

State Accident Fund

Accountability Report for Fiscal Year 2003-2004

Section I – 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.

1. The State Accident Fund's mission statement is:

Provide a cost effective guaranteed workers' compensation market for state agencies, other government entities and, if required by the legislature, 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 ensured 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 insurance for the private sector was added by the Budget and Control Board. In the early 1990s, when the workers' compensation market was not as profitable, several companies stopped writing that line of insurance in South Carolina. When most of the state's small businesses were forced into the assigned risk pool, members of the legislature asked the State Accident Fund if it could enter the private sector marketplace 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.

The agency's core values are set forth in its Strategic Plan. They include: Customer Satisfaction, Initiative, Professionalism, Honesty/Integrity, Competency, Teamwork, Health and Safety, and Employee Satisfaction (Section III, Figure 1.1c).

2. The agency's major achievements during the period covered by this report are summarized below:

- The agency remained financially self-sustaining (Section I, paragraph 4).
- Customer satisfaction scores remained high (Section III, Figure 7.1a).
- Even though the agency has no marketing function, it gained 19 new accounts during the reporting period (Section III, Figure 7.1c).
- Retention rates for Voluntary Accounts remains high (Section III, Figure 7.1e.).

- The agency's claim and administrative costs continued to be less than the published average for the private sector (Section III, Figure 7.2f, Figure 7.2g and Figure 7.2h).
- The agency, for the ninth consecutive year, led all workers' compensation carriers in the amount recovered from the Second Injury Fund. This resulted in over eleven million dollars in direct savings for our policyholders (Section III, Figure 7.3g).

3. The State Accident Fund measures success and establishes its goals based on the expectations of customers and stakeholders. Surveys and interviews have shown that all of our customers have similar 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.
- Willingness to write coverage and provide service to small accounts, which pay a minimum premium.

The eight goals shown below are derived from the agency's Strategic Plan and are designed to meet our customers' expectations.

- Reduce the administrative cost ratio when measured against the average for the last five years (administrative costs/premium revenue).
- Continuously improve our customer service.
- Recruit and retain a competent staff.
- Be a good corporate citizen.
- Lead the State in Workers' Compensation Commission compliance.
- Increase in average claim cost will not exceed the rate of wage and medical inflation.
- Enhance communications with customers and stakeholders. (Policyholders, Legislature, Workers' Compensation Commission, Suppliers, and Potential Customers)
- Remain financially self-sustaining.

4. The major challenges facing the State Accident Fund in the future are directly related to the current economic environment.

Part 1B, Section 73.2 of the Appropriations Act of 2003 moved \$11,585,710 from the Workers' Compensation Trust Fund to the General Fund. This movement of funds almost depleted the Trust Fund. The agency took actions to slow the outflow of funds. These steps allowed the agency to continue to pay claims and operating expenses as they became due without month-to-month funding from the Treasurer as provided in Section 42-7-75 of the SC Code of Laws.

Without the ability to maintain a properly funded workers' compensation claim reserve (the Trust Fund), it is not possible for the State Accident Fund to "operate solely on revenue derived from operations" as the 1989 General Assembly intended. (See Generally 1989 Act No. 189, Part II, Section 22B(1)).

5. The agency uses the Accountability Report as a basis for its continuous improvement efforts. The Accountability Report and the Malcolm Baldrige Award Criteria on which it is based, have provided the agency with a common framework and a common set of terms.

To promote maximum staff involvement the agency uses a team approach in gathering the information and preparing the report. The team members are trained on the Malcolm Baldrige Award Criteria and how to apply that information to the Accountability Report. Over half of the agency has been trained thus far.

As described in Section III, Category 2, the first two steps in the agency's strategic planning process, are "Data Collection and Analysis" and "Conduct Self-Assessment". The Accountability Report preparation team performed these steps. Using the data collected for the report as a basis, the team completes the annual self-assessment using the most current Criteria for Performance Excellence. This self-assessment is used during the "Planning Session".

This annual review process has promoted better communications and helped drive continuous organizational improvement efforts.

Section II – Business Overview

Basic Description

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 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 private businesses should the government of South Carolina deem it necessary.

1-2. Number of Employees and Operations Location

All of the agency's 80 employees work out of the agency's home office in Columbia. From this centralized location, the agency provides services to over 680 policyholders located throughout the state without the aid of an agent network.

3. Expenditures/Appropriations Chart

Base Budget Expenditures and Appropriations

Major Budget Categories	02-03 Actual Expenditures		03-04 Actual Expenditures		04-05 Appropriations Act	
	Total Funds	General Funds	Total Funds	General Funds	Total Funds	General Funds
Personal Service	\$3,024,065.25		\$3,053,806.26		\$3,457,000.00	
Other Operating	\$1,443,083.01		\$1,368,311.30		\$2,191,291.00	
Special Items	\$23,268.71		\$21,000.00		\$45,000.00	
Permanent Improvements						
Case Services						
Distributions to Subdivisions						
Fringe Benefits	\$845,697.52		\$852,947.22		\$935,587.00	
Non-recurring						
Total	\$5,336,114.49		\$5,296,064.78		\$6,628,878.00	

Other Expenditures

Sources of Funds	01-02 Actual Expenditures	02-03 Actual Expenditures
Supplemental Bills		
Capital Reserve Funds		
Bonds		

Interim Budget Reductions

Total 01-02 Interim Budget Reduction	Total 02-03 Interim Budget Reduction

Figure 3

4. Major Program Areas

Program Number And Title	Major Program Area Purpose (Brief)	FY 02-03 Budget Expenditures	FY 03-04 Budget Expenditures	Key Cross References for Financial Results
1. Provide Workers' Compensation Insurance.	Provide a guaranteed source of Workers' Compensation Insurance.	State: Federal: Other: \$5,336,114.49 Total: \$5,336,114.49 % of Total Budget: 100%	State: Federal: Other: \$5,296,064.78 Total: \$5,296,064.78 % of Total Budget: 100%	Section III, Figures 7.3a and 7.3b

Below: List any programs not included above and show the remainder of expenditures by source of funds.
NA

Remainder of Expenditures	State: Federal: Other: Total: % of Total Budget NA	State: Federal: Other: Total: % of Total Budget NA
None		

Figure 4

5. Key Customers:

The State Accident Fund's key customers are the Governor, the Legislature, the Workers' Compensation Commission, policyholders and their injured workers. State law limits the agency's policyholders to state, county, and municipal government entities.

The agency's policyholders can be segmented into distinctly different groups (Section III, Figure 3.1). The first and largest group, 537 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 over 50 volunteer fire departments. These customers are free to shop the market for workers' compensation insurance. Their participation is strictly voluntary.

The second distinct group is made up of state agencies, which 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 agency has three key processes that create value for our customers. These processes deliver services directly to the policyholders. Each of the processes and their related services are listed below:

1. The Claims Management Process

- Claim management services.
- Recoveries from third parties.
- Recoveries from the Second Injury Fund.
- Medical case management.
- Rehabilitation services.
- Technical training for workers' compensation staff.
- Legal services.

2. The Premium Determination and Collection Process

- Training and assistance in preparing the documentation required for premium calculations.
- Training and information on the NCCI premium determination process.
- Voluntary and on-site premium audits.

3. Safety and Loss Control Consultation Process

- Safety and loss control training and consultation.
- Courtesy inspections.

6. Key Stakeholders

The agency's key stakeholders include the taxpayers of the state of South Carolina and several private businesses. Included in this group are merchants that provide medications and durable medical equipment, medical practices that treat our injured workers, private law firms that provide legal services, and other businesses that provide services to the agency or our customers.

7. Key Suppliers

The agency divides its key suppliers into two major groups. The first group consists of those suppliers who provide services directly to the injured workers. These include medical providers, medical management personnel, pharmacies, vocational rehabilitation firms, and medical equipment companies. The second group supplies services either directly to the agency or to our policyholders on the behalf of the agency. Included in the group are contract attorneys, investigators, recovery specialists, medical management specialists, and other suppliers of goods and services.

8. Organizational Structure

The current organizational structure has evolved from a strictly hierarchical organization to a team based structure.

While the traditional structure worked well for certain tasks, it lacked the speed and flexibility needed to meet our customers varying needs and expectations. To compensate for these shortcomings, the agency reorganized into a team-based structure (Figure 8).

Unlike the traditional multiple layer structure based on functional specialties, the new team structure uses a series of teams. The three business teams form the organization's core. The teams are cross-functional, consisting of claims personnel, investigators, premium auditors, and safety and loss control specialists. Each business team is responsible for delivering a full range of workers' compensation services to a specific group of policyholders. They work together to resolve problems and to provide customers with the services they desire. The business teams are empowered to make decisions and are held accountable for their customers' satisfaction.

Team Based Structure

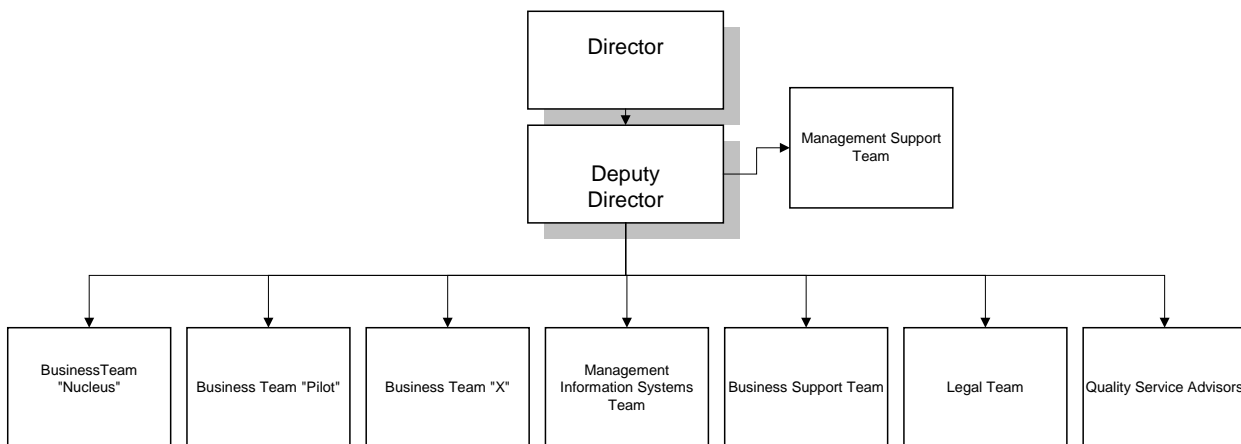


Figure 8

The other teams shown above in Figure 8 are responsible for providing services and support to the Business Teams.

Section III – Elements of Malcolm Baldrige Award Criteria

Category 1- Leadership

The Agency’s senior leadership consists of the Director; who is appointed by the Governor with the advice and consent of the Senate, and the Deputy Director. These two key positions make up the agency’s Executive Team. The agency’s senior leadership changed at the end of this reporting period. Irvin Parker, who was the agency’s Director for 17 years retired and was replaced by Harry B. Gregory Jr.

The agency’s leaders share a common management philosophy, which is deeply rooted in the principals of “Total Quality Management” as defined by the late Dr. W. Edwards Deming. All members of the Executive Team demonstrate their support for these principals through participation in briefings, training activities, and other quality initiatives. The agency’s senior leaders and managers use a participatory leadership style whenever practical and lead by example.

1.1.a-f The agency’s senior leaders and managers all participate in the agency’s strategic planning process, which is outlined in Category 2. The Strategic Plan is designed to provide guidance to the staff and establish priorities for the agency. The agency’s short and long-term direction is stated in the vision (Figure 1.1a). Its performance expectations are outlined in the goals (Figure 1.1b). Standards of ethical behavior and the organizational culture are reflected in the core values (Figure 1.1c). The organizational structure (Section II, Figure 8) and culture are designed to promote open communications and reward both individual and group initiative. The agency’s leaders believe all of these are key to promoting employee development, empowerment and innovation.

Vision
The South Carolina State Accident Fund will be a recognized leader in the field of workers’ compensation insurance and the insurer of choice for governmental entities.

Figure 1.1a

Goals
1. Reduce the administrative cost ratio when measured against the average for the last five years. (administrative costs/premium revenue)
2. Continuously improve our customer service.
3. Recruit and retain a competent staff.
4. Be a good corporate citizen.
5. Lead the state in Workers’ Compensation Commission compliance.
6. Increases in average claim cost will not exceed the rate of inflation.
7. Enhance communications with government entities.
8. Remain financially self-sustaining.

Figure 1.1b

Agency Core Values
Customer Satisfaction
Initiative
Professionalism
Honesty / Integrity
Competency
Teamwork
Health and Safety
Employee Satisfaction

Figure 1.1c

This information is communicated to the staff through a variety of means. All members of the staff attend a briefing on the Strategic Plan. The Director also reinforces these key issues at the monthly staff meetings. Deployment is evaluated through interviews and the annual employee survey.

1.2 Senior leaders use customers' expectations as a basis for evaluating agency performance. They publicly acknowledge employees who receive favorable comments from customers, and they remain actively involved in all aspects of customer relations. They personally conduct telephonic follow-ups with policyholders who submit comments on the annual customer survey. Customer service and customer satisfaction are addressed in both the agency's goals (Figure 1.1b) and values (Figure 1.1c).

1.3 The agency's senior leaders maintain fiscal, legal, and regulatory accountability by remaining involved in the day-to-day operations of the agency. In addition to the annual audit, senior leaders periodically review reports and interview staff members to determine the ethical health of the organization.

Goals	Key Performance Measures (Frequency)
Reduce the administrative cost ratio when measured against the average for the last five years.	<ul style="list-style-type: none"> • Administrative cost ratio. (Quarterly)
Increases in average claim cost will not exceed the rate of inflation.	<ul style="list-style-type: none"> • Claim costs. (Annually)
Continuously improve our customer service.	<ul style="list-style-type: none"> • Percentage of positive responses and average score on the annual customer survey. (Annually) • Interviews and customer comments. (As Needed) • Process cycle times. (Weekly)
Remain financially self-sustaining.	<ul style="list-style-type: none"> • Actuarial Review. (Annually) • Independent Financial Audit. (Annually) • Budget reports (Monthly)
Recruit and retain a competent staff.	<ul style="list-style-type: none"> • Turn Over Rate. (Quarterly) • Employee Satisfaction Survey. (Annually) • Employee interviews and suggestions. (Weekly) • Exit interviews with departing employees. (As Needed)

Figure 1.4

1.4 The key measures senior leaders regularly review are shown above in Figure 1.4. These key performance measures are directly related to the organization's vision and goals.

