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**REPORT
TO
GOVERNOR MARTIN O'MALLEY
2007
UNINSURED EMPLOYERS' FUND BOARD**

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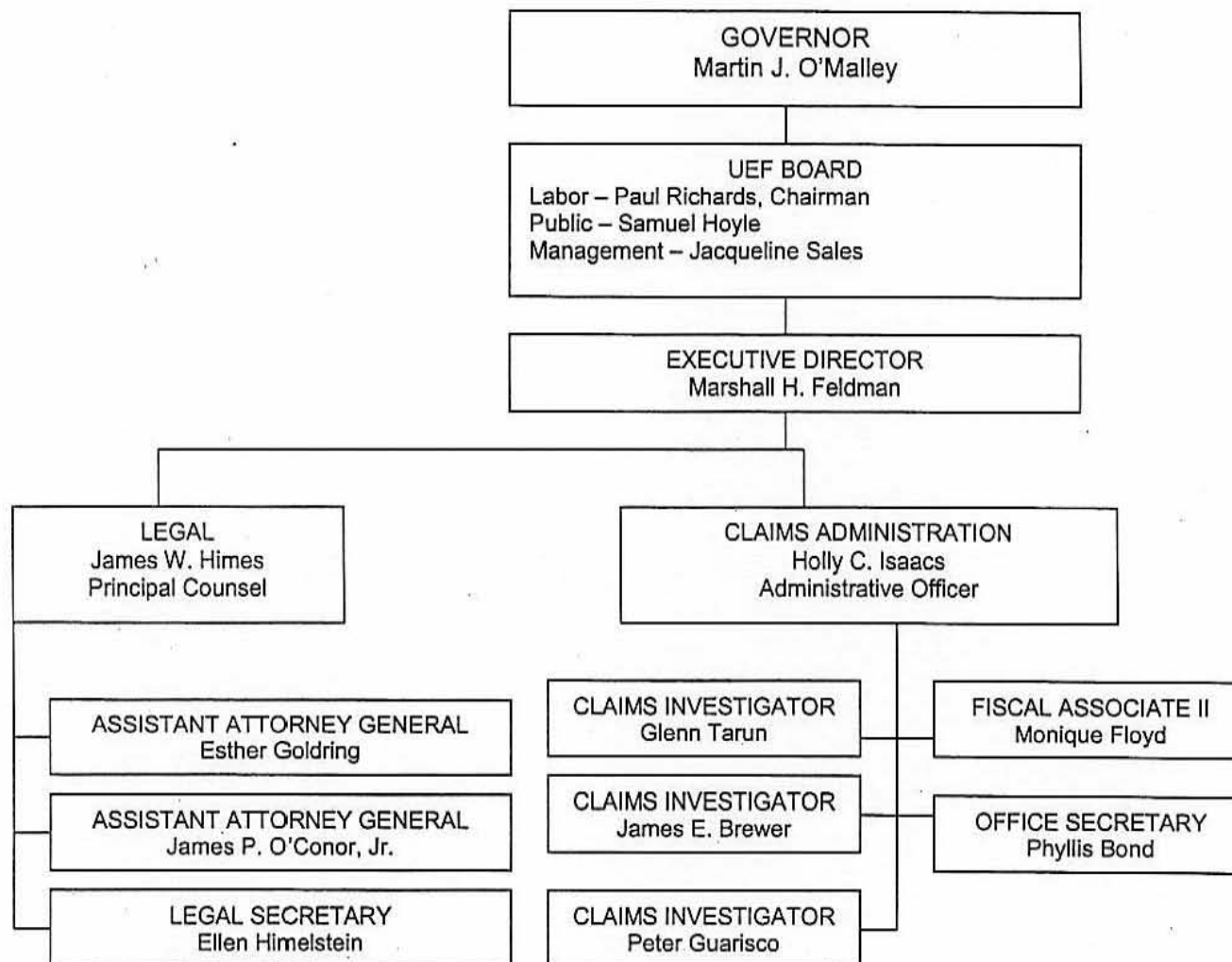
**Paul Richards, Chairman
Jacqueline Sales, Member
Samuel Hoyle, Member**

