Office of the President, Finance Office
Office of Risk Services
Guidelines for Distribution and Use of Workers' Compensation Funds Including "Be Smart About Safety Program"

This document provides funding guidelines for the University's self-insured Workers' Compensation Program.

A. Actuarially Under-funded Liabilities

To address locations that experience a Program deficit as of July 1, 2013, the University has implemented the following deficit payment schedule:

"Seven (7) Year Repayment Program" schedule:

1st Year; one-seventh of the actuarial underfunding
2nd Year; one-sixth of the actuarial underfunding
3rd Year; one-fifth of the actuarial underfunding
4th Year; one-fourth of the actuarial underfunding
5th Year; one-third of the actuarial underfunding
6th Year; one-half of the actuarial underfunding
7th Year; total actuarial underfunding

Locations in a deficit position are required to implement a deficit surcharge against their payroll based on the "Seven (7) Year Repayment Program". Locations may increase their deficit surcharge if they choose to. Locations are required to transfer the funds to the OP Workers' Compensation accrual account which is applied toward reducing their deficit.

B. Locations with Surplus Status

Refund guidelines are as follows:

- The overall status of the Program, either a surplus or deficit, will annually be reviewed by management to determine the appropriate amount to be returned to those locations in a rebate position. Management's decision will be made in consultation with the University's independent actuary's opinion.
- Locations need to annually invest surplus funds in safety and loss prevention programs in order to reduce their cost of claims. It is recommended that Locations use all amounts refunded for safety and loss prevention. Refunds invested in safety and loss prevention programs reduce claim costs and reduce the Locations workers' compensation rate. It should be noted that the actuary provides a credit to the location for investments of safety funds and not investing surplus funds could negatively impact the location's rate.

- Surplus funds not utilized by approved "Be Smart About Safety" programs, claims or new loss prevention and safety programs will be refunded and allocated to applicable funding sources (i.e., federal, general, campus, or medical center funds) based upon average payroll percentages.
    - Campuses – Campuses are governed by Office of Management and Budget Circulars. The federal government will receive their applicable refund portion (credit to each federal fund, or as a refund check issued to DHHS-- the federal cognizant agency). General funds refunds will be distributed to the Vice President-Budget unless instructed differently by the Vice President-Budget. Any remaining surplus refund amount will be distributed to the campus.
    - Medical Centers – Medical Centers are entitled to receive the entire amount of any refund due. Medical Centers are governed by Medicare Rules and Regulations which are different than the federal regulations that govern the campuses. Therefore, the federal government is not entitled to a portion of any Workers' Compensation refund made to a medical center since it does not fund Medical Centers for Workers' Compensation costs on a cost reimbursement basis. In addition, State funds provided to Medical Centers are for the treatment of patients. This means the State is not entitled to any portion of a Workers' Compensation refund made to a medical center.

C. "Be Smart About Safety" – Safety, Loss Prevention & Loss Mitigation Program

Workers' compensation costs can be controlled with safety and loss prevention by:

- identifying and correcting the causes of employee injuries and illnesses,
- developing and implementing employee safety awareness programs; and
- identifying and managing the indirect costs associated with workplace injuries and illnesses.

Effective July 1, 2005 Office of the President, Risk Services (OPRS) implemented the **"Be Smart About Safety"** loss prevention program. Locations develop safety and loss prevention plans which are submitted to OPRS for approval and funding. Programs at each location will be monitored by OPRS's "Safety and Loss Prevention" personnel to ensure expected results are achieved.

Funding of the "Be Smart About Safety" Program

"Be Smart About Safety" is funded as part of the Self-Insured Workers' Compensation Program. The Program's actuary has determined that this is consistent with other California public agencies.

1. **Annual Assessment Rate**

   A distinctly separate portion of the Workers' Compensation assessment on payroll is utilized for a portion of the "Be Smart About Safety" program. A rate is calculated by the actuary and included in the annual funding assessment.

Including Safety in Annual Funding

As an example, "Be Smart About Safety" is now included in the annual funding estimate, as shown in the table below.

Example Actuarial Funding Exhibit:

Claim Costs	$87,600,000
Program Expense	
Third Party Claims Administrator (TPA)	13,000,000
Administrative Expenses	11,500,000
Funding Estimate	$112,100,000
"Be Smart About Safety"/Loss Prevention	19,700,000
"Be Smart About Safety" Accrual Credit*	(12,100,000)
Total Funding Estimate	$119,600,000

* The Actuary provides a credit for successful "Be Smart About Safety" currently implemented and utilized at the Locations.

Accounting Procedures

The accounting procedures are designed to eliminate duplicate expenditures in the University's Financial Statements and to correctly account for the separate elements of the assessment related to the Workers' Compensation expense and the "Be Smart About Safety" programs.

<u>Transfer of Assessment to UCOP</u>

After the assessment for "Be Smart About Safety" is in effect, a separately calculated portion of the funds assessed and transferred to UCOP will be held for the "Be Smart About Safety" program. The entries will be as follows:

Campus:
Dr. Workers' Compensation Expense X-XXXXXX-XXXXX-6-8500 (full assessment)
Cr. Financial Control X-119500 (full assessment)
Dr. Fund Balance Transfer X-119850-XXXXX-0814 ("Be Smart About Safety" portion)
Cr. Workers Compensation Expense X-XXXXXX-XXXXX-6-8500 ("Be Smart About Safety" portion)

Campuses will need to calculate the "Be Smart About Safety" portion from information provided by OPRS and reclassify that amount to a fund balance transfer. The effect must be that the campuses' Workers' Compensation expense on the campus general ledger excludes any assessment for the "Be Smart About Safety" Program.

UCOP-EIAS:
Dr. Financial Control E-1195XX-900XX (full assessment)
Cr. Financial Control E-119540-90040 (full assessment)

UCOP-Location M:
Dr. Financial Control M-119500 (full assessment)
Cr. Workers' Compensation Liability M-115481 (premium portion)
Cr. Be Smart About Safety Program M-119850-69790-080X ("Be Smart About Safety" portion)

Transfer of Funding to Campus

Funding from the "Be Smart About Safety" assessment:

UCOP-Location M:
Dr. Be Smart About Safety Program M-119850-69790-080X
Cr. Financial Control M-119500

UCOP-EIAS:
Dr. Financial Control E-119540-90040
Cr. Financial Control E-1195XX-900XX

Campus:
Dr. Financial Control X-119500
Cr. "Be Smart About Safety" X-119850-XXXXX-0814

Funding from Surplus Funds:

UCOP-Location M
Dr. Workers' Compensation Liability M-115486
Cr. Financial Control M-119500

UCOP-EIAS
Dr. Financial Control E-119540-90040
Cr. Financial Control E-1195XX-900XX

Campus:
Dr. Financial Control X-119500
Cr. Workers' Compensation Expense X-XXXXXX-XXXXX-6-8500

Best Practices

The “Be Smart About Safety” program provides a stable and a consistent source of funds in preventing workers’ compensation losses from occurring. Injuries to our employees make up the most significant part of the University’s risk. A Liberty Mutual poll shows that for every $1 spent on direct costs related to an accident, there are another $3 to $5 worth of indirect costs – putting the actual cost of an accident with direct medical and compensation costs of $15,000 at somewhere between $45,000 and $75,000. Most entities polled by Liberty Mutual said that they saved at least $3 for every $1 their company spent on workplace safety. OSHA’s Office of Regulatory Affairs reports savings of $4 to $6 for every $1 invested in safety. We are excited to that this is a best practice of the University of California.