1.5 The agency's senior leaders believe feedback is an essential component in creating an environment in which continuous improvement and open communications are a way of life. They compare organizational performance with either industry standards or historical data to determine progress relative to the agency's goals. They also use interviews and comments submitted by the staff on the annual Employee Satisfaction Survey to evaluate leadership effectiveness in the organization. All of this information is communicated to the staff through the distribution of minutes from team meetings, the agency's Strategic Plan, the distribution and posting of weekly performance indicators, training, and monthly staff meetings. When a discrepancy is noted, the management team conducts an analysis to determine root causes. Based on the data collected the management team develops and implements an appropriate intervention.

1.6 The agency gathers information from a variety of sources to determine customer, stakeholder, and public concerns. Leaders review pending legislation, news reports, and industry data to determine areas of emphasis. This information is always used when evaluating proposed changes.

1.7 Senior leaders use input from customers and stakeholders to establish improvement priorities. Routine decisions are communicated to the staff through the minutes of the weekly meetings. The Director normally communicates high priority items or changes in priorities to the staff personally. Depending on the level of urgency and the amount of complexity, the communication may be via electronic message, the regular monthly staff meeting, or a special staff meeting called to address a specific issue and solicit staff input.

1.8 The agency supports the community through participation in the annual United Way Campaign, the Good Health Appeal, sponsoring blood drives, and its recycling program.

The agency has also chartered and maintained a team of volunteers called the Sunshine Committee. This group of volunteers assists employees in need and adopts a needy family in the community for Thanksgiving and Christmas.

Employee involvement is encouraged, but not mandated. The agency allows employees to actively promote, advertise and collect donations during work hours for several different charitable organizations. Listed below is a list of organizations and programs supported by members of the State Accident Fund.

- ◆ Various Civic clubs and groups
- ◆ Lymphoma & Leukemia Society
- ◆ Palmetto Health Children's Hospital & Women's Cancer Center
- ◆ Pro Bono Legal Work
- ◆ Recycling
- ◆ Sistercare
- ◆ Church
- ◆ Schools and school activities
- ◆ Toys for Tots
- ◆ South Carolina First Lady's Easter Egg Hunt
- ◆ Breast Cancer Walk
- ◆ Meals on Wheels
- ◆ Save Our Community Organization (Lower Richland)
- ◆ Columbia Soccer Club
- ◆ Contributions to Good Will
- ◆ Contributions to Vietnam Vets
- ◆ Contributions to Children's Hospital
- ◆ Harvest Hope Food Bank
- ◆ Boys and Girls Club of the Midlands
- ◆ Oliver Gospel Mission

- ◆ “Pop the Tabs” for the Ronald McDonald House
- ◆ MS Walk
- ◆ Optimist Club
- ◆ Contributions for Somalian families
- ◆ Lunch Buddy program
- ◆ American Cancer Society
- ◆ God’s Helping Hand
- ◆ Pelion Athletic Program

During strategic planning, the agency committed to adopting one major project per year that supported a local cause. This objective directly supported, “Goal 4: Be a good corporate citizen.” Based on a survey conducted by the advocates for this objective the Palmetto Health Children’s Hospital was selected as the agency’s one major project for the year.

Category 2 - Strategic Planning

2.1 The State Accident Fund uses the four-step strategic planning model shown in Figure 2.1a. It is a two (2) year planning cycle and coincides with the legislative session. The process consists of Data Collection and Analysis, Self Assessment, Planning, and Deployment and Implementation.

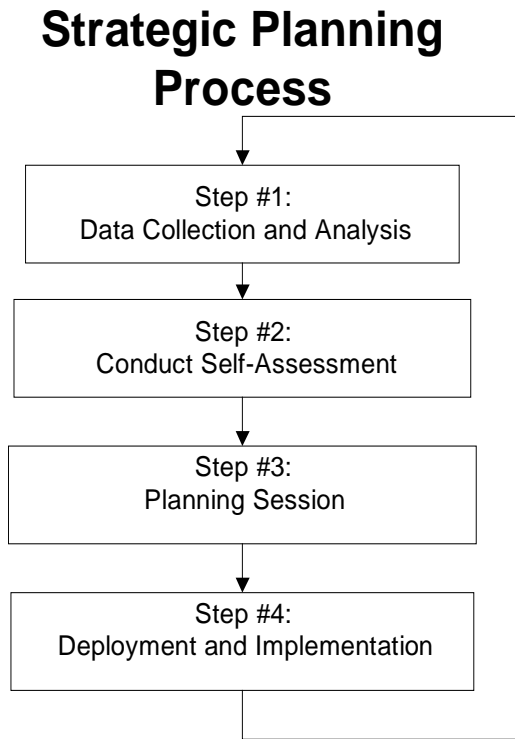


Figure 2.1a

The cycle normally begins with the preparation of the Annual Accountability Report. The data gathered for the report is used as a basis for the agency's self-assessment. The executive team, unit managers, key staff members, and volunteers were included in the Strategic Planning Group.

The data used in the Strategic Planning Process comes from a variety of sources.

- Key measures that are tracked throughout the year.
- Customer interviews and surveys.
- Employee Satisfaction Surveys.
- NCCI Publications.
- Department of Insurance.
- Independent auditor report.
- Independent actuarial review.

Figure 2.1b shows how the data is directly related to one or more of the eight goals stated in the Strategic Plan.

Goals	Data	Areas Addressed
<ul style="list-style-type: none"> • Continuously improve our customer service. • Enhance communications with government entities. • Lead the state in Workers' Compensation Commission compliance. 	<ul style="list-style-type: none"> • Customer Interviews and Surveys • Industry Publications and Studies • Number and Amount of Fines 	<ul style="list-style-type: none"> • Customer needs and expectations
<ul style="list-style-type: none"> • Remain financially self-sustaining. • Reduce the administrative cost ratio when measured against the average for the last five years. • Be a good corporate citizen. 	<ul style="list-style-type: none"> • Annual Actuarial Report • Annual Audit Report • Administrative cost ratio • Rate comparison 	<ul style="list-style-type: none"> • Financial, societal and other risks

<ul style="list-style-type: none"> • Recruit and retain a competent staff. 	<ul style="list-style-type: none"> • Employee Satisfaction Survey • Turn Over Rate 	<ul style="list-style-type: none"> • Human resources capabilities and needs
<ul style="list-style-type: none"> • Increases in average claim cost will not exceed the rate of inflation. 	<ul style="list-style-type: none"> • Percentage of Bills Paid in 30 days or less • Average time to make a Compensibility Decision • Average Claim Costs • Customer Surveys • Second Injury Fund Recovery information 	<ul style="list-style-type: none"> • Operational capabilities and needs • Suppliers / Contractors / partner capability and needs

Figure 2.1b

During the planning session the group reviews and updates the agency’s mission, vision, values, and goals. Using the strengths and weaknesses identified during the self-assessment, the team reviews and establishes objectives to support the goals. Each objective describes specific tasks to be accomplished and the measures used to determine progress. Objectives are assigned to members of the planning group with deadlines for completion.

The output of this step is the Strategic Plan containing the mission, vision, values, self-assessment, goals, objectives (short and long term), and a timeline for implementation.

2.2 The agency’s Key Strategic Goals/Objectives are also shown below in the Strategic Planning Chart, Figure 2.2.

Strategic Planning

Program Number and Title	Supported Agency Strategic Planning Goal/Objective	Related FY 03-04 Key Agency Action Plan/Initiative(s)	Key Cross References for Performance Measures*
1. Workers’ Compensation Insurance	Continuously improve our customer service.	Annual Customer Survey	Section III, Figures 7.1a, 7.1b, 7.1c and, 7.1d
1. Workers’ Compensation Insurance	Enhance communications with government entities	Measuring Customer Loyalty and Retention Rate	Section III, Figures 7.1e and 7.1f
1. Workers’ Compensation Insurance	Lead the state in Workers’ Compensation Commission compliance.	Measure the Number and Amount of Fines	Section III, Figures 7.5b and 7.5c
1. Workers’ Compensation Insurance	Remain financially self-sustaining.	Conduct Audit and Actuarial Review	Section III, Figures 7.3a, 7.3b, 7.3e, and 7.3f

1. Workers' Compensation Insurance	Reduce the administrative cost ratio when measured against the average for the last five years.	Administrative Cost Ratio	Section III, Figure 7.2h
1. Workers' Compensation Insurance	Recruit and retain a competent staff.	Turnover Rate & Training	Section III, Figures 7.4a, 7.4b, 7.4c, 7.4d, 7.4e, and 7.4f
1. Workers' Compensation Insurance	Increases in average claim cost will not exceed the rate of inflation.	Measure Claim Costs	Section III, Figures 7.2f and 7.2g

Figure 2.2

(*Note: Key Cross-References are a link to the Category 7 - Business Results. These References provide a Chart number that is included in the 7th section of this document.)

2.3 Implementation of the plan is multifaceted. The individuals assigned as advocates for the objectives during the planning phase, develop and submit their action plans for approval. The management team is responsible for allocating resources and reviewing progress. Once the action plans are approved, raters update EPMS documents, as needed, to reflect new priorities and measures.

The planning group develops a detailed timeline based on the action plans. The group meets to report progress and update the plan. Progress is reported to the staff at the general staff meetings.

2.4 Refer to Figure 2.2 for a list of key action plans and initiatives.

2.5 Once the Strategic Plan has been prepared, it is posted on the agency's electronic bulletin board and the entire staff is briefed on its contents. The agency uses the annual Employee Satisfaction Survey to measure the staff's level of awareness and understanding of the plan. During the reporting period, 97 percent of the survey participants stated they were aware of the plan and 89 percent stated they were familiar with the agency's plans for the future. Over 83 percent stated they were either clear or very clear on their roles in achieving the agency's goals.

2.6 The agency's Strategic Plan is not made available to the general public. It is a working document that is constantly being updated.

Category 3- Customer Focus

3.1 The agency has reviewed the state’s workers’ compensation law, the legislation that created the agency and the current structure of state government to determine its key customers and stakeholders.

The agency uses a variety of sources to determine each customer’s key requirements. The agency reviews and analyzes requirements identified or implied in pending legislation, Workers’ Compensation Commission Regulations, Supreme Court decisions, insurance industry data, studies conducted by the American Association of State Compensation Insurance Funds, and our own customer surveys.

Types of Policyholders

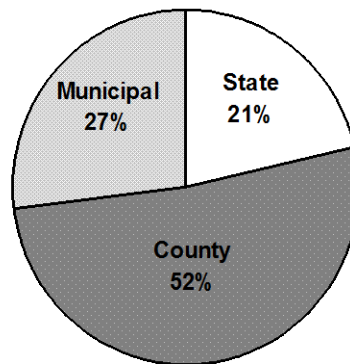


Figure 3.1

Figure 3.1 shows the types of entities that are insured by the State Accident Fund. Approximately 79% of the agency’s policyholders are county and municipal government entities. Included in this group are a variety of municipal and county government organizations, special purpose districts, other local government organizations, and over 50 volunteer fire departments throughout the state. These customers are free to shop the market for workers’ compensation insurance. Their participation is strictly voluntary. Approximately 537 of these accounts chose to purchase their workers’ compensation coverage from the State Accident Fund rather than a private sector insurance company.

The other 21% of the policyholders are state agencies, which 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.

3.2 The agency constantly explores new sources of data and means of data collection. Our website provides users with an Email link to the agency. The agency’s senior leaders interact with legislative staffers and the Governor’s Office to provide needed information and to determine their requirements and concerns. Key personnel review industry data, attend professional conferences and participate in industry specific training to learn about market

trends. The agency continuously updates its data collection processes to measure the impact of changes in the delivery processes and suppliers.

3.4 The State Accident Fund uses discussions with elected officials, interviews with members of the Workers' Compensation Commission, brainstorming sessions conducted in conjunction with our training programs, articles and surveys in our 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 eleven years. In 2001 the agency modified the format of its customer satisfaction survey. The number of questions used in the scoring was reduced from 36 to only 9. The agency has used this information to make several changes and has implemented customers' recommendations whenever possible.

Information gathered from customers is shared with the entire staff. Survey results and comments are posted on the electronic bulletin board and discussed at the staff meetings. All of this information is also incorporated into the Strategic Planning Process outlined in Category 2.

3.4 The agency has basically three measures of customer/stakeholder satisfaction. The first is the annual customer survey (Section III, Figure 7.1a). The second measure is account activity (Section III, Figures 7.1c and 7.1d). The third area is customer loyalty (Section III, Figures 7.1e and 7.1f).

3.5 The agency has a simple strategy to build positive relationships with customers and stakeholders. As shown in Section III, Figure 1.1b, the agency has made improving customer service and improving communications with other government entities top priority by including them in the agency's goals. The agency feels that open and honest communications is the only way to build trust. The agency provides elected officials and staffers with timely information. It also published and distributed a quarterly newsletter for policyholders, until it was suspended due to lack of funds. The claim staff remains in constant contact with policyholders and injured workers during the course of their claims. In addition, responsible managers provide contractors and partners with feedback on their performance.

Category 4 – Measurement, Analysis, and Knowledge Management

4.1 The agency's performance measurement system is constantly evolving and improving. It is part of the agency's Strategic Plan and measures the agency's progress toward its goals (Section III, Figure 1.4). Some key measures, such as cost and cycle times, are derived from our customer and stakeholder requirements. Other measures are based on applicable laws and regulations. Process related measures are used to measure efficiency and improvement. Still other measures, such as turnover rate and the Employee Satisfaction Survey are designed to assess the internal health of the organization.

4.2 The agency's key measures are shown in Section III, Figure 1.4.

4.3 The agency has taken several precautions to ensure the integrity and reliability of data. Data collection procedures have been standardized. The data has been defined and the collection processes have been documented. When automated reports are developed to collect data, they are checked against manual counts to ensure accuracy. If samples are used, such as in comparison of rates or in surveys, the population is defined to insure consistency. The results are distributed to the staff and any errors are reported. The agency performs daily and weekly backups of its critical databases. The agency also has a claim audit function that reviews claim data to insure consistency. Data collection and reporting methodology varies depending on the measure. Manual collection processes such as error logs are used to track mail processing errors. Fully automated processes track and report system down time. A combination of automated reports and manual reporting are used to measure and report the weekly performance indicators. The agency continuously evaluates the validity of its measures. When the management team determines that a measurement can be refined to increase the validity of the data, the new process is documented and all members of the staff are informed prior to the change being implemented. Some examples of measures that have been refined to provide more meaningful information are:

- The reduction in the number of questions from 36 to 9 on the annual customer survey.
- Expanding the percentage of bills paid in 30 days to include all bills processed, not simply those paid.