Marshall H. Feldman, Executive Director

**Pursuant to:
Labor & Employment § 10-320(b)**

UNINSURED EMPLOYERS' FUND

ORGANIZATIONAL CHART



UNINSURED EMPLOYERS' FUND

The Uninsured Employers' Fund has operated as an independent state agency since 1983. It operates under the Labor and Employment Article-Title 9. Workers' Compensation-Subtitle 10. Uninsured Employers.

Program Description

The Uninsured Employers' Fund reviews and investigates claims filed by employees, or in the case of death, by their dependents. If the employer does not pay what is due the claimant, the Fund will directly pay the compensation benefits and medical expenses, and attempt to recover all benefits paid plus certain assessments from the uninsured employer.

The cost of administering the Uninsured Employers' Fund and providing benefits to the claimants is derived from assessments placed upon awards of compensation per Labor & Employment Article, Sections 9-1005 through 9-1007.

Personnel

The Uninsured Employers' Fund Board is composed of three members appointed by the Governor: one member each representing labor, management and the public. Paul Richards (Chairman) represents labor, the public member is Samuel Hoyle, and Jacqueline Sales represents management. Marshall H. Feldman was appointed by the Board and has been serving as its Director since October of 1988.

In addition to the Director, the other full time employees include an administrative officer, three claims investigators, two office secretaries III, a fiscal accounts clerk II, and three Assistant Attorneys General. The staff reports to the Director and is responsible for reviewing and investigating claims filed by employees, or in case of death, by their dependents against the employer who has failed to secure workers' compensation insurance. The Fund's offices are located in Suite 402, Hampton Plaza, 300 E. Joppa Road, Towson, Maryland 21286.

Mission:

To promptly pay awards ordered by the Workers' Compensation Commission in favor of injured workers against non-insured employers who default on payments, and to maintain an adequate fund balance from which to pay claims through the collection of applicable fines, assessments, and benefit recoveries.

Vision:

A state that insures that all injured workers awarded benefits by the Workers' Compensation Commission are promptly and correctly paid.

Funding

In accordance with the Labor and Employment Article, Section 9-1007, the Workers' Compensation Commission assesses 1% on all awards rendered against the employer for permanent disability or death, and all settlement agreements approved by the Commission. This assessment is paid to the Uninsured Employers' Fund by an employer or, if insured, by the employer's insurance carrier. These payments are made in addition to any payment of compensation to employees or their dependents.

In addition, the Workers' Compensation Commission imposes the following assessments against an uninsured employer, to maintain the Fund's solvency.

- . The Workers' Compensation Commission imposes an assessment of at least \$150 but not exceeding \$500 against an uninsured employer when the Commission renders a decision on a claim for compensation.
- . The Workers' Compensation Commission also imposes an additional assessment against an uninsured employer of 15% of the award made in each such claim. This additional assessment shall not exceed \$2,500.00 on any one claim.
- . The Workers' Compensation Commission assesses an insurer \$300.00 if the insurer fails to comply with the Commission's requirements concerning certification of insurance.
- . If the Commission determines that payment of compensation is not awarded because of death, or lack of a claimant eligible, they may levy an assessment equal to 10 percent of the amount of compensation; however, in no case can the assessment exceed \$4,500.00.
- . If an employee dies as a result of an accidental injury or occupational disease that arises out of and in the course of his employment without any surviving dependents, the Commission assesses the insurer or self-insured employer \$4,500.00.

The Uninsured Employers' Fund is a "Specially Funded" Agency. The costs of administering the Fund and providing benefits to the claimants comes from the assessments imposed under Labor and Employment Article Section 9-1007. All other funds received by the Uninsured Employers' Fund through their assessment process are promptly remitted to the State Treasurer. These funds are used to pay all employee compensation payments awarded by the Commission against an uninsured employer. The Treasurer is the custodian of the Fund and invests any surplus monies in securities that constitute legal investments.

