



**Presentation to the
Texas Senate
Select Committee on
Workers' Compensation**

February 26, 2004

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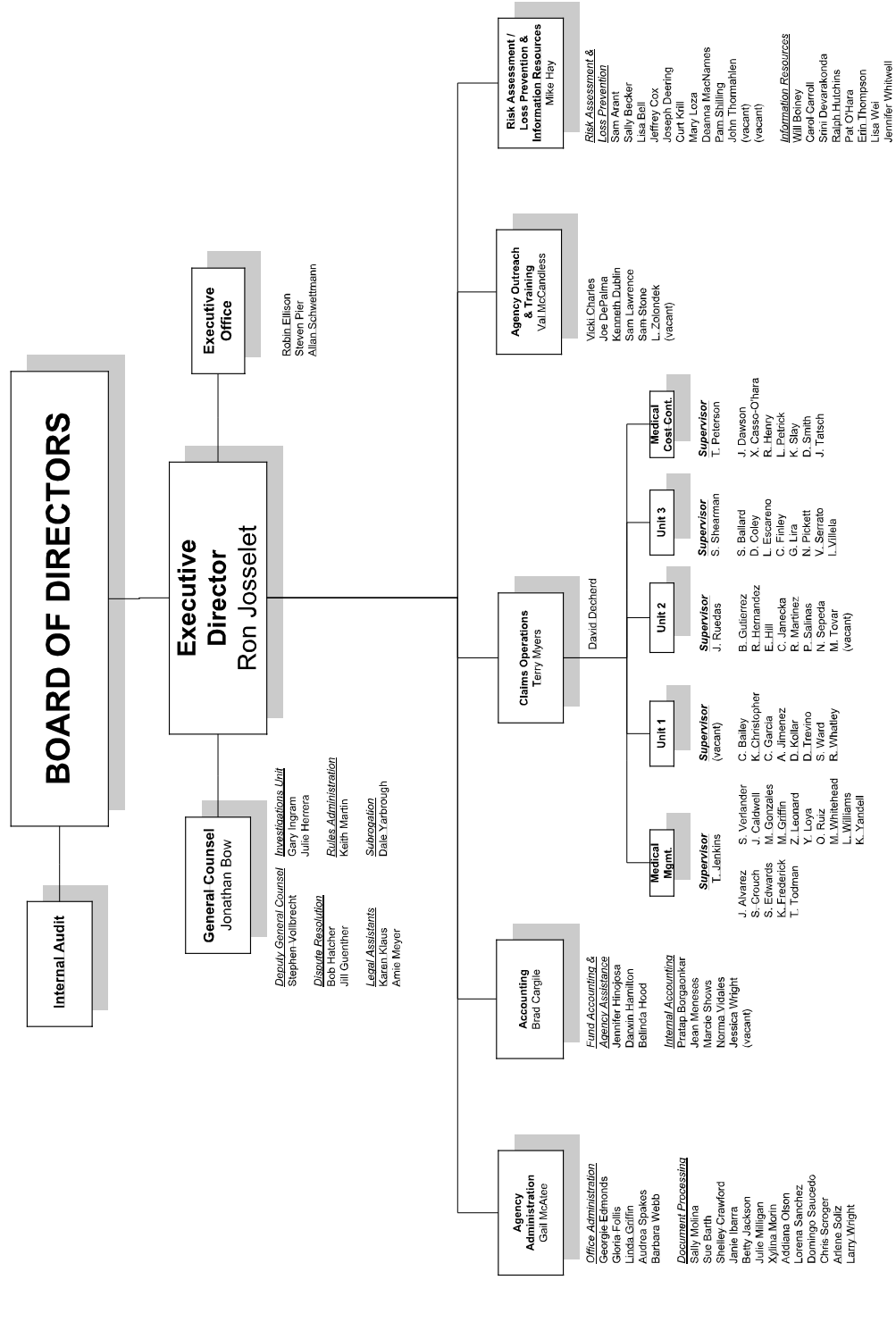
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1. Describe SORM's workers' compensation and risk management programs. Please include an organizational chart and information about the history of these programs and their establishment. Provide the number of covered employees in your system. Briefly describe how claims are processed. Describe how and where the program is administered, and any component parts (i.e., various agencies or institutions) that it comprises.

- All state and local governments in Texas are constitutionally required to provide workers' compensation benefits to their employees "providing the State shall never be required to purchase insurance for any employee." Texas Constitution, Article 3.
- The State Of Texas self-insures for the purposes of workers' compensation. Texas Labor Code, Section 412.0122.
- Prior to 1997 the Office of the Attorney General (OAG) maintained the Workers' Compensation Division to administer the state employee workers' compensation program, and the Texas Workers' Compensation Commission maintained the state's Division of Risk Management.
- The State Office of Risk Management (SORM) was created by the 75th Texas Legislature to consolidate risk management services to state agencies and to administer workers' compensation claims for state employees. SORM receives, adjusts, and pays claims on almost all injured state workers, with the exception of employees of the University of Texas System, Texas A&M University System, and the Texas Department of Transportation.
- 156 state agencies (277 with CSCDs) and 175,000 employees are covered by the state employee workers' compensation program administered by SORM. The Claims Operations Division is comprised of four teams of claims adjusters and one team of medical cost containment staff. *(Please see table below.)*
- The self-insurance program is operated on a cash-basis. Prior to FY 2002, the State's workers' compensation losses were paid primarily from a direct general revenue appropriation to SORM. The Legislature paid 75% of claims expenditures and the agency that had the injury was required to pay the remaining 25%.
- In accordance with House Bills 2600 and 2976 (77th Legislature), the funding structure for the payment of workers' compensation losses changed substantially. The Legislature required SORM to establish a risk pool and to allocate and collect the costs of workers' compensation losses from all participants in the pool.
- No further general revenue is appropriated directly to SORM for the payment of workers' compensation losses. Workers' compensation claims are now paid from interagency contracts through assessments paid by covered agencies in advance from all their funds in the same proportion as they fund their payroll (\$71.7 million in FY '04). This has improved the indirect cost allocation of almost \$140 million in expenditures over the biennium and returned \$10.2 million to the Legislature last biennium.

