State Accident Fund
Annual Accountability Report
Fiscal Year 1998-1999

Executive Summary

Basic Description of the Agency

Created in 1947 by an Act of the General Assembly [1947(45)147], the State Accident Fund (Formerly the State Workers' Compensation Fund) is one of twenty-seven state sponsored workers' compensation insurance funds. The majority of these funds were chartered to compensate for fluctuation in the workers' compensation market.

Mission

Provide a cost effective guaranteed workers' compensation market for state agencies, other government entities and, if required by the legislature, small businesses in the private sector.

Programs

The State Accident Fund is a highly specialized organization with only one program. The agency provides a guaranteed cost effective source of workers' compensation insurance for government entities regardless of their loss experience, level of risk, or other unique circumstances. In addition, it remains prepared to provide insurance to small private businesses should the government of South Carolina deem it necessary.

Goal

Provide our policyholders, injured workers, and the taxpayers of this state with high quality services at a reasonable cost.

Outcomes

The agency faced several challenges and saw progress in many areas during the period covered by this report.

- The cost of medical treatment continued to increase. New entries in the South Carolina workers' compensation market and release of new advisory loss costs resulted in increased competition among private carriers. The State Accident Fund maintained rates at the January 1, 1998 level. This resulted in our customers being able to continue to benefit from the average 8% reduction and volume discount that took effect at that time.
- The implementation of a new Information Management System allowed the agency to comply with the mandate to file claims electronically and insured year two thousand compliance.
- The agency's claim and administrative costs continued to be less than the published average for the private sector.
- The agency's customer satisfaction scores reached an all time high and cycle time for key processes was reduced.
- The agency, for the fourth consecutive year leads all workers' compensation carriers in the amount recovered from Second Injury Fund claims. This resulted in over seven million dollars in direct savings for our policyholders.
- The State Accident Fund continued to aggressively pursue a policy of outsourcing with private companies and increased use of technology to supply required services without expanding staff. This has resulted in another reduction in the number of full time positions from a high of 100 in Fiscal year 1996-97 to a total of less than 97 at the end of the period covered by this report.

Customer Focus

The State Accident Fund measures success based on the expectations of customers and stakeholders.

Surveys and interviews have shown that all of our customers have similar basic expectations:
- Competitive Rates
- Low claim costs.
- Timely processing of claims, premium estimates, and audit adjustments.
- Availability of customized services to support unique requirements and organizational structure.

State Accident Fund Annual Accountability Report Fiscal Year 1998-1999
An additional requirement noted for our smaller accounts, such as volunteer fire departments, is a willingness to write coverage and provide service to small accounts which pay a minimum premium.

The agency's key business drivers, measures, and benchmarks, shown below, express the expectations of our customers and stakeholders:

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<th>Key Performance Measures</th>
<th>Benchmarks</th>
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<td>1. Cost Containment.</td>
<td>• Administrative cost ratio. &lt;br&gt;• Claim costs.</td>
<td>• NCCI Data for other carriers in the state.</td>
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<td>2. Equitable rates that are not excessive nor inadequate.</td>
<td>• Average rate for five most frequently used job classifications.</td>
<td>• Average rates for the largest private carriers in the state.</td>
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<td>3. Customer satisfaction.</td>
<td>• Percentage of positive responses and average score on the annual customer survey. &lt;br&gt;• Process cycle times.</td>
<td>• American Consumer Satisfaction Index for insurance and government services. &lt;br&gt;• Previous performance.</td>
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1. The Agency's Mission
The State Accident Fund (Formerly the State Workers' Compensation Fund) was created in 1947 by an Act of the General Assembly [1947(45)147]. It is one of twenty-seven state sponsored workers' compensation insurance funds in the United States.

Mission Statement:
Provide a cost effective guaranteed workers' compensation market for state agencies, other government entities and, if required by the legislature, small businesses in the private sector.

