



CITY OF CHICAGO



DEPARTMENT OF FINANCE

Annual Report: Workers' Compensation

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Article XIV of the Municipal Code of Chicago (2-32-1410 *et seq.*) requires an annual report on the City of Chicago's ("City") Workers' Compensation Program ("Program"). This report summarizes Program activity during 2019 and 2020¹.

Background

City Council's Committee on Finance administered the Program until January 2019, when City Council passed an ordinance transferring the Program to the City's Department of Finance ("DOF"). After the transfer, DOF, the Department of Law, and the Office of Inspector General retained Grant Thornton to audit the Program. Grant Thornton issued its findings on May 10, 2019. Based on those findings and its own analysis of the Program, DOF exercised its authority under the municipal code and initiated a competitive bidding process for a third-party administrator ("TPA") to professionally manage the Program. In August 2019, DOF hired an experienced third-party administrator, Gallagher Bassett ("GB"), to run the Program's day-to-day operations. While GB handles the Program's day-to-day operations, DOF provides daily oversight of the Program's operations.

Summary

There has been significant activity in the Program since it was transferred to the DOF in January 2019 and transitioned to GB in August 2019. This activity includes transferring data and records for 122,460 claims, professionalizing the Program's operations, addressing findings from the Grant Thornton audit (as detailed in the Appendix), and improving day-to-day claim handling and payment.

As set forth in the Appendix, GB and DOF worked diligently to professionalize the Program's staff by hiring experienced claim professionals and supervisors, implement industry "best practices," and collaborate with the Office of Inspector General to identify and combat fraud.

In 2019, the Program received 1,175 claims and paid \$53.4 million in the aggregate for indemnity, medical, and expense payments. In 2020, the Program received 861 claims and paid \$58.1 million in the aggregate for indemnity, medical, and expense payments. COVID-19 presented a significant disruption to the workers' compensation system as legal proceedings and medical treatments came to a halt.

When excluding the impact of COVID-19, the Program achieved \$2.4 million in savings in 2020. Financial savings are measured comparing claim outcomes in 2020 to 2018² and are the result of improvements in key cost drivers:

¹ 2022 has not been presented as the activity and related analysis will be available at the end of Q1 2022.

² 2019 was not chosen as the comparison year because payment activity was heavily impacted by the transition to GB. Performance years were chosen as the first full year of GB's administration of the Program compared to the last full year of the Committee on Finance's administration.

- Claims becoming litigated within 12 months of being reported fell to 4% in 2020, down from 16% in 2018
- On claims closed within 12 months, the average days an injured employee was away from work dropped from 21 days to 12 days, a 43% reduction
- The average cost of medical treatment for common procedures fell by an average of 7.6%

The Program

Table 1 summarizes key claim and financial activity over the past five (5) years for the Program. Definitions for noted measures can be found in the Appendix.

Table 1: Summary of Key Measures, Calendar year data

	2016	2017	2018	2019	2020
New Claims	1,354	1,434	1,284	1,175	861
Closed Claims	2,325	1,957	1,921	1,659	1,146
Reopened Claims	552	393	348	290	851
Open Inventory	1,848	1,718	1,429	1,235	1,801
Total Paid	\$65.6M	\$64.8M	\$61.8M	\$53.4M	\$58.1M
Reserves on Open ²	\$348.0M	\$346.4M	\$348.4M	\$312.5M	\$508.8M
Average Paid on Closed (at 12 months) ³	\$3,526	\$4,021	\$4,514	\$3,266	\$2,366
Average Duration on Closed (at 12 months)	132.4	130.8	131.5	122.5	109.9

² Increase in Reserves on Open is due to changes in reserving and closure practices, which is explained in greater detail in the 'Impact on Financial Reserves' section of the report

³ Average Paid on Closed is based on claims with costs >\$15 and individual claims are capped at \$250K. 911 claims in 2019 and 774 claims in 2020 had costs >\$15.

As set forth below in Table 2, the City realized financial savings of \$2.4M in 2020 as a result of improved claim outcomes achieved by transitioning the Program to DOF and GB. This excludes the impact of COVID-19 as these claims typically have a shorter duration and lower average cost, which could skew the comparison and overstate financial benefits realized.

