



## Memorandum

**TO:** PUBLIC SAFETY, FINANCE, AND  
STRATEGIC SUPPORT COMMITTEE

**FROM:** Jennifer Schembri

**SUBJECT:** WORKERS' COMPENSATION  
PROGRAM SEMI-ANNUAL REPORT

**DATE:** November 30, 2018

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Approved  Date 12.6.18

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### RECOMMENDATION

Accept the semi-annual report on the City's efforts to contain Workers' Compensation costs and reduce claims for the Workers' Compensation Program through the end of 2017-2018.

### BACKGROUND

The City's Workers' Compensation Program is one component of the City's overall health and safety efforts for employees. The City's first goal is to prevent injuries and accidents, as well as assist employees who have a work-related injury in receiving appropriate and timely medical care so that they can return to work as quickly as possible.

On June 19, 2018, City Council accepted the staff report<sup>1</sup> on the service delivery evaluation for administering the City's Workers' Compensation Program and approved the recommendation to provide all Workers' Compensation Program services for all City employees through a Third-Party Administrator (or "TPA"), with the transition beginning July 1, 2018. Prior to this, the City's TPA, Intercare Holdings Insurance Services (or "Intercare"), had already been handling all of the City's Workers' Compensation Program services except for Police Department cases. In recommending that the City's entire Workers' Compensation Program be administered by a TPA (currently Intercare), it was with the ultimate goal and policy objective to provide the most effective services to the City's injured workers and in acknowledgement of ongoing limitations and challenges with the City's ability to provide the necessary services in-house. The transition will allow City staff increased capacity and resources to focus on wellness and safety and injury prevention.

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<sup>1</sup> Staff Report: <https://sanjose.legistar.com/LegislationDetail.aspx?ID=3519683&GUID=7D2483B9-E0FA-481A-BD78-978841B1AE55&Options=&Search=>

Pursuant to City Council direction, the transition to administer the Workers' Compensation Program for all employees began in July 2018, and involved a critical initial transition activity that included extracting data from the City's claims administration software system (NavRisk), and mapping, uploading, and testing the data in Intercare's software system.

On August 31, 2018, approximately 1,477 open workers' compensation claims and approximately 23,306 closed workers' compensation claims were electronically transferred to Intercare. These were in addition to the claims that Intercare was already handling on behalf of the City prior to July 1, 2018. As part of the transition process, and after the transfer of data and files, Intercare began an approximate 90-day review of all open claims to ensure that cases requiring immediate attention were reviewed and prioritized for appropriate action. Intercare refers to this as a "triage" process.

As of June 30, 2018, the open claims data comparison for the TPA and In-House Team were as shown in Table 1 (below).

**Table 1**  
**Claim Comparison for January 1, 2018 - June 30, 2018**

<b>Claim Type</b>	<b>Intercare Number of Open Claims as of 6/30/18</b>	<b>City of San José Number of Open Claims as of 6/30/18</b>	<b>Total Number of Open Claims</b>
Indemnity, Medical Only, and Future Medical Claims	1,488	1,632	3,120

In Table 2 (below), Workers' Compensation Total Claims Budget versus Actual is represented. It is important to note that two appropriations exceeded the authorized budget amount: Workers' Compensation Claims – Other by \$501,309 and Workers' Compensation Claims – Police by \$199,265. These overages, partially offset by savings in the Workers' Compensation – Fire (\$206,000) and the Workers' Compensation – PRNS (\$50,000) appropriations, reflect the close-out of cases and actual year-end performance, which can be difficult to project prior to the end of the fiscal year. The City Council ratified these increased expenses at its meeting on October 2, 2018.