Under Labor and Employment Article 9-1011 when the amount of the Fund equals at least \$5,000,000, the payment of assessments by employers and insurers is suspended and will be resumed if the amount of the Fund becomes less than \$3,000,000.

Pursuant to Labor and Employment Article, Section 9-1007(b), the Uninsured Employers' Fund Board has directed the Workers' Compensation Commission to assess an additional 1% under Section 9-1007(a). The current Uninsured Employers' Fund assessment on permanency awards, death claims and settlement agreements is 2%. Subsequent Injury Fund's assessment will remain at 6 1/2%. The SIF/UEF assessment now totals 8 1/2% and became effective Monday, August 18, 2003.

This action was made necessary as a result of Bethlehem Steel Corporation's default in paying its Workers Compensation claims.

Attached as Exhibit I is a breakdown of the status of Bethlehem Steel claims dated July 20, 2006, handled by the Injured Workers' Insurance Fund. When the Uninsured Employers' Fund Board determines that the reserves of the Fund are adequate to meet anticipated losses, this 1% assessment will be suspended.

The Agency's FY 2008 Budget is \$1,045,382.00 and is comprised entirely of Special Funds.

Post Award Process

The Uninsured Employers' Fund has adopted a pro-active approach to the handling of claims and expedite payments once U.E.F. requirements are met. Awards payments are authorized by the Director. Our computer system provides a breakdown of all award payment data.

All assessments are established promptly and vigorously pursued in every case. Liens are promptly filed on unpaid assessments. Identifying employers who have been issued licenses to do business in the State of Maryland is standard procedure. The Director has made contact and established procedures with the Department of Licensing and Regulation, the Comptroller's Office, as well as local jurisdictions, to identify licenseholders and to request license suspensions of those who owe monies to the Uninsured Employers' Fund. These requests have brought positive results. Unfortunately, the vast majority of businesses are not licensed.

Procedures are in place to obtain payment of ordered assessments and/or awards from employers. Three letters are sent to the employer 30 days apart, demanding reimbursement of payments made by the Fund and unpaid assessments including an initial assessment letter, a follow-up letter sent by Certified Mail-Return Receipt Requested advising of all sanctions for non-payment and a final letter as well as telephone contacts. If these procedures do not result in recovery after this 90-day period, the account is promptly forwarded to the Central Collection Unit as required under COMAR 17.01.01. For those cases awaiting a hearing before the Commission which would likely result in additional amounts being due or when additional expenses are imminent (i.e. medical bill pending), an additional 90-day extension has been authorized.

Trends

Uninsured Employers' Fund case hearings scheduled before the Workers' Compensation Commission have increased, numbering 1,040 in FY 2006, compared to 1,154 in FY 2007.

Hearings scheduled in the Circuit Court numbered 123 in FY 2006 compared to 136 in FY 2007. Although the number of hearings before the Circuit Courts have remained fairly constant, our attorneys have noted an increase in cases involving complex issues involving jurisdiction, insurance coverage, serious injuries, etc.

Benefit payments to claimants increased from \$4,851,549 in FY 2006 compared to \$6,103,608 in FY 2007. Out of this, Bethlehem Steel claim payouts totaled \$2,809,430. The Uninsured Employers' Fund has been charged with payment of benefits to Bethlehem Steel claims following the exhaustion of Beth Steel's self-insurance bond on or about November 2005. Uninsured Employers' Fund's normal assessment rate on permanency awards was increased from 1% to 2% in FY 2004 to enable the Fund to support the additional expenditures.

While collection from uninsured employers is often a difficult process, Uninsured Employers' Fund recovery of benefits and the State of Maryland's Central Collection Unit's collections have reached all-time highs. In FY 2006, Uninsured Employers' Fund collected \$161,580 and CCU collected \$125,227. Uninsured Employers' Fund in FY 2007 collected \$217,192 and CCU collected \$252,074.