The agency is continuously expanding its data collection capability to increase the usefulness and availability of the data. Data collected and reported annually for the entire agency provides an accurate measurement of agency performance, but is of limited usefulness in making timely interventions. Performance measures for individual teams and the agency are now collected, posted, and distributed to all members of the agency on a weekly basis along with comparative data for the last two years. Other key measures, such as the administrative cost ratio, are now computed and reported quarterly. The agency has also developed individual and team reports. The reports are designed to provide feedback to individuals and a comparison with other similar positions in the agency. These reports can be tailored to cover any timeframe and can be run by employees and supervisors. The measures reflected in these reports are used to determine training needs and to evaluate individual performance.

4.4 Each delivery process and each support process has its own set of measures. These measures are used to determine process efficiency and effectiveness. The agency has overall measures of

effectiveness, such as administrative cost ratio, customer satisfaction, turnover rate, and financial reports. All of this data is made available and is used in decision making at every level in the organization. Data collection and analysis is the first step in the strategic planning process (Section III, Figure 2.1a). All individuals and units responsible for decision-making are provided with data or support to assist them in data collection and analysis. It has become part of the organizational culture to challenge decisions or recommendations that are not supported by data.

4.5 The determination as to the type of comparative data is based on customer expectations, the desired outcome, and the availability of data. When comparing costs, measures are normally compared to results from the private sector (Section III, Figures 7.2f, 7.2g, and 7.2h). If an industry standard is not available, past performance is used to determine improvement (Section III, Figures 7.5a, 7.5b, and 7.5c). When customers state that our rates must be competitive, then the only true way to measure competitiveness is through comparison with the private sector (Section III, Figure 7.2b). Rate information is extracted from current rate filings at the Department of Insurance. Claim cost factors are derived from the National Council of Compensation Insurers (NCCI) Statistical Bulletin (Section III, Figures 7.2f and 7.2g). When customers and stakeholders state that services must be performed in a timely manner, the goal is then to reduce cycle time. The only way to measure improvement is to compare our current level of performance with past performance (Section III, Figures 7.2d and 7.2e). Customers and stakeholders demand sound financial management; the logical performance measures are standard insurance and financial accounting practices.

4.6 The team based organizational structure is designed to promote the sharing of information and the transfer of knowledge. Key positions are also required to maintain a procedures manual that describes the steps required to perform key reoccurring tasks.

Category 5 – Human Resources

5.1 The agency’s team based structure promotes collaboration, initiative, and flexibility. All members of the team are bound together by a common goal. Teams are empowered to make decisions and are held accountable for their customers’ satisfaction. Staff members, who participate in project teams or make other additional contributions beyond the scope of their normal jobs, are recognized through certificates, letters, and announcements at staff meetings.

In addition to Legislative merit pay increases, the agency uses in-band salary increases for additional job skills and responsibilities. Significant accomplishments and contributions by individual employees are recognized through the agency’s Employee Bonus Pay Plan.

Professional development requirements are included in each employee’s Employee Performance Management System (EPMS) planning stage. Opportunities for employee development are presented through the Agency’s Tuition Assistance Program, Insurance Education Incentive Program, attendance at external training sessions and seminars, self-study program, computer based instruction and internal training opportunities provided by the agency’s training department.

5.2 The Training Department is responsible for the training needs assessment process shown below in Figure 5.2. The output of this ongoing process is the formal training needs assessment and an annual training plan, which are submitted to the Agency Quality Council for review and approval at the beginning of each fiscal year.

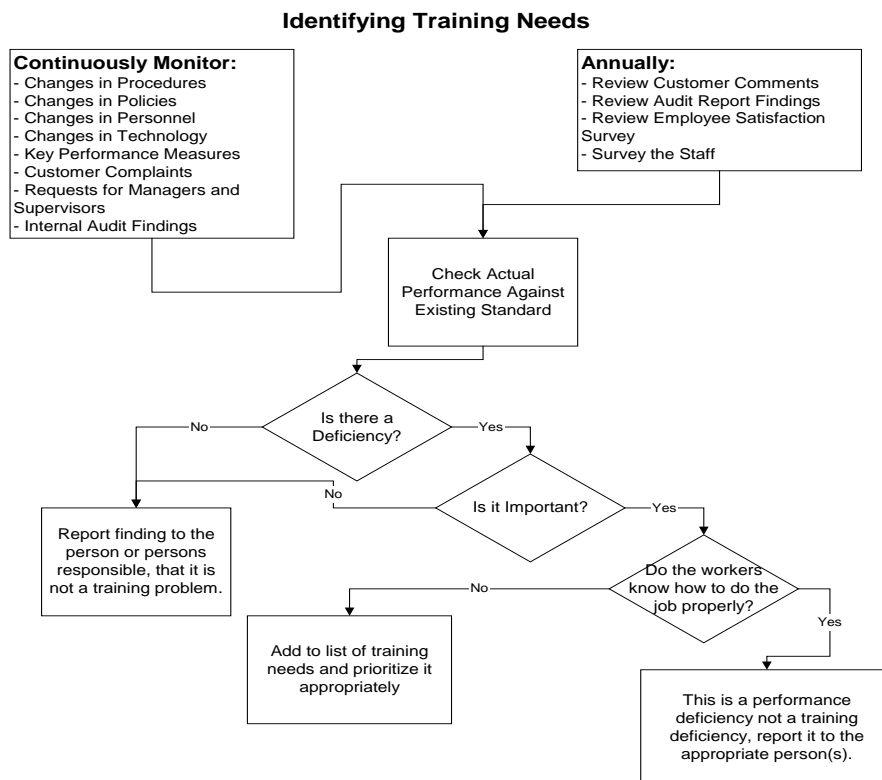


Figure 5.2

Developmental and training needs are addressed using one of three approaches. The first approach is self-study. The agency encourages staff members to enroll in degree-granting courses at the Insurance Institute of America and CPCU Society. This program was implemented to meet the professional development needs of the staff. The second approach is formal classroom instruction provide by agency staff. The third approach includes training classes and seminars provided by outside venders. The agency tracks the level of participation and the amount of training successfully completed via these approaches (Section III, Figures 7.4d and 7.4e).

5.3 The agency's Employee Performance Management System (EPMS) is designed to support agency goals and objectives. During the reporting period, the agency incorporated the results of claim audits into the system for all claim personnel. This directly supports the agency's goal to "Lead the state in Workers' Compensation Commission compliance".

The agency believes that EPMS documents must be completed for them to be effective. Based on this belief the agency measures the percentage of evaluations completed. This was derived by subtracting the number of employees who receive meets by defaults from the number of completed evaluations. This number is then divided by the total evaluations for the year and the answer is converted to a percentage (Section III, Figure 7.4f).

5.4 The agency monitors employee well being and satisfaction through a variety of measures. One of the primary measures of employee satisfaction is the annual Employee Satisfaction Survey. The survey instrument is designed to measure the staff's level of satisfaction in several human resource areas (Section III, Figures 7.4b and 7.4c). The agency also monitors its turnover rate and compares it to the average for the industry (Section III, Figure 7.4a). In addition, the agency uses a suggestion box, monthly staff meetings, and exit interviews with departing employees to determine trends in employee satisfaction.

5.5 The agency promotes workplace health and safety through its Safety Committee, which is made up of agency staff and is coordinated by a member of the agency's Safety and Loss Control unit. The team conducts safety audits, investigates accidents, sponsors National Safety Week, and updates the staff on safety related issues during the monthly staff meeting.

5.6 The agency promotes community involvement by sponsoring the annual Good Health Appeal and United Way Campaign. The Safety Committee also sponsors blood drives for the American Red Cross. The agency also allows employees to actively promote, advertise and collect donations during work hours for the organizations listed in Section III, paragraph 1.8.

Category 6 – Process Management

6.1 As part of the strategic planning process the agency identified three key processes that create value for our customers.

Key Processes for Services

- The Premium Determination and Collection Process.
- The Claims Management Process.
- The Safety and Loss Control Consultation Process.

The outputs of the key processes are those services that are delivered directly to the policyholders or their injured workers. The agency continuously monitors the quality and timeliness of the services to insure they remain in statistical control. When changes are implemented the output is evaluated based upon feedback from customers and through comparison with past performance. Critical process measures are disseminated to the staff through the distribution of the weekly performance indicators and quarterly reports.

6.2 Process design and delivery has been limited to process improvement efforts. The agency's mission has remained stable and has not required the design or delivery of new processes. All process changes and improvements have been need-driven and tailored to meet the expectations of our customers and stakeholders as well as market and regulatory requirements. The agency has sought to meet these changing needs through the integration of new technology and aggressively pursuing a policy of outsourcing services when it benefits our customers and stakeholders. The agency has used project teams and even contracted out some services to improve cycle time and reduce costs.

6.3 The State Accident Fund is a single program agency with a very specific mission. The key processes are all directly related to the mission. Each of the support processes listed below provides the agency with essential services. A breakdown in any of these processes would severely degrade the agency's ability to accomplish its mission.

6.4 The agency has identified four key support processes during the strategic planning process.

Key Support Processes

- Management Information Systems Support.
- Mail Processing Support.
- Litigation Process.
- Legislative Liaison and External Communications.

The outputs from the key support processes are delivered to the agency staff instead of the policyholders or their injured workers. What differentiates these key support processes from other support processes, is the direct impact they have on the organization's ability to meet the needs and expectations of its customers and stakeholders. A list of process measures for each of these key support processes was developed as part of the agency's Strategic Plan.

6.5 The agency manages and supports its key suppliers, contractors, and partnership interactions through a decentralized approach. Primary responsibility for providing feedback and working with these key suppliers to improve performance is delegated to specific individuals responsible for the supported function. Some examples of these key partnerships are:

- The agency uses two private sector managed care companies to provide medical management for claims. The Claim Process Coordinator was responsible for working with the companies and our policyholders during implementation of this service. She attended the briefings with the policyholders and was available to address their concerns. She has closely monitored implementation, provided the contractors with continuous feedback and assisted in surveying the policyholders to determine what changes needed to be made to better fit their needs.
- Reimbursement Consultants Incorporated (RCI), a private company, audits all SAF files for potential recovery from the Second Injury Fund. This service also falls under the claims management process and is overseen by the Claim Process Coordinator. RCI independently takes whatever action necessary, including legal action, to affect recovery on qualifying claims. RCI meets with the agency's representative quarterly to provide updates on their progress. At these meetings, support issues are addressed and the amount of recoveries for the period is reviewed and compared with previous performance.
- The agency uses a network of contract attorneys to represent its policyholders throughout the state. This allows the agency to provide services without expanding the number of staff attorneys. The Chief Legal Counsel is responsible for the contract attorney budget and overseeing the utilization process. The contract attorneys work directly with individual claims adjusters on the cases they are assigned. Win/loss ratios are maintained and trends/issues discussed with the attorneys involved.
- The agency has a support contract with Taliant, LLP the software company that developed and installed the agency's customized software. The Management Information Systems Team Leader handles the contract and the budget for this support. The Team Leader provides feedback and work specifications to the project manager and other Taliant employees. Weekly conference calls are held between the Team Leader and Taliant staff.

Category 7 – Results

7.1 The State Accident Fund has conducted a customer survey annually for the last eleven years to measure customer satisfaction. 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 the agency's 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. The results for the last eleven years are shown in Figure 7.1a.

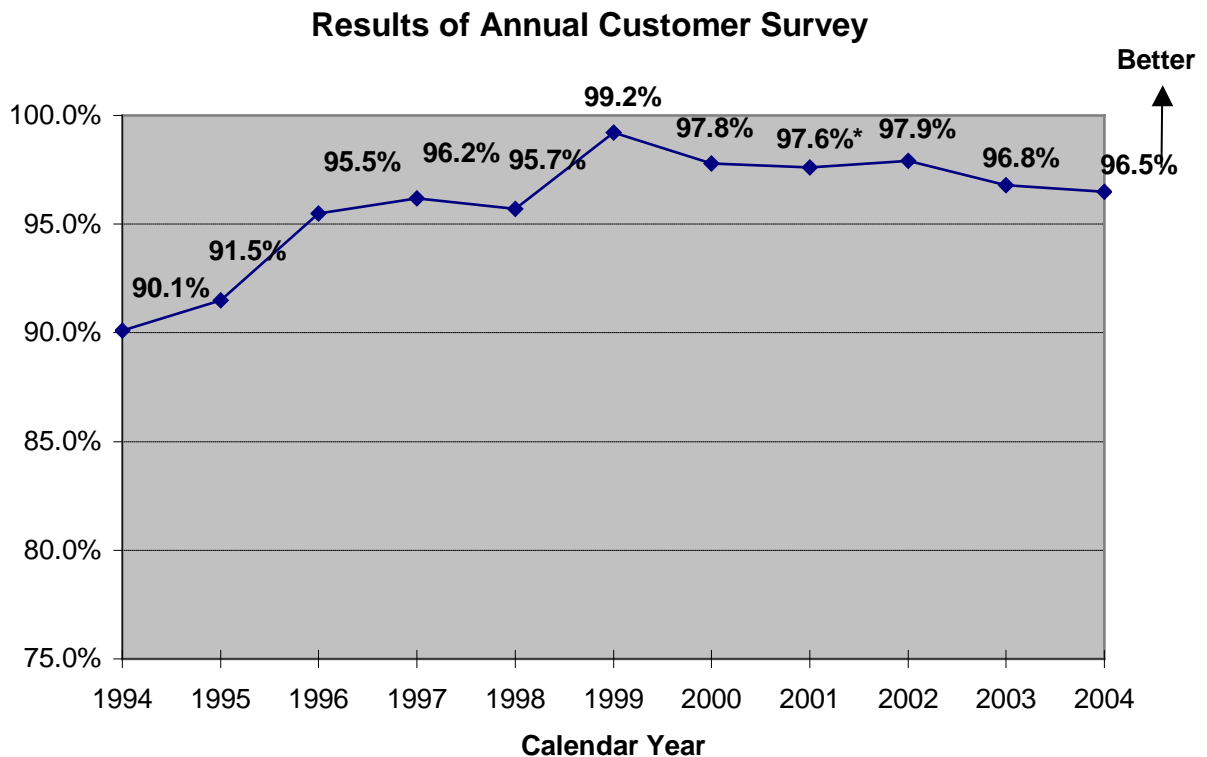


Figure 7.1a

(*Note: The survey was redesigned in 2001 and the number of scored questions was reduced from 36 to 9.)

The agency compares its customer satisfaction scores 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 agency's 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 results of this comparison are shown below in Figure 7.1b.