**Table 2**  
**Workers' Compensation Total Claims Cost**

Department	2017-2018 Modified Budget	2017-2018 Actuals
Fire	\$ 7,594,000	\$ 7,473,100
Police	\$ 10,109,265	\$ 10,109,265
PRNS	\$ 1,210,000	\$ 1,209,850
DOT	\$ 635,000	\$ 630,234
Others	\$ 1,226,309	\$ 1,226,309
Public Works (GS)	\$ 550,000	\$ 534,057
General Fund Totals	\$ 21,324,574	\$ 21,182,815
Special Funds Total	\$ 2,141,000	\$ 1,361,210
All Funds	\$ 23,465,574	\$ 22,544,025
Total	\$ 23,465,574	\$ 22,544,025

Since the transition, the City hired a new Division Manager of Workers' Compensation, Health, and Safety whose primary goals are to (1) administer the Third Party Administrator to ensure quality service to injured workers and for effective management of claims toward closure in a timely and cost-effective manner and (2) develop and implement a Citywide and comprehensive Safety Management System (SMS) that provides for goal setting, planning, and measuring safety performance, which is further explained below.

This semi-annual report, which staff initially agendized for the Public Safety, Finance and Strategic Support Committee in October, was delayed due to the transition. Staff plans to place the next report on the Committee work plan for March 2019 and, at that time, more comprehensively cover data for the first half of 2018-2019.

## **ANALYSIS**

### ***A. Transition to Intercare***

During the July and August transition, staff successfully managed existing claims, facilitated transition activities, and continued to close claims. Due to this progress and the successful transition of in-house employees to other assignments, the expected salary savings were secured to meet the budgetary assumptions of the fully-outsourced model.

As part of the transition process, and after the transfer of data and files, Intercare began an approximate 90-day review of all open claims to ensure that cases requiring immediate attention were reviewed and prioritized for appropriate action. Intercare refers to this as a "triage" process. Following the transition on August 31, 2018, staff have monitored the "triage" process with Intercare, improved communication and procedures, and are developing the needed access to data and reporting capabilities to monitor and pro-actively manage the contractual services with Intercare.

The following is a summary of the steps that have been taken to ensure a smooth transition.

***(1) The "Triage" Process***

The "triage" process has provided the opportunity to not only ensure a smooth transition of claims administration, but to also identify errors in the claim files, make necessary corrections, and pay any associated penalties. Examples of issues that were discovered during the "triage" process include such things as incomplete documentation in the file, incorrect approvals for medical treatments, and lack of follow-up on reports.

***(2) Improving Communication and Procedures***

Both Intercare and the City recognized the importance of ensuring good communication and having clear procedures and guidelines. The steps that have been taken to help improve communication during the transition process included scheduled weekly conference calls to trouble shoot and problem solve issues; scheduled monthly meetings with the Police Department's Workers' Compensation liaison to address any questions; finalized service instructions that improve consistency in procedures; scheduled monthly calls with the City Attorney's Office and Intercare; regular communications on Treasury and Medicare issues; and regular status updates on data conversion.

***(3) Access to Data and Reporting***

In regards to access to data and reporting, the steps that have been taken to ensure there is a smooth transition in this area include monthly loss reports generated by Intercare and shared with City staff; training of City staff and providing full access to claims data through the Intercare Valley Oaks System; Human Resources staff partnering with City departments on report needs; improved monitoring by staff of bill review, utilization review, and in-house and Intercare reconciliation with oversight from the new Workers' Compensation, Health and Safety Division Manager; and developing injury prevention reports to assist in preventing future claims/injuries.



***(4) Summary***

The City will continue to ensure a successful transition to Intercare as the City's TPA. In addition to those steps taken above, a "meet and greet" meeting with the City's new Division Manager of Workers' Compensation, Health and Safety, Senior Analyst/Safety Officer and Analyst II, and Intercare staff was conducted on November 28, 2018, at Intercare's Rocklin, CA offices to review Service Guideline Instructions. A second "meet and greet" meeting with the City Attorneys and Intercare staff is being planned for early 2019.

***B. Human Resources Health and Safety Division***

As noted above, the City's Workers' Compensation Program is but one component of the City's overall health and safety efforts for employees, with the first goal being the prevention of injuries and accidents. With the entire program being administered by a TPA, the Health and Safety Division now can focus and reemphasize health and safety and injury prevention to help reduce workers' compensation costs.