The State Accident Fund is charged with the administration of the workers' compensation program for all state agencies. Creation of the agency centralized the administration of workers' compensation claims within a single agency. This insured standardization, increased efficiency, and minimized redundancy. In accordance with the statutes, the agency determines rates and assesses premiums in the same manner as a private insurance company. It is funded completely by the premiums it collects. In addition, the agency provides county and municipal agencies a guaranteed alternative source of workers' compensation insurance coverage.

The requirement to be prepared to write private sector was added by the Budget and Control Board. In the early 1990's, when the workers' compensation market was not as profitable, several companies stopped writing that line of insurance in South Carolina. This created problems for small businesses who were unable to obtain coverage except through the assigned risk pool. Members of the legislature asked the State Accident Fund if it could enter the private sector market place to fill the niche vacated by private companies. At that time the State Accident Fund was not prepared to unilaterally assume this mission. As a result, the Budget and Control Board directed the State Accident Fund to develop a plan for this contingency.

2. Leadership System
The agency's director is appointed by the Governor with the advice and consent of the Senate. The remainder of the executive team is made up of the Chief Administrative Officer and the Chief Operations Officer.

The agency's leadership and management philosophy is deeply rooted in the principals of "Total Quality Management" as defined by the late Dr. W. Edwards Deming. The executive team strives to create an environment in which continuous improvement and open communications is a way of life. They review customer surveys and are directly involved in the resolution of customer concerns. They monitor critical measures to determine agency performance and are actively involved in all levels of research, planning and evaluation in the agency. They are all members of the agency quality council which meets weekly to make policy decisions and to review progress. Information is communicated to all staff members through a variety of means to include the distribution of minutes from team meetings, the agency's strategic plan, training, and monthly staff meetings. All members of the executive team demonstrate their support for these principals through participation in briefings, training activities, and other quality initiatives. They lead by example.

Organization's Design
The agency's current organizational structure has evolved from a strictly hierarchical organization to a dual system. The traditional multiple layered structure with an Administration Division and an Operational Division still exists and is used to perform administrative and support tasks, such as, budgeting and evaluations. These requirements fit this model well, and are most effectively performed based on functional specialties.
While the traditional structure works well for certain tasks it lacks the speed and flexibility needed to meet our customers’ varying needs and expectations. To compensate for these shortcomings, the traditional organization is augmented with a team based structure. The basis of this organizational structure is a series of interlocking cross functional teams. These teams form the primary structure for communications, training, decision making, planning and execution of our business.

Teams are empowered to make decisions and are held accountable for their customers’ satisfaction, through the agency’s innovative pay for performance program.

The Agency Quality Council acts as the oversight team. Its members include the Director, Chief Administrative Officer, Chief Operations Officer, Unit Managers, and Staff Members (Training, Human Resources, and Management Information Services).

The Process Teams are the basic work unit. Each Team is responsible for providing workers’ compensation services to a group of policyholders. The teams are cross functional, consisting of personnel from all of the major functional units (Claims, Legal, Accounting, Management Information Systems, and Policyholder Services). They work together to resolve problems and to provide customers with the services they desire.

The Records Management Team which provides services for the entire agency, has members on each of the process teams.

The Technical Advisory Group is made up of subject matter experts from throughout the organization. They meet on an as needed basis to provide consultation and support to the other teams.

Communication and Reinforcement of Directions and Expectations
The State Accident Fund has surveyed its customers annually for the last five years. The information derived from our customers’ responses allows the agency to establish priorities and evaluate current performance. The results of these surveys are distributed to all members of the organization. Using this input and other key measures, the Agency Quality Council along with representatives of the other teams, meet to develop the agency’s strategic plan. When the plan is completed it is posted on the electronic bulletin board where it can be reviewed by all members of the staff. Team members also return to their respective teams and brief them on the plan and the team’s responsibilities for implementation.
3. Customer Focus and Satisfaction

Customers
Our market is limited by law to state agencies, county and municipal government entities. Our customers include not only these entities, but also their employees, the Workers' Compensation Commission and the Legislature. Our stakeholders include the taxpayers of the state of South Carolina and several private businesses which provide services to our customers.