Customer Satisfaction Compared to the American Consumer Satisfaction Index

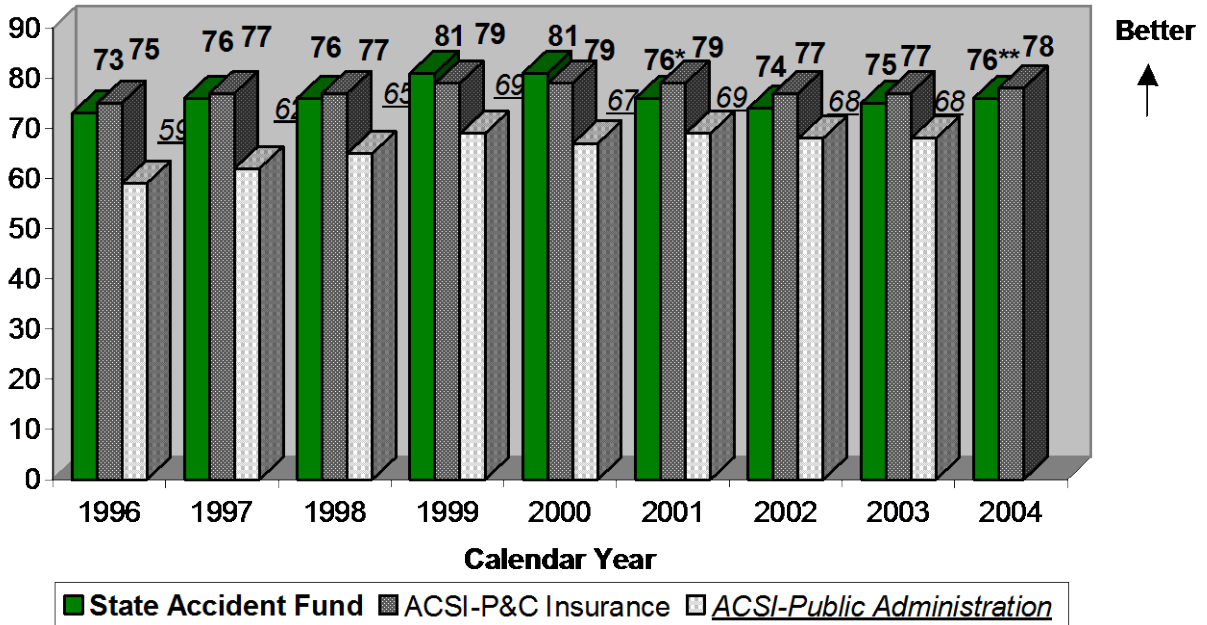


Figure 7.1b

(*Note: The survey was redesigned in 2001 and the number of scored questions was reduced from 36 to 9.)

**Note: ACSI data is collected on an annual basis and not all of it is available for the current year.)

The State Accident Fund also uses customer loyalty as a measure of customer satisfaction. During the reporting period the agency gained 19 new policyholders (Figure 7.1c). During the same period the agency lost 7 policyholders. The gain in new accounts can be attributed to a number of factors. The first factor is current customer satisfaction. The agency does not have a marketing solicitation program, therefore new policyholders normally hear about the agency through word of mouth.

Account Activity

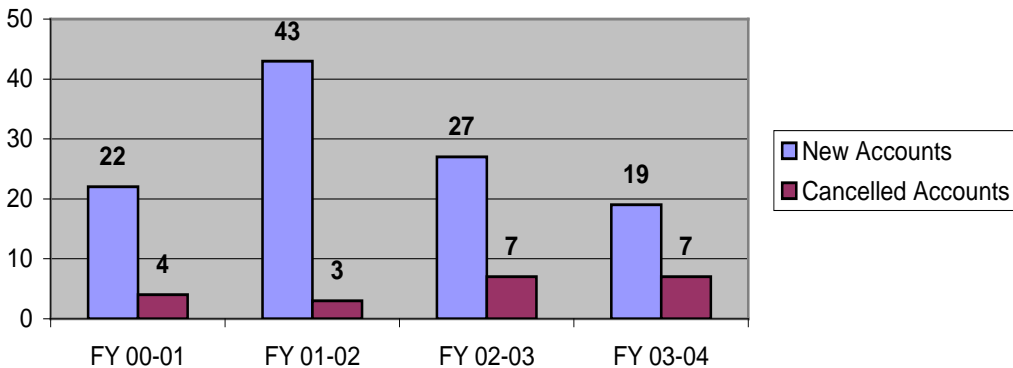


Figure 7.1c

Premium from New and Cancelled Accounts

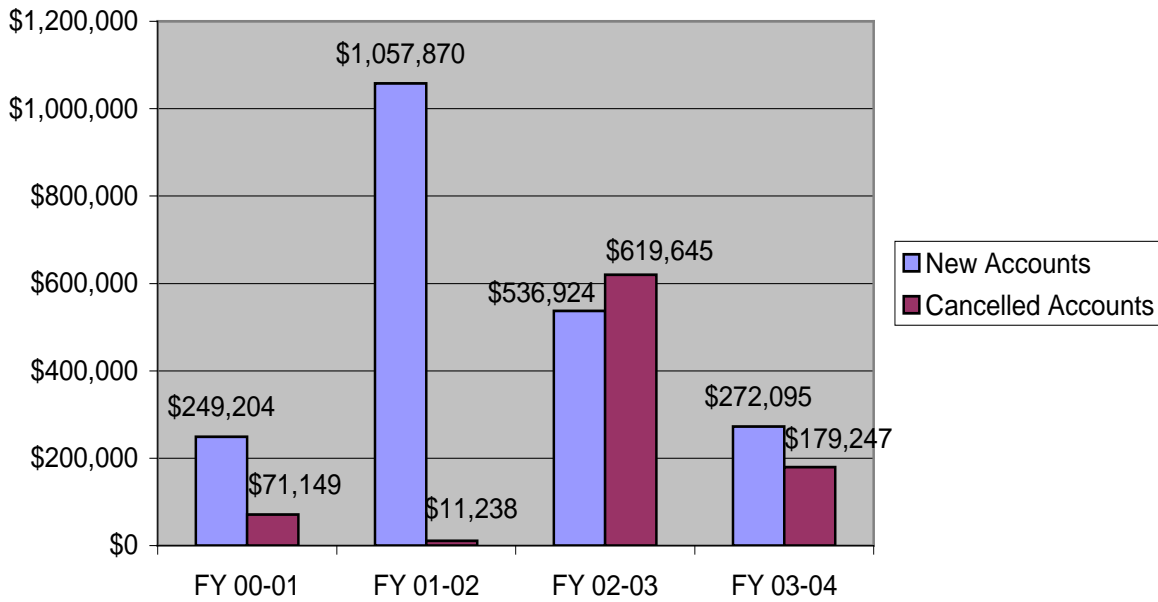


Figure 7.1d

To better compare this data from year to year the agency has implemented two measures of customer loyalty. The percentage of voluntary accounts that renew their coverage with the agency is the Retention Rate and it is shown in Figure 7.1e. The percentage of premiums from voluntary accounts that renew their policies is the Retention Ratio and is shown in Figure 7.1f.

Retention Rate for Voluntary Accounts

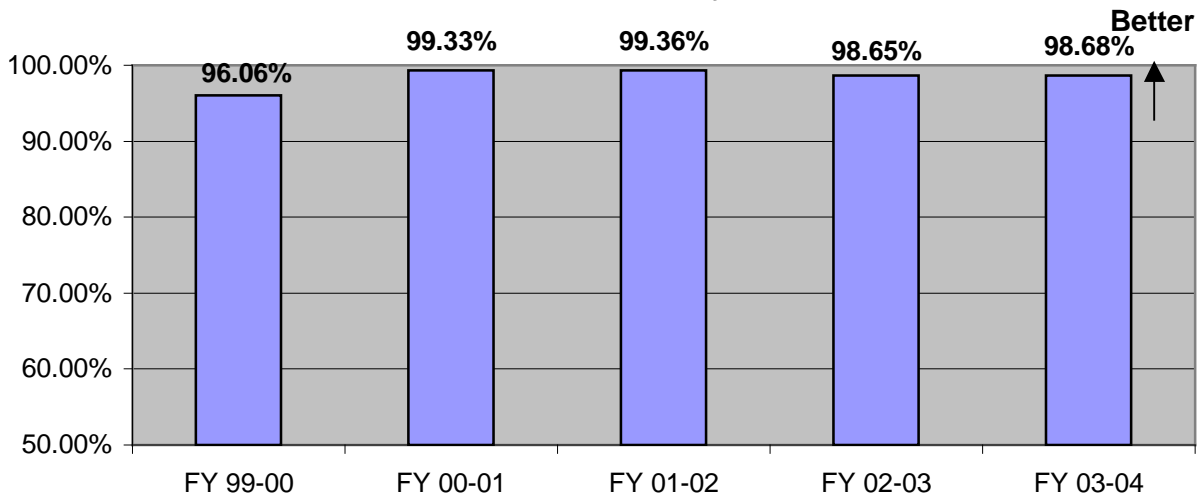


Figure 7.1e

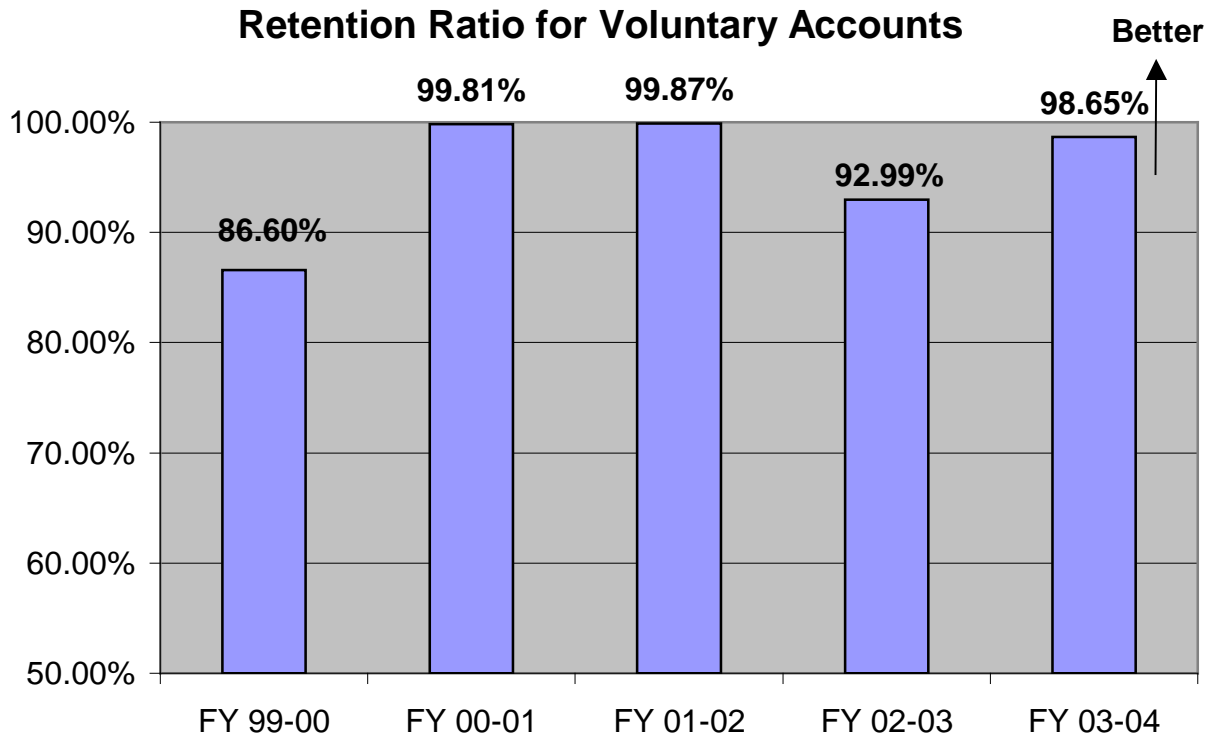


Figure 7.1f

7.2 Senior level management monitors several key measures to determine mission accomplishment and organizational health. Among these measures are system inputs and outputs.

	FY 97-98	FY 98-99	FY 99-00	FY 00-01	FY 01-02	FY 02-03	FY 03-04
<u>Inputs:</u>							
Claims Opened	8,739	7,742	7,666	7,725	7,666	7,401	7,066
Open Claims Carried Forward							
Number of Accounts	636	639	607	625	663	673	684
<u>Outputs:</u>							
Claims Closed	12,701	11,777	11,306	9,083	9,607	9,807	8,867
Safety Inspections	52	52	72	83	88	89	84
Safety Classes Conducted	93	108	99	89	105	109	117

Percentage of Claims Carried Forward

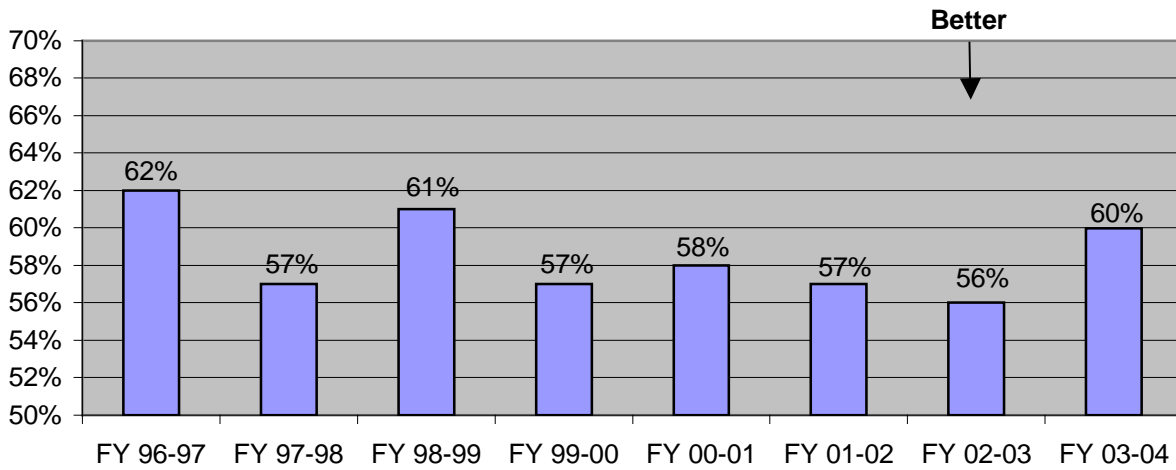


Figure 7.2a

The cost of services provided is of significant importance to not only our customers, but also our stakeholders. The agency performs a rate comparison annually as part of its self-evaluation. It compares the agency’s rates for the five most frequently used job classifications with the average rates for the largest private workers’ compensation carriers in the state. The results of this comparison are shown in Figure 7.2b. The agency’s ranking has varied from year to year as shown in Figure 7.2c. During the report period the agency was tied with another carrier for fourth place. 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.