The Uninsured Employers' Fund and Subsequent Injury Fund share a fiscal unit which handles accounts payable and accounts receivable operations for both Agencies. This unit is physically located at the S.I.F. location.

UEF GOALS

- Goal 1. To efficiently investigate and defend all designated non-insured cases.
 - Strategy 1.1 Check for insurance
 - Strategy 1.2 Determine proper employers; statutory employers
 - Strategy 1.3 Determine compensability of claim; i.e., accidental injury, causal connection.

- Goal 2. To monitor awards and follow established procedures to ensure prompt payment to claimants and healthcare providers.
 - Strategy 2.1 Attorney who handled case signs off on award or recommends appeal to director
 - Strategy 2.2 Payment procedures are initiated upon notification of employer's default.

- Goal 3. To track and collect fines, assessments, and awards benefits paid by the Fund; and maintain the adequacy and integrity of the Fund balance.

- Strategy 3.1 Negotiate repayment plans with employer.
- Strategy 3.2 Monitor monthly computerized delinquent accounts list.
- Strategy 3.3 Refer delinquent accounts to the State's Central Collection Unit.
- Strategy 3.4 Monitor monthly account balance statements.

Agency IT Strategic Direction

Summary of IT Environment

Background:

Prior to 1998, most administrative support functions were provided to SIF and UEF by the Workers' Compensation Commission. This included both Fiscal and IT support. Fiscal operations were separated in 1998, and the IT support achieved its maximum possible level of independence during FY2003. SIF/UEF will continue to need access to data housed on the WCC IBM AS-400 computer and their document imaging system, but all critical agency software systems used by SIF/UEF are operating on the SIF IBM AS-400 computer. With regard to internal IT resources, this agency has become almost completely self-reliant. Up to this point, the IT efforts have been performed as ancillary duties by two staff members in non-IT positions. Matters beyond the technical expertise of these individuals have been handled by an outside data services contractor.

Drivers and Issues:

- 1) Both agencies perceive a need to develop better means of tracking and controlling the events associated with their involvement in workers' compensation cases. (See SIF Strategy 1.1.1, above.)
- 2) While maximum IT independence from WCC has been achieved, the need to access their data will always remain.
- 3) As a result of the increased reliance upon information technology in all agency operations and the need to improve both data security and disaster recovery, the agency is planning to convert an exiting position to hire an IT professional.

IT Goals and Strategies:

- 1) Now that both agencies have up to date equipment, the next logical undertaking would be to examine how to improve agency processes and controls by more effective utilization of information technology.
- 2) Disaster recovery and security remain important considerations which will be addressed by the planned new IT position.

IT Accomplishments:

- 1) Both agencies now have new network servers and all PCs use either the Windows 2000 or the Windows XP operating system.
- 2) Both agencies are protected by firewalls and constantly updated anti-virus software.
- 3) Both agencies have Internet access through a high speed DSL connection. UEF has access to the SIF AS-400 via a virtual private network eliminating the previous connection through WCC. Another VPN links SIF to the Annapolis Data Center.
- 4) A full T-1 line has been installed between SIF and WCC to facilitate the rapid retrieval of document images.
- 5) Programming and operational changes have been completed which now allow the payment of claimant benefits to be made via electronic deposit.
- 6) Other programming changes have been made to both the Accounts Receivable and Claimants Payable systems which have improved the productivity of the SIF Fiscal Office.

Agency Support of the State IT Master Plan:

- 1) Maryland Technology Architecture Framework – Aside from attending a meeting requesting information, there has not been a great deal of involvement in the process.
- 2) IT Infrastructure – SIF and UEF each have their own LANs which are connected via a VPN. Another VPN links SIF to the Annapolis Data Center. Both agencies connect to WCC via a frame relay circuit. The UEF-WCC circuit is 56K, but the SIF-WCC circuit is a full T-1 connection to allow for more efficient access of imaged documents at WCC. The inventory of applications and equipment is as follows:

SIF

Accounts Receivable – all receivable accounts are maintained with a detailed history of transactions. The system will create assessment notices (invoices) to insurance companies and non-insured employers. The resulting payments are posted to each account and tabulated for bank deposit and object coding for FMIS. Daily reports show the new assessments, the revenue posted each day, and any adjustments that may be necessary. Other reports will provide account balances, aging of accounts, delinquent notices, etc. Only SIF Fiscal Office staff can post entries to this system.