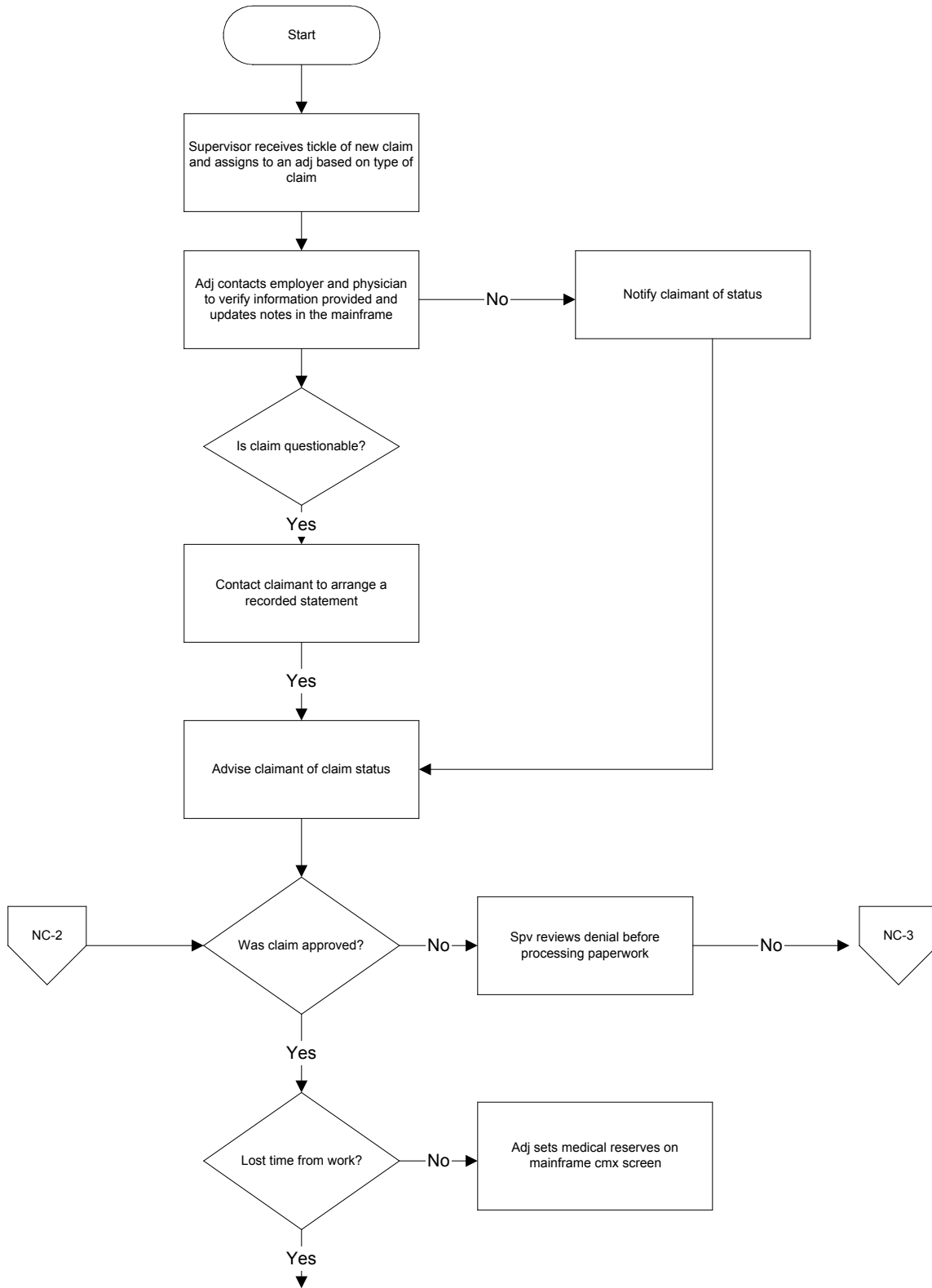
STATE OFFICE of RISK MANAGEMENT

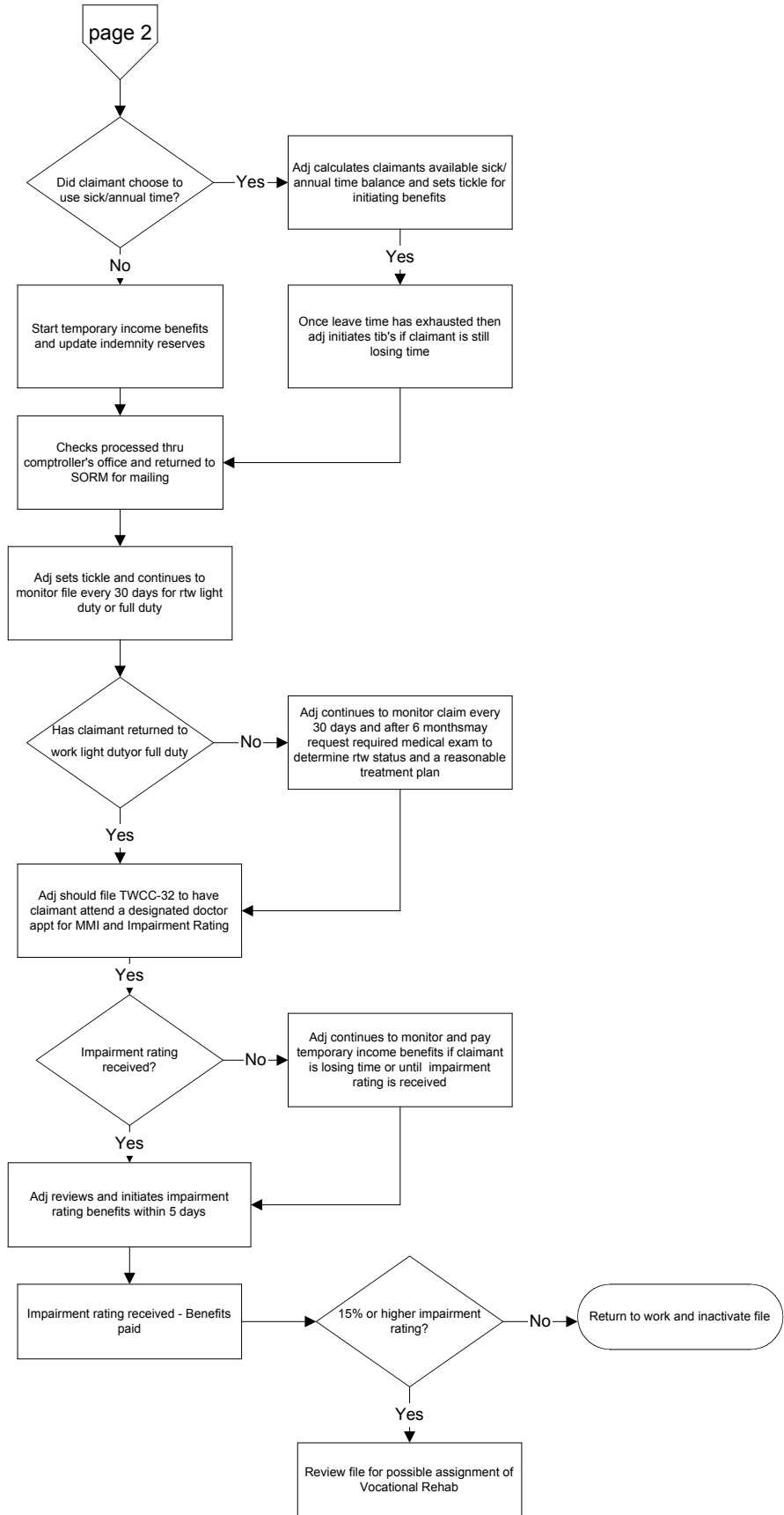
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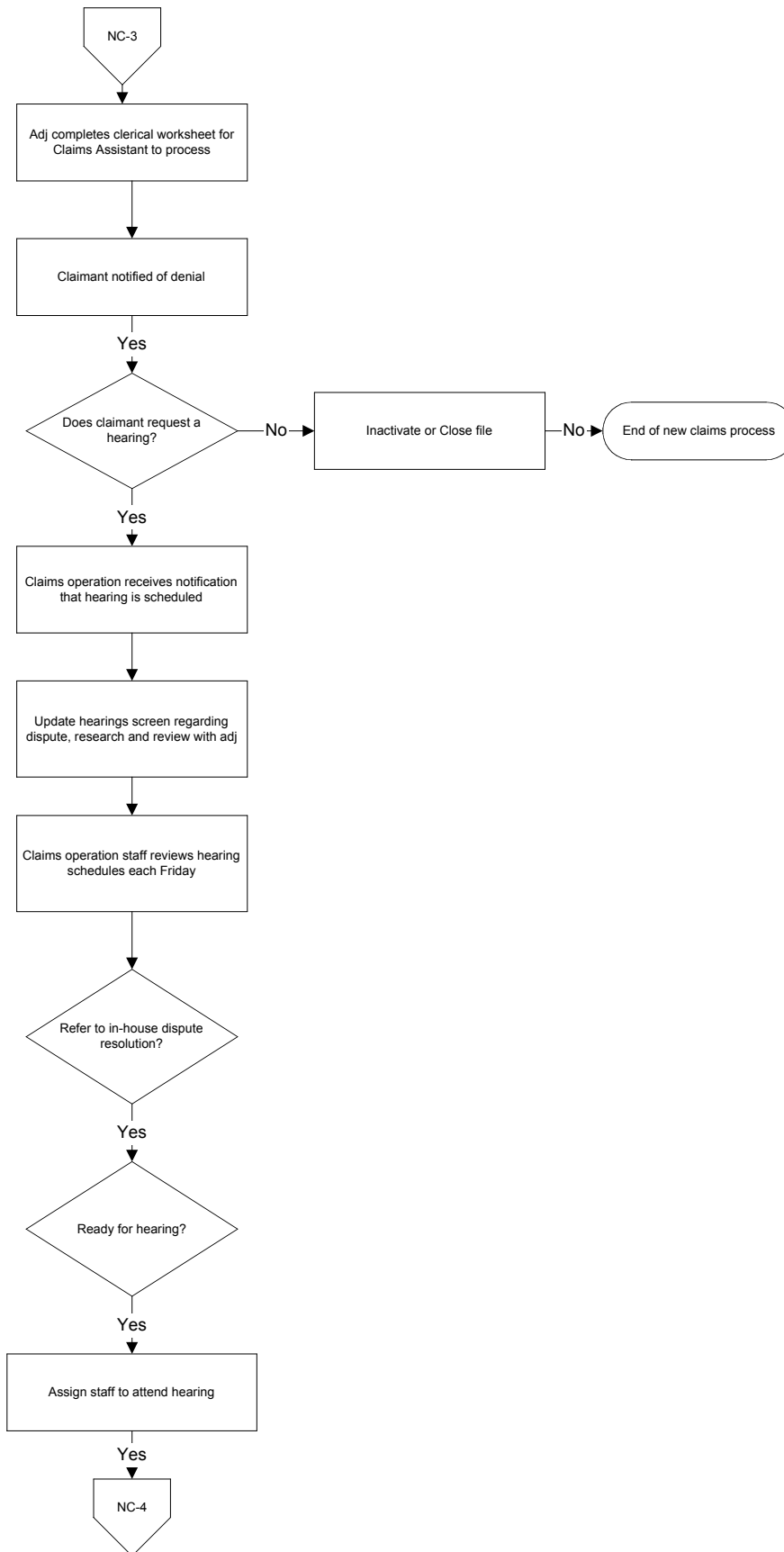


