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expenses. Once the recommendation of the Pool's actuaries was received, the Pool increased its loss reserves by \$11.7 million. The Pool ended the year with total revenue over expenses of \$2.6 million.

Because interest rates have declined dramatically over the past three years, investment income has also decreased. In 2002-03, the Pool earned \$20.8 million in investment income. The previous year the Pool had earned \$26.3.

The cost of reinsurance was another area where the Pool incurred a significant increase. Since the terrorist attacks on September 11th, the cost of reinsurance has been increasing. In 1999-2000 the total cost of reinsurance was \$5.5 million. In 2002-03 the cost increased to \$ 13.3 million. To help offset some of the increase, the Pool increased the amount of reinsurance that it purchases from its internal Reinsurance Fund. Reinsurance purchased from this fund is just like reinsurance that the Pool purchases from outside reinsurers, except that

each fund purchases it at a lower cost because profit and administrative costs are not built into the price.

To help members in these difficult budget times, the Pool did not implement the actuary's recommended rate increases for 2003-04 for Liability and Property coverage, and only increased rates by 5% in seven payroll classifications for Workers' Compensation. This rate increase produced an overall increase of 1%. The Pool's Members' Equity at the start of 2003-04 was \$198.5 million. It is only because the Pool's financial position is so strong that the Pool is able to keep rates stable.

Overall, the Pool is in sound financial condition. Its losses are fully reserved and Members' Equity remains strong.

Challenges for the future include offsetting shrinking investment income, minimizing reinsurance costs, and helping members actively implement and monitor strong loss prevention measures.



1821 Rutherford Lane, First Floor
Austin, Texas 78754
(800) 537-6655

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TML Intergovernmental Risk Pool Newsletter

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Executive Director's Annual Report

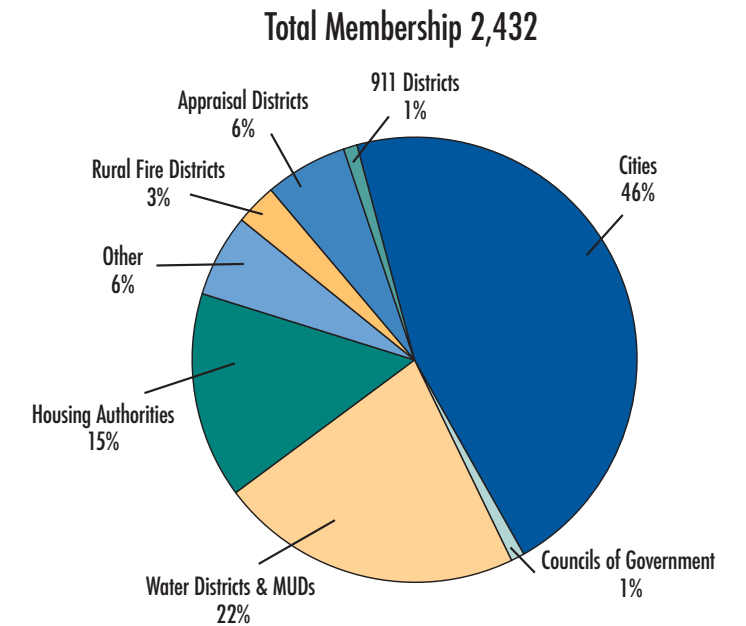
At the November TML Annual Conference, Marvin Townsend, the Pool's Executive Director, provided an annual report to those attending the annual membership breakfast.

The number of members served by the Pool continues to increase, reaching 2,432 at the end of 2002-03, an increase of 9.5%. Losses in each of the funds decreased. This was a major change from the past two years, in which the Pool experienced the worse loss years in its history. Even though last year's known losses were lower than each of the previous two years, the amount that the Pool reserves for estimated ultimate losses needed to be increased.

Estimated ultimate losses include reserves that are set aside for losses that are incurred but not yet reported or for losses that deteriorate over time. Reserves for ultimate losses increased because of the prior two years of bad loss history.

Before increasing its reserves for these incurred but not reported losses, the Pool had \$14.3 million more in revenue than

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Don't be Surprised by Workers' Compensation Audit Adjustments!

As the midpoint of the Fund Year approaches, it is a good time for members to reconcile their payroll to the payroll shown on the Workers' Compensation schedule page received at the beginning of the Fund Year.

