

## SUMMARY OF FINDINGS AND RECOMMENDATIONS

### FINDINGS

1. State Employees or their survivors may receive benefits because of work-related disabilities or death from four state-financed sources-- Workmen's Compensation, salary continuation payments, retirement system, and Federal Social Security.

- Benefits are often paid from more than one source at the same time.
- Certain specified safety and prison custodial employees are granted more liberal benefits than other employees.

2. Total identifiable costs of work disability benefits exceed \$20,230,000 per year or approximately 1.3% of total payroll (1967-68) including:

|                                     |             |
|-------------------------------------|-------------|
| Workmen's Compensation              | \$9,340,000 |
| Salary Continuation (Injury Leaves) | 6,850,000   |
| Special retirement system benefits  | 4,040,000   |

3. Total Workmen's Compensation costs in a ten-year study period (1957-58 to 1967-68) have increased 253% while the number of employees increased 10% and gross payrolls 182%.

- Total cost and rate of increase per payroll dollar compares favorably with general experience of California employers because of relatively moderate cost levels of universities, colleges, and large state office operations.
- 74% of losses for governmental operations (excluding universities and colleges) occur in five departments and divisions with 47% of governmental employment. Four of these operations--Corrections, Mental Hygiene, Forestry and Highway Patrol--have significantly higher than average cost per employee.
- Particularly adverse cost trends are noted in Departments of Corrections, Employment, Youth Authority, Parks and Recreation, and Justice.

4. State Compensation Insurance Fund (SCIF) administers Workmen's Compensation benefits for the state service. Approximately 80% of losses are paid out through the "self insurance" program. The balance of losses are covered through purchase of insurance policies from SCIF. SCIF service charges for the "self insurance" program are somewhat lower in ratio to benefit payments than the net retentions of the carrier on insured risks. The master service agreement executed in November, 1943 specifically requires SCIF to furnish only claims service and legal defense. However, SCIF has assisted state agencies, primarily on a request basis, with respect to safety and other loss control programs as detailed in Appendix C.

5. A substantial portion of Workmen's Compensation losses involve degenerative diseases and other employee health problems. Analysis of four years incurred losses for disabling injuries showed 14.3% of losses involved heart cases and 31.6% were back cases. Heart cases have the highest average cost which has risen from \$7,000 to \$10,500 per claim in four years. Special "presumptions" concerning compensability of heart cases are provided in the Labor Code for Highway Patrol, Forestry fire-fighters, and certain other safety and prison employees.
6. Federal Employee Compensation Act (F.E.C.A.) benefits are computed at substantially higher rates than under the state system. Federal average costs per disability case are lower and per death case higher than the State. Average cost per governmental employee in the State System is 3.4 times the Federal cost per employee.
  - Federal system is based on different principles than the state system including:
    - Permanent disability benefits are paid only when loss of wages except for specifically scheduled disabilities. Only 22% of state disabling injury costs involve parts of body that are included in the Federal "scheduled" disabilities.
    - Federal benefits and injury presumptions are the same for all occupations. However, higher benefits are paid for employees with dependents than for single employees.
    - Except for medical cost and "scheduled" disability payments, F.E.C.A. benefits are not paid concurrently with other benefits such as disability retirement.
  - Federal service has substantially lower disabling injury frequency rate than the State.
  - The Federal Government uses government medical facilities more extensively than the State.
7. For work-related causes, special industrial disability (50% of salary) and death benefits (50% to 75% of salary) are provided for designated state safety and prison custodial personnel under Public Employees' Retirement System.
  - Average employer cost in excess of normal retirement reserve was \$48,800 for retirements and \$62,600 for death cases (1966-67 cases).
  - Employees retiring on disability also receive any Workmen's Compensation permanent disability benefits for which they are eligible. Such benefit awards totaled \$595,629 on 68 out of 75 industrial disability retirements of 1966-67--average \$8760 per case.
  - The extent to which "work injury" contributes to total disability may be a minor element. 14 out of 75 retirements involved minor permanent disability ratings ranging from 9% to 25%. No rating records could be located with reference to 7 cases.