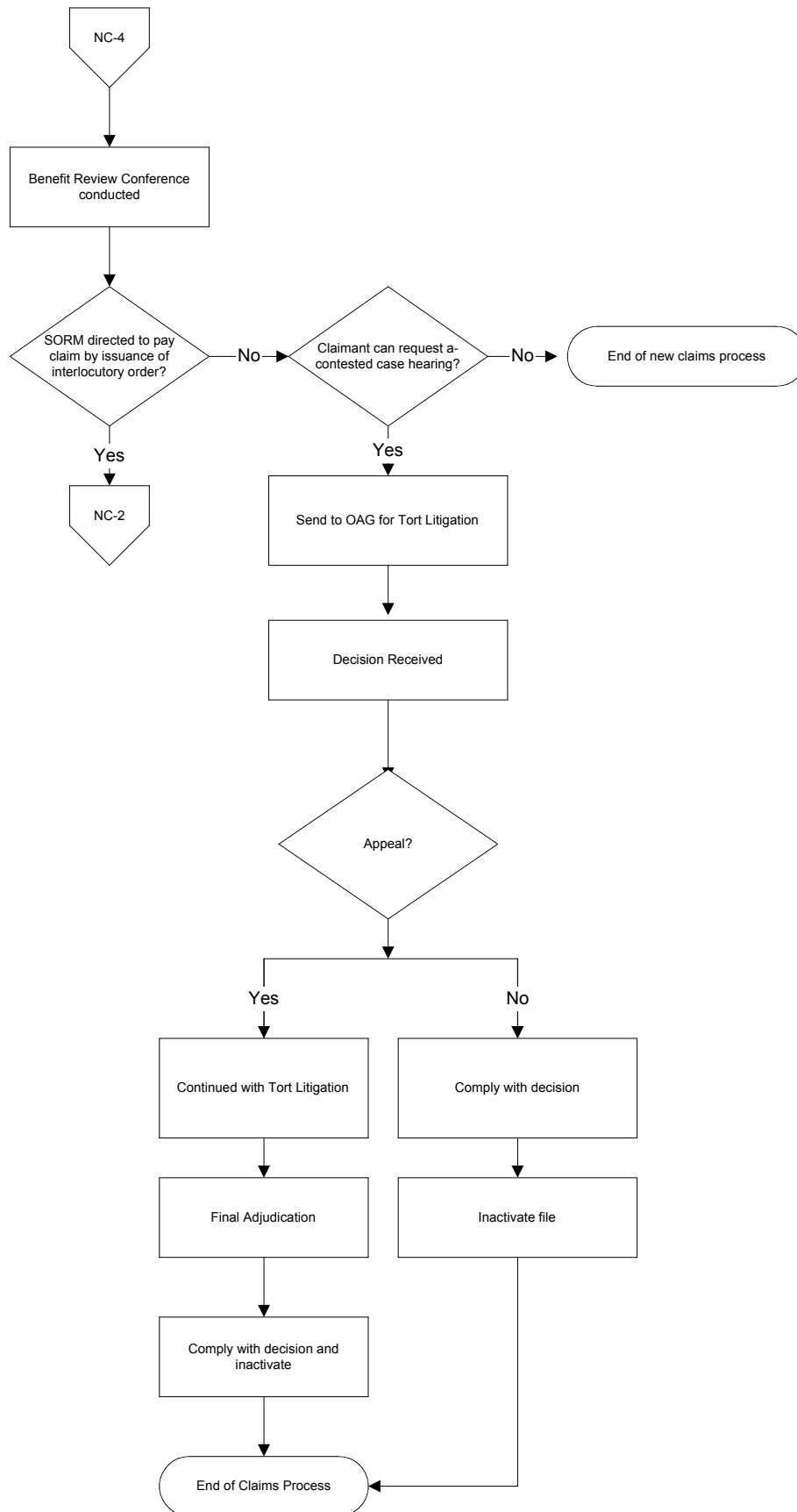
Ron Josselet
Executive Director

Claims Process

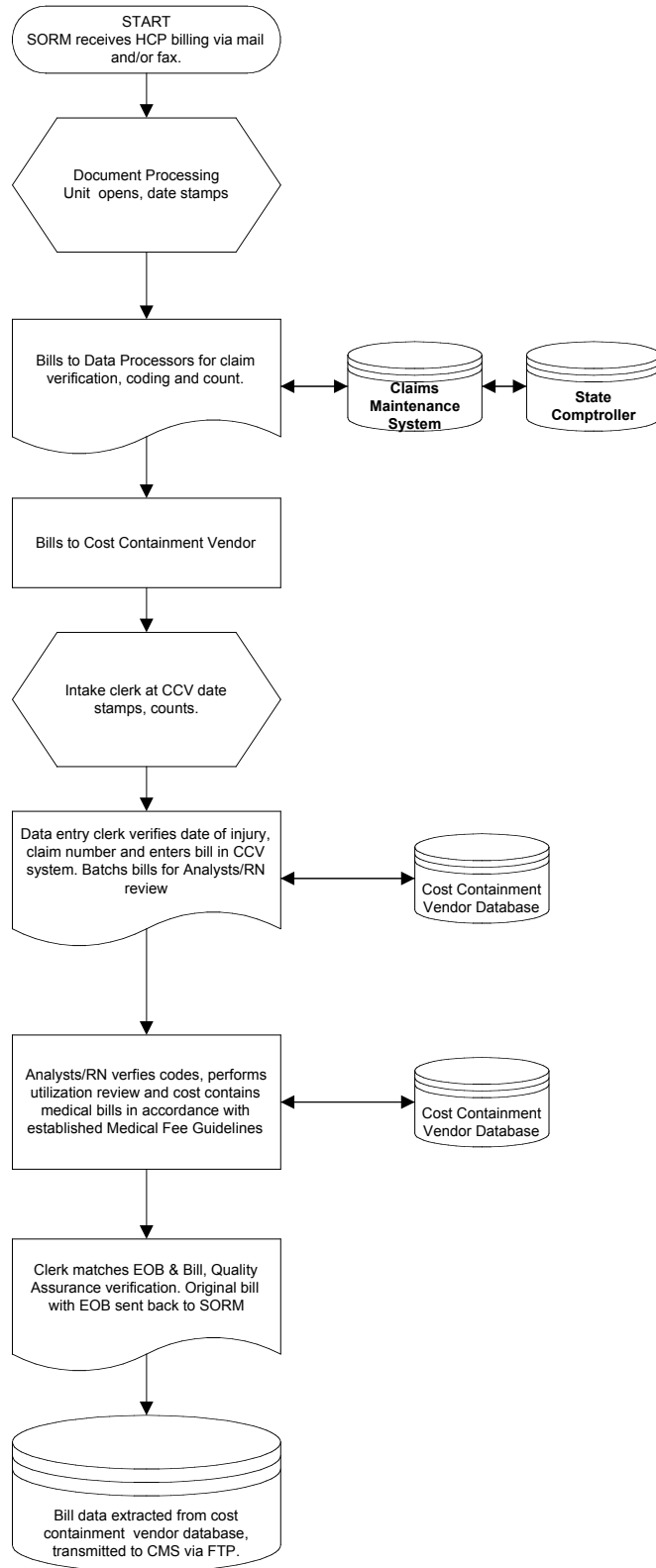




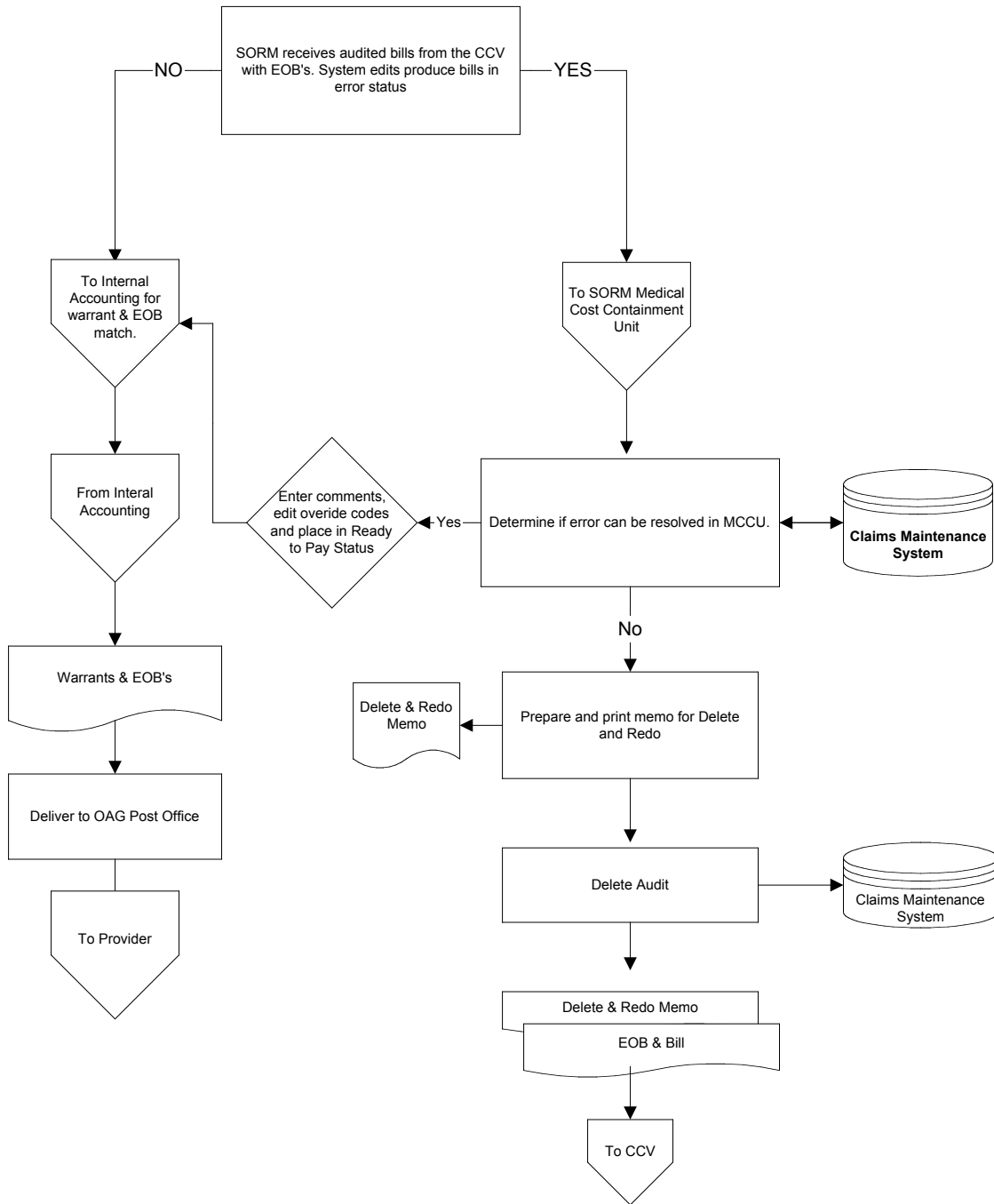




MEDICAL BILL PROCESSING



MEDICAL BILL PROCESSING



2. Describe your workers' compensation system's funding and budget. Illustrate how this budget is broken down between claims costs (medical and indemnity portions), cost containment expenses, administration, and any other major categories of expenditure. Describe any major functions that are outsourced and the costs of any related contracts.

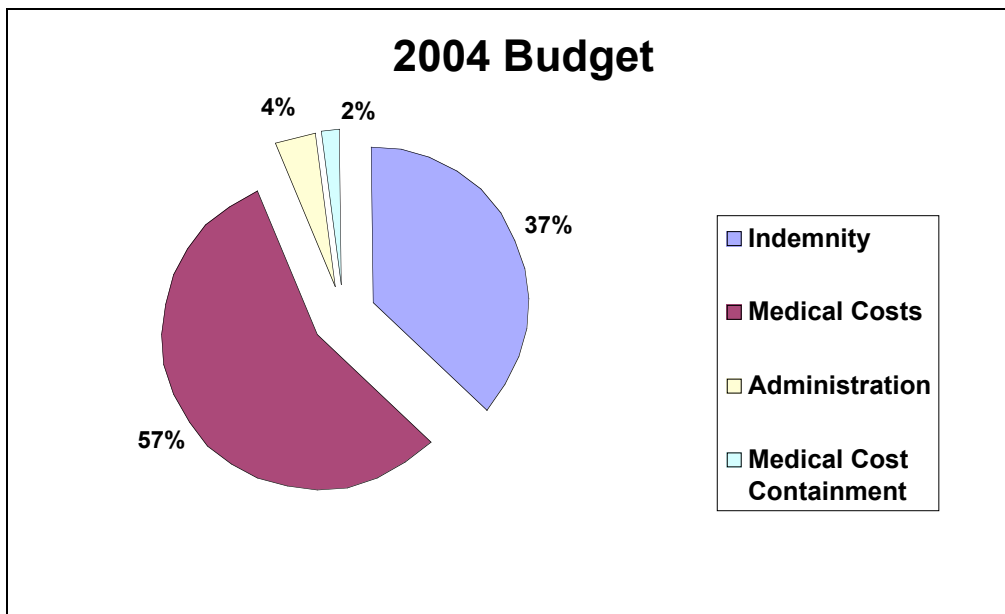
SORM is funded for administrative activities related the workers' compensation program by a direct general revenue appropriation. These activities include compensability determination, adjusting of claims, medical management and supervision, medical bill cost containment, and all support functions for the staff directly involved in claim operations. With the exception of those administrative functions, all costs directly related to a claim are funded by interagency contract with SORM's client entities. The amount of each client's annual assessment is determined by a formula currently based upon payroll, number of employees, number of accepted claims, and cash basis claim costs. This formula determines each entity's share of the total pool. This percentage is applied to the projected cash basis costs for the upcoming year to calculate the dollar cost for participation in the workers' compensation risk pool. Any excess amount collected is used to lower the assessments for the following year. If collected funds prove insufficient for claim payments, an amount not to exceed 20% of the total collected may be borrowed from general revenue. This amount would be collected as part of the following year's assessments and repaid to the state treasury. In addition to funding the workers' compensation claim payments, the assessment program also funds the administrative costs of the State's Risk Management program, currently approximately \$2 million annually.

Medical bill cost containment services are outsourced. The current contract is for a flat fee of \$1.34 million annually for all medical bill review against Texas Workers' Compensation Commission (TWCC) fee guideline and preauthorization services as well as some preferred provider organization reductions. This contract is in its fifth and final year and the Office does anticipate the possibility of a significant increase in costs for medical cost containment beginning in fiscal 2005. Also beginning in fiscal 2005 all outsourced medical cost containment charges will be funded by interagency contracts through the assessment program except for \$531,000 in direct general revenue.

