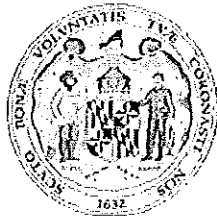


MARTIN O'MALLEY, JR.  
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STATE OF MARYLAND



CAROLYN KRYSIAK  
CHAIRMAN

JULIA A. BURGOS  
MEMBER

JOHN E. GATES  
MEMBER

STATE OF MARYLAND  
UNINSURED EMPLOYERS' FUND

300 East Joppa Road, Suite 402  
Towson, MD 21286  
PHONE - (410) 321-4136  
FAX - (410) 321-3975  
January 15, 2014

Sarah T. Albert  
Mandated Reports Specialist  
Library and Information Services  
Department of Legislative Services  
90 State Circle  
Annapolis, Maryland 21401

Re: Uninsured Employers' Fund 2013 Report to the Governor

Dear Ms. Albert:

Pursuant to Labor and Employment Article §10-320(b), enclosed please find (5) copies of the Uninsured Employers' Fund 2013 Report to the Governor. An identical copy of the report is available electronically and will be forwarded under separate cover.

It is my understanding that your offices has not received any of these reports since 2007, to the best of my knowledge the last report was submitted in 2007.

Thank you for your assistance. If you have any questions or require any additional information, please contact me at anytime.

Sincerely,

A handwritten signature in cursive script that reads "Roxanne Pitts".

Roxanne Pitts  
Executive Director

RP/pmb

cc: Carolyn Krysiak, Julia Burgos, John E. Gates (via e-mail)

REPORT  
TO  
GOVERNOR MARTIN O'MALLEY  
2013  
UNINSURED EMPLOYERS' FUND BOARD

Carolyn Krysiak (Chair)  
Julia Burgos, Member  
John Gates, Member

Roxanne Pitts, Executive Director

## UNINSURED EMPLOYERS' FUND

The Uninsured Employers' Fund (Hereinafter the "Fund") has operated as an independent state agency since 1983. It operated 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. Carolyn Krysiak (Chairman) represents the public; John Gates represents labor and Julia Burgos represents management. Roxanne Pitts has served as Director since February 2013.

In addition to the Director, the other full time employees include a Chief Financial Officer, an administrative officer, three claims investigators, two office secretaries III, two fiscal accounts clerk II, and three Assistant Attorneys Generals. 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 (Hereinafter the "WCC" or the "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 and assessments, and recovery of benefits.

### Vision:

A state that insures that all injured workers are promptly and correctly paid benefits awarded by the Workers' Compensation Commission regardless of whether their employers failed to carry Workers Compensation insurance.

### 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 temporary and 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 \$500.00 but not exceeding \$1000.00 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 \$5,000.00 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 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 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 Injured Fund's assessment will remain at 6 ½ %. The SIF/UEF assessment now totals 8 ½% 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 an Exhibit is a breakdown of the status of Bethlehem Steel claims dated June 30, 2013, 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 2014 Budget is \$1,386.00 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. The Fund's 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 license holders and to request 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 assessment 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 forward 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

There was 628 Uninsured Employers' Fund case hearings scheduled before the Workers Compensation Commission in FY 2013.

The appeals filed at the Circuit Courts from the Commission Awards have remained fairly constant; our attorneys continue to note an increase in cases involving complex issues involving jurisdiction, insurance coverage, serious injuries, etc.

Benefit payments to claimants increased from \$7,149,401 in FY 2012 compared to \$7,714,337 in FY 2013. Out of this, Bethlehem Steel claim payouts totaled \$860,994.31. 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 2012, Uninsured Employers' Fund collected \$231,118.00 and CCU collected \$65,181.00. Uninsured Employers' Fund in FY 2013 collected \$272,898.00 and CCU collected \$18,647.00.

The Uninsured Employers' Fund and Subsequent Injury Fund no longer share a fiscal unit. Effective October 2011, the UEF created a separate fiscal unit which handles accounts payable and accounts receivable for the UEF at the Hampton Plaza 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 relationship and reasonableness and necessity of medical treatment.
- 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 confirms accuracy of the award and signs off on award or recommends appeal to the 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 plan 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 ITS Environment

##### Background:

Prior to 1998, most administrative support functions were provided to the 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. The 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 the UEF are operating on the IBM AS-400 Computer. With regard to internal IT resources, this agency has become almost completely self-reliant. Until 2011, the IT efforts were performed as ancillary duties by two staff members in non-IT positions at the Subsequent Injury Fund. IT efforts are currently performed by an outside IT data services contractor.

##### Drivers and Issues:

- 1) The UEF perceives the need to develop better means of tracking and controlling the events associated with their involvement in workers' compensation cases. (See UEF strategy 1.1.1)
- 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 retain an IT data services contractor.