Key Services and Their Importance to Customers
We can segment our customers into two distinctly different groups. The first and largest group, that makes up almost 80% of the agency's accounts, consists of county and municipal government entities. Included in this group are municipal and county governments, special purpose districts, other local government organizations, and several volunteer fire departments. These customers are free to shop the market for workers' compensation insurance. Their participation is strictly voluntary. Over 500 of these accounts chose to purchase their workers' compensation coverage from the State Accident Fund rather than a private sector insurance company.

The second distinct group is made up of state agencies who are required to purchase their insurance from the State Accident Fund. This group is even more diverse. It ranges from large multiple location facilities, to accounts that consist of only one person. The nature of the work and level of risk also varies widely. The Governor's Office, as well as, the SC Department of Public Safety are all insured through the State Accident Fund.

Surveys and interviews have shown that all of our customers have similar basic requirements:
• Competitive Rates.
• Low claim costs.
• Timely processing of claims.
• Timely processing of estimated premiums and audit adjustments.
• Availability of customized services to support unique requirements and organizational structure.
• Open communications.

A unique requirement noted for our smaller accounts, such as volunteer fire departments, is a willingness to write and service small accounts that pay a minimum premium.

Measuring Customer Satisfaction
The State Accident Fund uses a variety of methods to include interviews with both current and lost customers, brainstorming sessions conducted in conjunction with our training programs, articles and surveys in our quarterly newsletter, and our annual survey to gather information on customer satisfaction and expectations. The annual customer survey, because of its ability to reach large numbers of customers simultaneously, has been the agency's primary source of data. The survey has been conducted annually for the last six years. The survey is designed to gather information on our customers' expectations and to collect recommendations for improving current services. Each customer also evaluates agency services using a four point Likert Scale. Additional space is provided for written comments. This information is compiled, trends are noted, and both the raw data and the refined scores are distributed to the staff.

Customer Treatment
Customer concerns are the number one priority for all members of the staff. Correspondence includes telephone numbers for policyholders and claimants to use to obtain additional information or voice concerns. There is an established review process if there is disagreement over a decision. Personal letters and a quick reference guide listing points of contacts for assistance are sent to customers when their adjusters change. Customer Profile sheets were also distributed to all policyholders to determine their individual preferences for the handling of their accounts.

Deployment of Customer Treatment Requirement
The agency has used customer satisfaction as the basis for several changes. The two most notable are the team structure and the pay policy. The team based structure adopted by the agency is based on providing customers with the fastest possible response to their needs. Customer satisfaction is the one non-financial measure that was chosen to be included in the agency's pay for performance policy. Prior to any performance pay increase for the staff, the customer survey must reflect an increase in customer satisfaction.
4. Description of Programs

The State Accident Fund is a highly specialized organization with only one program. The agency provides a guaranteed cost effective source of workers' compensation insurance for government entities regardless of their loss experience, level of risk, or other unique circumstances. Unlike private carriers who selectively underwrite, the State Accident Fund is required to insure any and all government entities regardless of the risk. In addition, the agency remains prepared to provide insurance to small private businesses should the government of South Carolina deem it necessary.

Program Name: State Accident Fund Administration

Mission Statement:
Providing a cost effective guaranteed workers' compensation market for state agencies, other government entities and if required by the legislature, small businesses in the private sector.