This is a critical step in avoiding either overpayment or underpayment of contributions during the year. Changes such as cost of living adjustments, salary increases, addition or reduction of staff, contracting out services and expansion of services will either increase or reduce organization payroll.

At each Workers' Compensation contract anniversary date the Pool conducts individual payroll audits for all members. The initial calculation for the current year's Workers' Compensation

contribution is based on the most current audited payroll, increased 5% for projected growth and inflation. Contribution developed using this method of payroll projection is the estimated amount billed for next year.

Each member receives a Payroll Adjustment Form in addition to the Workers' Compensation rerate declarations and payroll schedule. Completion and return of this form to the Pool allows the member to immediately change the estimated payroll if it is incorrect. The member billing statement will also be adjusted accordingly.

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Please Route

Law Enforcement Coverage - Do You Have Enough?

Have you wondered whether or not your local government has enough Law Enforcement Coverage? Law Enforcement Coverage covers the entity, its officials, and employees for damages that occur from law enforcement activities. Because of the nature of the job performed by police officers, they are constantly dealing with the constitutional rights of individuals. The three most common causes of action arising out of law enforcement activities are claims of false arrest, unreasonable use of force, and unreasonable search. These three types of claims allege that the police officer violated the individual's rights guaranteed under the U.S. Constitution. Damages that can be awarded are not limited by any statutory or constitutional cap.

If an individual is severely injured or killed as a result of force used by police officers, the damages that may be awarded if the force is found

to be unreasonable can be millions of dollars. For example, an individual with a high paying job and a family can easily show damages in the millions of dollars if he is severely crippled or killed from the use of unreasonable force. An individual that is falsely arrested or unreasonably searched can also show extensive damages though it is not likely that the damages will be as high as they are in an unreasonable use of force case. For this reason, it is always a good idea to examine the limit of your Law Enforcement Coverage to determine if it is adequate. One question you might ask is how large an award could your local government bear? That question alone will provide insight in the amount of risk your local government should accept. The Pool has had several law enforcement cases closed with awards in excess of \$1,000,000.

While the Payroll Adjustment Form allows change of payrolls early in the contract year, it is appropriate to review your payrolls quarterly or semi-annually throughout the year. This will avoid large adjustments at the end-of-the-year payroll audit. Payroll adjustments made during the contract year will help prevent a large audit adjustment in the next year for which the budget may have already been adopted.

For help in reviewing or updating the Workers' Compensation payroll schedule, please contact your Field Services Representative or Underwriter at 1-800-537-6655.

Don't be Surprised by WC Audit Adjustments!

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It Could Happen to You

Each year employees are involved in accidents that could have been prevented had they followed safe practices and been more alert to the possible consequences of their actions. The following two examples are actual claims recently received by the Pool.

ized emergency vehicle is not relieved from (1) the duty to operate the vehicle with appropriate regard for the safety of all persons; or (2) the consequences of reckless disregard for the safety of others.

Another accident involved an employee attempting to change the blades on a shredder. The employee arrived at work before anyone else, in an attempt to get a jump on the day by beginning early. The employee propped a shredder up on cinderblocks in order to fit under the shredder to do the work. The shredder slipped off the blocks and crushed the employees' chest, causing fatal injuries. The injured worker was not discovered until other employees arrived at work. Paying attention to proper safe guards and not taking short cuts would have prevented this accident. The employee obviously should not have attempted this work alone and should have made sure that proper jacks and blocking were used. The lesson here is not to take short cuts and, when performing dangerous work, wait until someone else is with you in case of an emergency. Had others been available, they may have seen that the blocks were not going to hold the shredder and, if an accident had occurred, the deceased employee might have received life saving medical treatment.

Both these accidents could have been prevented had the employees been more cautious. Don't let this happen to you. Encourage each other to practice safe work habits and to think before and during the work.

At the January 2004 Board meeting the Trustees received the audit regarding the Pool's financial activities for the period ending September 30, 2003.

The auditors, Ernst & Young, are required to report on any major or controversial issues, significant audit adjustments, unusual transactions or accounting methods, disagreement with management, or difficulties encountered in performing the audit. None were noted in their report. The auditors issued an unqualified opinion and did not note any matters involving internal control that they considered to be material weaknesses.