The Health and Safety Division staffing consists of a Division Manager, one Senior Analyst/Safety Officer and one Analyst II. The Senior Analyst/Safety Officer is responsible for developing and implementing city-wide safety policies and procedures. The Division Manager also has oversight of Health and Workers' Compensation, with additional staff members specifically assigned to those functions.

With the administration of the City's entire Workers' Compensation Program transferred to the TPA, the City will transition its focus on managing the performance of the TPA for quality of service, timeliness, and cost-effectiveness, and develop and implement a Citywide and comprehensive Safety Management System that provides for goal setting, planning, and measuring safety performance. Key elements are education, training, and hazard assessment and control. The department's new Division Manager of Workers' Compensation, Health, and Safety, along with the Health and Safety Division Staff, will be charged with managing the TPA and developing and implementing a Citywide and comprehensive Safety Management System. The City's new Division Manager will also work to modify and create wellness and/or workers' compensation policies, procedures, and protocols.

***(1) Management of the Performance of the TPA***

As part of the management of the TPA, the following performance measures have been put in place for the City's current TPA, Intercare. The Administration will be closely monitoring these performance measures, and this task is one of the main responsibilities of the new Division Manager. The next semi-annual report will cover performance measures data for the period July – December 2018.

No	Performance Measure	Description
1	Customer Service	<u>Customer Service Survey.</u> Comparison of results from a Customer Service Survey completed regarding the quality of customer service.
2	Cycle Time	<u>Claim Closing Results.</u> Closing Result of 100%. Closing percentage is calculated as follows: Claim count as of the 1 <sup>st</sup> of the month is divided by the claim count as of the end of the Month. For example: 100 claims as of the 1 <sup>st</sup> of the Month divided by 101 claims at the end of the Month equals a 99% Closing Result.
3	Quality	<u>Claim Audits.</u> The TPA will randomly audit 2 claims per claims adjuster per month based on the following performance metrics. (Note: not all metrics will apply to each audited claim.) <ul style="list-style-type: none"> <li>▪ 3 Point Contacts – Timely completion of 3 Point Contacts. (Pass/Fail)</li> <li>▪ Causation Analysis – Timely causation decision within 90 days. (Pass/Fail)</li> <li>▪ Plans of Action – Plan of Action in the claims notes every 90 days. (Pass/Fail)</li> <li>▪ Benefit Payments – Timely and accurate payment of benefits. (Pass/Fail)</li> </ul> <p>Results are calculated as follows:</p> <ul style="list-style-type: none"> <li>▪ The number of claims in each category handled correctly is divided by the total number of claims audited per category.</li> <li>▪ For Example: Based on the audit of 2 random claims, it is determined that the Claims Examiner completed the 3 Point Contacts timely in one claim but did not complete the 3 Point Contacts timely in the second claim. The Monthly Result will be “1 timely claim” divided by “2 claims audited” equals 50%.</li> </ul>
4	State Compliance	<p>State compliance focuses on the following four areas, and these same metrics will be used in the ongoing evaluation of the Workers' Compensation Program:</p> <ul style="list-style-type: none"> <li>▪ Temporary disability payment compliance</li> <li>▪ Permanent disability &amp; death benefits payment compliance</li> <li>▪ Subsequent indemnity payment compliance</li> <li>▪ Agreed Medical Examiner/Qualified Medical Examiner notices compliance</li> </ul>
5	Workload/Activity Highlights	Total number of workers' compensation cases and caseload per adjuster

In addition, the Service Instructions between the City and the TPA Intercare have been revised to be more robust. These guidelines outline specific procedures to ensure effective claims service and handling as well as improve communications that benefit both the injured worker and the City.