Program Costs:
Program costs for the last four years, minus bad debts and depreciation expenses, are shown below:

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<tbody>
<tr>
<td>Personnel services and employee benefits (Authorized FTE's)</td>
<td>$3,463,743</td>
<td>$3,310,715</td>
<td>$3,262,315</td>
<td>$3,025,423</td>
</tr>
<tr>
<td>Contractual services</td>
<td>980,425</td>
<td>1,082,175</td>
<td>1,252,881</td>
<td>1,997,244</td>
</tr>
<tr>
<td>Rent and insurance</td>
<td>342,849</td>
<td>366,305</td>
<td>363,313</td>
<td>327,732</td>
</tr>
<tr>
<td>Supplies and materials</td>
<td>255,491</td>
<td>180,477</td>
<td>230,600</td>
<td>197,792</td>
</tr>
<tr>
<td>Other expenses</td>
<td>113,926</td>
<td>136,505</td>
<td>123,897</td>
<td>137,119</td>
</tr>
<tr>
<td>Total</td>
<td>$5,156,434</td>
<td>$5,076,177</td>
<td>$5,233,006</td>
<td>$5,685,310</td>
</tr>
</tbody>
</table>

The agency is funded through "other" funds. These consist of premiums paid by policyholders and investment income from the trust fund. The program has a total of 96.875 FTE's (Full Time Equivalencies) down from a high of 100 in FY 1996-1997.

Program Goal:
Provide our policyholders, injured workers, and the taxpayers of this state with high quality services at a reasonable cost.

Program Objectives:
I. Contain costs by providing appropriate workers' compensation benefits and services, promptly and efficiently.
II. Contain administrative costs through the use of technology and sound management principles.
III. Assist policyholders to develop effective programs and training in accident and occupational disease prevention; and
IV. Ensure actuarially sound management of the Fund.
Performance Measures & Business Results:

**Inputs:**

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<tr>
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<tbody>
<tr>
<td>Claims Opened</td>
<td>7,742</td>
<td>8,739</td>
<td>8,883</td>
<td>9,292</td>
</tr>
<tr>
<td>Number of Open Claims Carried</td>
<td>4,694</td>
<td>5,023</td>
<td>5,514</td>
<td>5,292</td>
</tr>
<tr>
<td>Forward</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of Accounts</td>
<td>639</td>
<td>636</td>
<td>629</td>
<td>667</td>
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</table>

**Outputs:**

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</thead>
<tbody>
<tr>
<td>Claims Closed</td>
<td>11,777</td>
<td>12,701</td>
<td>11,792</td>
<td>13,009</td>
</tr>
<tr>
<td>Safety Inspections</td>
<td>52</td>
<td>52</td>
<td>46</td>
<td>45</td>
</tr>
<tr>
<td>Safety Classes Conducted</td>
<td>108</td>
<td>93</td>
<td>84</td>
<td>73</td>
</tr>
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</table>

**Outcomes:**

The cost of services provided is of significant importance to not only our customers, but also our stakeholders. We have compared our average rates for the most frequently used job classifications with those of the largest writers of workers compensation in the state. The agency's ranking slipped from third to fifth during the period. This was due to new entries into the market, the release of new lost costs by NCCI, and new rate filings by some of the largest carriers. The data showed that even though the agency could not selectively underwrite its accounts in the same manner private carriers do, its rates remained competitive.

**Efficiency/Process:**

To measure claim handling efficiency the agency uses NCCI data to conduct a comparison of State Accident Fund's average medical and indemnity costs per claim with the average for other carriers in the state.

Comparison of SAF Average Rates with Largest Private Carriers Average Rates

![Graph showing comparison of SAF average rates with largest private carriers average rates.]

Comparison of Claim Costs For 1994 & 1995

![Bar graph showing comparison of claim costs for 1994 & 1995.]


A standard industry measure of an insurance carrier's efficiency is the Administrative Cost Ratio. The State Accident Fund's Administrative Cost Ratio as determined by our actuaries "Ernest & Young LLP" is less than half of the average for other carriers in the state as reported by NCCI.
Comparison of State Accident Fund Administrative Cost Ratio with Other Carriers in South Carolina.

*Note: Percentage of premiums collected that is spent on administration, not paid out in benefits.

One of the agency's objectives is to reduce cycle time for the payment of benefits. In the last year the agency has eliminated an FTE (Full Time Equivalency) and converted another to a part time position. Even with this reduction in staffing there was significant improvement in cycle time for two of our critical measures.