Comparison of SAF Average Rates with Largest Private Carriers Average Rates

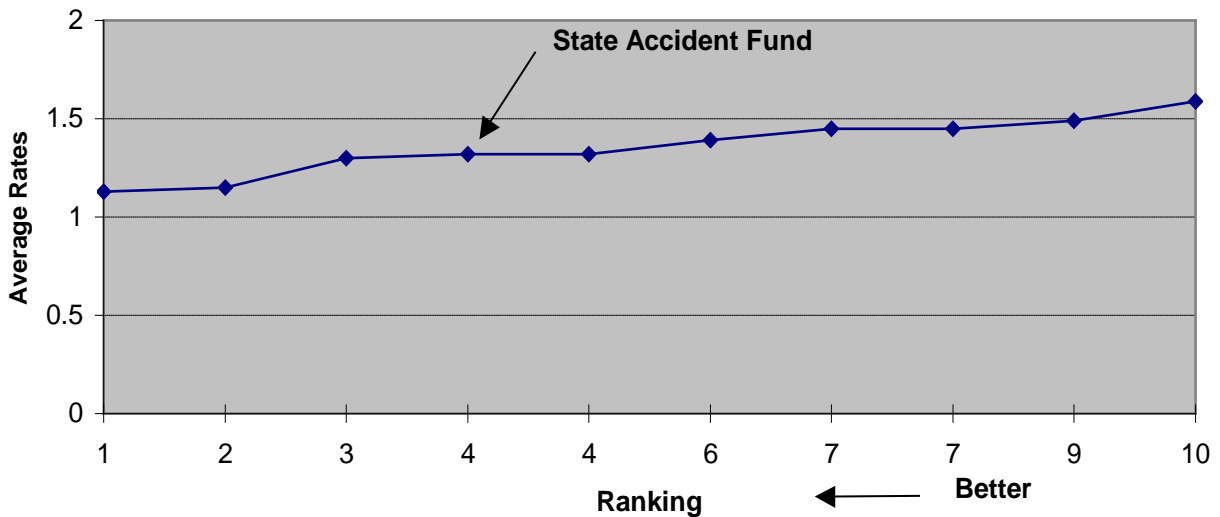


Figure 7.2b

The chart in Figure 7.2c shows the agency's ranking over the last seven years.

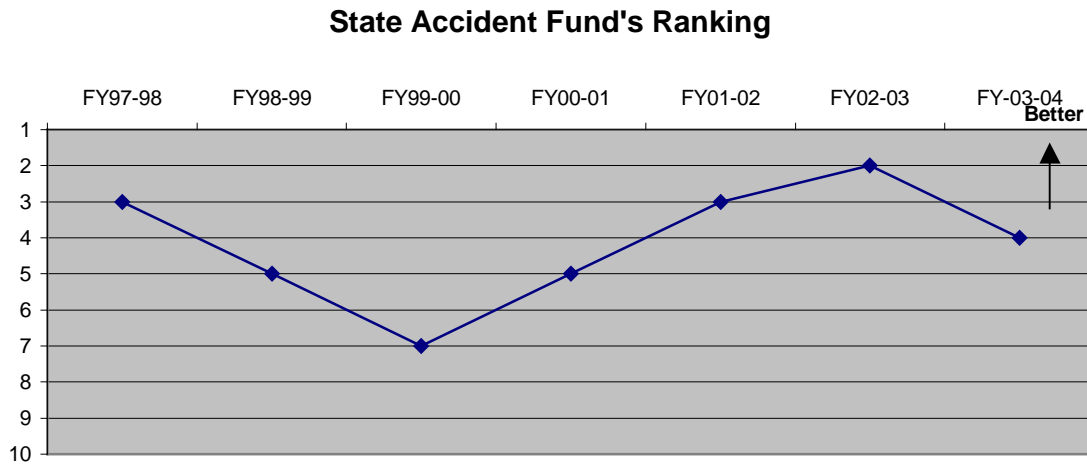


Figure 7.2c

Another key customer concern is the amount of time it takes to begin payment of benefits. The initial step in this process is the determination of compensability. The agency monitors and reports on a weekly basis the average number of days to make an initial compensability decision. The data for the last seven years is displayed in Figure 7.2d.

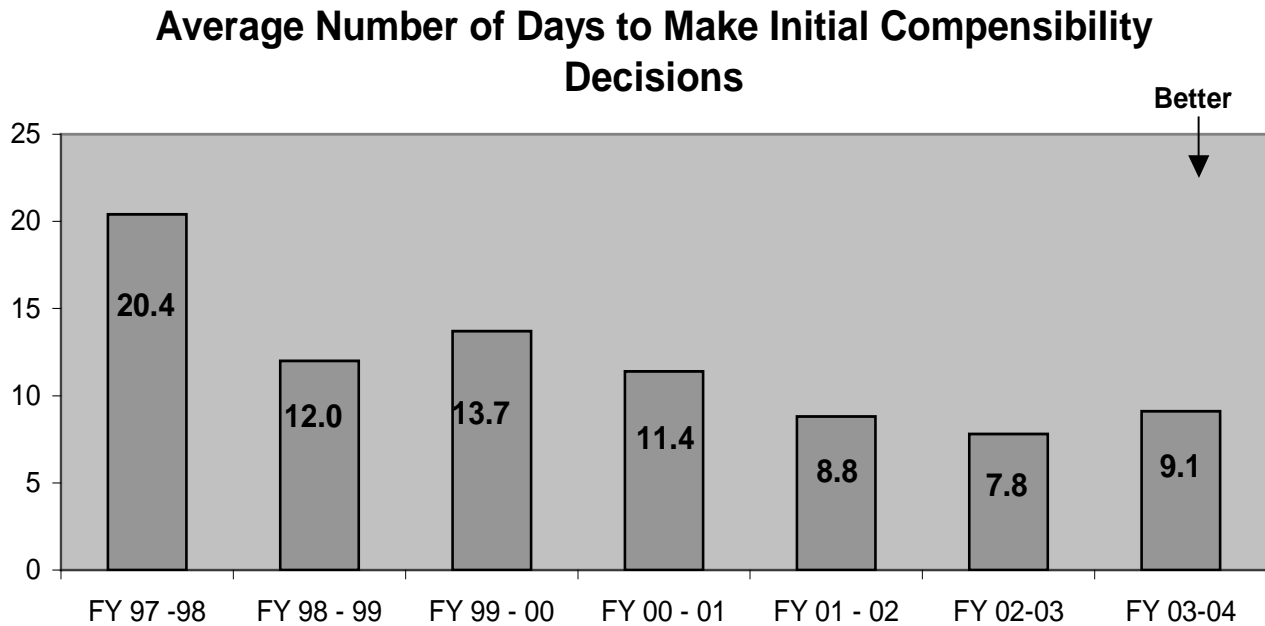


Figure 7.2d

Customers, injured workers, and suppliers all want their bills paid in a timely manner. Rebilling creates rework and adds no value. In fiscal year 97-98 the agency began measuring what percentage of bills were paid within thirty days of the date of receipt. In fiscal year 99-00 this

measure was refined to include all bills, not just those paid. The new measure tracked the percentage of bills processed within thirty days of the date of receipt. The data is shown in Figure 7.2e.

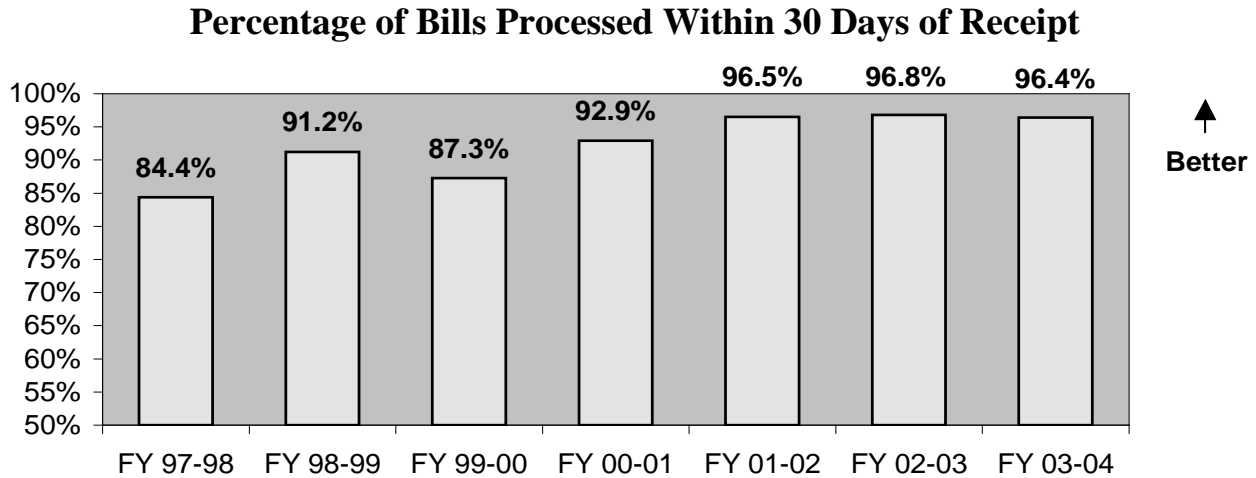


Figure 7.2e

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. The most recent data showed the average medical cost of claims was almost 45% lower than the industry average.

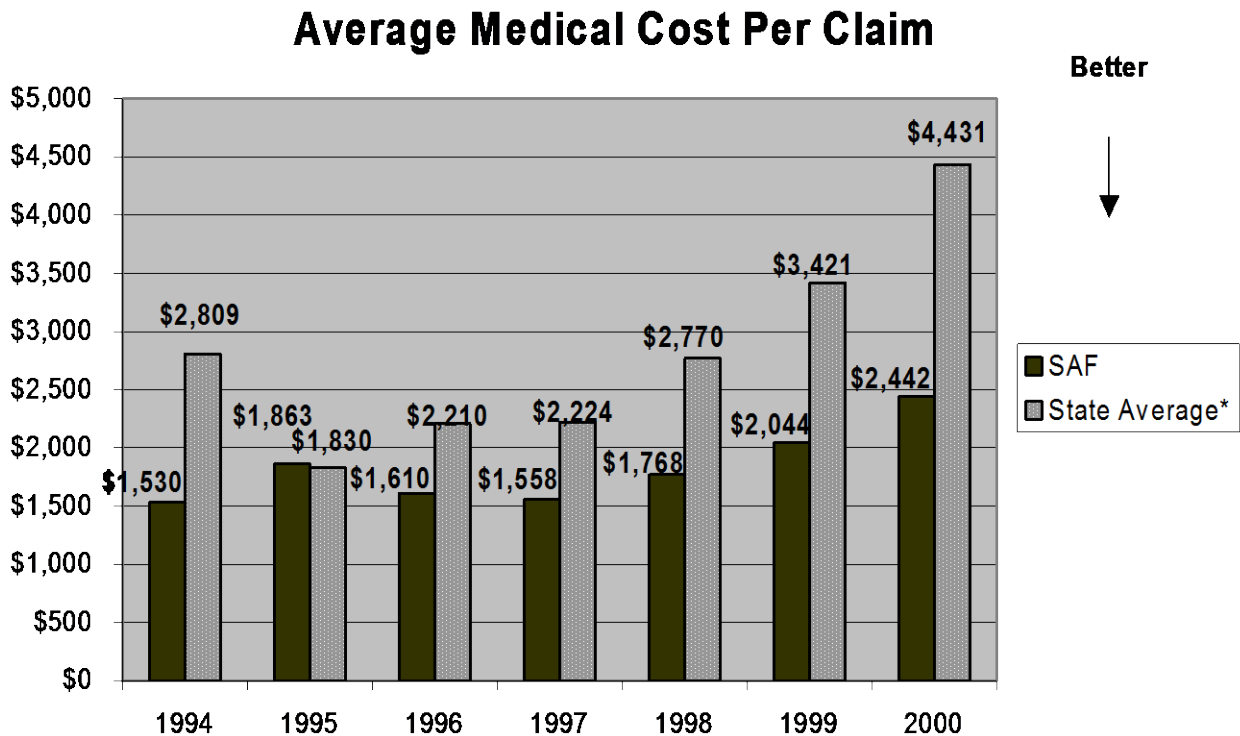


Figure 7.2f

The average indemnity cost per claim is shown in Figure 7.2g. The agency's average was 52% below the average for private industry.

Average Indemnity Costs Per Claim

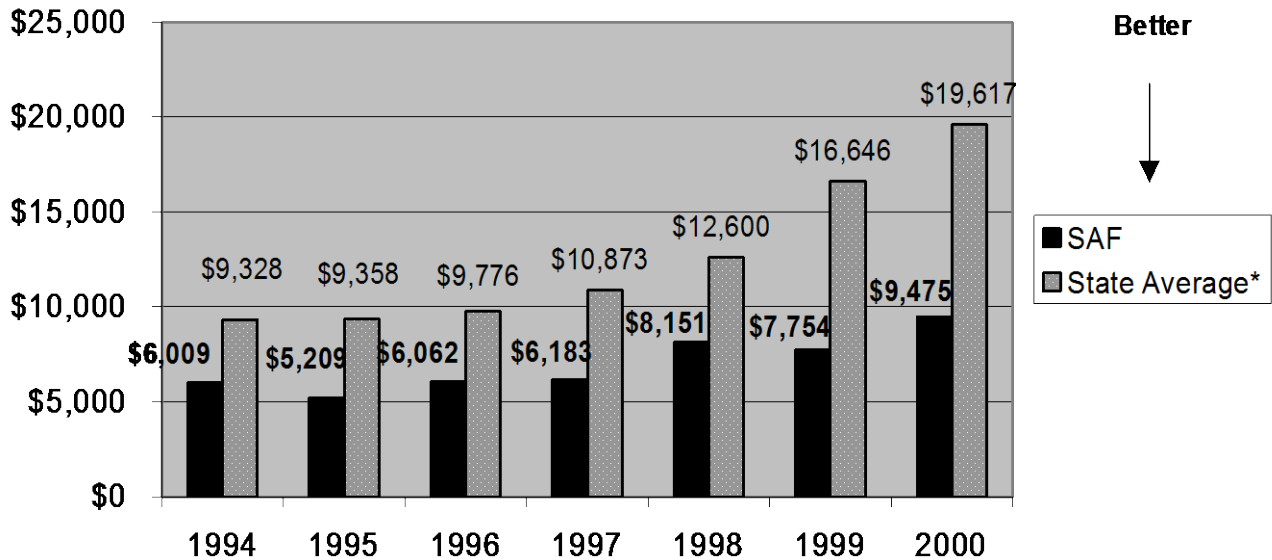
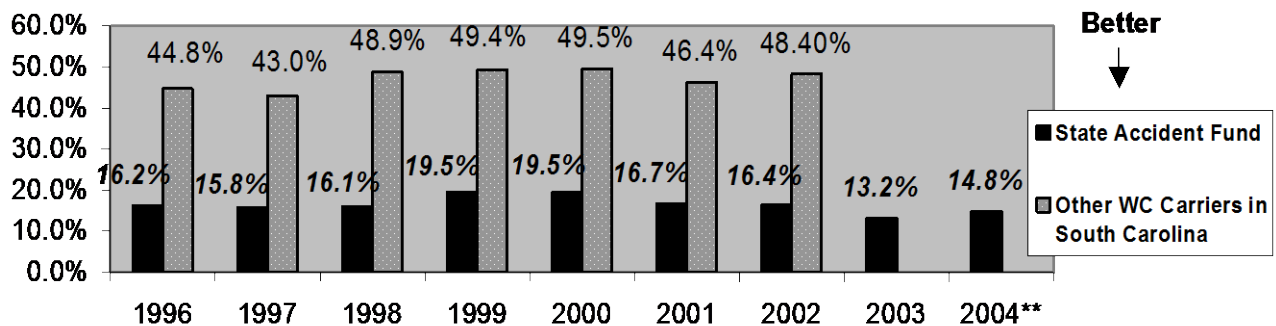


Figure 7.2g

*Note: 1994 Data - NCCI Statistical Bulletin 1998; 1995 Data - NCCI Statistical Bulletin 1999; 1996 Data - NCCI Statistical Bulletin 2000; 1997 Data - NCCI Statistical Bulletin 2001; 1998 Data - NCCI Statistical Bulletin 2002; 1999 Data - NCCI Statistical Bulletin 2003; 2000 Data - NCCI Statistical Bulletin 2004.