SORM's fiscal 2004 budget is summarized in the table and chart below. While claim payments were budgeted at \$78.6 million based upon the most recent actuarial projection, actual experience for the first five months of the fiscal year project fiscal 2004 claim costs should approximate \$65 million by the end of the fiscal year.

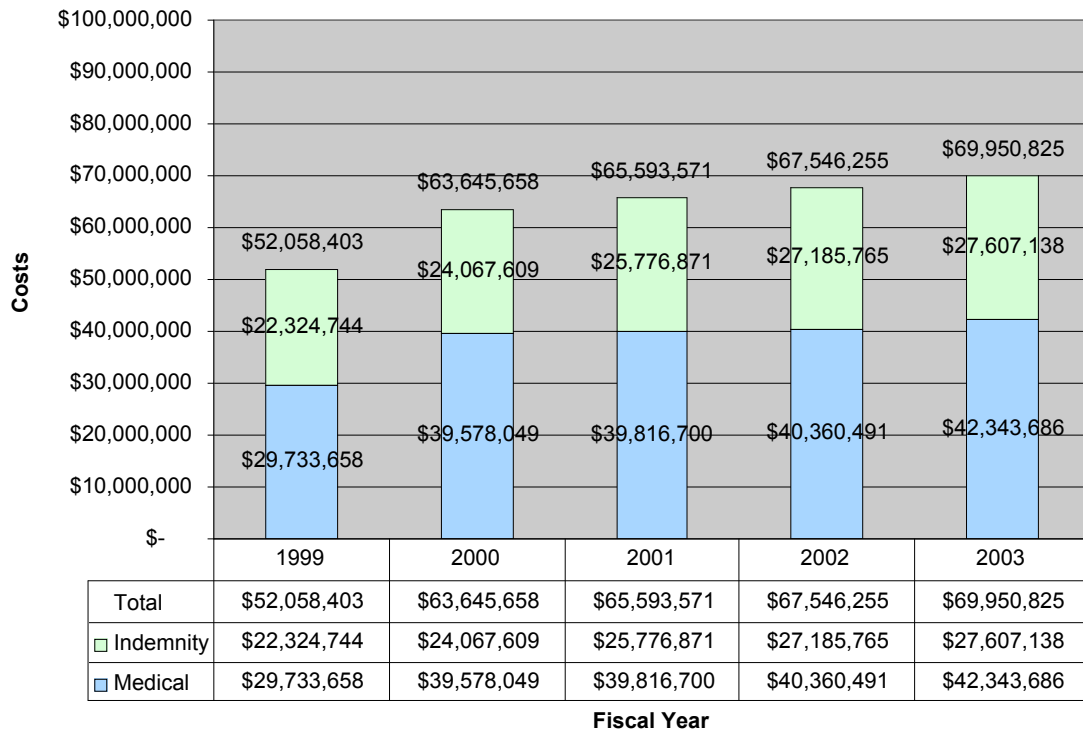
2004 Budget

Indemnity	\$30,800,510
Medical Costs	<u>\$47,847,886</u>
Total Claim Costs	\$78,648,396
Administration	\$3,454,180
Medical Cost Containment	<u>\$1,340,000</u>
Total	\$83,442,576



3. Illustrate the costs of medical and indemnity workers' compensation benefits per workers' compensation claim for your system. Please provide these costs by year of injury for injury years 1999 to 2002, and by year of payment for 1999 to 2003. Please briefly describe the methodology for these calculations.

Workers' Comp Costs by Payments Year



Number of Claims with Payments During Fiscal Year

	1999	2000	2001	2002	2003
Total *	13,519	14,234	13,479	13,850	13,297
Indemnity	3,748	3,615	3,540	3,669	3,573
Medical	13,109	13,964	13,219	13,578	13,037

* Total does not sum due to claims with both medical and indemnity payments.

Average Cost Per Claim

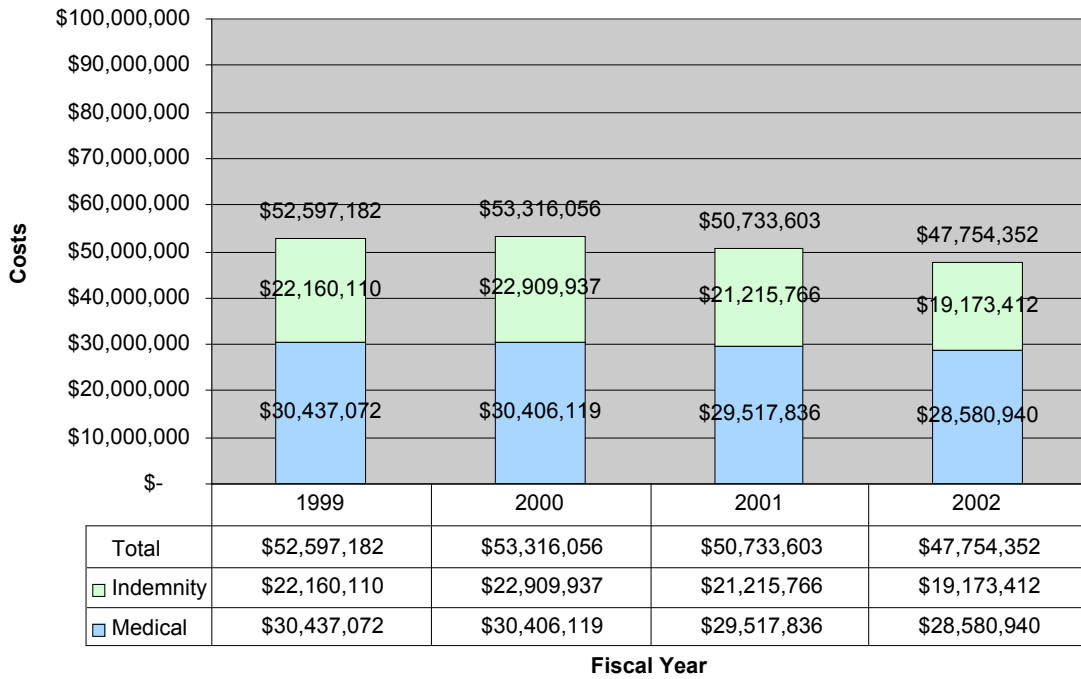
	1999	2000	2001	2002	2003
Total *	3,851	4,471	4,866	4,877	5,080
Indemnity	5,956	6,658	7,282	7,410	7,609
Medical	2,268	2,834	3,012	2,972	3,096

* Total does not sum due to claims with both medical and indemnity payments.

Year of Payment Methodology

The average cost per workers' compensation claim based on year of payment was determined by dividing the total amount of payments made during that fiscal year by the number of claims, for all injury years, on which any payment was made during that fiscal year.

Costs by Year of Injury



Number of Claims by Year of Injury

	1999	2000	2001	2002
Total *	8,268	8,295	8,054	8,365
Indemnity	2,040	1,925	1,819	1,955
Medical	7,028	7,079	6,933	7,166

* Total does not sum due to claims with both medical and indemnity payments.

Average Cost Per Claim

	1999	2000	2001	2002
Total *	6,360	6,417	6,295	5,704
Indemnity	10,859	11,881	11,654	9,801
Medical	4,330	4,289	4,255	3,984

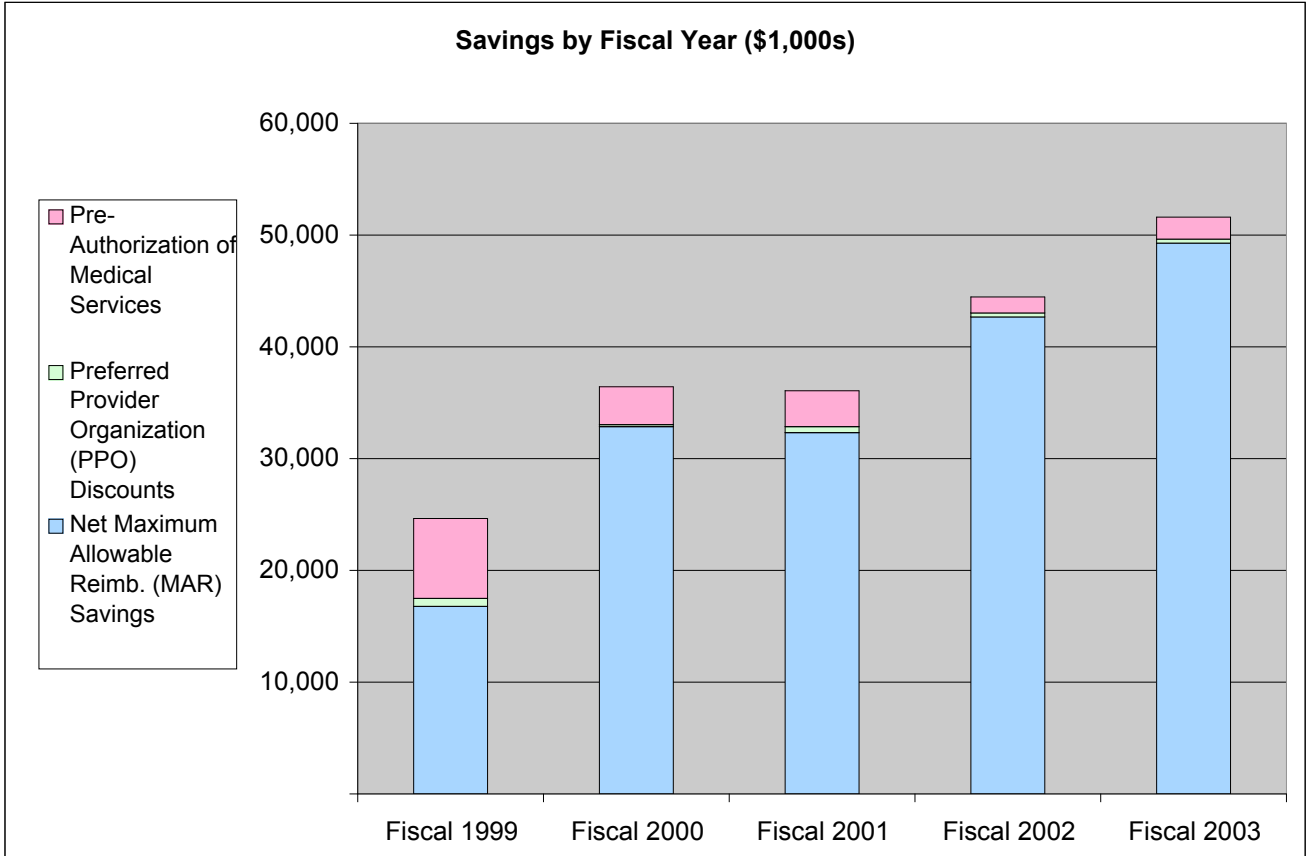
* Total does not sum due to claims with both medical and indemnity payments.