Average Number of Days to Make Initial Compensability Decisions

Percentage of Medical Bills Paid within 30 days of Receipt*

*Included in these figures are medical bills on contested claims and those submitted improperly.

Quality:
Customers determine the quality of the service provided. To measure customer satisfaction, the State Accident Fund has conducted a customer survey annually for the last five years. It is designed to perform two tasks simultaneously. First, open ended questions are used to determine customer expectations and gather recommendations on improving current services. Then each customer evaluates our performance using a four point Likert Scale. Additional space is provided for written comments. This information is compiled, trends are noted, and both the raw data and the refined scores are distributed to the staff.
The agency uses the percentage of positive responses to determine trends. Shown below are the results for the last five years. The percentage of positive responses reached a record level during the reporting period.

### Results of Annual Customer Survey

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>% of Positive Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>90.1%</td>
</tr>
<tr>
<td>1995</td>
<td>91.5%</td>
</tr>
<tr>
<td>1996</td>
<td>96.2%</td>
</tr>
<tr>
<td>1997</td>
<td>95.5%</td>
</tr>
<tr>
<td>1998</td>
<td>95.7%</td>
</tr>
<tr>
<td>1999</td>
<td>99.2%</td>
</tr>
</tbody>
</table>

The agency benchmarks its customer satisfaction against the American Customer Satisfaction Index, produced by the American Society for Quality. The index is nationally recognized and provides industry specific measures of customer satisfaction. The results of the customer survey are converted to a comparable scale of 0-100 and then measured against the industries' indexes. This allows the agency to determine trends in both the public sector, as well as, the insurance industry.

The comparison of the agency's results with that of government services and private insurance indicates that the State Accident Fund is keeping pace with both of these areas.

### Customer Satisfaction Compared to the American Consumer Satisfaction Index

Note: ACSI Data is collected on an annual basis. The Public Administration scores for 1999 are not currently available.

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**Workforce Results**

The agency monitors employee well being and satisfaction through a variety of measures. The members of the executive team (Director, Chief Operations Officer, and Chief Administrative Officer) each interview a different employee each week to determine trends within the workforce. The agency also implemented an annual employee satisfaction survey. In addition, the agency uses a suggestion box, monthly staff meetings, and exit interviews with departing employees to determine the general level of employee satisfaction.

A key measure of employee satisfaction is the **Turnover Rate**. This is determined by dividing the number of filled positions by the number of employees who have left the organization during the period. During the period covered by this report the turnover rate was **3.5%**.

Opportunities for employee development are presented through the agency's tuition assistance program, attendance at external training sessions and seminars, and internal training opportunities provided by the agency's training department. Training and development as outlined in the agency's strategic plan is reported on a quarterly basis.
**Partnership Results**

The agency has continued to pursue outsourcing opportunities with various private sector partners to allow the agency to improve its service without expanding staff. The agency uses a network of contract attorneys to handle litigation throughout the state. This has allowed the agency to deliver the desired legal services to our customers without expanding the number of attorneys on staff. A long standing and very successful partnership has been the contracting out of Second Injury Fund recovery. Funds recovered from the Second Injury Fund are credited directly to our customers' accounts. This reduces their loss experience and ultimately the cost of their workers' compensation coverage. In FY 1998-99 the State Accident Fund had the highest amount of recoveries among all Workers' Compensation carriers in the state.

![Dollars Recovered Graph](image)

The State Accident Fund has entered into a pilot program with three managed care companies to provide nurse case management and discounts for medical services and prescription drugs to our policyholders. The Preferred Provider and Drug Discount programs saved our customers $173,142.57 in claims expense during the reporting period.

**Agency Specific Results**

The improvements noted have resulted in savings that were passed along to our customers and ultimately the taxpayers. The reductions in cost, reduced cycle time and increased level of customer satisfaction all directly relate to the agency's goal: "Provide our policyholders, injured workers, and the taxpayers of this state with high quality services at a reasonable cost."