



Legislation Text

File #: 16-429, **Version:** 1

DISCUSSION OF CORVEL ENTERPRISE COMP., INC. WORKERS' COMPENSATION CLAIMS ADMINISTRATION CONTRACT

Staff Contact: Jim Brown, Director, Human Resources & Risk Management

Staff Presenter: Dianne Shoemake, Risk Manager, Human Resources & Risk Management

Purpose and Policy Guidance

The purpose of this presentation is to discuss and update Council on the CorVel Enterprise Comp., Inc. Workers' Compensation Claims Administration Contract costs and fees.

Background

The city became self-insured for Workers' Compensation on July 1, 1994 and has excess insurance above \$800,000 for each accident. The city uses a third party to administer its claims for employees who, in the course of their employment, incur personal injury, sickness or disease. Claims are handled in accordance with state statutes, Arizona Workers' Compensation Act, Industrial Commission of Arizona rules and regulations and city policies and procedures.

On February 25, 2014 City Council approved awarding the workers' compensation claims third party administration (TPA) contract to CorVel Enterprise Comp., Inc. (CorVel). The contract was effective April 1, 2014 for one-year with the option to renew for an additional four years (see the attached February 25, 2014 City Council Report).

Council approved the five-year total cost of administration fees totaling \$102,500. The per item charges for claims expense and claims handling fees were provided to Council but not included in the total contract dollar amount for Council approval. These items are paid when costs are incurred depending on the type of claim filed and the medical care provided. The per item claims expenses and handling fees (and all other medical costs) are included in the Workers' Compensation Trust Fund budget which was approved by Council during the adoption of the FY 2016/17 budget.

Analysis

Staff had requested council approval of only the administrative fees in the CorVel contract at the February 25, 2014 Council meeting. Staff must also have Council approval for the estimated cost of claims expenses and handling fees charged by CorVel. In addition to the administration fees that were previously approved by Council, staff is requesting approval for the estimated cost of claims expense and handling fees. To determine the total estimated costs for the duration of the contract, staff took an average of the costs paid to CorVel from February 2014 through June 2016. The total administration fees paid were \$179,349 or \$6,643 monthly. Total claim expense and handling fees paid were \$542,926 or \$20,108 monthly. We rounded up the average monthly costs of all of the fees and expenses paid to date which amounts to \$28,000. The estimated total

annual cost for all contractual fees and expenses is \$336,000 annually or \$1,680,000 for the five year contract term.

The Workers' Compensation Trust Fund approved budget for fiscal year 2016/2017 is \$2,204,924. The total budget approved by Council includes the workers' compensation administration fees and claims expense and handling fees (\$336,000) and medical costs (claims), salaries and employee related expenses and other operating costs (\$1,868,924). There is no increase to the budget. (See the attached Workers' Compensation YTD 2017 Budget Control Report Summary.)

The Workers' Compensation Trust Fund Board met on June 8, 2016 and has reviewed the CorVel administrative, claims expense and handling fees and recommended that City Council ratify the expenses paid to date and approve all future fees and costs to be paid during the five-year term of the contract not to exceed \$1,680,000 (\$336,000 annually). Based upon Council recommendations, staff will bring the item forward for approval at the October 11, 2016 Council meeting.

Previous Related Council Action

On February 25, 2014, City Council awarded a contract to CorVel Enterprise Comp., Inc. for workers' compensation claims third party administration not to exceed \$102,500.

Budget and Financial Impacts

The workers' compensation trust fund has money set aside each year to pay the CorVel contractual costs for administrative, claims expense and handling fees which are estimated at \$336,000 annually. There is no additional impact to the budget for these costs.

Cost	Fund-Department-Account
\$420,000	2560-18110-518200, Workers' Compensation Self Insurance, Professional and Contractual Account
\$1,260,000	2560,18110-542600, Workers' Compensation Self Insurance, Insurance Claims Account

Budgeted? Yes

Requesting Budget or Appropriation Transfer? No