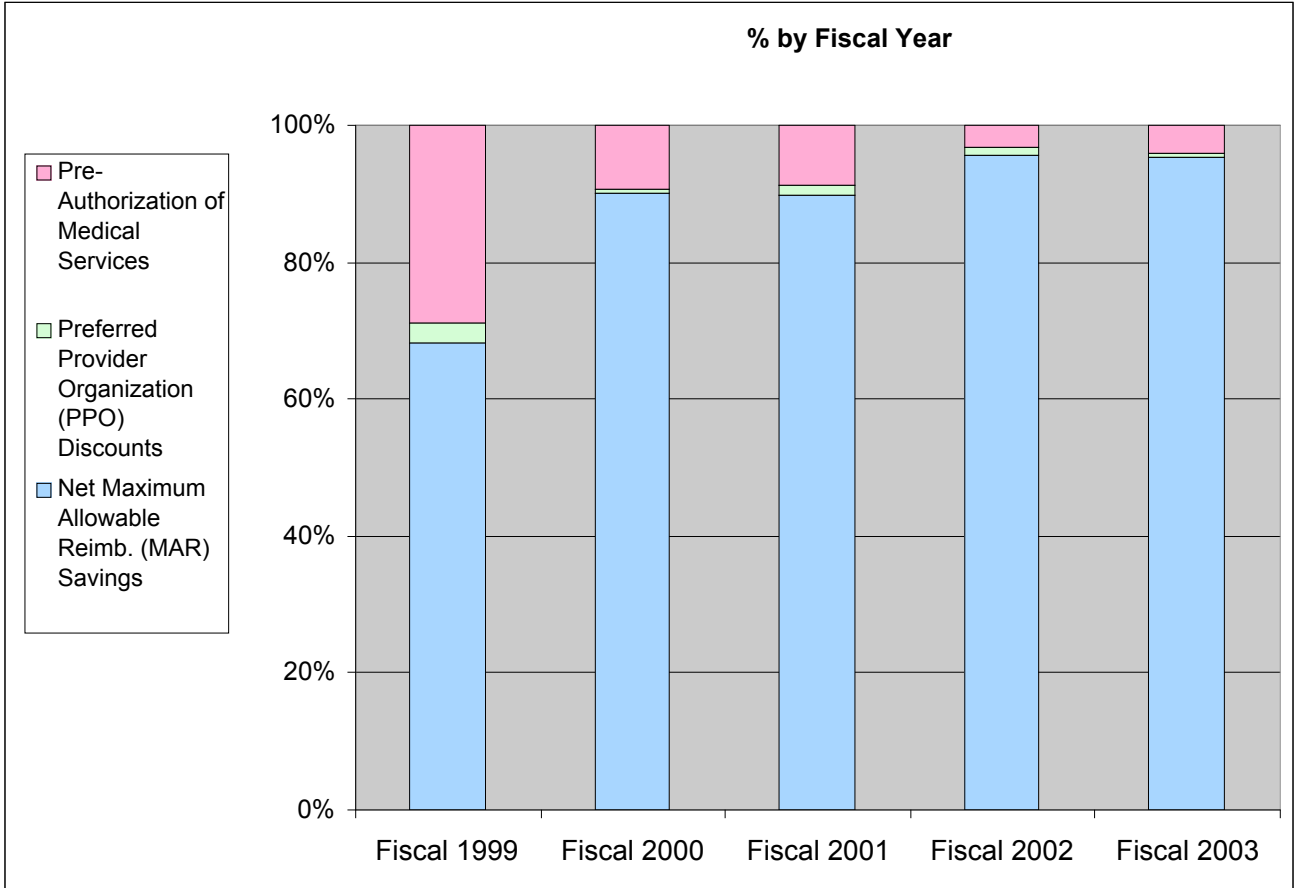
Year of Injury Methodology

The average cost per workers' compensation claim based on year of injury was determined by dividing the total amount of payments made since the time of injury through January 30, 2004 for all injuries which occurred during a fiscal year by the total number of claims with injury dates during that fiscal year.

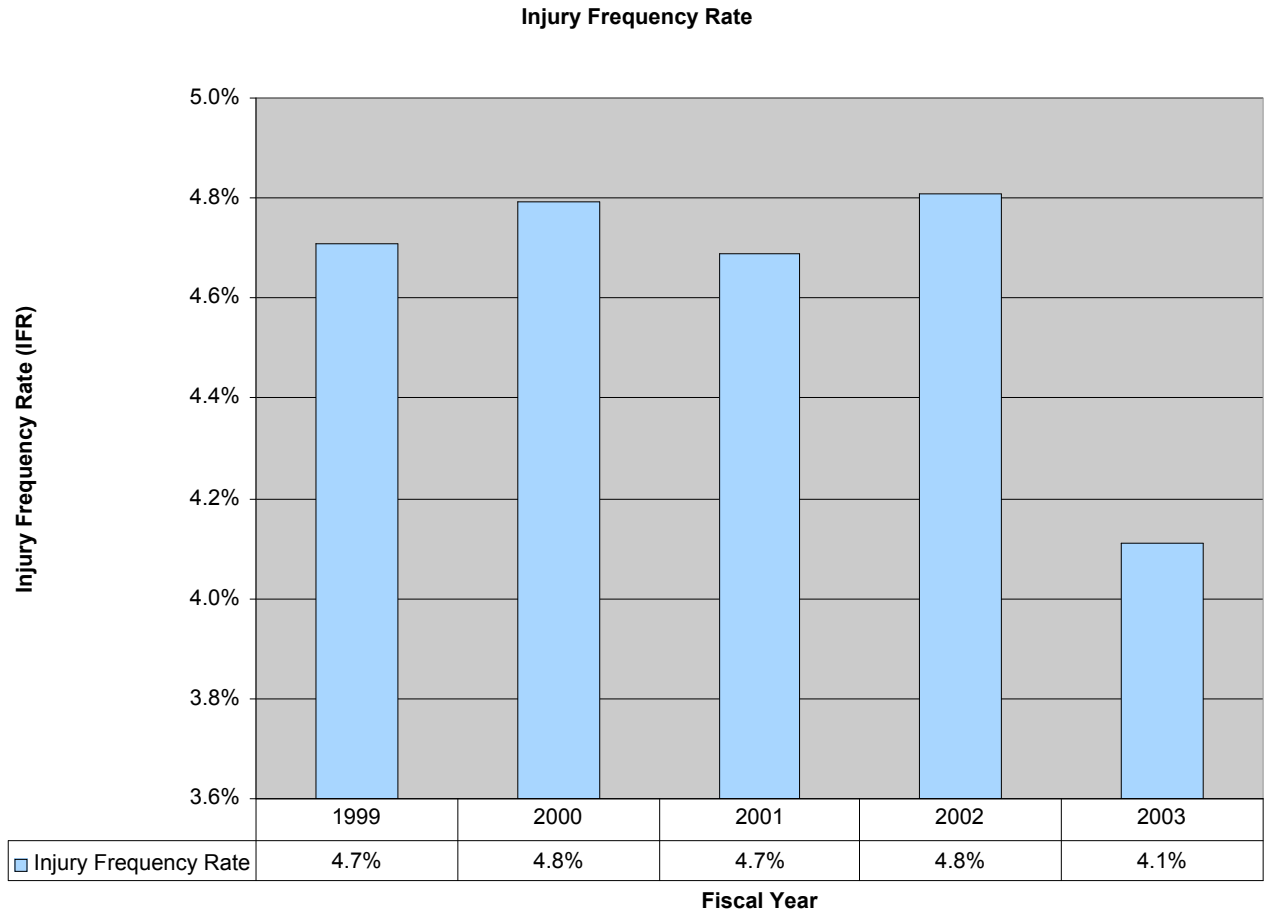
4. Provide the amount of savings realized by your system's medical cost containment activities from 1999 to 2003. Illustrate the percentage of this savings is due to reduction in medical bills to the Maximum Allowable Reimbursement (MAR) allowed by the TWCC fee guideline.

	Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003
Net Maximum Allowable Reimb. (MAR) Savings	\$16,824,032	\$32,828,929	\$32,402,291	\$42,590,473	\$49,277,481
Preferred Provider Organization (PPO) Discounts	\$662,391	\$236,405	\$527,085	\$491,142	\$325,248
Pre-Authorization of Medical Services (estimated by cost containment vendor)	\$7,122,504	\$3,347,934	\$3,204,126	\$1,434,625	\$2,083,739
TOTAL COST CONTAINMENT SAVINGS	\$24,608,927	\$36,413,268	\$36,133,502	\$44,516,240	\$51,686,468