Table 2: Summary of Savings in the Civilian Program

Category	Description	Realized in 2020
Improved closure costs	Non-litigated claims closed at lower cost	\$0.4M
Lower cost of settlements	Claims settled at lower costs	\$0.6M
Lower medical spend	Lower cost for common medical treatments	\$0.7M
Lower benefits payments	Employees returning to health quicker	\$0.5M
Claim reduction	Self-care and thorough early investigations	\$0.3M
Increase in expense	Increase in surveillance and attorney spend	(\$0.1M)
Grand Total		\$2.4M

The savings noted in Table 2 are a result of improving claim outcomes, which benefit both the City's workers and its taxpayers. The primary drivers of the savings are lower litigation, fewer lost work days, and lower medical spend, which overall result in a lower average paid amount per claim.

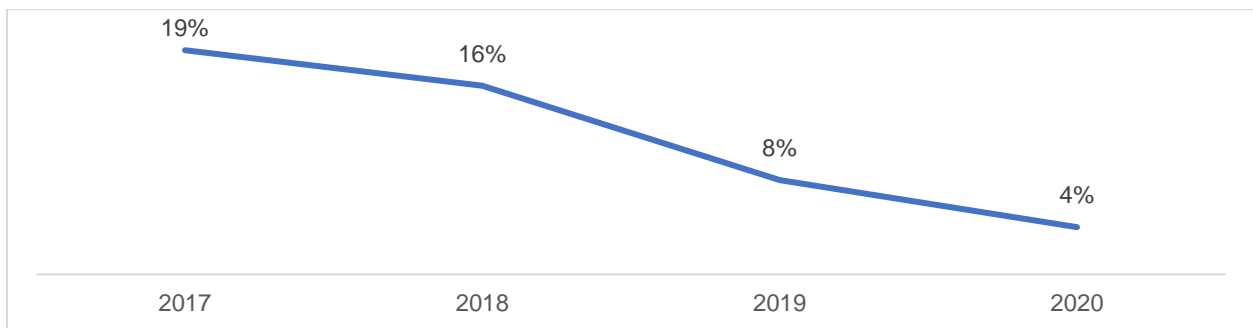
Lower litigation is the result of a better injured employee experience

The percentage of claims becoming litigated within 12 months of being reported has fallen precipitously since 2017-18 (refer in Figure 1). This is because the likelihood of litigation is greatly reduced when injured employees have positive interactions with their claim handlers and receive timely payment of entitled benefits.

GB's best practices and training focus on proactive claim handling and on informative, compassionate, and timely communications regarding the status of workers' compensation claims. Since the transition, DOF and GB have reduced the median time it takes an injured employee to receive their first benefit payment by ~50%, from 39 days in 2018 to 20 days in 2020.

Reducing the number of litigated claims saves money because litigated claims cost significantly more to settle than non-litigated claims. This lower litigation rate resulted in annual savings of \$0.6M in 2020 (Table 2, Lower Cost of Settlements).

Figure 1: Percent of Claims Litigated within 12 Months of Reported Date

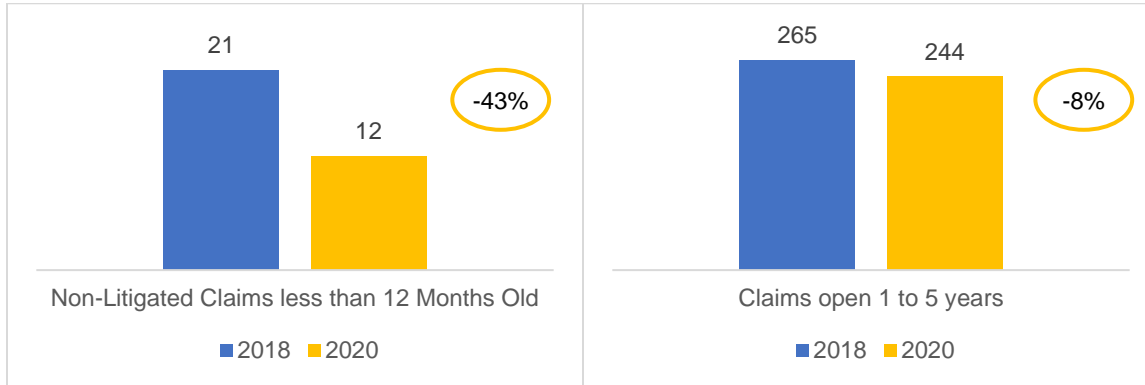


Reduced lost work days drives lower costs, higher employee engagement, and better productivity

Returning employees to work quickly provides numerous benefits beyond driving savings. Employees regain a sense of normalcy post-injury, are more engaged, and are more likely to remain productive members of the workforce. Employers benefit from higher productivity and retaining skilled workers. In 2020, average days away from work due to an injury on new claims (less than 12 months old) decreased from 21 to 12 days, a 43% reduction. On older claims (open between 1 and 5 years), days away from work dropped from 265 days to 244 days, an 8% reduction.

