Subsequent Injury Fund

FY 2018 Budget Hearing Testimony

House Appropriations Committee
Public Safety Administration Subcommittee
121 House Office Building
Annapolis, MD 21401
February 8, 2018

Senate Budget and Taxation Committee
Public Safety, Transportation, and Environment Subcommittee
Suite 3 West, Miller Senate Office Building
Annapolis, MD 21401
February 12, 2018

The Subsequent Injury Fund is an independent agency, created under Section 802 of the Maryland Annotated Code. The Fund was created to encourage the hiring of workers with pre-existing disabilities by assuming financial responsibility for a permanent impairment due to an accident, disease or congenital condition that is, or is likely to be, a hindrance to employment when combined with the effects of a subsequent compensable job related accident, personal injury or occupational disease.

The Subsequent Injury Fund annual operating budget and benefit payments are exclusively funded from a 6.5% assessment on awards passed by the Maryland Workers' Compensation Commission against employers or insurers for permanent disability or death and amounts payable by employers or insurers under settlement agreements.

The fiscal 2017 closing Subsequent Injury Fund balance was $90,670,459.00. This represents a one year 6.3% balance increase. The 2018 fiscal year closing balance is currently estimated to be $95 million.

Improvements to SIF accounting department and case control electronic data collection and retention systems since a 2011 actuarial study contributed to a more detailed and accurate FY 2016 analysis.

Subsequent Injury Fund fiscal 2017 assessments exceeded fiscal 2016. However, the most recent March 2016 actuarial study concluded that the Fund had an unfunded liability of approximately $181.2 million (discounted at three percent). The current unfunded liability represents a 29 percent decrease from the June 2011 actuarial study. The actuary concluded that the current 6.5% assessment rate remain unchanged with formal reassessment in four to five years.

The SIF concurred with the actuary recommendations. Monthly assessment collections and benefit payments in relation to the reserve balance are closely monitored. The unfunded loss liability and assessment rate will be addressed during the next actuary study, scheduled for FY 2019. A system is in place for cross-monitoring of awarded claims data accuracy by members of the fiscal and claims departments. The SIF updated case control system includes the ability to capture statistics for the impleaded but not awarded claim data file.

The Department of Legislative Services, Office of Legislative Audits conducted a fiscal compliance audit of the Subsequent Injury Fund for the period beginning October 29, 2013 and ending November 13. 2016.

The SIF has taken the indicated actions in response to the five audit findings.

Finding 1: The SIF did not ensure claim payments agreed with amounts awarded by the Workers' Compensation Commission, resulting in potential overpayments going undetected.

SIF Action to Finding 1: Beginning 6/5/2017, SIF Claims Department personnel began reviewing a new electronically generated report detailing all claimant disbursement transactions for the previous week. A second report is reviewed that identifies changes in the current bi-weekly payments compared to the last. This new process confirms compliance with payment changes ordered by the WCC and identifies any erroneous or unauthorized transactions.
A review of all recurring payments has been initiated and the results are recorded. Identified overpayments are forwarded to the Legal Department for presentation to the SIF Board in advance of recovery action.

Finding 2: SIF did not always pursue recovery of claim payments improperly disbursed to deceased individuals.

SIF Action to Finding 2: A checklist procedure has been initiated detailing step-by-step actions to be performed by specific SIF personnel to immediately cease all further payments, recovery outstanding payments that have not been presented for payment and document all collection activity. A plan is in place for timely recovery pursuit of funds disbursed to deceased beneficiaries, including legal action and CCU referral when necessary.

Finding 3: SIF did not ensure that all assessments were recorded in its accounts receivable system and did not conduct independent reviews of adjustment to these accounts. Additionally, SIF did not properly separate certain accounts receivable and cash receipts functions.

SIF Action to Finding 3: A procedure to review assessment awards on a daily basis has been implemented. Discrepancies are investigated and resolved on a weekly basis.
Proper separation of duties has been implemented and a modification to accounting department electronic systems has automated the adjustment process. The separation of accounts receivable and cash receipts functions among existing personnel has been implemented.

Finding 4: SIF did not document its efforts to collect delinquent assessment accounts and did not refer all delinquent accounts the State's Central Collections Unit.

SIF Action to Finding 4: The Accounts receivable application has been modified to identify uncollected invoices. A formal delinquent accounts receivable collection plan, in accordance with State regulations, is in place.

Finding 5: SIF did not have adequate procedures in place over processing assessment payments.

SIF Action to Finding 5: Assessment collections to a bank via a Baltimore Post Office Lockbox is in place.