A standard industry measure of an insurance carrier's efficiency is the "Administrative Cost Ratio". It represents the percentage of premiums spent on administration and not paid out in benefits. The State Accident Fund's Administrative Cost Ratio, as determined by our actuaries, Bickerstaff, Whatley, Ryan, and Burkhalter, Consulting Actuaries, is less than half of the average for private sector carriers in the state as reported by NCCI.

Administrative Cost Ratio Comparison



* Note: NCCI Data not available for CY 2003

** Note: The figure shown for 2004 is an estimate and must be confirmed by our actuaries.

Figure 7.2h

7.3 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 90.12 FTE’s (Full Time Equivalencies) down from a high of 100 in FY 96-97. Program costs based on the independent audit for the last several years, minus bad debts and depreciation expenses, are shown in Figures 7.3a and 7.3b.

Program Costs Minus Bad Debts and Depreciation

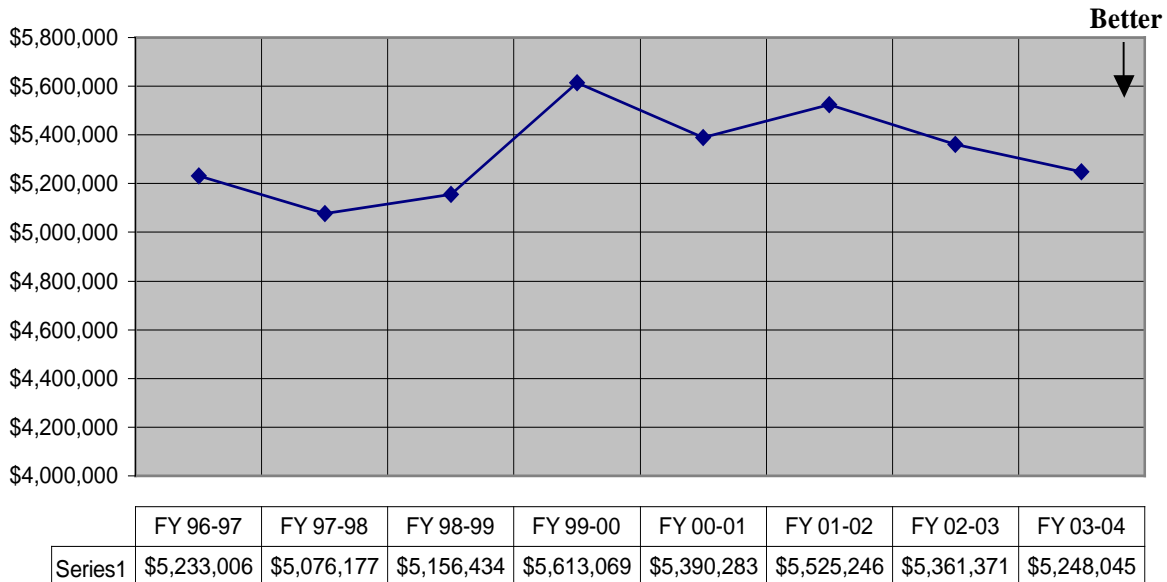


Figure 7.3a

Expense Details

	<u>FY 97-98</u>	<u>FY 98-99</u>	<u>FY 99-00</u>	<u>FY 00-01</u>	<u>FY 01-02</u>	<u>FY 02-03</u>	<u>FY 03-04</u>
Personnel services & employee benefits (Authorized FTE's)	\$3,310,715 (98)	\$3,463,743 (97)	\$3,866,539 (92.12)	\$3,881,128 (92.12)	\$3,981,365 (90.12)	\$3,893,385 (90.12)	\$3,871,703 (90.12)
Contractual services	1,082,175	980,425	1,122,282	957,813	970,620	851,459	780,458
Rent and insurance	366,305	342,849	361,504	319,945	310,701	342,497	358,824
Supplies and materials	180,477	255,491	142,056	116,467	108,713	110,602	92,016
Other expenses	136,505	113,926	120,688	114,930	153,847	163,428	145,044
Total	\$5,076,177	\$5,156,434	\$5,613,069	\$5,390,283	\$5,525,246	\$5,361,371	\$5,248,045

Figure 7.3b

The agency measures the percentage of premium that is over 90 days past due. The results for the last five years are shown in Figure 7.3c.

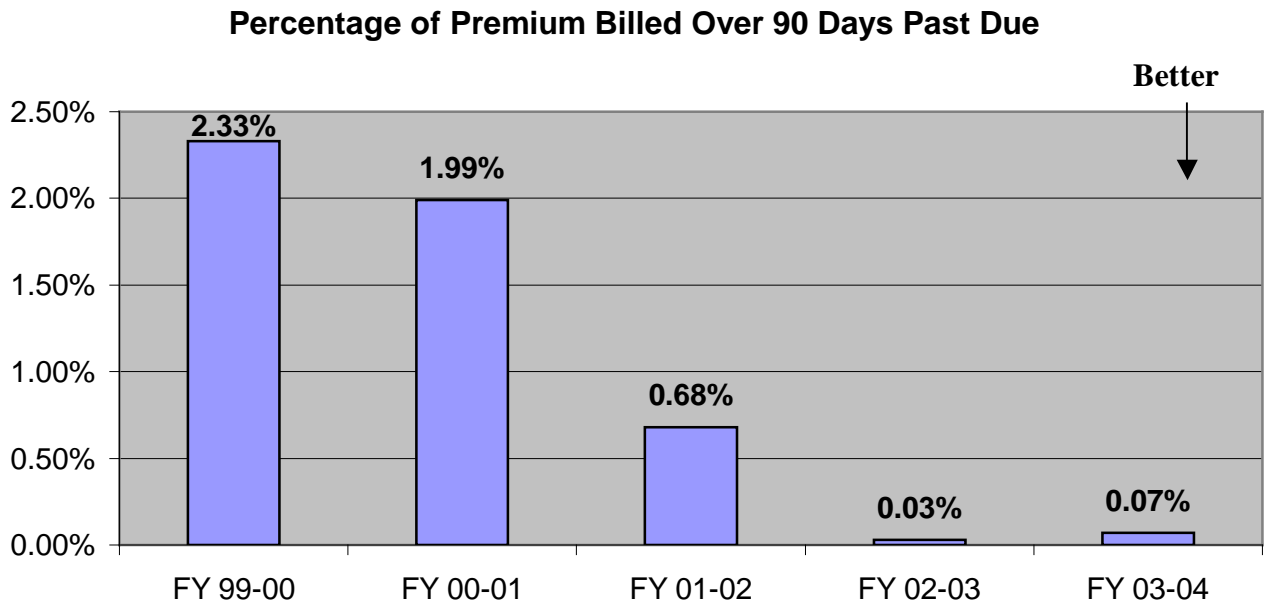


Figure 7.3c

Another measure used to monitor the Premium Determination and Collection Process is the percentage of accounts audited within 180 days after the end of the policy period. The results are shown in Figure 7.3d.

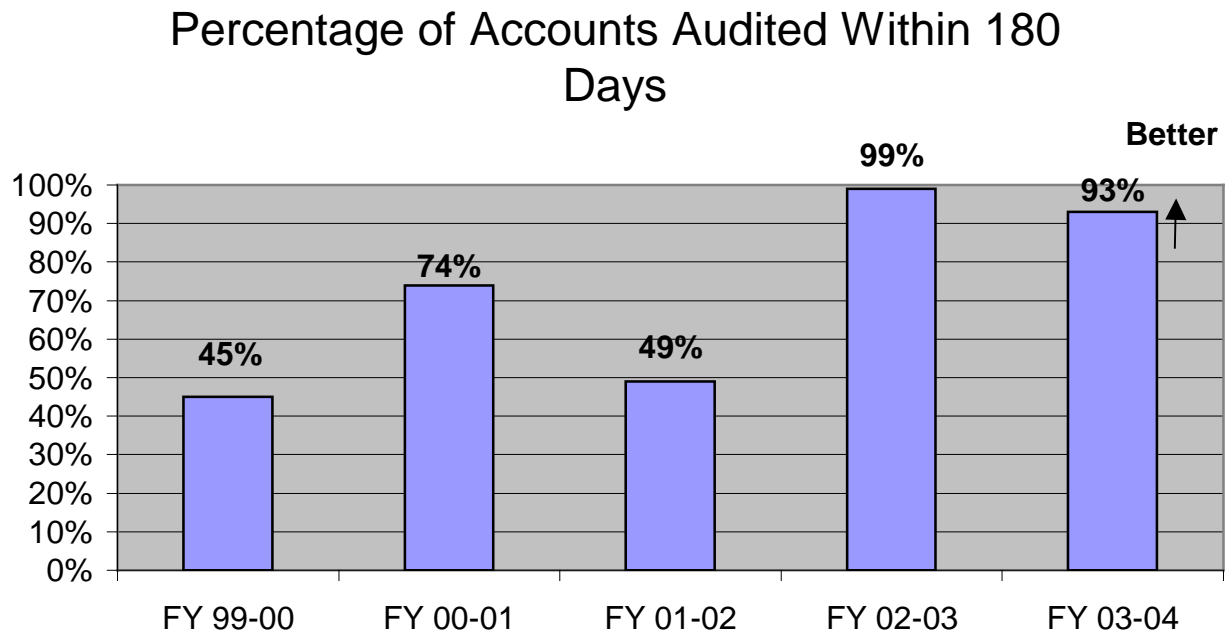


Figure 7.3d

Figure 7.3e shows the Trust Fund balance. These are premiums that have been paid by policyholders and are set aside to pay current workers' compensation claims. The amount in the fund should be equal to the agency's liability. This is evaluated annually during the actuarial review.

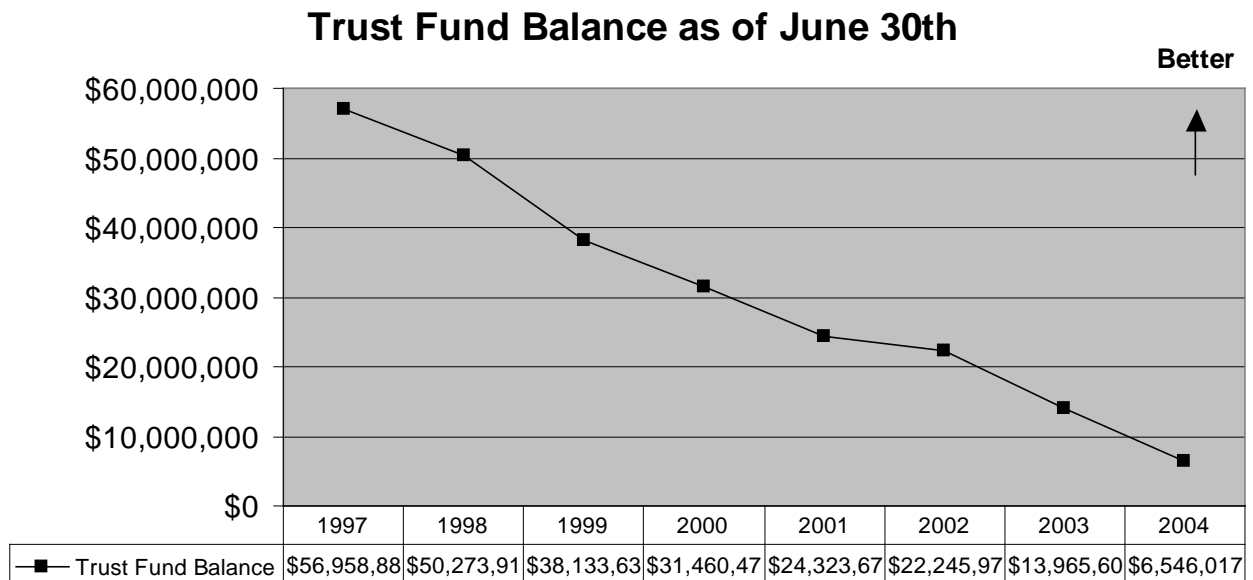


Figure 7.3e

Figure 7.3f shows a comparison of the amount of premium revenue earned, claim expenses, and administrative costs.