Reducing the number of days an employee is away from work has been the result of more effective claim handling and timely communication between the claim handler, medical provider, and employer about an employee's work status and physical restrictions. Effective communication ensures that an employee returns to work as quickly as feasible after being released by their medical provider. This saved the City \$0.9M in 2020 (Table 2, Improved Closure Costs & Lower Benefits Payments).

Figure 2: Number of Days an Employee was Off Work



Higher network utilization and improved medical review processes drive lower treatment costs

Maintaining a high quality, cost-effective provider network and processes to review medical treatment requests and to secure second opinions have reduced the average cost per treatment (Table 3 below). Overall, these lower costs have saved the City an estimated \$0.7M per year (Table 2, Lower Medical Spend).

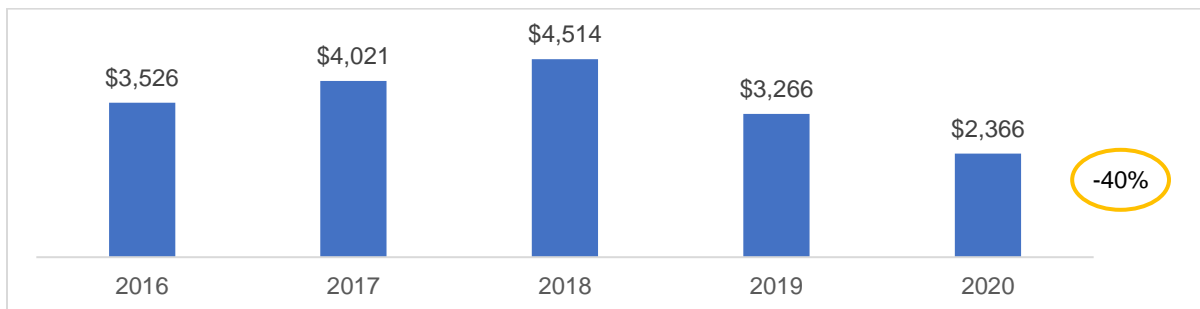
Table 3: Average Cost of Common Medical Procedures

Average Costs	2018	2020	Difference	
			\$	%
Surgery per claim	\$14,893	\$13,688	(\$1,205)	(8.0%)
PT per claim	\$6,558	\$5,737	(\$821)	(12.5%)
Other Medical Treatment per payment	\$357	\$343	(\$14)	(3.9%)

Lower litigation, lost work days, and medical treatment cost drive down average paid per claim

Lower litigation, fewer lost work days, and decreased medical spending have resulted in an overall decrease in the cost per claim. Claims that closed in the first 12 months of being reported cost an average of \$4,020 in 2016-2018. In 2020, the average paid on similar claims was 40% lower, or \$2,366.

Figure 3: Average Paid on Closed Claims at 12 Months Maturity

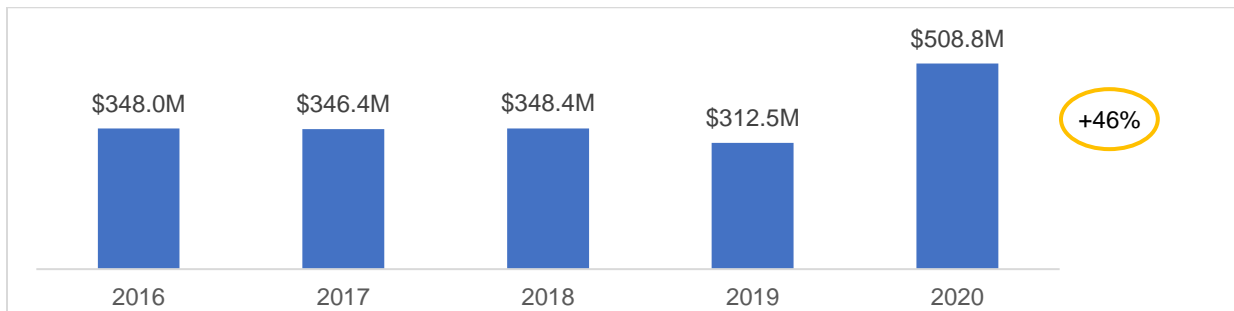


Impact to Financial Reserves

Reserves on open claims are an important financial measure that quantify the total financial exposure and represent the City's aggregate liabilities. During the transition to DOF and GB, it was discovered that the City's reserves were underreported. At the conclusion of the transition and a triage process, where GB reviewed all open claims, reserves at the end of 2020 were increased by 46% as compared to the three year average for 2016-2018 (Figure 4 below).