As part of the Pool's audited Annual Financial Statements, which are being distributed to all members, a section is provided to help readers convert the results from Governmental

Accounting Standards Board (GASB) 31 basis to results that do not include the effects of GASB 31. GASB 31 requires governments to include unrealized gains and losses in income statements. This process may over or understate the Pool's true financial condition. The Pool produces its report following GASB 31 guidelines, but, because the Board's decisions are based on non-GASB 31 reporting, the Pool also reports on a non-GASB 31 basis.

In addition to an unqualified audit, the Pool recently received the Government Finance Officers Association's Certificate of Achievement for Excellence in financial reporting for the fiscal year ending September 30, 2002. This is the ninth year that the Pool has received this award.

Pool Receives Unqualified Annual Audit



While responding to an emergency, a police officer failed to stop at an intersection and collided with another vehicle. The impact of the collision caused the other vehicle to become air-borne, roll over several times and come to rest on its side, injuring the occupants. During the investigation it was found that the officer had not activated emergency lights and siren when approaching the intersection.

This accident could have been avoided had the officer paid better attention, slowed down to make sure the path was clear and activated lights and sirens to warn the public before entering the intersection. The use of emergency lights is at the discretion of the operator and in accordance with policies of the department or the local government. When entering an intersection, the emergency vehicle law states that an authorized emergency vehicle operator may proceed past a red light, stop signal or stop sign, after slowing as necessary for safe operation. Each operator must know that the emergency laws under "Duty of Care" state that the operator of an author-



Fast Facts

- The Pool has 2,481 members.
- The Loss Prevention Department in 2003 conducted 578 classes to 13,592 individuals representing 885 members.
- The Field Services Department conducted over 3,912 visits to members in 2003, or an average of 300 visits by each Field Services Representative.
- The Pool provides workers' compensation coverage to over 134,000 employees.
- The Pool provides property coverage to more than \$14.6 billion of property.
- The Pool's 217 employees live in 52 communities throughout the state.
- The Pool's investments total over \$450 million.
- The combined miles driven by Field Services, Loss Prevention, and Workers' Compensation personnel were in excess of 1,125,000 miles last year.
- For FY 02/03 the Liability Program received 7,036 claims under General, Auto, Law Enforcement, Public Officials, and Aviation coverages.
- For FT 02/03 the Property Program has incurred 2,760 claims.
- For Fiscal Year 2002 - 2003, the Pool received 11,838 workers compensation claims.
- The Pool covers 51,401 vehicles.

How to Lower Workers' Compensation Losses

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Careful Hiring
+ Training
+ Timely Reporting
+ Return-to-Work Program
+ Monitor Progress

Lower Workers' Compensation Losses

Several variables impact workers' compensation costs. Most of us have little control over factors like increasing medical costs, but there are proven practices that members can take to help contain costs.

It Starts with Hiring and Job Descriptions

Using a proper selection process and a formal employee orientation program helps develop a safe and dependable work environment. Job descriptions are an essential tool in the employee selection and placement process. Not only will a good job description help prevent injuries by ensuring that an applicant is qualified for that job, but it also helps prevent misunderstandings about job expectations. While preparing a job description, physical requirements and working conditions should be analyzed.

Each employer should implement a practical safety program to prevent and reduce injuries, accidents, and near misses. All departments, with the support of management, should imple-

ment a program that assigns responsibility and informs managers, supervisors and employees. A sample program is provided by TML-IRP, which follows the Texas Workers' Compensation Commission's program for hazardous employers and is tailored for local governments.

It Continues with Training

Whether lifting files, collecting trash, or pursuing a fleeing suspect, everyone needs to continually think of their safety and the safety of others. This will occur when employees have been constantly reminded of their responsibilities through visual and verbal reminders. The goal is to develop a safety culture.

The Risk Pool provides many services that address loss exposures of local governmental entities, including on-site visits by experienced staff, and training and education classes. The Risk Pool provides an extensive video library on topics related to governmental entities, and publications and handouts to enhance your loss

prevention efforts. Take advantage of these free services to improve your own programs.