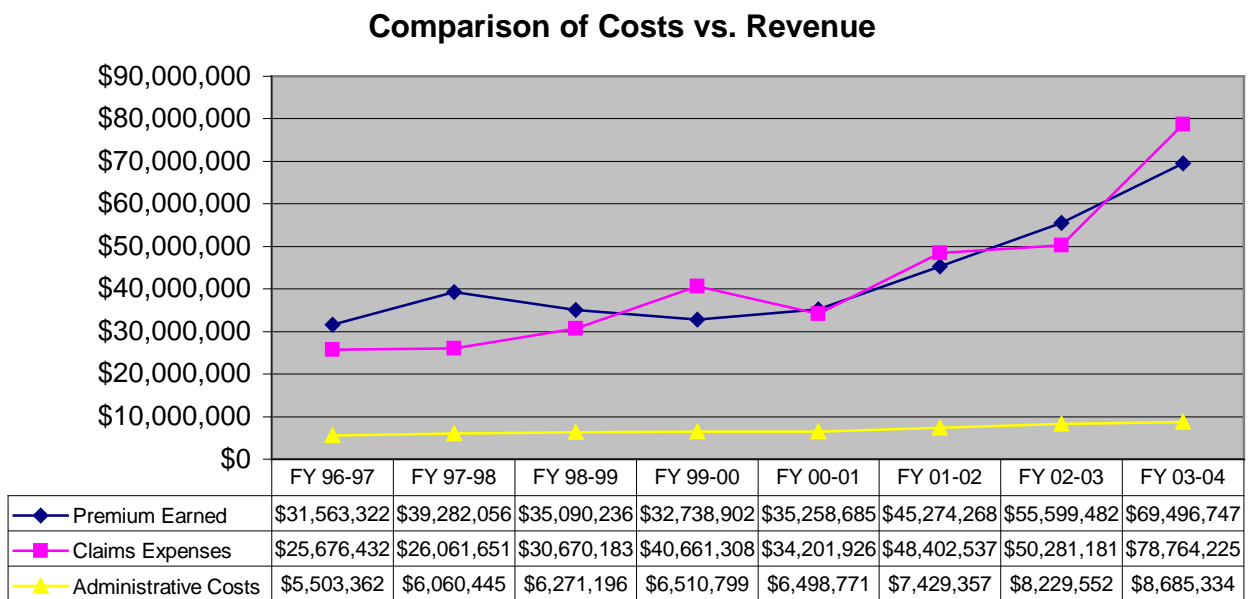


Figure 7.3f

The agency has continued to pursue outsourcing opportunities with private sector partners to improve services without expanding staff. Figure 7.3g reflects a long-standing and very successful partnership. The agency measures this contractor's effectiveness based on the amount of money recovered from the Second Injury Fund. In fiscal year 03-04 the State Accident Fund recovered over \$11 million, the highest amount among all workers' compensation carriers in the state.

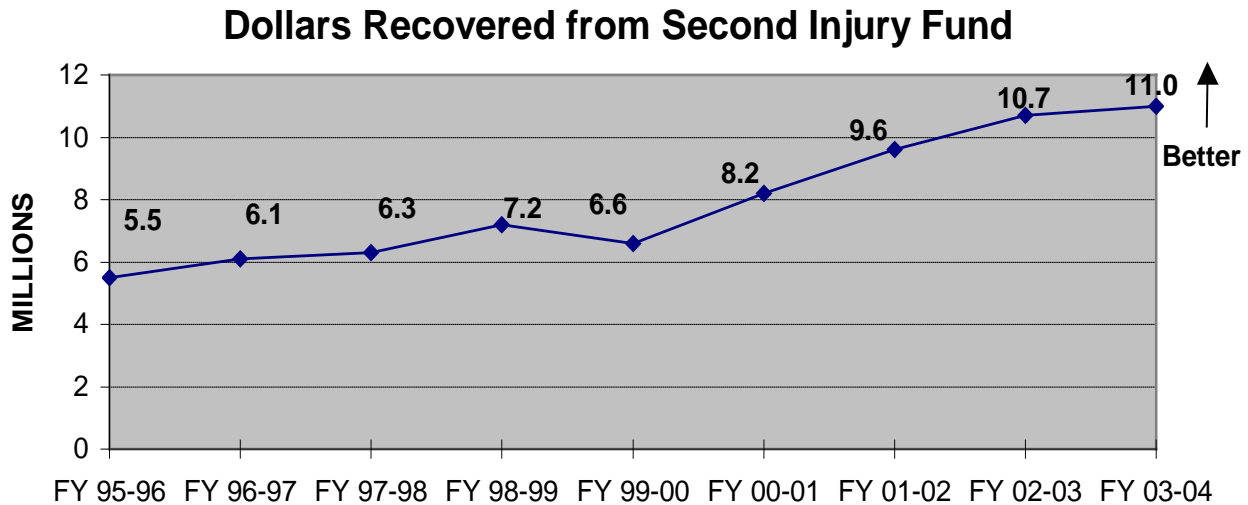


Figure 7.3g

7.4 A key measure of employee satisfaction is the turnover rate shown in Figure 7.4a. The rate is determined by dividing the number of positions by the number of employees who have left the organization. The agency uses data from the Bureau of Labor Statistics to compare its current turnover rate with the rate for both "State and Local Government" and the "Finance, Insurance and Real Estate" industry. As you can see, we remain significantly below the national averages.

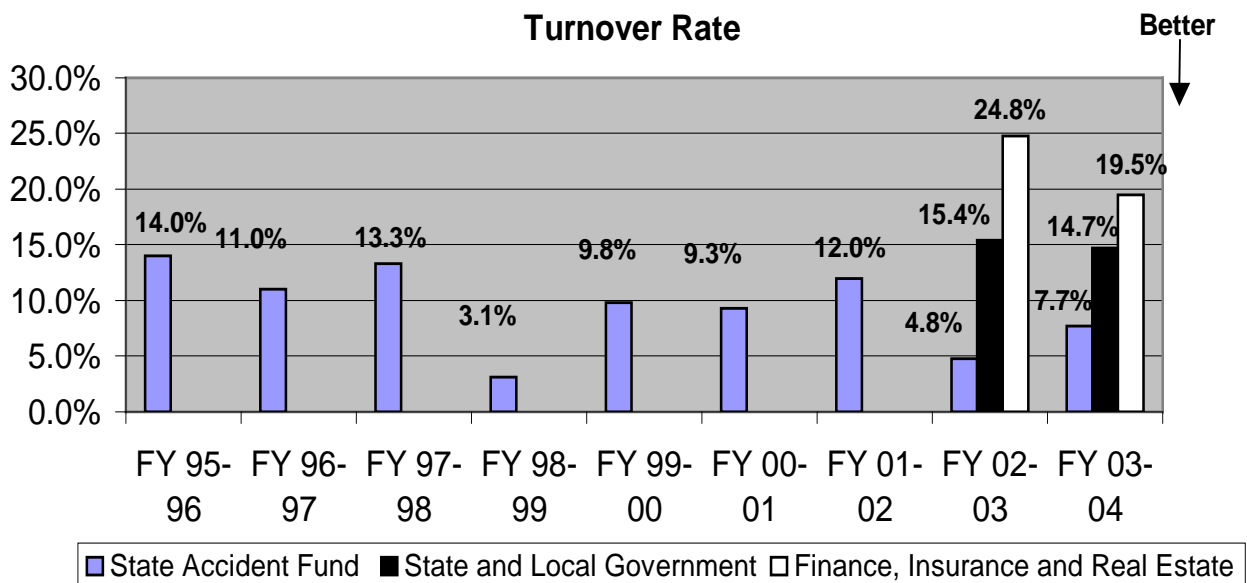


Figure 7.4a

The agency also conducts an annual Employee Satisfaction Survey. The results of the questions that deal directly with employee satisfaction are shown below in Figures 7.4b and 7.4c.

Percentage of Employees Who Ranked the Agency's Work Environment as "Better Than Most" or "Best"

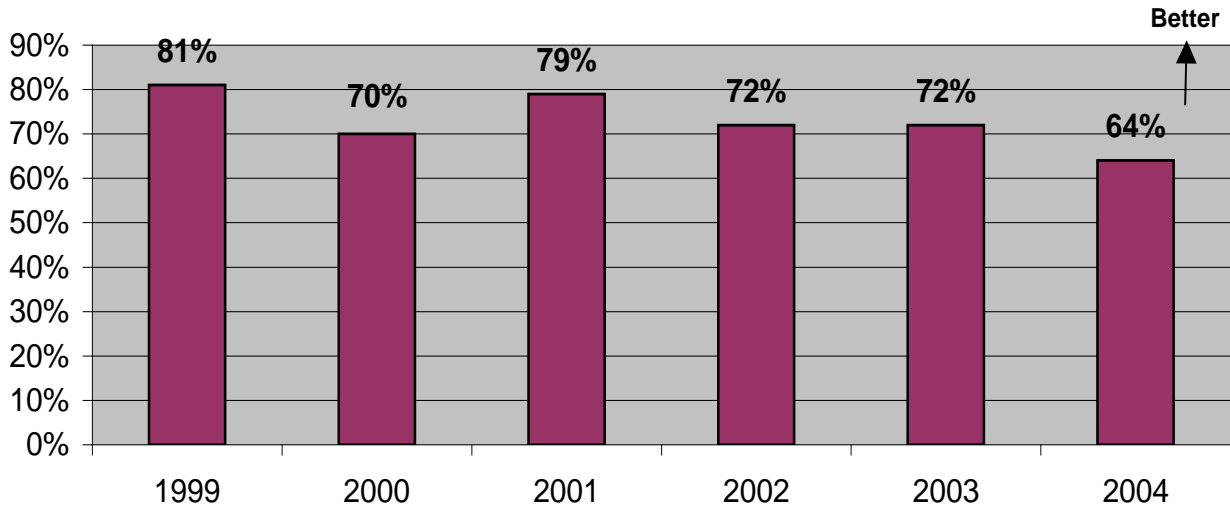


Figure 7.4b

Percentage of Employees Who Ranked These Organizational Characteristics as Either "Good" or "Excellent"

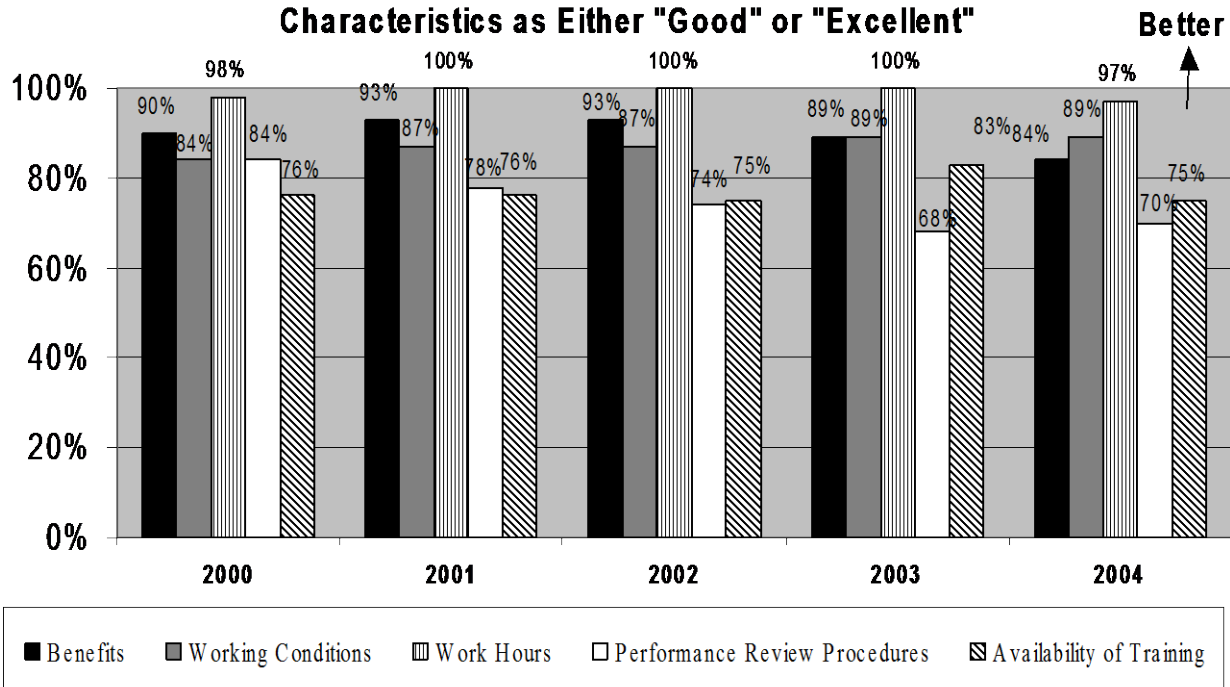


Figure 7.4c

The agency measures employee development and training in two major areas. The first is the number of courses successfully completed at the American Institute for CPCU and Insurance

Institute of America. This is a voluntary self-study program. The results are shown in Figure 7.4d.

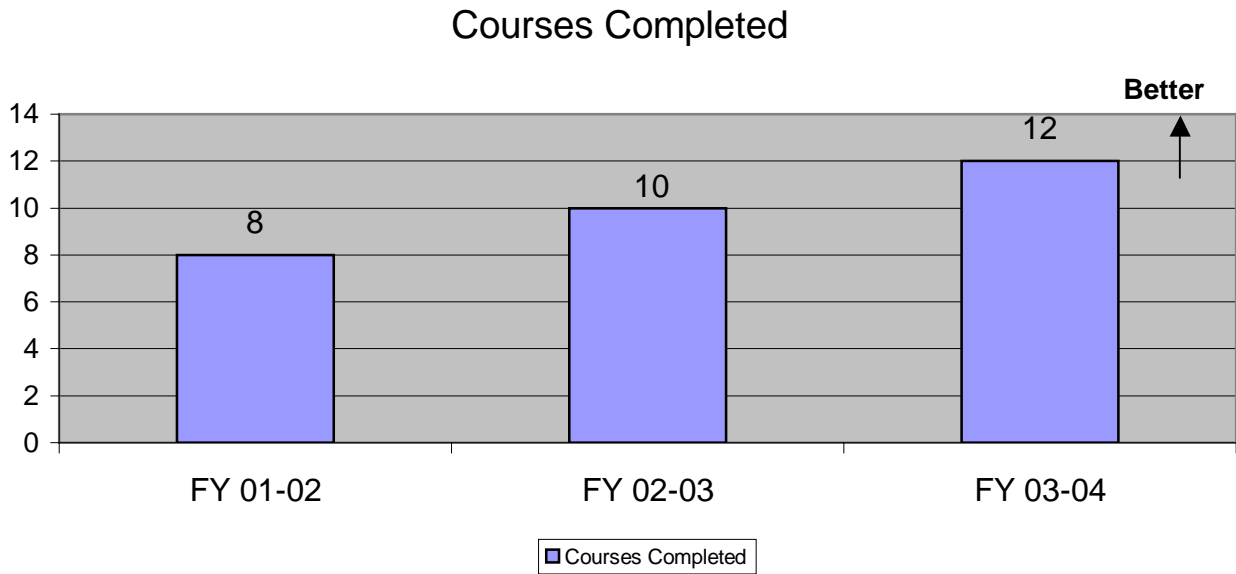


Figure 7.4d

The second measure is the average hours of formal classroom training attended by each employee. Included in this measure are professional seminars, conferences, and other formal classroom training programs (Figure 7.4e).