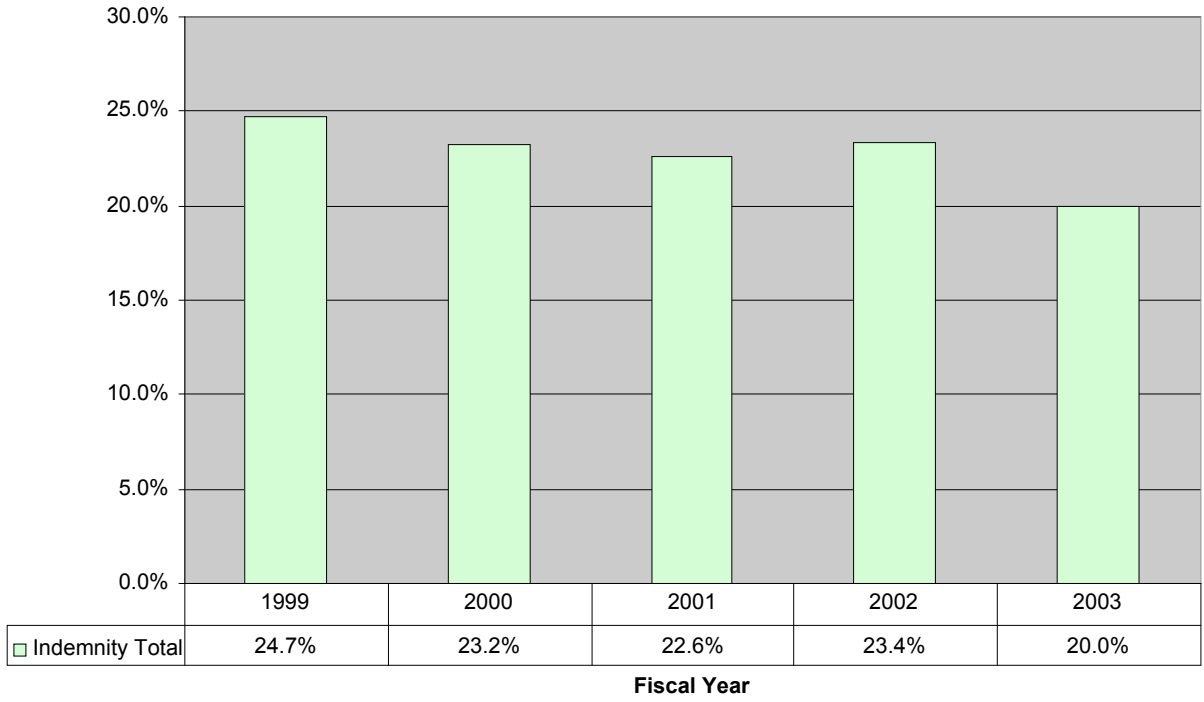




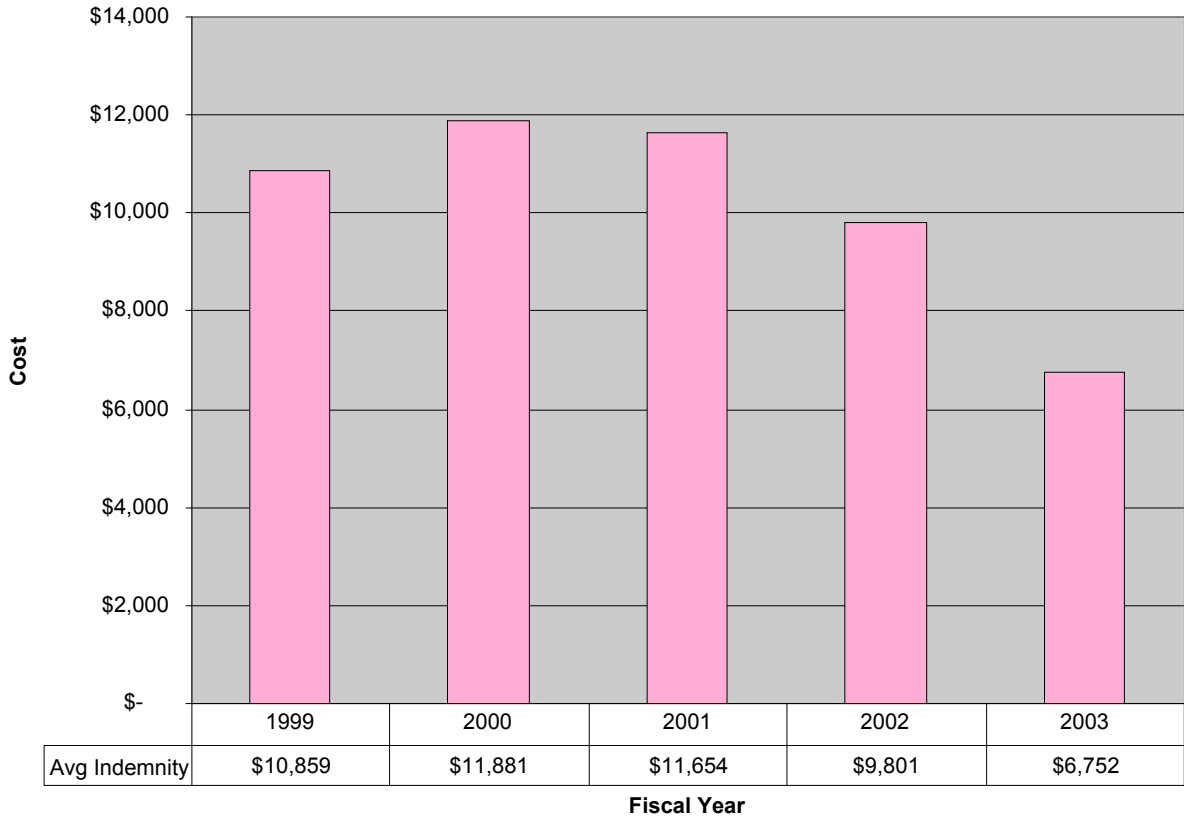
5. Illustrate the frequency of worker's compensation claims among the workforce covered by your program from 1999 to 2003. Illustrate the percentage of these claims that resulted in indemnity payments and the average indemnity payment per claim that had such a payment.



Indemnity Claims / All Claims



Average Cost for Indemnity Claims



FY	Injury Frequency Rate	Indemnity Total	Average Indemnity
1999	4.7%	24.7%	\$10,859
2000	4.8%	23.2%	\$11,881
2001	4.7%	22.6%	\$11,654
2002	4.8%	23.4%	\$9,801
2003	4.1%	20.0%	\$6,752

6. Describe your system's return-to-work procedures and/or programs available for modified duty.

- Each state client agency is statutorily required to have a return to work program as provided by Texas Labor Code, § 412.051.
 - Duties of State Agencies; Insurance Reporting Requirements (Text of section effective September 1, 2002), which reads in part - (a) Each state agency shall actively manage the risks of that agency by: (1) developing, implementing, and maintaining programs designed to assist employees who sustain compensable injuries to return to work....;
- Specific elements and recommendations for establishing and maintaining a viable return to work program are found in SORM's Risk Management for Texas State Agencies guidelines, Vol. III, Chapter 5, "Return to Work Programs";
- Risk Management Specialists track all state agency open issues and conduct on-site audits of agencies for return to work and other risk management issues;
- The Risk Assessment and Loss Prevention Division provides consultative assistance and return to work promotional materials to state agencies to assist them in developing and maintaining a viable return to work program;
- Online return to work training is available at the SORM Website at <http://www.sorm.state.tx.us/ReturntoWork/ReturnToWork.htm>;
- SORM conducts state agency return to work live training in the Claims Coordinator - Level II training classes. SORM also conducts return to work classes upon request of client agencies;
- SORM adjusters work one-on-one with agency claims coordinators to promote return to work and bona fide job offers for injured workers including reviewing, on request, light duty restrictions.
- Of the top 20 state agencies with the largest workers' compensation losses (*see attached table*), 19 report that they have a return to work program, 6 agencies track lost time and two have a Gateway or preferred doctor program in place;

Agency Return to Work Program (selected detail)

1. Does the agency have a Return to Work Program?
2. Is the program currently active?
3. How many days of transitional duty or modified duty time does the agency allow (in days)?
4. Does the agency track lost time?
5. If so, what are the numbers for FY03?
6. Does the agency's return to work program operate in conjunction with a preferred doctor or gateway doctor program?

Agency Name	FTE's	RTW Program (1)	Active (2)	# Transitional days (3)	Track Lost Time (4)	Days of Lost Time (5)	Gateway Doctor (6)
241 - Comptrollers	568	Yes	Yes	No specific #	No	N/A	No
302 - Office of Attorney General	3811	Yes	Yes	90 days	No	N/A	No
303 - Tx Building & Procurement	481	Yes	Yes	90 days	No	N/A	No
320 - Texas Workforce Commission	3778	Yes	Yes	30 days	No	N/A	Yes
324 - Dept of Human Services	13312	Yes	Yes	90 days	No	N/A	No
330 - Tx Rehabilitation Commission	2466	Yes	Yes	90 days	No	N/A	No
409 - Department of Public Safety	7453	Yes	Yes	180 days	No	N/A	No
501 - Department of Health	4731	Yes	Yes	90 days	No	N/A	No
530 - Protective & Regulatory	6778	Yes	Yes	90 Days	No	N/A	Yes
655 - Mental Health & Retardation	19230	Yes	Yes	Varies - 6 weeks to 180 days	No	N/ A	Yes - Some facilities
694 - Texas Youth Commission	4919	Yes	Yes	90 days	Yes	7651 days	No
696 - TDCJ	40,090	Yes	Yes	90 days	No	N/A	No
717 - Texas Southern University	1305	Yes	Yes	90 days	No	N/A	No
719 - Texas State Technical College	1645	Yes	Yes	Unlimited	No	N/A	Yes - 1 location
730 - University of Houston	5173	Yes	Yes	180 days	No	N/A	No
733 - Texas Tech University	5275	Yes	Yes	90 days	No	N/A	Yes
739 - Texas Tech Health Science	4382	Yes	Yes	90 days	No	N/A	Yes
754 - Texas State University	3070	Yes	Yes	60 days	No	N/A	No
755 - Stephen F Austin University	1582	Yes	Yes	90 days	No	N/A	No
802 - Texas Parks & Wildlife	2951	No	No	N/A	No	N/A	No

7. Describe SORM's participation in HNAC regional network project, and any advantages or disadvantages the office perceives to the project.

1. SORM Participation in the Project

The State Office of Risk Management has been an active, willing participant in the HNAC regional network project since its inception. Gov. Rick Perry appointed Executive Director Ron Josselet to serve as an “ex-officio” member of the Health Care Network Advisory Committee on November 9, 2001. Ex-officio members are non-voting members of the Committee. Mr. Josselet actively participates in the HNAC project. He serves the HNAC Committee as one of four designated “workgroup members” to review and discuss concepts, proposals, and documents prior to their consideration and presentation to the entire HNAC Committee.

In addition, Mr. Josselet has coordinated meetings and discussions with representatives of the University of Texas System, Texas A&M University System, and Texas Department of Transportation regarding their participation in regional workers’ compensation networks, and the impact of networks on their workers’ compensation programs.

2. Advantages of the Project

- a) The project as currently conceived will demonstrate the feasibility of establishing regional workers’ compensation networks on a pilot program basis, with the four state self-insured workers’ compensation carriers and state agencies serving as the participants in the pilot. Because managed care in the Texas workers’ compensation system would cause substantial changes in the delivery of health care within the system, there is considerable resistance by virtually all system participants and stakeholders to participation in such a delivery system. By utilizing the state self-insured workers’ compensation carriers and state agencies as the pilot program participants, the success or failure of such regional workers’ compensation networks can be demonstrated without substantial changes in the current delivery system model for most system participants and stakeholders.
- b) By utilizing the State Office of Risk Management and state agencies as the primary pilot program participants, the State will lead the way in implementing regional workers’ compensation networks. State employees participating in the program will benefit by being provided with high quality health care within the networks. State agencies, the state employees workers’ compensation program, and the Legislature will benefit from cost savings resulting from medical treatment being provided from within the network and quicker return to work where state employees participate in the networks.