The City will continue to monitor the performance measures established for the TPA to potentially identify deficiencies for correction that would enable Intercare to deliver effective claims services to injured workers and the City. The City will also conduct a Request for Proposal (or RFP) process in December 2018 for a Third-Party Administrator



to provide all services related to the City's Workers' Compensation Program, and will return to City Council for the required approvals in Spring of 2019. The new agreement is anticipated to be in place for the 2019-2020 fiscal year

## ***(2) Developing a Safety Management System***

The City's first goal is to prevent injuries and accidents. A key to reducing workers' compensation costs is preventing those workplace injuries in the first place, which requires extensive education on injury prevention and employee wellness. In the 2009 Audit<sup>2</sup>, the City Auditor stated that their research found that "studies over the prior 15 years that had shown a return on investment of 6.2 to 1 from having a wellness-fitness program in place."

With Intercare conducting all the City's Workers' Compensation claims administration, it allows the City to prioritize and increase emphasis on wellness and health and safety. The City can allocate more resources and attention to education and injury prevention to contain costs, which includes the development and implementation of a Safety Management System (or "SMS"). This increased focus on safety and injury prevention will reduce the number of workplace injuries and the costs associated with workers' compensation claims.

In developing and implementing the SMS, the Division Manager, in collaboration with Department Directors and Safety Officers, intends to identify incident rates (frequency and severity) and associated workers' compensation costs for each department to set meaningful reduction goals, conduct trend analysis to understand the types and causes of injuries by department, develop Safety Improvement plans, develop a Citywide Accident Investigation Root Cause Analysis to prevent reoccurrence of injuries, and develop and implement Citywide and CAL/OSHA compliant safety policies, procedures and training that will educate employees on injury prevention. The existing City Injury Illness Prevention Program, which is a critical element of the SMS, will also be reviewed and revised to ensure it is compliant, robust and impactful.

Groundwork for the SMS had already begun through the work of the Human Resources Department's two health and safety staff members. Since August 2017, staff members have implemented the following key initiatives, including holding monthly Safety Meetings; analyzing three fiscal years of Workers' Compensation Data for the Parks, Recreation, and Neighborhood Services (PRNS), Public Works, and Fire Departments; developing city-wide safety policies; significantly increasing safety training and participation in Public Works and PRNS; developing safety training tracking systems; providing hands-on assistance for large department issues; and developing Root Cause Analysis committees.

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<sup>2</sup> Audit: [http://www3.sanjoseca.gov/clerk/Agenda/20090428/20090428\\_0307.pdf](http://www3.sanjoseca.gov/clerk/Agenda/20090428/20090428_0307.pdf)



Over the course of the past year, the Human Resource Department's Safety staff have also begun work on developing and implementing a similar city-wide SMS to the program that the Department of Transportation (DOT) already has in place. The DOT program can be a model for how Human Resources and a department can work together to implement effective safety and injury prevention programs. In the case of DOT, the Department has invested significant resources and time in developing and emphasizing a culture of safety. This has included providing extensive safety training for employees, developing a departmental Code of Safe Practices for accomplishing safety in practice, as well as creating work groups and committees to communicate and review safety issues. Longterm and sustained efforts have led to tangible results, such as fewer work injuries, both in number and severity, and have also allowed DOT to better track trends to adjust their ongoing safety efforts.

As an initial step in developing a city-wide SMS, staff analyzed and presented three fiscal years of workers' compensation data for several of the City's largest departments, including PRNS, Public Works, and Fire, to provide a functional understanding of workers' compensation trends such as the type of injuries occurring most frequently and work groups that have high incident rates. This information can inform departments about the mode of response that will be most effective and how to best allocate resources to prevent injuries and accidents. For example, an analysis of the data from Public Works is being utilized to help identify trends related to injuries at the City's Animal Shelter. Injuries occurring at the Animal Shelter account for approximately 64 percent of Public Works total injuries over the past three fiscal years. Based on this information, the City's Safety Officer, together with the Animal Shelter staff, has begun developing safe animal-handling practices, procedures, training, Animal Shelter-specific incident investigation and tracking processes, as well as development of a safety committee comprised of Animal Shelter staff dedicated to investigating all related injuries.