The Subsequent Injury Fund is pleased to report that the OLA IT audit resulted in no findings.

Respectively submitted,
Edgar G. Dodd, III
Director
Subsequent Injury Fund

SUBSEQUENT INJURY FUND BALANCE

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018 EST.	FY 2019 EST.
Beginning Balance	$ 78,107,299	$ 80,989,370	$ 81,243,776	$ 82,185,258	$ 85,259,943	$ 90,670,459	$ 95,025,459
Adjustment: Fixed Assets Sold	0	0	0	4,415	213	0	0
Adjusted Beg. Balance	78,107,299	80,989,370	81,243,776	82,189,673	85,260,156	90,670,459	95,025,459
Revenue:							
6.5% Award Assessments	28,115,086	26,538,988	26,229,916	26,177,572	26,274,282	26,500,000	26,500,000
Investment Income	694,928	831,900	849,201	866,363	1,299,577	1,200,000	1,200,000
Recovery of Benefits	14,413	53,529	50,856	4,682	24,523	0	0
CCU Collections	17,438	330	2,992	27,727	9,968	0	0
Total Revenue	$ 28,841,863	$ 27,424,747	$ 27,132,966	$ 27,076,344	$ 27,608,350	$ 27,700,000	$ 27,700,000
Expenditures:							
Benefit Payments	23,905,002	25,077,393	23,996,970	21,703,105	19,894,415	21,000,000	21,000,000
Agency Operating Expenses	2,052,404	2,092,949	2,194,514	2,306,317	2,303,632	2,345,000	2,347,000
Total Expenditures	$ 25,957,406	$ 27,170,342	$ 26,191,484	$ 24,009,423	$ 22,198,047	$ 23,345,000	$ 23,347,000
Excess of Revenue over Expenditures	2,884,458	254,406	941,482	3,066,922	5,410,303	4,355,000	4,353,000
Sub-program Adjustment	0	0	0	3,349	0	0	0
Ending Balance	$ 80,991,757	$ 81,243,776	$ 82,185,258	$ 85,259,943	$ 90,670,459	$ 95,025,459	$ 99,378,459

SUBSEQUENT INJURY FUND BALANCE

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018 EST.	FY 2019 EST.
Beginning Balance	$ 70,754,896	$ 73,025,353	$ 78,107,299	$ 80,989,370	$ 81,243,776	$ 82,185,258	$ 85,259,943	$ 90,670,459	$ 95,025,459
Adjustment: Fixed Assets Sold	0	0	0	0	0	4,415	213	0	0
Adjusted Beg. Balance	70,754,896	73,025,353	78,107,299	80,989,370	81,243,776	82,189,673	85,260,156	90,670,459	95,025,459
Revenue:									
6.5% Award Assessments	22,878,467	28,434,602	28,115,086	26,538,988	26,229,916	26,177,572	26,274,282	26,500,000	26,500,000
Investment Income	1,433,553	828,182	694,928	831,900	849,201	866,363	1,299,577	1,200,000	1,200,000
Recovery of Benefits	55,352	38,111	14,413	53,529	50,856	4,682	24,523	0	0
CCU Collections	98,346	54,124	17,438	330	2,992	27,727	9,968	0	0
Reimbursable Income	60,000	0	0	0	0	0	0	0	0
Total Revenue	$ 24,525,718	$ 29,355,019	$ 28,841,863	$ 27,424,747	$ 27,132,966	$ 27,076,344	$ 27,608,350	$ 27,700,000	$ 27,700,000
Expenditures:									
Benefit Payments	20,238,102	22,311,294	23,905,002	25,077,393	23,996,970	21,703,105	19,894,415	21,000,000	21,000,000
Agency Operating Expenses	2,011,821	1,960,584	2,052,404	2,092,949	2,194,514	2,306,317	2,303,632	2,345,000	2,347,000
Total Expenditures	$ 22,249,923	$ 24,271,878	$ 25,957,406	$ 27,170,342	$ 26,191,484	$ 24,009,423	$ 22,198,047	$ 23,345,000	$ 23,347,000
Excess of Revenue over Expenditures	2,275,795	5,083,141	2,884,458	254,406	941,482	3,066,922	5,410,303	4,355,000	4,353,000
Sub-program Adjustment	0	0	0	0	0	3,349	0	0	0
Ending Balance	$ 73,030,691	$ 78,108,494	$ 80,991,757	$ 81,243,776	$ 82,185,258	$ 85,259,943	$ 90,670,459	$ 95,025,459	$ 99,378,459