Accounts Payable – accounts of all payments of workers compensation benefits to claimants are maintained with a detailed transaction history. The system creates payment lists, which are transmitted to FMIS for the production of checks. Record maintenance is performed to establish accounts and make changes as necessary. Daily reports show payment lists, and record maintenance activity. Other reports show the account balances and provide a notification of accounts for which payment start dates are approaching. Only SIF Fiscal Office staff can post entries to this system.

Case Tracking – Claimant case information is maintained by this old system. This system is felt to be in need of a complete re-design.

Computer Room Equipment:

IBM AS400, model 970

Gateway LAN server, model 960

APC Smart UPS, model 1400

Netscreen firewall, model 5GT

3 Com Baseline Switch, model 2250

Cisco 2501 router

Adtran TSU, model LT

Racal-Datacom DSU, model 6424

UEF

Similar to above with exception of the AS-400.

- 3) Network Maryland – Following a need and cost analysis, SIF/UEF was excused from participation. Internet service is provided via a DSL connection to Quantum Internet Service. WAN connections are by frame relay as noted above.
- 4) Consolidation and Standardization of Agency Web Sites – Action has not yet been taken on this initiative. Both existing web sites are the products of in-house HTML capabilities. If agency staff skills and / or funding is adequate this project may be addressed during FY 2007.
- 5) IT Disaster Recovery and Security Program – A recent IT audit has highlighted the need for increased effort to be expended in this area. The full understanding, implementation, and compliance with DBM's Info. Tech. Security Policy and Standards and its Disaster Recovery Guidelines will be a high priority task for the new IT position.

IT Personnel:

Vacant: Agency CIO.

Sharon Goldsmith, Administrative Specialist: provides first line support for IT related problems.

Jennifer Rowe, Fiscal Accounts Technician II: provides first line support for IT related problems.

Future Agency IT Environment

Both agencies have made significant progress over the past five years with their IT infrastructure. In addition to simply keeping abreast of current technology, the agencies wish to more fully utilize the IT resources to promote the efficient execution of their functions. Over the next five years, efforts will be taken to more fully integrate IT into daily operations, mainly through the development of a comprehensive case tracking and control system. Underlying all IT efforts will be a high concern for the security of our data.

Agency Information Technology Investment Portfolio

Project Title: **Ongoing Operations**

Major project: No

Project Description: This encompasses all of the IT efforts of both agencies. It includes the maintenance of existing IT capabilities and the gradual replacement of equipment as it becomes outmoded. Now that the agency application programs have been transferred from WCC, their continuing improvement and infrastructure support are a part of Ongoing Operations.

Project Management: Vacant, CIO
Sharon Dean, Administrative Specialist
Jennifer Rowe, Fiscal Accounts Technician II

Project Status: This project is in the operations phase.

Project Title: Case Tracking Systems (UEF and SIF)

Major Project: No

Project Description: This project will develop the case tracking systems for both SIF and UEF. Many similarities exist between the two agencies which will be reflected in the ultimate system design, but there are also requirements unique to each agency. This project is expected to take several years to complete due to the time required to thoroughly analyze all agency office procedures and to design the greatest efficiencies and controls into the system.

Project Management: Vacant, CIO

Project Status: This project is not currently active. It is hoped that concept development and planning may begin in the FY 2008 or FY 2009 appropriation year.

