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**SUPPLEMENTAL
EXECUTIVE MANAGEMENT AND AUDIT COMMITTEE
JULY 15, 2004**

SUBJECT: ADDITION OF NON-REPRESENTED POSITIONS

ACTION: APPROVE ADDITION OF POSITIONS TO THE FY05 BUDGET

RECOMMENDATION

Approve the addition of 8 non-represented positions within the Risk Management Department as follows:

- 1 Workers' Compensation Supervisor (Grade K)
- 1 Senior Workers' Compensation Analyst (Grade I)
- 4 Workers' Compensation Analysts (Grade H)
- 2 Administrative Aides (Claims) (Grade F)

Total - 8 FTEs

ISSUES

In alignment with the Position Authorization and Compensation Policy adopted by the Board at its February 26, 2004 meeting, staff is seeking Board approval for the addition of 8 non-represented positions within Risk Management.

DISCUSSION

The Board approved a global settlement with The Travelers Insurance Company on June 24, 2004, which among other things, requires the MTA to assume administration of 1,150 open workers' compensation claims presently administered by Travelers. At that time, County Counsel indicated that MTA staff would present a recommendation at the July Board meeting for additional positions to administer this self-insured inventory. The settlement gives the MTA an immediate net recovery of \$3.3 million, resolves a potential additional expense in excess of \$7 million and will result in the probability of substantial future savings in third party administrative

expenses. Included in the net settlement is a \$1 million credit to release Travelers from any further obligation to provide claims administration for the self-insured period.

In order to adequately manage this old self-insured claims portfolio, an additional 8 personnel in the Risk Management Department will be needed. Travelers currently uses 9 FTEs (including clerical/mail staff) to administer the MTA's self-insured portfolio. The 8 positions were determined from best practices as surveyed from various workers' compensation claims units. The MTA could contract for these personnel. However, the recommendation is that they be hired as non-contact employees for the reasons discussed below under "Alternative Considered." Typically, Claims Examiners (analysts) manage a claims portfolio of between 125 and 175 claims each. A Senior Claims Examiner will handle a similar caseload, but manage the more difficult litigated claims, or those with significant severity. The Administrative Aide position supports the Examiners with such tasks as bill payment and the administration of medical only claims. Generally, 1 claims Administrative Aide supports 2 examiners and 1 Supervisor provides internal control and oversight for no more than 5 Examiners. The addition of these 8 would bring the total workers' compensation FTEs by the end of FY05 to 53, including both contracted employees (21) and MTA employees (32).

Staffing for claims administration depends on the size of the open claims inventory. The MTA began self-administration of new workers' compensation claims beginning in September 2001 with no prior inventory. Workers' compensation claims can stay open for many years, hence a new self-administered claims program will have a growing inventory for many years, even if the number of new reported claims fall. Attachments 1 and 2 show the growth in claims inventory since September 2001 and simulate two plausible future inventory scenarios. In either case, the claims inventory continues to grow through July of 2006.

Historically, the MTA's inventory after the first month of self-administration in September 2001 was 171 claims. As of June 2002, the MTA was administering 1,749 claims and by June 2004 the inventory was 2,643. After assuming the Travelers claims, the inventory by the end of July 2005 is expected to be approximately 4,200 claims. Shown below are industry benchmark ratios comparing claim inventories with FTEs. This comparison indicates that adding 8 FTEs with the returned self-insured inventory for a total of 53 FTEs is consistent with industry staffing practice.

	So. Calif. Gas	Employers Insurance	Total Cambridge	Santa Clara Valley Transit	Ventura County (Hazelrigg)	So Calif Edison	WMATA	MTA June 05 Projected w/ Travelers
Open Inventory	1,489	500	36,000	1,151	1,000	2,400	1,000	4,143
Examiners	12	3	180	7	6	14	8	26
Open Inventory per Examiners	124	167	200	164	167	171	125	159
Staffing	24	9	402	13	12	33	14	53
Open Inventory per Staff	62	56	90	89	83	73	71	78

Should the claims inventory fall requiring a reduction in positions, reductions will first be made from contract employees.

ALTERNATIVES CONSIDERED

The MTA has evaluated the option of using contract staff for managing this claims inventory. Contracting under the current contract rates for 8 FTEs for one year would cost an additional \$95,000 over the cost of hiring additional staff. In addition, when an agency contracts for personnel who are assigned for an extended period of time to do work under conditions similar to those applicable to agency employees, the agency can incur a substantial liability risk. This risk was discussed in the MTA’s Inspector General’s report of June 3, 2002. The table below details the current cost differences between hiring and contracting for personnel using the current contract rates.

	PER FTE COST DIFFERENCES					
	MTA COSTS			CONTRACT RATES DIFFERENCE		
	SALARY	FRINGE	TOTAL			
Admin Aide (claims)	\$ 36,381	\$ 14,713	\$ 51,094	\$ 54,720	\$	(3,626)
Workers' Comp Analyst	\$ 48,637	\$ 18,719	\$ 67,356	\$ 83,520	\$	(16,164)
Sr. W.C. Analyst	\$ 56,949	\$ 20,504	\$ 77,453	\$ 93,120	\$	(15,667)
W.C. Supervisor	\$ 65,601	\$ 27,112	\$ 92,713	\$ 100,800	\$	(8,087)

	FTEs	ANNUAL TOTAL COST DIFFERENCES					
		MTA COSTS			CONTRACT RATES DIFFERENCE		
		SALARY	FRINGE	TOTAL			
Admin Aide (claims)	2	\$ 72,762	\$ 29,426	\$ 102,188	\$ 109,440	\$	(7,252)
Workers' Comp Analyst (4)	4	\$ 194,548	\$ 74,876	269,424	334,080		(64,656)
Sr. W.C. Analyst (1)	1	\$ 56,949	\$ 20,504	77,453	93,120		(15,667)
W.C. Supervisor (1)	1	\$ 65,601	\$ 27,112	92,713	100,800		(8,087)
				\$ 541,778	\$ 637,440	\$	(95,662)

FINANCIAL IMPACT

The addition of 8 FTEs would increase the FY05 Board approved FTEs from 8,944 to 8,952.