If An Accident Does Occur

Immediately reporting claims to the Risk Pool is crucial. The Texas Workers' Compensation Commission prescribes timelines to follow when administering and managing claims. Submissions to the Risk Pool should be as complete as possible so that the claim can be examined properly. An injured employee may receive benefits; but benefits may need to be denied because of certain circumstances such as intoxication, intentional injury, or off-work activity. It is also essential to work with the Pool's claims adjusters and keep them aware of any circumstances that may arise regarding the claim. Active management of workers' compensation claims can effectively reduce time away from work and associated costs.

A thorough accident investigation is one of the most essential elements of any safety program. Supervisors and employees need to fully understand the importance of the first report of injury. Timeliness, along with accurate and complete information, is important in order for the workers' compensation process to operate effectively. For benefits to be paid, information is needed.

A thorough incident investigation finds the causes of the accident so that appropriate preventative measures can be taken. You need to learn why the accident happened, make changes that prevent repeat accidents, and make employees aware of hazards. It is important to answer the basic questions of who, when, where, why, and how the accident occurred. An accident is unfortunate, costly, and it can cause untold suffering. Good accident investigation will uncover all the details of how and why the event happened. Without an accident investigation, the incident is more likely to reoccur because appropriate preventative measures are not implemented. Good accident investigation discovers the facts, and should not assess blame.

Review your claims on a regular basis, making sure department managers and supervisors are aware of the claims. The Risk Pool has a team of professional health care managers within the Workers' Compensation Claims Department who continually monitor large claims and work with injured employees and members to review, monitor and develop ways to implement cost

containment procedures and return the employees to work.

Bringing the Employee Back to Work

It is possible to reduce lost-time accident costs and help injured employees become productive sooner by establishing a return-to-work program before the accident. A key to a successful program is identifying alternative productive work in advance of the need. An effective program anticipates rather than reacts to loss. It's a matter of identifying jobs or parts of jobs that already exist. The best return-to-work programs share two characteristics: an emphasis on the importance of communications and the early identification of alternate productive work. If an employee is physically unable to perform former duties, a common sense solution is to return the employee to alternative work that is physically less demanding, yet essential.

Benefits of a Return-to-Work Program

Cost Saving: By shortening the amount of time injured employees are away from work, a return-to-work program can reduce your experience modifier, which in turn will lower your contributions.

Low Turnover: By an employee returning to work, you don't have to hire and train replacement workers.

Increased Productivity: Production rises when employees are back on the job.

TWCC Hazardous Employer Program: Having a return-to-work program reduces your chance of being named a Hazardous Employer by the Texas Workers' Compensation Commission.

To help implement a return-to-work program, TML-IRP has developed educational materials and sample ideas on how to create guidelines for small or large members, outlining the key elements of return-to-work programs. Areas include identifying job characteristics and physical demands, writing clear job descriptions and performing job task analysis, identifying physical limitations from the health care provider so a job can be developed to fit the limits, and providing training.

Periodically communicating with injured employees lets them know that you care about their health and getting them back to work. An employee is more likely to report back to work sooner if the employee knows he or she is com-

ing back to someone who cares about them. A contact person should be available to explain benefits and answer questions. Good communication also includes expressing a sincere regard for the injured employee's quick recovery and return to productive work and encouraging the employee to follow physician instructions while off work and after returning to work. All employees should understand their roles and responsibilities in a return to work program before the accident. Again, training is crucial.

An employer must respect the employee's right to choose a medical provider, but an employer can suggest medical providers who will work with getting the injured employee back to work and will use proven, cost effective medical treatment. Employers can also educate employees on how they can have better results by working with their doctor and the employer.

Monitor Progress and Assess Your Program

TML-IRP provides assistance and information to members in many ways. For example, Loss Prevention offers assistance in ergonomic evaluations and recommends improved methods of operation. Loss prevention visits keep members up to date on trends and issues. Surveys are conducted to detect, eliminate, and control physical and environmental hazards that contribute to accidents. The Pool's advanced training and education will enhance the skills of your employees. Effective claims handling coordinates the injured employee's needs with the health care provider, and checks medical bills for overcharges or other irregularities.

Above are some of the time-tested ways to control workers' compensation costs. Since there are some factors that cause workers' compensation costs to increase that we have little control over, employers should do all that can be done to control the costs that can be impacted.

For more information concerning how to implement policies and procedures that will help reduce workers' compensation losses, contact the Loss Prevention staff at 800-537-6655.

How to Lower Workers' Compensation Losses