Agency IT Investment Portfolio

		Total FY08 Budget		Requested FY09 Budget	
Baseline IT Budget		135,953		149,941	
* FY 2008 is the first year that a position has been dedicated to IT					
Current IT Projects – Non-Major	Total Anticipated Project Cost	Total Project Expenditures Thru FY07	FY08 Appropriation	Total FY09 Requested Dollars	Status – SDLC Phase
Ongoing Operations			131,953	143,941	Operations & Maint.
New FY08 Requested IT Projects Non-Major	Total Anticipated Project Cost	Total Project Expenditures Thru FY07	FY08 Appropriation	Total FY09 Requested Dollars	Status – SDLC Phase
Case Tracking	80,000	0	4,000	6,000	Planning

PERFORMANCE MEASURES

Performances Measures	2006 Actual	2007 Actual	2008 Estimated	2009 Estimated
Input: New cases	843	852	900	950
Output: Investigation	1,084	1,392	1,400	1,400
Number of cases resolved	938	1,060	1,085	1,110
Number of benefit payments made	3,510	3,398	3,550	3,600
Value of compensation and medical payments made*	\$4,851,549	\$ 6,103,608	\$6,200,000	\$6,300,000
Agency operating expenditures	<u>953,786</u>	<u>1,075,909</u>	<u>1,045,382</u>	<u>1,115,000</u>
Total expenditures	\$5,805,335	\$ 7,179,517	\$7,245,382	\$7,415,000
Assessments on permanency awards (2%)	\$6,753,965	\$6,687,851	\$6,900,000	\$7,000,000
Non-certification penalty	14,311	36,430	36,500	36,500
Fines and penalty assessments for being uninsured	149,211	139,976	150,000	150,000
Interest on fund balance	491,506	670,376	680,000	700,000
Recovery of benefits	161,581	217,192	190,000	200,000
Central Collections Unit collections	<u>125,228</u>	<u>252,074</u>	<u>255,000</u>	<u>275,000</u>
Total collections	\$7,695,802	\$8,003,899	\$8,211,500	\$8,361,500
Quality: Ratio of total Fund expenditures to collections for the year	0.754:1	0.897:1	0.883:1	0.887:1

cludes anticipated compensation to Bethlehem Steel claimants following exhaustion of payments under their self-insurance bond. The assessment rate on awards has been increased 1% to 2% to prepare for this obligation.

IWIF Workers' Compensation Insurance

August 31, 2007

Marshall Feldman, Director
Uninsured Employers' Fund
Hampton Plaza— Suite 402
300 East Joppa Road
Towson, Maryland 21286

Re: Bethlehem Steel Workers' Compensation Claims

Dear Mr. Feldman:

This letter will provide you with a current status of the Bethlehem Steel claims being handled by IWIF.

As of July 1, 2007, there are 66 open claims with outstanding reserves of \$8,811,570. The amounts paid to date are:

<u>Benefit Paid</u>	<u>Dollar Amount</u>
Indemnity	\$12,487,323
Medical	4,520,007
Total	<u><u>\$17,007,330</u></u>

If you have any questions, please feel free to call me at 410-494-2052.

Sincerely,

Larry Hennick
Financial Accounting Manager

Uninsured Employers Fund
Statement of Change of Fund Balance
for
Fiscal Year Ended June 30, 2007

Revenue:		
2% Assessment on Awards	\$6,687,851.26	
Uninsured Employer Assessment	139,975.61	
Non-Certification Penalty	36,430.45	
Interest on Fund Balance	670,375.70	
Recovery of Benefits	217,191.76	
CCU Collections	252,073.81	
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Total Revenue		\$8,003,898.59
Expenditures:		
Operating	1,075,908.68	
Claimant Benefits	3,294,177.51	
Beth Steel Claim Payouts	2,809,430.00	
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Total Expenditures		7,179,516.19
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Excess of Revenue over Expenditures		\$824,382.40
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Fund Balance as of 6/30/2006		\$12,222,474.85
fmis discrepancy		1559.65
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Fund Balance as of 6/30/2007		\$13,048,416.90
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