013, 57 trial courts participate in the program.

In 2004, the Trial Court Budget Working Group—now known as the Trial Court Budget Advisory Committee (TCBAC)—formed a subcommittee to establish the process for the administration of the workers’ compensation program.

Initially there were three different workers’ compensation, third party claims administrator (TPA) vendors servicing the trial court employees, the trial court judges, and the state judiciary, which includes the Supreme Court, Courts of Appeal, Habeas Corpus Resource Center, the Judicial Council, and the Commission on Judicial Performance. In 2004, one vendor was engaged to service all three.

In FY 2004–2005, the subcommittee, in coordination with the broker-consultant Driver-Alliant, developed the current cost allocation methodology.

Evolution of the Cost Allocation Process

As the JBWCP evolved into one unified structure due to the consolidation of claims administration services, it grew in size and scope. This necessitated a review of the program’s funding and costs, which was becoming more complex as individual courts joined the program. To ensure continuity of funding and ease of administration, a report was developed to determine how to manage a consolidated statewide program.

In 2009, the report was submitted to the TCBAC, where it was determined that JBWCP financial decisions should be brought before the Judicial Council due to the growing scope of the program and its potential impact on the branch wide finances. The costs and expenditures of the program are incurred by the entire judicial branch excluding only the employees of the Superior Court of Los Angeles County, whose employees are covered under a separate workers’ compensation program. Shortly after, the program evolved into a consolidated, statewide program governed by an advisory committee and administered by the Judicial Council’s Human Resources staff in coordination with the TPA and the risk consultant.

Allocation of claims costs. The broker consultant, Driver Alliant, developed the allocation method. Various methodologies were considered by the advisory committee. With the exception of the change made in October 2010, the allocation model has been consistently applied since its development in 2005.

The claims cost is allocated to each member for each program entity; for example, the largest court by three-year payroll size has a cost weighting of 80 percent of loss experience and 20 percent payroll. The smallest court by payroll size has a cost weighting of at least 10 percent loss experience. All other courts are weighted by payroll and loss experience along that continuum. This ensures that the larger courts with more predictable losses are subject to an allocation that emphasizes losses, while the smaller courts’ allocations are more reliant upon payroll to ensure more year-to-year budget stability.

This method is also applied to the administrative cost of the program and the fees for excess insurance as further defined below.

Allocation of administrative costs. The program has administrative costs necessary to ensure its viability. There are administrative fees for claims handling services provided by the TPA, actuarial services provided by the risk consultant, and excess insurance coverage for the trial courts. Government Code section 68114.10 states that, “the [Judicial Branch Workers’ Compensation] fund shall be used by the Administrative Office of the Courts to pay workers’ compensation claims of judicial branch employees and administrative costs.” However, the salaries of the Judicial Council staff assigned to administer the program, per rule 10.350 of the California Rules of Court, including any travel and meal reimbursements for the annual committee meeting, are not charged to the JBWCP fund. These costs are absorbed by the Judicial Council’s Human Resources office.

Allocation of insurance costs. The cost of excess insurance fees is distributed to each trial court member based on each court’s current budgeted and projected payroll. The state judiciary and trial court judges are fully self-insured for this component of the program.

The chart below provides the total annual cost for the program for the past five fiscal years based on the cash flow method of funding and the distribution of cost among the three entities:

Table 1. Total Historical Annual Program Costs

	Trial Courts	State Judiciary	Trial Court Judges	Total Annual Program Cost	% Change
FY 2010–2011	\$17,229,539	\$521,037	\$345,031	\$18,095,607	
FY 2011–2012	\$17,479,555	\$437,568	\$380,363	\$18,297,486	1.12%
FY 2012–2013	\$16,516,037	\$591,355	\$462,314	\$17,569,706	-3.98%
FY 2013–2014	\$15,693,833	\$412,812	\$591,230	\$16,697,875	-4.96%
FY 2014–2015	\$16,536,018	\$544,369	\$562,692	\$17,643,079	5.66%

The Funding Methodology

The current funding process applied to the JBWCP is a cash flow funding methodology. The annual funding for the program is calculated based on expected annual payments. As of June 30, 2014, assets (reserve) for the program were approximately \$51.5 million. The expected liability for the program is \$82.2 million.

Currently, the funding model does not allow for reserve building that would bring the fund closer to fully funding the projected unpaid liability of the program. However, it is important to note that the assets are sufficient to cover expected cash flow for the year by a substantial margin. If a catastrophic year were to occur and cost increases to the courts were not feasible, the program would need to borrow from the current fund balance to offset the fiscal impact to members. The

use of the fund to offset these types of increases would necessitate consideration for increasing the following year's share of cost necessary to restore the balance of the fund.

The advisory committee intends to return to the Judicial Council at its June 2015 meeting to discuss options for consideration to increase the funding and therefore reduce financial risk to the JBWCP.

Policy and Cost Implications

Over the five year period from 2009-2010 to 2013-2014, the total claims for the JBWCP decreased steadily. The average cost per claim over this period increased at a modest annual rate of 3.7%, increasing from \$20,345 in fiscal year 2009-2010 to \$23,502 in fiscal year 2013-2014. By comparison, the average cost per claim for all State of California public sector self-insured programs, per the self-insurer's annual reports filed with the Department of Industrial Relations for the same five-year period increased at an annual rate of 9.3%, increasing from \$23,845 to \$34,030.

Table 2. Historical Actuarial Estimates of Unpaid Liabilities

Evaluation Date	Trial Courts	Judiciary and Trial Court Judges	Total
At 12/31/07	\$71,167,551	\$2,776,260	\$73,943,811
At 12/31/08	\$75,425,564	\$3,027,477	\$78,453,041
At 12/31/09	\$70,424,532	\$4,253,277	\$74,677,809
At 12/31/10	\$72,742,212	\$4,529,402	\$77,271,614
At 12/31/11	\$66,223,108	\$4,563,295	\$70,786,403
At 12/31/12	\$68,719,529	\$4,808,994	\$73,528,523
At 12/31/13	\$69,555,656	\$5,238,662	\$74,794,318

Next Steps

The JBWCP Advisory Committee will convene in April 2015, and will provide the council at its June 2015 meeting the actuarial report, allocation information, and options for consideration of next fiscal year's funding allocation, with the intent to reduce liability and fully fund the program.