- Fifty-eight out of 75 state employee industrial disability retirements in 1966-67 involved disabilities such as heart disease, mental conditions, ulcers and back cases. Four out of six industrial death pensions authorized were heart cases.
  - Prior to 1961 industrial disability retirement pensions were reduced when earnings from a gainful occupation plus pension exceeded current position salary. Since repeal of this restriction (still applicable to normal disability retirements) the frequency of such retirements in ratio to system membership eligible has doubled. There are currently more industrial disability retirements being authorized than normal service retirements among employee classifications eligible.
8. There has been little progress made in reducing disabling injury frequency rate for the total state service in the last ten years.
- Possibilities for substantial improvement are indicated by the excellent record achieved by Division of Highways which has had an active safety program during the entire period reviewed. Highway Patrol, Mental Hygiene, and Department of Conservation show generally favorable trends for the past few years; since safety engineering staff services have been provided and safety programs have received more management support.
  - Currently a number of large state organizations, such as University of California, California State College System and Department of Corrections, do not have a full-time safety engineer associated with their central management services. Smaller offices and departments also have not been provided adequate advisory services and other resources necessary to sustain effective safety and other loss control programs.
9. There recently has been announced a "Governor's Program to Reduce Occupational Injuries" (Appendix E-2). The program is comprehensive in scope and soundly conceived. It sets forth policies, organizational responsibilities and goals for an accident prevention and loss control program throughout the state service. The program recognizes the key elements on which good safety records are based. These elements are:
- Continuous top management support and follow-up on results.
  - Direct responsibility and involvement of all levels of supervision.
  - Employee understanding and motivation.

RECOMMENDATIONS FOR CURRENT ACTION

1. The Governor's Program to Reduce Occupational Injuries should be fully implemented. It is particularly important that:
  - The program manager be provided with adequate budget for employee information service requirements and for follow-up on program implementation responsibilities assigned to operating departments and staff agencies.
  - Adequate safety staff services and training aids be provided with priority attention given to needs of offices and departments presently lacking in these resources.
  - Information systems be improved so that accident and loss trends are promptly reported and publicized and so that meaningful analysis can be made of problems and of progress in reaching accident reduction goals.
  - Closer liaison be maintained between state departments and State Compensation Insurance Fund to fully use available advisory services, facilitate claims management, and aid in rehabilitation of injured employees.
  
2. The State Government through its Health Department, hospitals and university medical schools has the staff talents and other medical resources to develop outstanding programs in all the medical phases of work disability loss control. Particular attention should be given to:
  - The establishing of medical standards to be met by applicants for the many positions involving substantial physical effort for which standards have not yet been defined.
  - Providing a more complete program for pre-employment and periodic medical examinations utilizing state facilities when appropriate. Such examinations, when involving positions subject to "heart presumption" liability under Workmen's Compensation law should include full cardio-vascular evaluation utilizing the most advanced medical techniques.
  - Developing a comprehensive occupational medical program directed to maintaining health of the State's work force and reduction of incident of degenerative diseases which are the basic cause of a substantial portion of Workmen's Compensation and disability retirement expense. In this connection a study team should be assigned to developing a program to reduce incident of heart disease with special attention to employee groups subject to Workmen's Compensation liability presumptions with reference to this health problem.
  - Reviewing possibility of using state facilities more extensively in connection with first medical treatment of job injuries and follow-up on progress of recovery.

3. It is recommended that the "Master Agreement" with the State Compensation Insurance Fund (SCIF) entered into in 1943 be revised. Changes in contract should include:
  - Specific responsibility for SCIF to provide technical advice and assistance in development and administration of safety and other loss control programs.
  - Continuous assignment by SCIF of such full-time personnel to the state service program as may be required to insure full and appropriate utilization of SCIF Resources in loss control efforts and to provide continuous liaison with state staff and operating agencies concerned.
  - Periodic review by SCIF of safety and loss control programs of state agencies and preparation of written reports evaluating the programs and recommending improvements.
  - Provision for periodic advancing of sufficient funds to SCIF to cover benefit disbursement requirements or for establishing some other procedure to eliminate the present time lag in reimbursing SCIF for benefits paid out.
  
4. It is recommended that the Department of General Services adopt a more specific policy with reference to method of administering its Workmen's Compensation. Most benefits are now handled through the "self insurance" program with lower service charge than the carrier retention expense normally expected if insurance were purchased. In addition, when the liability is insured, the insurance carrier receives substantial interest earnings on open case reserves and premiums held prior to dividend payments. It is specifically recommended that:
  - State agencies review the process of securing authorization for the purchase of any Workmen's Compensation insurance policy. Special justification for such purchases should be clearly established.
  - Detailed studies be made of all major presently insured risks such as University of California to determine desirability of continuing insurance or shifting to self-insurance program.
  