3. Disadvantages of the Project

- a) Development and implementation of the program through the Health Care Network Advisory Committee is a cumbersome process. The HNAC Committee is comprised of 14 individuals, and scheduling meetings where all or most committee members are able to attend has been difficult for the Committee Chair to accomplish. Furthermore, the divergent interests of the various stakeholders in the Texas workers' compensation system, which are all represented on the Committee, has caused discussions and progress toward development and implementation of the program to be a slow and arduous process. None of the public systems who will be in the pilot are voting members of the committee in charge of the pilot.
- b) HB 2600 envisioned implementation of regional networks, if deemed feasible by the Committee, to commence January 1, 2003 upon completion of a contract with a network administrator by December 31, 2002. However, the feasibility study was not completed and approved by the Committee until mid-February, 2003. Because potential changes to the program were being considered by the 78th Legislature, further development and implementation of the program was placed on hold by the Committee until after the regular and special sessions. Currently, the work group is working with a consultant and the Texas Workers' Compensation Commission staff to finalize a "request for proposals" to solicit potential network administrators. The current time line for release of this RFP, evaluation of proposals, selection of and contracting with a network administrator, and preparations for implementation of the pilot networks does not envision implementation of the program until approximately January, 2005.
- c) The program originally envisioned the development of network report cards and a contract with an entity for on-going evaluation of report cards after project implementation would be accomplished by the Research and Oversight Council on Workers' Compensation. Since the ROC no longer exists, these important pieces of the program need to be re-assigned to an entity that is able to accomplish them.
- d) The issue of the provision of dispute resolution services for regional workers' compensation networks has not been resolved by the HNAC. A purely managed care model of health care administration internalizes the dispute resolution process within the health care network, and disputes are handled according to the internal process established by the network administrator. Furthermore, HB 2600 did not address whether or not such disputes should be resolved within the network, or if such disputes should be handled through existing medical dispute resolution processes. Because of the divergent interests on the part of employer vs. employee representatives, and health care providers vs. carrier representatives, the HNAC has been unable to devise a medical dispute process that is satisfactory to these stakeholders. Consequently, the prospect exists that medical disputes will be initially handled internally within the regional network, but a dissatisfied party may go outside the network for ultimate dispute resolution through existing medical dispute resolution processes. This prospect is not administratively effective, not is it cost effective.

- e) Much of the HNAC work that currently needs to be accomplished falls upon the Medical Director and staff of the Texas Workers' Compensation Commission. This work includes compilation of work group comments on the RFP for submission to the consultant, review of the consultant's recommended RFP for state contracting requirements, coordination of HNAC meetings and agendas, evaluation of proposals, and drafting a contract for the network administrator. Since TWCC is under Sunset Review and the TWCC staff must also address interim study charges relative to the workers' compensation system, the HNAC project must be incorporated into the busy schedules of the TWCC staff. Because of these factors, the HNAC project may not receive appropriate attention from the TWCC staff for timely initiation and completion of the project.
- f) The current time line for the program does not envision a contract being in place prior to the end of calendar year 2004, therefore implementation cannot begin until early 2005 (*reference item (2) above*). The possibility exists that bills for health care networks for workers' compensation may be introduced in the 79th Legislature, which could change the delivery of health care in the Texas system. The Office is concerned that a substantial amount of time, resources, and expense will be spent on developing the network pilot program, all of which could be changed by the enactment of managed care and/or health care network bills in the 79th Legislature.
- g) Prior to enactment of HB 2600 by the 77th Legislature, the Office planned to release an independent request for proposals to develop and implement a preferred provider, "gateway physician" health care network for the state employees workers' compensation program. However, the Office's independent plans for network development were placed on hold, in deference to the impending regional workers' compensation networks of HB 2600. [State agencies and the state's self-insured workers' compensation carriers' participation in the program were mandated by HB 2600.] As a result, two years later the Office still does not have a developed health care network, and the Office has not been able to take advantage of cost savings of such a program.
- h) The University of Texas System and Texas A&M University System have already implemented preferred provider health care networks, which according to the administrators of these programs, are already effectively controlling their workers' compensation medical costs. These University Systems are concerned that the HNAC regional workers' compensation networks will be more burdensome, will cause the University Systems to administer two programs instead of one, and will not be as effective as their current programs.
- i) Injured employee participation in regional workers' compensation networks under HB 2600 is voluntary on the part of the employee. This voluntary provision may be a significant limiting factor that may reduce the number of proposers to the network administrator RFP, or may cause potential proposers to not submit

proposals at all. Potential proposers may not submit proposals if they perceive the pilot networks will not be cost effective from a network administration standpoint.

- j) Voluntary employee participation in the network by injured state employees will likely be limited, which will substantially reduce the effectiveness of the pilot program, which in turn will substantially limit the potential cost savings resulting from the program. The potential cost savings of the pilot program to the State Office of Risk Management through voluntary employee participation versus mandatory employee participation are included as an attachment to this briefing paper.

The administration of a voluntary pilot program in only two regions of the state, and only for injured employees who voluntarily participate in the regional networks, will necessitate the four state self-insured workers' compensation programs to administer two separate medical cost containment programs. One program will be driven by the HNAC contract for employees who voluntarily participate in the regional workers' compensation networks, while the second program will be the traditional medical cost containment programs currently in place. This not only will represent challenges for internal administration by SORM, UT, TAMU and TXDOT, but also SORM's client state 277 agencies, and UT and TAMU's component institutions, which must ensure their employees understand the different programs.

The following is a letter from the HNAC feasibility study consultant regarding regional Workers' Compensation Networks cost savings.



March 14, 2003

Ron Josselet, ARM, CPCU
Executive Director
State Office of Risk Management
State of Texas
300 W. 15th Street
William P. Clements, Jr. State Office Building, 6th Floor
Austin, TX 78701

Re: Regional Workers' Compensation Networks – Cost Savings Estimates

Dear Mr. Josselet:

MedFx recently completed a study of the Feasibility of Regional Workers' Compensation Networks (RWCNs) in Texas. The report was delivered to the Health Care Network Advisory Committee of the Texas Workers' Compensation Commission under a contract issued pursuant to HB 2600 of the 77th Texas Legislature.

HB 2600 requires the State Office of Risk Management (SORM), the University of Texas System (UT), Texas A&M University System (TAMU), and the Texas Department of Transportation (TxDOT) to participate in the implementation of the regional network concept. Our study concluded that RWCNs are conditionally feasible if at least fifteen percent of the state's workers' compensation medical costs were handled within the RWCN. We recommended that a pilot project be implemented in the Austin/San Antonio and Houston regions as defined. The study developed estimates of the savings to be expected as a result of implementing the RWCNs. The basis of the estimates included a factor to account for the fact that the RWCNs authorized under HB 2600 are voluntary. The voluntary aspect arises because employees have the opportunity to decide whether to participate in the RWCN. Employees may elect to participate at any time between the date of hire and the date of injury. Those electing to participate may, within fourteen days of the date that the employee first receives medical treatment in the network and under certain conditions, opt-out of the RWCN.

You have requested that we develop estimates of the impact of making participation in the RWCN mandatory for state employees. These estimates are presented below.

Background

The feasibility report includes a section entitled "Costs and Benefits of the Regional Networks." The discussion of the derivation of the savings estimates makes reference to three critical assumptions:

- The opt-in rate: the percentage of employees electing to use the network,
- Achievable savings: the potential reductions in medical and indemnity costs, and
- Health risk (selection) adjustment: a factor accounting for the relative health status of those electing to use the network versus those not using the network. Empirical evidence suggests that less severely injured workers will opt into the network if it is voluntary.

The savings factor was estimated as the product of the opt-in rate, the achievable savings and the health risk adjustment. The factor derived in the feasibility study is:

$$\begin{array}{cccccc}
 40\% & \times & 30\% & \times & 60\% & = & 7.2\% \\
 \text{opt-in rate} & & \text{savings in medical} & & \text{selection} & & \text{savings} \\
 & & \text{and indemnity costs} & & \text{adjustment} & & \text{factor}
 \end{array}$$

The savings factor is multiplied by the losses in a given region to estimate the savings due to the RWCN. The estimates we derived were based on data provided by the Texas Workers' Compensation Commission (TWCC). Our report discusses certain limitations in the data that were disclosed by TWCC and the assumptions we made to address those limitations. The data for injury years 1999 and 2000 that we analyzed for the Feasibility Report included the indemnity losses that were used to estimate aggregate losses for SORM, UT, TAMU and TxDOT for the Austin/San Antonio and Houston regions. A summary of the costs by region is shown in the table below:

Region	Biennial Indemnity Losses	Estimated Total Biennial Losses
Austin/San Antonio	\$7,895,299	\$15,790,598
Houston	\$19,973,306	\$39,946,612
All Other Regions	\$36,115,160	\$72,230,320
Total	\$63,983,765	\$127,967,530

Applying the savings factor to the losses in the Austin/San Antonio and Houston areas generates the savings estimates to the state's workers' compensation program reported below:

Region	Estimated Total Biennial Losses	Savings Factor	Estimated Biennial Savings to State Workers' Compensation Costs
Austin/San Antonio	\$15,790,598	7.2%	\$1,136,923
Houston	\$39,946,612	7.2%	\$2,876,156
Total	\$55,737,210	7.2%	\$4,013,079

The results reported in the study are \$1.1 million in Austin and \$2.9 million in Houston.

The feasibility report included a break-even analysis. This is an estimate of the minimum level of participation required to fund expected implementation and on-going costs. Stated another way, the break-even analysis set the floor at which you recover your costs. We previously estimated that a minimum participation rate of fifteen percent is required to break-even.

Revised Savings Estimate

The development of estimated savings using a basis of mandatory network participation follows the same approach as that discussed above. Mandatory network participation affects the first and last terms of the savings factor equation: the opt-in rate becomes 100% since the network is mandatory, and the selection adjustment term becomes 100% since the ability to opt-in or opt-out is eliminated,

and we no longer need to account for the differences in morbidity between the network and non-network populations. Using a mandatory employee participation model, the revised savings equation is as follows:

$$\begin{array}{ccccccc}
 100\% & \times & 30\% & \times & 100\% & = & 30\% \\
 \text{opt-in rate} & & \text{savings in medical} & & \text{selection} & & \text{savings} \\
 & & \text{and indemnity costs} & & \text{adjustment} & & \text{factor}
 \end{array}$$

Assuming that the RWCNs were made mandatory for state employees, the state could expect to save approximately thirty percent in medical and indemnity costs for the Austin/San Antonio and Houston areas. These savings by region are summarized in the table below:

Region	Estimated Total Biennial Losses	Savings Factor	Estimated Biennial Savings to State Workers' Compensation Costs
Austin/San Antonio	\$15,790,598	30%	\$4,737,179
Houston	\$39,946,612	30%	\$11,983,983
Total	\$55,737,210	30%	\$16,721,162

One other consequence of mandatory network participation should be noted. The feasibility report concluded that it would be advantageous to pilot the RWCN concept in two regions. This allowed for the demonstration of the concept and the validation of the results. Mandatory network participation increases the expected savings significantly. We believe that there may be other regions in which SORM and the related state employers operate that could eventually benefit from the RWCN model. There may be an opportunity to expand beyond the recommended regions and increase the potential savings to the State; however conducting a state-wide demonstration project will require more time to implement and may make it more difficult to evaluate prior to the next legislative session.

If the RWCN concept were expanded to include all state employees statewide, estimated aggregate savings are about \$38.4 million. We are aware of limitations in the geographic coverage of existing networks that mean this is practically an upper bound on the savings. However, given the magnitude of the savings, SORM and the related state employers could contract to build networks in those areas where deficiencies exist and still save significant amounts in those areas. The only significant difference would be an additional four to six months to contract with providers in those areas where geographic deficiencies are noted.

I trust this responds to your request in sufficient detail. Please let me know if you have any questions or if we may be of further assistance.