##### IT Goals and Strategies:

- 1) Now that the UEF has 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 through the utilization of an IT data services contractor.

##### IT Accomplishments:

- 1) The UEF now has a network server and all PC's use either the Windows 2000 or the Windows XP operating system.
- 2) The UEF is protected by firewalls and constantly updated anti-virus software.

- 3) The UEF has Internet access through a high speed DSL connection. A VPN links the UEF to the Annapolis Data Center.
- 4) A full T-1 line has been installed between UEF 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 UEF Fiscal Office.

Agency Support of the State IT Master Plan:

- 1) Maryland Technology Architecture Framework-Aside from attending meeting requesting information, there has not been a great deal of involvement in the process.
- 2) IT Infrastructure- UEF has its own LAN with a VPN linking to the Annapolis Data Center. The UEF connects to the WCC via a frame relay circuit. The UEF-WCC efficient access of imaged documents at WCC. The inventory of applications and equipment is as follows:

Account 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. The UEF 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 notification of accounts for which payment start dates are approaching. The Fiscal Office staff can post entries to this system.

Case Tracking-Claimant case information is maintained by this old system. A redesign of the system will provide a more efficient case/tracking and case information system.

Computer Room Equipment:

IBM AS400, model 970  
 Gateway LAN server, model 960  
 APC Smart UPS, model 1400  
 Netscreen firewall, model 5GT  
 3 Corn Baseline Switch, model 2250  
 Cisco 2501 router  
 Adtran TSU, model LT  
 Racal-Datacom DSU, model 6424



- 3) Network Maryland – Following a need and cost analysis, the UEF was excused from participation. Internet service is provided via DSL connection to Quantum Internet Service. WAN connections are by frame relay as noted above.
- 4) Standardization of Agency Web Site – Action has not yet been taken on this initiative. The existing web site is the products of in-house HTML capabilities. If funding is adequate this project will be addressed during FY 2014.
- 5) IT Disaster Recovery and Security Program – A recent IT audit has highlighted the need for increased effort to be expanded 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 contractor IT data services.

IT Personnel:

Vacant: Agency CIO

DP Solutions, IT contractor, provides first line support for IT related problems.

Andrew Anderson, Chief Financial Officer: provides first line support for IT related problems.

#### Future Agency IT Environment

The UEF has made progress over the past several years with their IT infrastructure. In addition to simply keeping abreast of current technology, the agency’s goal is to fully utilize the IT resources available to promote the efficient execution of its function. 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 Investments Portfolio**

Project Title: **Ongoing Operations**

Major project: **No**

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

Project Management: Vacant, CIO

Andrew Anderson, Chief Financial Officer

Project Status: This project is in the operations phase.

Project Title: Case Tracking Systems

Major Project: **No**

Project Description: This project will develop the case tracking systems for the UEF.  
This project is expected to take a few 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 2015 appropriation year.

## OPEN CLAIMS - Bethlehem Steel

Evaluation Date	Claim Counts	Judgmental Reserves	Total Incurred	
12/31/2011	42	\$7,602,349	\$16,659,090	
1/31/2012	42	\$7,549,214	\$16,550,185	
2/28/2012	42	\$7,378,496	\$16,522,492	
3/31/2012	42	\$7,591,388	\$17,005,383	
4/30/2012	42	\$7,577,926	\$17,115,106	
5/31/2012	40	\$7,127,692	\$16,448,717	
6/30/2012	38	\$6,974,501	\$16,233,144	
7/31/2012	38	\$6,737,925	\$15,943,839	
8/31/2012	38	\$6,677,224	\$16,023,807	
9/30/2012	39	\$6,667,392	\$16,074,680	claim 6302950 was newly reported
10/31/2012	38	\$7,617,272	\$17,189,287	
11/30/2012	39	\$7,524,000	\$17,078,748	
12/31/2012	39	\$7,366,870	\$16,935,099	
1/31/2013	42	\$7,311,104	\$16,937,031	3 new hearing loss claims reported; 6308491, 6308773, 6309573
2/28/2013	39	\$7,209,607	\$16,797,351	1 new hearing loss claim reported; 6310814
3/31/2013	37	\$6,825,436	\$15,519,723	
4/30/2013	35	\$6,724,234	\$15,329,377	
5/31/2013	33	\$6,273,970	\$14,929,092	
6/30/2013	34	\$6,192,429	\$14,855,357	1 new claim 6316095; contested because duplicate claim exists
7/31/2013				
8/31/2013				
9/30/2013				
10/31/2013				
11/30/2013				
12/31/2013				
YTD Change	(5)	(1,174,441)	(2,079,742)	
% Change	-12.8%	-15.9%	-12.3%	

**Definitions:**

**Claim counts** are those claims open as of the evaluation date

Open claim counts change due to new claims, reopened claims and claims being closed.