Funding for costs associated with the 8 additional Risk Management positions is fully covered under the settlement terms with The Travelers Insurance Company, and requires no additional appropriation for FY05. The MTA will be accountable for budgeting the cost of these positions beyond FY05. However, some savings resulting from lower bill review fees will offset some of the costs of self-administration in future years.

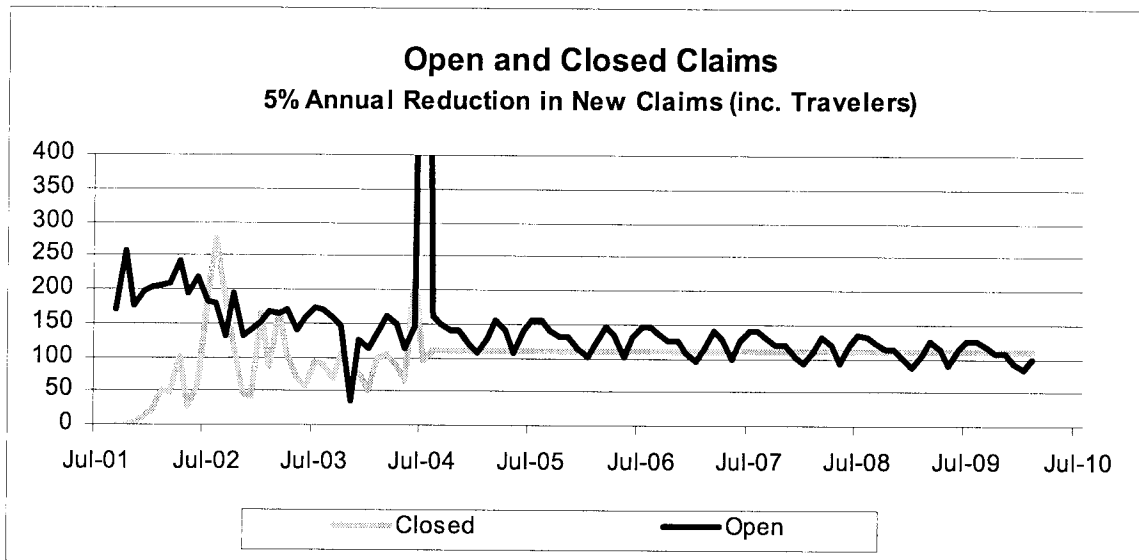
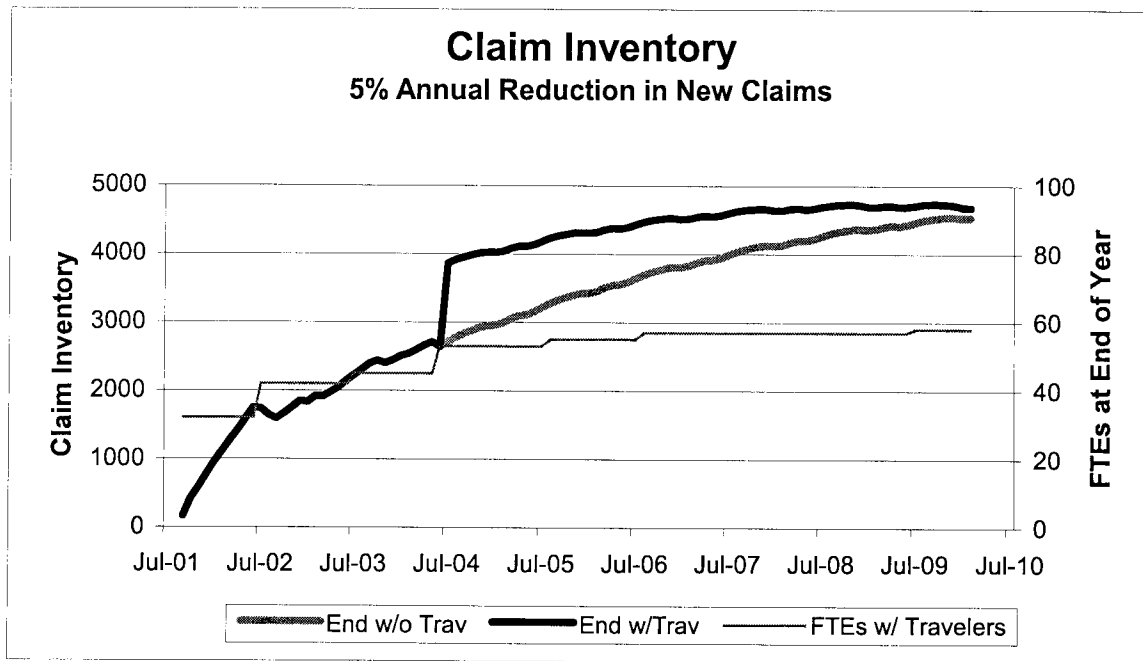
Prepared by: Greg Kildare, Executive Officer Risk Management

Attachments: Claim Inventory Projection: 5% Claim Reduction Scenario
 Claim Inventory Projection: 10% Claim Reduction Scenario

Mania Huena
for Don Ott
Executive Officer, Administration

[Signature]
Roger Snoble
Chief Executive Officer

ATTACHMENT 1: Claim Inventory Projection: 5% Claim Reduction Scenario



ATTACHMENT 2: Claim Inventory Projection: 10% Claim Reduction Scenario