Sincerely,

Armand L. Bengle
Chief Operating Officer

8. Please describe any unique aspects or features of your system of which you believe the committee should be aware.

State Office of Risk Management is a young agency

The State Office of Risk Management was created in 1997 during the 75th Legislative Session, by combining the functions of two departments of two separate agencies. Worker's compensation coverage was moved from the Office of the Attorney General while the risk management function was moved from the Texas Workers' Compensation Commission. This move became effective on September 1, 1997. The initial Interim Executive Director was Albert Betts from September 1, 1997 to February 4, 1999. Bruce Birdwell held the Executive Director position from February 4, 1998 to October 12, 1999. Ron Josselet took over as Executive Director in January of 2000. During Mr. Josselet's tenure, the number of open claims has declined by approximately 50%.

SORM's Claims Fund is operated on a cash basis

The state self insurance program has unfunded liabilities of approximately \$200 million dollars. This is the amount of money that would ultimately be owed on existing claims even if the state were to stop providing workers' compensation coverage immediately. Thus SORM must collect each year an amount sufficient to pay all costs for past and current claims for that year. This is different from all private sector insurers as well as some state insurers which maintain a reserve fund to pay incurred claims.

Limited control over clients

SORM clients are made up of 156 state agencies in addition to providing statutorily mandated coverage for certain non-state beneficiaries. SORM offers risk management services to all of our client agencies, but does not have direct control over those agencies.

Administrative attachment

By being administratively attached to the Office of the Attorney General, we are able to take advantage of economies of scale. While this provides for a good value to the taxpayers in administrative savings, a continuing shortage of resources has hindered our ability to make necessary administrative changes in a timely fashion. The area of greatest need is the ability to support and modify SORM's automated claims system.

Business continuity planning is leading the state

SORM provides leadership in development and implementation of Business Continuity Planning for client agencies.

Statewide Insurance Program

With the passage of HB 1203, 77th Regular Legislative Session, the State Office of Risk Management was instructed to implement a statewide insurance program for client agencies. The program was implemented on September 1, 2002 with the following charges:

- Operate as a full-service risk and insurance manager for state agencies;
- Maintain and review records of property, casualty, and liability insurance purchased by state agencies;
- Approve the purchase of surety bonds for state officers and employees.

The goals of the program are as follows:

- Eliminate policies that do not cover agency's risks or charge a premium for covering non-existent risks;
- Use the state's marketing power to buy appropriate coverage at the most reasonable price with the best terms and conditions available;
- Identify opportunities to pool risks among agencies to protect agencies' property and budgets;
- Track claims to control losses.

The following is our list of clients, including not only 156 state agencies, but also a number of other entities or parties.

Agency	Name	Agency	Name
A101	Senate	A460	Professional Engineers, Texas Board of
A102	The House of Representatives	A464	Board of Professional Land Surveying
A103	Legislative Council	A466	Office of Consumer Credit Commissioner
A104	Legislative Budget Board	A467	Private Investigators and Private Security
A105	Legislative Reference Library	A469	Credit Union Department
A116	Sunset Advisory Commission	A472	Structural Pest Control Board
A201	Supreme Court of Texas	A473	Public Utility Commission of Texas
A203	Board of Law Examiners	A475	Office of Public Utility Counsel
A204	Court Reporter Certification Board	A476	Racing Commission
A211	Court of Criminal Appeals	A477	Advsy Comm. on State Emergency Comm.
A212	Office of Court Administration	A479	State Office of Risk Management
A213	State Prosecuting Attorney	A501	Department of Health
A221	Court of Appeals - First District	A502	Board of Barber Examiners
A222	Court of Appeals - Second District	A503	State Board of Medical Examiners
A223	Court of Appeals - Third District	A504	Board of Dental Examiners
A224	Court of Appeals - Fourth District	A505	Cosmetology Commission
A225	Court of Appeals - Fifth District	A507	Board of Nurse Examiners
A226	Court of Appeals - Sixth District	A508	Board of Chiropractic Examiners

Agency	Name	Agency	Name
A227	Court of Appeals - Seventh District	A512	State Board of Podiatric Medical Examiners
A228	Court of Appeals - Eighth District	A513	Funeral Service Commission
A229	Court of Appeals - Ninth District	A514	Optometry Board
A230	Court of Appeals - Tenth District	A515	Board of Pharmacy
A231	Court of Appeals - Eleventh District	A517	Commission on Alcohol and Drug Abuse
A232	Court of Appeals - Twelfth District	A520	Board of Examiners of Psychologists
A233	Court of Appeals - Thirteenth Dist	A527	Cancer Council
A234	Court of Appeals - Fourteenth Dist	A529	Health & Human Services Commission
A241	District Courts (Compt.'s Jud. Sect)	A530	Department of Family & Protective Services
A242	State Comm on Judicial Conduct	A532	Early Childhood Intervention, Interagency
A243	State Law Library	A533	Physical & Occup Therapy Examiners
A301	Governor's Office	A551	Department of Agriculture
A302	Office of the Attorney General	A554	Animal Health Commission
A303	Texas Bldg and Procurement Comm	A578	Veterinary Medical Examiners
A304	Comptroller of Public Accounts	A579	Rio Grande Compact Commission
A305	General Land Office	A580	Water Development Board
A306	Library and Archives Commission	A582	Texas Comm. on Environmental Quality
A307	Secretary of State	A583	Sabine River Compact Admin
A308	State Auditor's Office	A592	Soil & Water Conservation Board, State
A312	Securities Board	A596	Red River Compact Commission
A313	Dept. of Information Resources	A598	Canadian River Compact Comm
A318	Commission for the Blind	A599	Pecos River Compact Commission
A320	Workforce Commission	A655	Mental Health & Mental Retardation
A324	Department of Human Services	A665	Juvenile Probation Commission
A325	Fire Fighter's Pension Commissioner	A694	Texas Youth Commission
A329	Real Estate Commission	A696	Department of Criminal Justice
A330	Rehabilitation Commission	A701	Texas Education Agency
A332	Dept of Housing and Comm Affairs	A705	State Board. on Educator Cert
A333	Office of State-Federal Relations	A717	Texas Southern University
A335	Comm. for the Deaf & Hard of Hrng	A719	Texas State Technical College – System
A337	Board of Tax Prof Examiners	A730	University of Houston
A338	Pension Review Board	A731	Texas Woman's University
A340	Texas Department on Aging	A733	Texas Tech University
A344	Commission on Human Rights	A734	Lamar University - Beaumont
A347	Public Finance Authority	A735	Midwestern State University
A352	Bond Review Board	A737	Angelo State University
A353	Incentive & Productivity Comm.	A739	Texas Tech Univ. Health Sciences Center
A356	Ethics Commission	A752	University of North Texas
A357	Office of Rural Community Affairs	A753	Sam Houston State University
A359	Office of Public Insurance Counsel	A754	Texas State University - San Marcos
A360	State Office of Admin Hearings	A755	Stephen F. Austin State University
A362	State Lottery Commission	A756	Sul Ross State University
A364	Health Professions Council	A758	Texas State University System
A401	Adjutant General	A759	University of Houston - Clear Lake
A403	Veterans Commission	A763	Univ. of North Texas Health Science Center

Agency	Name	Agency	Name
A405	Department of Public Safety	A765	University of Houston – Victoria Center
A406	Texas Military Facilities Comm	A771	Blind and Visually Impaired, School for the
A407	Law Enforcement Officers Standards & Ed.	A772	School for the Deaf
A409	Commission on Jail Standards	A781	Higher Education Coordinating Brd
A411	Commission on Fire Protection	A783	University of Houston System
A450	Savings and Loan Department	A784	University of Houston - Downtown
A451	State Department of Banking	A787	Lamar University - Orange
A452	Licensing and Regulation, Dept. of	A788	Lamar University - Port Arthur
A453	Workers' Compensation Comm	A789	Lamar University Institute of Tech
A454	Department of Insurance	A802	Parks and Wildlife
A455	Railroad Commission	A808	Historical Commission
A456	State Board of Plumbing Examiners	A809	State Preservation Board
A457	State Board of Public Accountancy	A813	Commission on the Arts
A458	Alcoholic Beverage Commission	A904	Food and Fibers Commission
A459	Board of Architectural Examiners	A907	Compt. State Energy Conservation Office
CSCD	Name	CSCD	Name
C001	Anderson	C110	Hockley
C002	Andrews	C111	Hood
C003	Angelina	C112	Hopkins
C009	Bailey	C114	Howard
C011	Bastrop	C116	Hunt
C012	Baylor	C117	Hutchinson
C014	Bell	C119	Jack
C015	Bexar	C121	Jasper
C019	Bowie	C123	Jefferson
C020	Brazoria	C125	Jim Wells
C021	Brazos	C126	Johnson
C025	Brown	C127	Jones
C027	Burnet	C128	Karnes
C028	Caldwell	C129	Kaufman
C031	Cameron	C133	Kerr
C034	Cass	C137	Kleberg
C037	Cherokee	C139	Lamar
C038	Childress	C140	Lamb
C043	Collin	C143	Lavaca
C047	Comanche	C146	Liberty
C049	Cooke	C147	Limestone
C050	Coryell	C152	Lubbock
C052	Crane	C154	McCulloch
C053	Crockett	C155	McLennan
C057	Dallas	C161	Matagorda
C058	Dawson	C162	Maverick
C059	Deaf Smith	C165	Midland

CSCD	Name	CSCD	Name
C061	Denton	C166	Milam
C067	Eastland	C169	Montague
C068	Ector	C170	Montgomery
C070	Ellis	C171	Moore
C071	El Paso	C172	Morris
C072	Erath	C174	Nacogdoches
C073	Falls	C175	Navarro
C074	Fannin	C177	Nolan
C075	Fayette	C178	Nueces
C077	Floyd	C181	Orange
C079	Fort Bend	C182	Palo Pinto
C084	Galveston	C183	Panola
C090	Gray	C184	Parker
C091	Grayson	C186	Pecos
C092	Gregg	C187	Polk
C094	Guadalupe	C188	Potter
C095	Hale	C195	Reeves
C100	Hardin	C199	Rockwall
C101	Harris	C201	Rusk
C102	Harrison	C205	San Patricio
C104	Haskell	C208	Scurry
C107	Henderson	C212	Smith
C108	Hidalgo	C214	Starr
C109	Hill	C220	Tarrant
		C221	Taylor
		C223	Terry
		C226	Tom Green
		C227	Travis
		C229	Tyler
		C230	Upshur
		C232	Uvalde
		C233	Val Verde
		C234	Van Zandt
		C235	Victoria
		C236	Walker
		C240	Webb
		C242	Wheeler
		C243	Wichita
		C244	Wilbarger
		C246	Williamson
		C248	Winkler
		C250	Wood
		C252	Young

Other Covered Parties

Peace Officers injured outside
their jurisdiction
Task Force 1
Volunteers called up during an emergency