Twenty five percent (25%) of the increase was driven by strengthening reserves on existing open claims. Seventy five percent (75%) of the increase came from reopening ~725 litigated claim files, which were closed at the time of the transition but had not yet been resolved with the injured employee. Reserves were updated with the oversight of the DOF based on a consistent methodology that captures the total ultimate probable cost of resolving the underlying claims. Performing an in-depth review of the City's full inventory of open claims and quantifying the exposure associated with them was an important effort that provided the City and its taxpayers a more accurate picture of the Program's future obligations.

Figure 4: Reserves on Open (Total Incurred) of the Civilian Program



Conclusion

The Program has seen a number of significant achievements and improvements since 2019. These achievements and improvements resulted in \$2.4 million in realized savings in 2020 and have paved the way for future opportunities to provide better experiences for injured workers, increase productivity for City departments, and further drive down the Program's costs.

Appendix – Glossary of Key Terms

- New Claims: Claims setup within the period
- Closed Claims: Number of claims where the status changed from open to closed during the period
- Reopened Claims: Number of claims previously closed, that were re-opened within the period
- Open Inventory: Number of claims with a status of open at the end of the period
- Total Paid: Total amount paid in the period for all categories of spending (indemnity, medical, and expense) during the period. Includes all accident dates. Cash basis.
- Reserves on Open (Total Incurred): The total expected financial exposure for claims open at the end of the period
- Average Paid on Closed (at 12 months): The average spent on claims closed within 12 months of their reported date. Individual claims are capped at \$250k. Excludes claims with \$15 or less paid and outliers with over \$250,000 paid
- Average Duration on Closed (at 12 months): The number of days a claim was open, measured for all claims closed within 12 months of their reported date.
- Lost Work Days: The number of days an injured worker received temporary total disability payments

Appendix – Program Reform

As a result of the successful collaboration between DOF and GB, the City implemented numerous reforms that have provided financial benefits for the City’s constituents and higher quality service for the City’s injured employees.

Table 4: Summary of Critical Program Reform

Category	New or Reformed Program Aspects in 2019-20
Oversight	<ul style="list-style-type: none"> • Oversight by DOF, led by seasoned WC professionals, including: <ul style="list-style-type: none"> – Daily governance and controls over financial transactions – Monthly Program Reviews to monitor key performance measures, financials, and quality
Team	<ul style="list-style-type: none"> • Team of 25 highly trained claim professionals, led by experienced management team • MBE staffing partner to recruit and hire qualified staff
Training	<ul style="list-style-type: none"> • Strong training curriculum focused on Best Practices and Fraud Avoidance • Dedicated trainer for onboarding team to Program
Technology and Reporting	<ul style="list-style-type: none"> • Technology platform that offers self-serve access to data/reporting • Custom-built dashboards available daily with access to key performance measures • Dedicated team, responsive to data/ reporting requests
File Handling & Documentation	<ul style="list-style-type: none"> • Best practice claim handling processes across the claim lifecycle • Ongoing quality assurance and quality control to ensure best practices are followed <ul style="list-style-type: none"> – Daily interaction with supervisors – Weekly review of new claims by Quality specialist – Monthly review of a sample of claims by Quality specialist
Financial Exposure / Reserving	<ul style="list-style-type: none"> • ‘Ultimate probable’ reserving philosophy • Greater clarity on future liabilities and overall exposure
Litigation Management	<ul style="list-style-type: none"> • Litigation team focused on resolving legacy claims • Regular file reviews on litigated claims which were previously closed • Claim handling best practices for litigated files including initial litigation analysis and budget development • Outside Litigation Management Panel Counsel to complement Department of Law’s internal counsel, incorporating WBE/DBE legal partners • Matter Management system to audit for compliance with City’s billing guidelines
Medical Management	<ul style="list-style-type: none"> • Proactive claim handling medical management practices to return an injured employee to health as quickly as possible • Nurse Triage program that provides injured employee with access to a trained nurse, who can direct medical care early and reduce unnecessary treatment • Expanded number of high quality, certified medical providers available to treat employees by 5% in the City of Chicago and 6% overall
Wage Calculations	<ul style="list-style-type: none"> • Consistent approach to obtain and calculate Average Weekly Wage to ensure alignment with Illinois Workers’ Compensation requirements • Conversion of bi-weekly payments to weekly to avoid opportunity for overpayment
Fraud	<ul style="list-style-type: none"> • Anonymous, toll-free hotline • Fraud posters and awareness campaign • Monthly meetings with the Office of the Inspector General to review referred cases