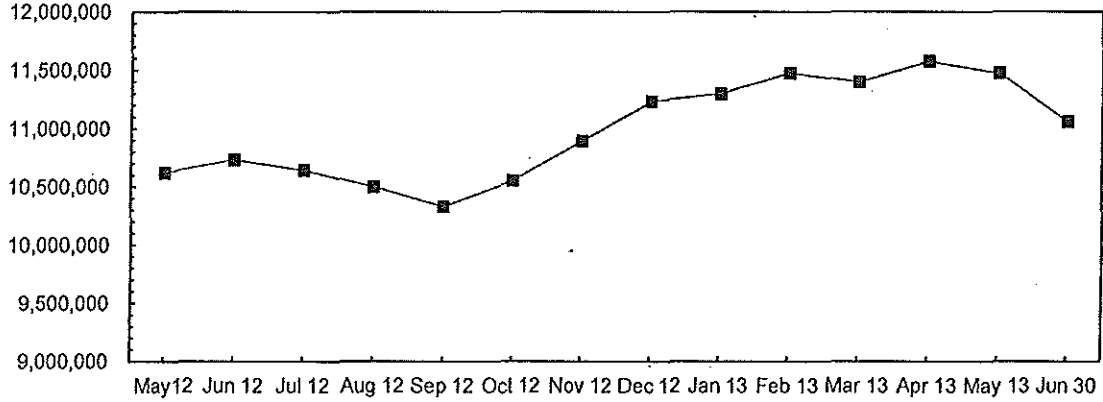
**Judgmental reserves** are the reserves, both medical and indemnity, on the open claims evaluated as of the evaluation date

**Total Incurred** is the sum of the current judgmental reserves and paid since the inception of the claim for the open claims only evaluated as of the evaluation date.

**Uninsured Employers Fund**  
**Financial Statement**  
June 2013

<b>Fund Balance</b>	5/31/2013	\$11,476,685.72
<b>Revenue:</b>	Insurance Permanency Award Assessments (2%)	\$593,932.67
	Non-Insured Employer Assessments	\$3,045.60
	Non -Certification Fines on Insurers	\$0.00
	Interest on Fund Balance (May & June)	\$16,448.47
	UEF Recovery of Benefits	\$23,019.31
	UEF Recovery of Benefits - IWIF prior Assessment	\$0.00
	UEF CCU Collections	\$16,031.62
	Charge Backs	<u>\$0.00</u>
<b>Total Revenue</b>		<b>\$652,477.67</b>
<b>Total Funds Available</b>		<b><u>\$12,129,163.39</u></b>
<b>Expenditures:</b>	Claimant Benefits	\$860,994.31
	IWIF-TPA for Bethlehem Steel	\$80,302.33
	Operating Expenses	\$125,850.44
	Deleted Claimant Payments	<u>\$0.00</u>
<b>Less Total Expenditures</b>		<b>\$1,067,147.08</b>
<b>Fund Balance</b>		<b><u>\$11,062,016.31</u></b>
<b>Less Restricted Funds:</b>		
	Bethlehem Steel	\$6,192,429.00
<b>Adjusted Fund Balance 6/30/2013</b>		<b><u>\$4,869,587.31</u></b>

**Fund Balance - One Year History**



**PERFORMANCE MEASURES**

<b>Performance Measures</b>	<b>2015 Estimated</b>
Input: New cases	560
Output: Investigations	750
Number of cases resolved <sup>1</sup>	400
Number of benefit payments made	3,701
Value of compensation and medical payments made <sup>2</sup>	\$7,900,000
Agency operating expenditures	<u>1,447,000</u>
Total expenditures	\$9,347,000
Assessments on permanency awards (2 percent)	\$8,700,000
Non-certification penalty	3,000
Fines and penalty assessments for being uninsured	70,000
Interest on fund balance	94,000
Recovery of benefits	250,000
Central Collections Unit collections	<u>160,000</u>
Total collections	\$8,710,000
Quality: Ratio of total expenditures to collections for the year	1.07:1

<sup>1</sup> Case count does not include Bethlehem Steel cases. As of June 30, 2012, Bethlehem Steel had 38 open cases with a reserve of approximately 6.7 million dollars.

<sup>2</sup> Includes compensation to Bethlehem Steel claimants following exhaustion of payments under their self-insurance bond. After reviewing the IWIF reserves on remaining Bethlehem Steel claims and the UEF fund balance, the UEF board determined that the Fund balance was not adequate to meet anticipated losses. Thus the assessment rate on awards was increased back up to 2 percent from 1 percent in July 2009.