The Fire Department continues to maintain its Injury & Illness Prevention Plan and is actively taking steps to improve workplace safety, employee health and wellness, and reduce employee injury related costs. In calendar year 2018, the Department advanced components of the Firefighter Cancer Prevention Initiative including implementation of fireground decontamination procedures, issuance of second sets of gloves and flash hoods, and broadened the personal protective equipment cleaning program. Also in 2018, the Fire Department reinforced critical incident stress management resources by providing training toward implementation of peer-to-peer resources. Additionally, building on the Functional Movement Screening (FMS) injury risk assessment initiative, the Fire Department initiated a study to measure the effect of yoga practice on FMS scores and provided FMS assessments to Firefighter Recruits. The results will guide next steps in reducing injury risk. Toward cost reduction, the Fire Department has engaged Human Resources and the workers' compensation TPA to better define employee modified duty restrictions, improve communication with the TPA to reduce late time for placement of employees into modified duty assignments, and is working with Human Resources to develop routine injury, claim, and cost reporting. Finally, the Fire



Department Safety Officer position was restored in the 2018-2019 Adopted Budget and filled in July 2018.

In addition to workers' compensation data analysis, the Safety Officer has also implemented ongoing, monthly safety meetings with key department staff from PRNS and Public Works. At monthly meetings, all injuries, vehicle accidents, and injured employees' status are reviewed in detail, and corrective actions to prevent reoccurrence are identified and assigned. During these meetings, the Safety Officer addresses injury trends and areas needing specific attention. These meetings also provide management with a granular understanding of trends, and allow for targeted correction of unsafe situations or practices. Another function of monthly safety meetings is to identify applicable CAL/OSHA required safety training. For example, by working directly with the department, staff has assisted Public Works in increasing employee training by over 60 percent in fiscal year 2017-2018 over the previous year (177 employees trained in fiscal year 2016-2017, 477 employees trained in fiscal year 2017-2018).

Furthermore, the City's Safety Officer has begun the process of working with the Office of Employee Relations and the City Attorney's Office to review, update, and adopt Citywide CAL/OSHA mandated safety policies into the City Policy Manual. Examples of the types of policies being developed include Injury and Illness Prevention and Heat Illness Prevention Policies. Adopting policies that have been vetted by staff from these departments ensures regulatory compliance and uniform implementation of the best safety practices Citywide.

In addition to an SMS, and in recognition of the need to streamline the workers' compensation process, reduce costs, decrease the number of work related injuries through prevention, and expedite the return to work of those who are injured or ill, it also worth noting that the City's Alternative Pension Reform Framework<sup>3</sup> with the San José Police Officers' Association and the San José Fire Fighters, IAFF Local 230 included an agreement to convene a Public Safety Wellness Improvement Committee to discuss modifications to, or creation of, wellness and/or workers' compensation policies, procedures, and protocols. With the new Division Manager now on board in Human Resources, the Department and Office of Employee Relations will work with the unions to develop this committee.

## **CONCLUSION**

The City will continue to ensure that the transition to Intercare of the City's Workers' Compensation Program for all employees is successful, including the ongoing monitoring of established performance measures for the Third Party Administrator to deliver effective claims services to injured workers and the City. The City will also continue to prioritize and increase the

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<sup>3</sup> [http://sanjose.granicus.com/MetaViewer.php?view\\_id=&event\\_id=1459&meta\\_id=526036](http://sanjose.granicus.com/MetaViewer.php?view_id=&event_id=1459&meta_id=526036)

November 30, 2018

**Subject: Workers' Compensation Semi-Annual Report**

Page 10 of 10

emphasis on wellness and health and safety to reduce injuries and costs associated with workers' compensation. This includes coordination and partnership between HR and the departments in developing and implementing a Citywide Safety Management System, working with departments to identify trends and department-specific safety practices, and developing and adopting City policies to ensure regulatory compliance and uniform implementation of the best safety practices Citywide.

### **COORDINATION**

This report was coordinated with the City Attorney's Office and the City Manager's Budget Office.

/s/

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