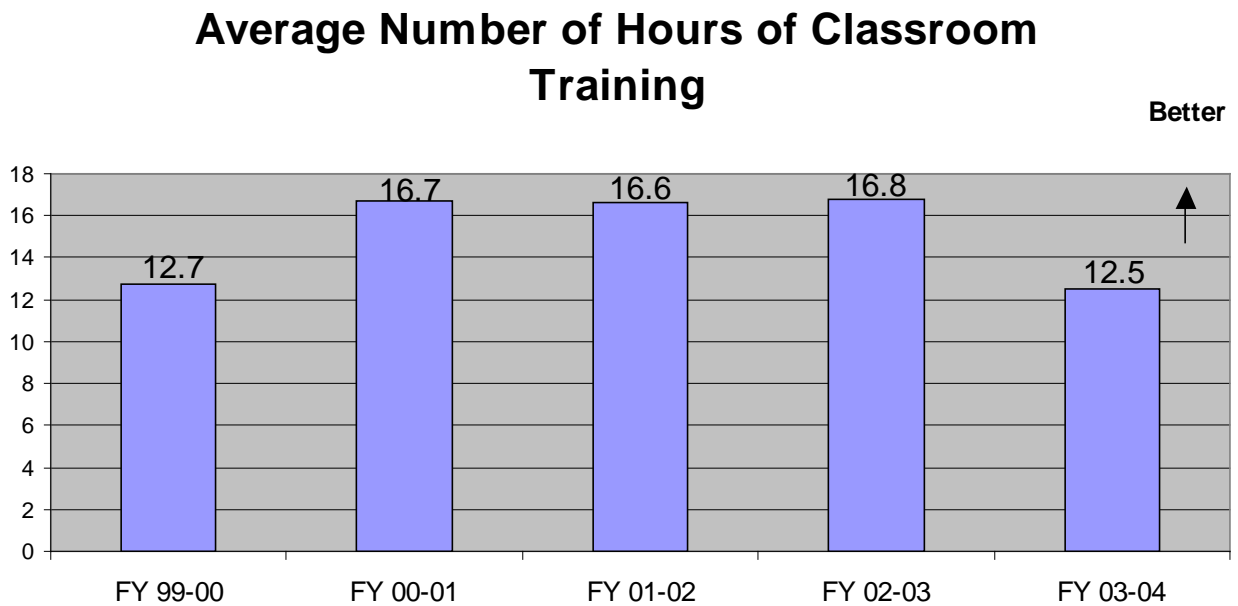


Figure 7.4e

The agency measures the percentage of Employee Performance Management System evaluations, completed each year. The results are shown in Figure 7.4f.

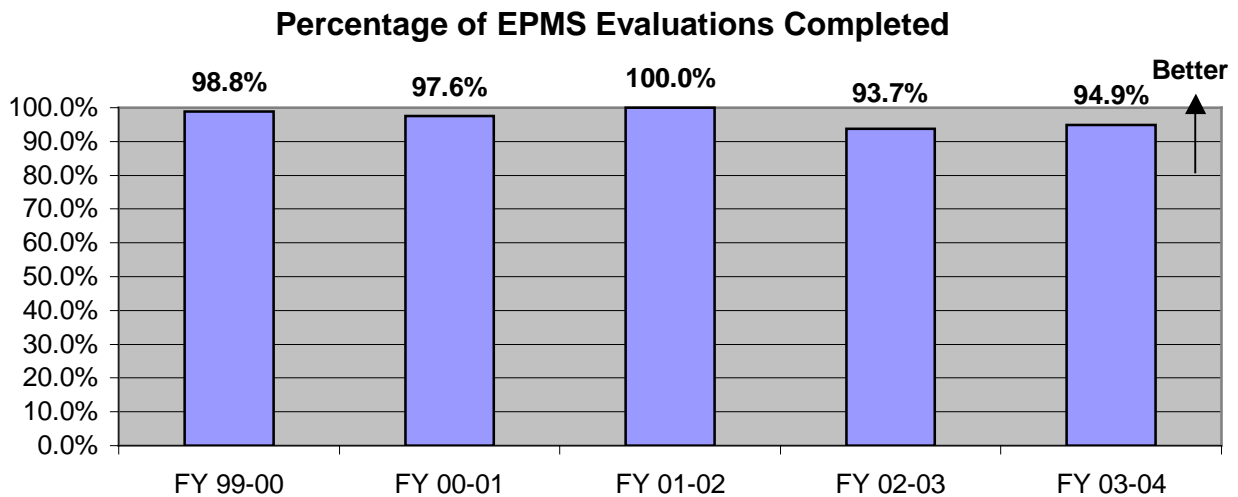


Figure 7.4f

7.5 To insure legal and regulatory compliance, the agency relies on four basic measures. The first is the percentage of claims with an initial decision within 14 days of the date of accident, as one of its indicators of regulatory compliance. The results of the last seven years are shown in Figure 7.5a.

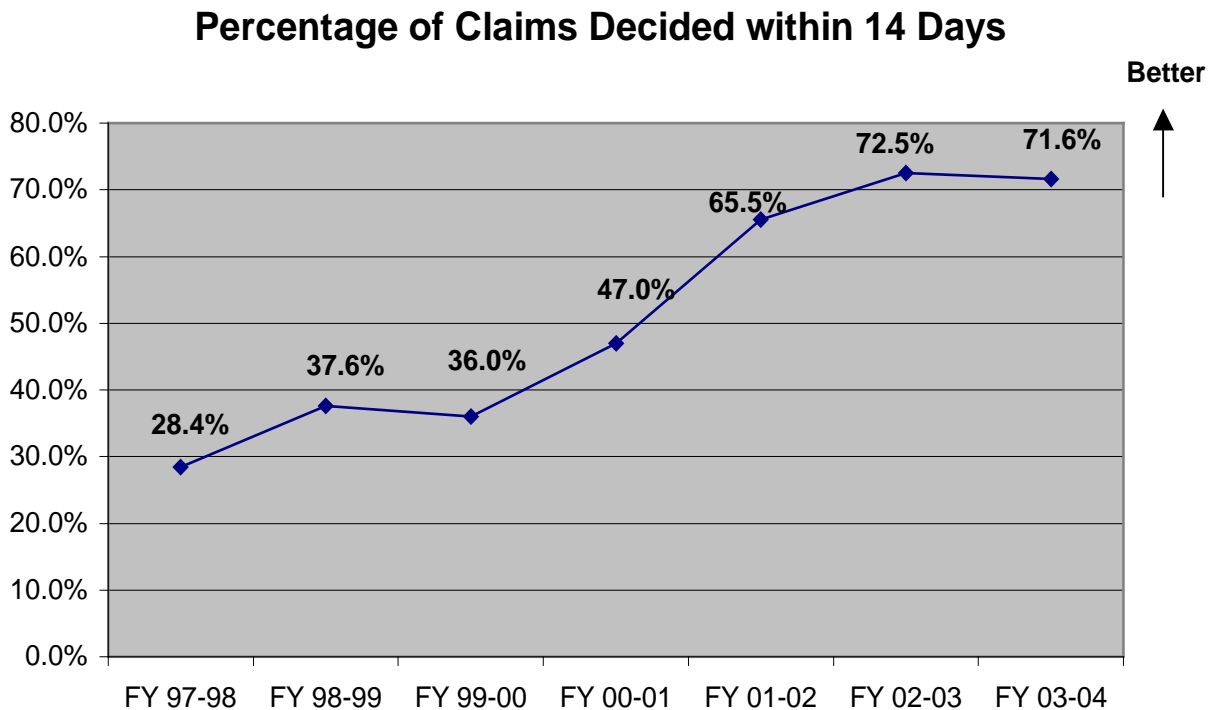


Figure 7.5a

Another measure of regulatory compliance is the number and amount of fines paid to the Workers' Compensation Commission. This information is shown in Figure 7.5b and Figure 7.5c.

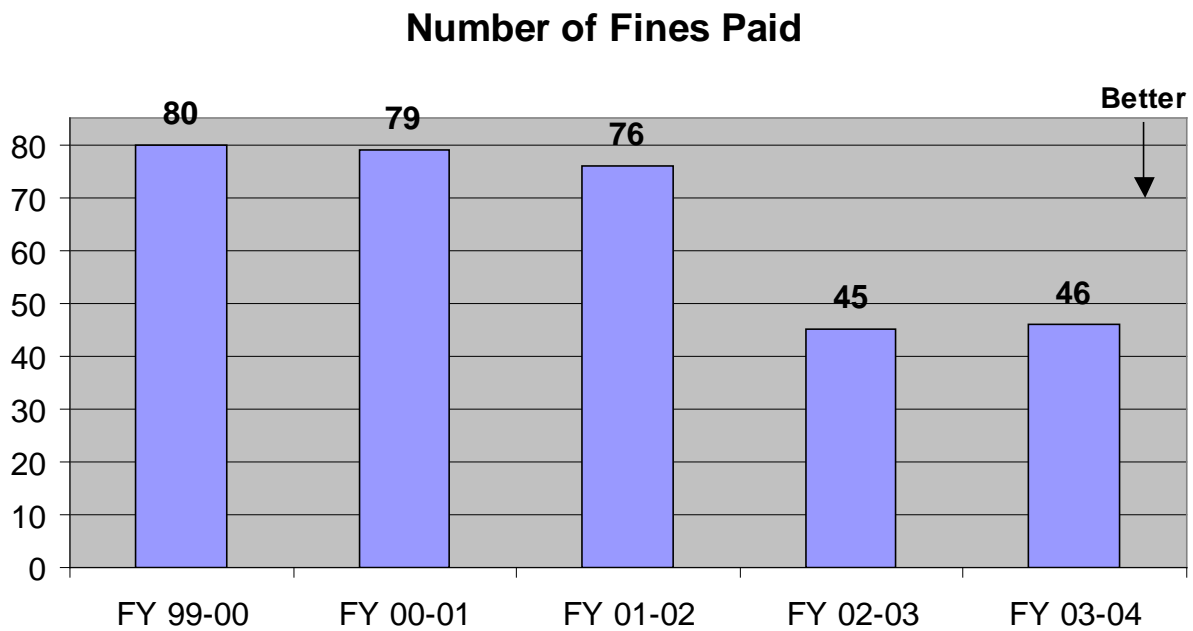


Figure 7.5b

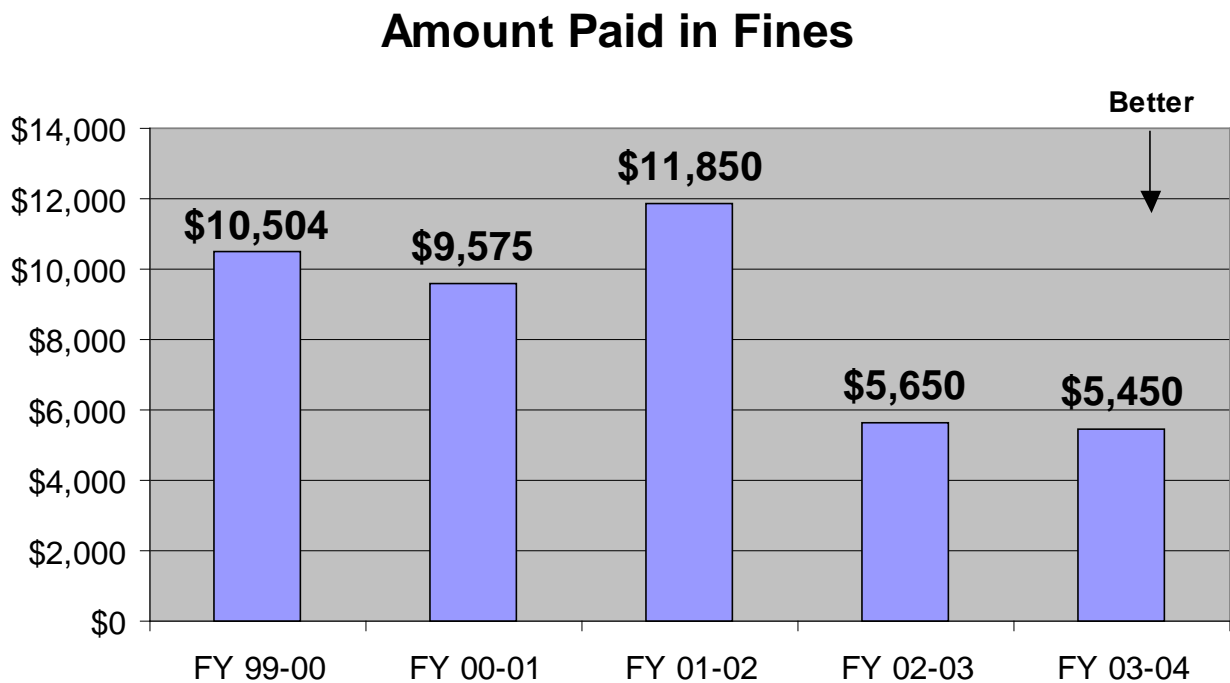


Figure 7.5c

The annual audit is the last measure of regulatory compliance. Figure 7.5d shows the number of audit findings for the last eight years.

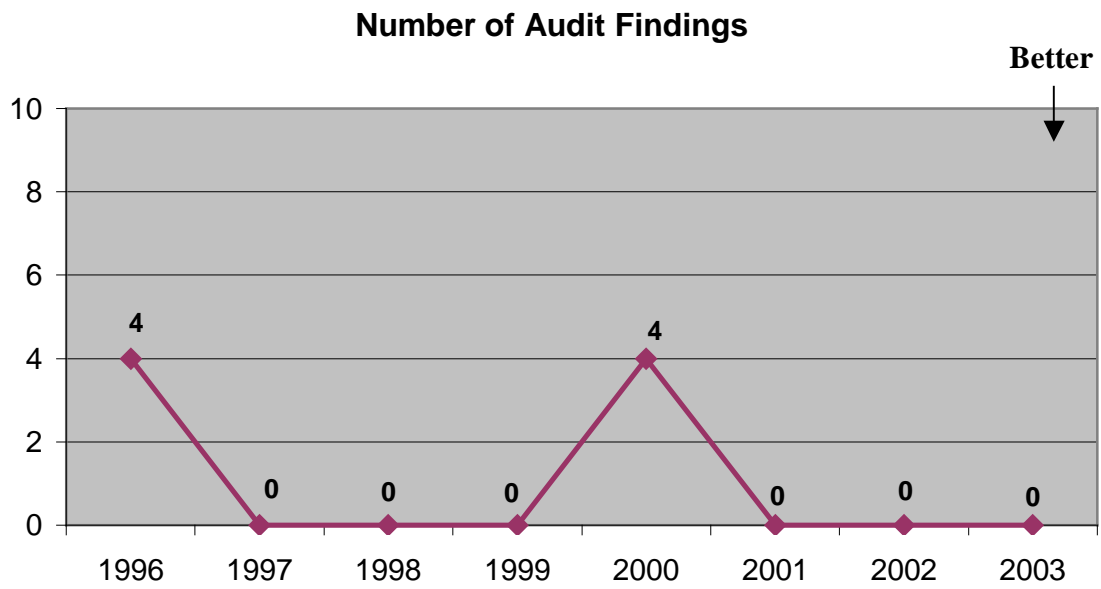


Figure 7.5d