5. It is recommended that industrial disability retirements be subject to the same earnings limitation provisions as ordinary disability retirements (Government Code Section 21300). Industrial disability retirements prior to 1961 were subject to this limitation. (See Table 10 and Exhibits E-1 and F-3.)

## RECOMMENDATIONS FOR LEGISLATIVE STUDY

A primary objective of this pilot study as originally authorized has been to determine whether there are problems with respect to Workmen's Compensation and other state employee disability benefit systems of sufficient importance to justify in-depth study. The data presented in this report indicate two general areas which merit further study by the State Legislature. They are:

1. Possible need for fundamental revisions in Workmen's Compensation provisions applicable to public agencies to eliminate present financial incentives for abuse and to fulfill objectives of the benefit system more effectively.
2. Modifications in disability retirement and death benefits required to coordinate said benefits with other benefits systems, to eliminate any identified abuses, and to facilitate administration.

### Workmen's Compensation Studies

Analysis of cost trends and comparison of state system with federal system indicate that current costs are high and yet seriously disabled workers receive very modest benefits. The cost problem is of sufficient magnitude to justify an in-depth study by the State Legislature. In addition to state service incurred losses of nearly \$10,000,000 per year, the losses of local public agencies are believed to total in excess of \$30,000,000 per year.

A substantial portion of the Labor Code is devoted to special sections applicable only to public agencies. A number of responsible private organizations familiar with Workmen's Compensation have recommended that such provisions be replaced by a Workmen's Compensation system specifically designed to meet the special problems of public agency employment.

Circumstances of public employment, including stability of work force and civil service's protection of tenure, raise serious questions as to the logic of the permanent disability compensation payment provisions now applicable. Such payments often amount to "bonuses" for ill health when granted to employees who suffer no loss in wages and when actual "work injury" is a minor element in the basic cause of disability. There appears to be merit in fully considering change to a "wage loss" theory appropriately supplemented with clearly defined schedule of "indemnity" type payments for loss of specific body appendages, sight, hearing, and disfigurement. This well-proven system has been applicable to the federal service since its inception. Such a change has been advocated for several years by several responsible local government organizations. Studies required to fully analyze this matter and to develop specific revision proposals include:

1. Review of statistically valid sample of state and local government disability injury cases of all types to determine:
  - a. Permanent disability payments and reserves for such payments;

- b. Individual employment history to ascertain whether disability caused wage loss;
  - c. A sound basis for estimating cost effects of any modifications to be considered in rating systems and/or payment principles.
2. Compilation of all special Labor Code provisions currently applicable only to public agencies.
  3. Development of specific alternates and modifications to be considered through consultations and interim hearings participated in by parties interested or affected.
  4. Cost analysis of alternative modifications considered significant.

#### Disability Retirement and Death Benefits

Data presented in this study indicate trends with reference to special industrial disability retirements which are of concern, both from standpoint of cost and possible indication of abuse. The cost problem is of sufficient magnitude to justify interim study. In addition to state service cost over \$4,000,000, city and county agencies which contract with Public Employees' Retirement System have twice as many employees covered under special safety benefits. This means roughly \$8,000,000 per year added cost. The extent of "overlap" and other problems with respect to ordinary disability retirement were not covered in the pilot study.

It is suggested that retirement studies be made concurrently with the previously suggested Workmen's Compensation study; since the benefit systems are directly related and adoption of certain features of the federal system could even eliminate need for the special industrial disability retirement and special industrial death benefits under Public Employees' Retirement System. The scope of the study should include:

1. Analysis of data problems by staff of retirement system and review of present administrative problems.
2. Compilation of data concerning employer contribution rates required for disability retirement and similar special features of the benefit systems as compared with employer costs of normal retirement.
3. Individual case analysis and costing with sufficient sample to provide basis for identifying problems and estimating cost changes from modifications which may be considered.
4. Comparison of California disability benefits and controls with other major jurisdictions as a means of identifying alternates for consideration.

5. Preparation of modification suggestions and cost analysis as required.
6. Consultations and interim hearings to obtain proposals for consideration and views of interested parties.