

**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**

433



FROM: Human Resources Department

SUBMITTAL DATE:
December 10, 2003

SUBJECT: Strategy for Reducing the County's Workers' Compensation and Other Absence Costs and amend Ordinance 440 pursuant to Resolution No. 440-8531 submitted herewith

RECOMMENDED MOTION: That the Board of Supervisors approve a Strategic Plan to help control Workers' Compensation and other absence costs, as outlined herein; approve reallocation of existing funds necessary to support the plan; approve additional positions and appropriations as requested in Attachment A and Resolution No. 440-8531; and approve the implementation of a Managed Care Workers' Compensation HCO and the contract with Health Net Plus (Attachment "B");

BACKGROUND: The County's Workers' Compensation program is self-insured and self-administered (that is, the County assumes the financial risk with excess insurance protection, and the Workers' Compensation Division adjudicates all claims incurred). From 1998 to 2003, a period of just five years, the County's annual Workers' Compensation paid claims increased from \$11.9 million to \$16.4 million, reflecting an unprecedented 37.8% increase or \$4.5 million. Our actuary has indicated that the recommended funding levels for the ultimate cost of claims and claims-related expenses for the 2003-2004, 2004-2005, and 2005-2006 program years are projected to be \$32,390,000, \$34,951,000 and \$36,341,000 respectively, including allocated loss adjustments. Annual funding requirements are projected to grow to \$38.1 million for Fiscal Year 2006-2007, with a reserve requirement of \$94,016,000.

FISCAL PROCEDURES APPROVED
ROBERT E. BYRD, Auditor-Controller
BY See above 12/11/03
Deputy

Ronald W. Komers
Asst. County Executive Officer/Human Resources Dir.

FINANCIAL DATA	Current F.Y. Total Cost:	\$ 1,210,682	In Current Year Budget:	Yes
	Current F.Y. Net County Cost:	\$ 266,350	Budget Adjustment:	Yes
	Annual Net County Cost:	\$ 532,700	For Fiscal Year:	2003/04

SOURCE OF FUNDS: Health Screening Fees from Departments, Workers' Compensation Fund, and Medical Plan Contributions.	Positions To Be Deleted Per A-30	<input type="checkbox"/>
	Requires 4/5 Vote	<input checked="" type="checkbox"/>

C.E.O. RECOMMENDATION: Approve the proposed strategy and direct Human Resources to: 1) keep the EO apprised of the development and implementation of the programs as outlined on pages 13 and 14 under "Initial Recommendations," 2) return to the Board with EO input on further recommendations and associated costs related to the "Additional Future Recommended Actions" as listed on page 14; and 3) provide annual reports to the Board on the costs savings achieved through the implementation of the programs.

County Executive Office Signature

Dep't Recomm.: Consent Policy
Per Exec. Ofc.: Consent Policy

Prev. Agn. Ref.: _____ District: ALL Agenda Number: _____

**ATTACHMENTS FILED
WITH THE CLERK OF THE BOARD**

3.0

RECEIVED HUMAN RESOURCES DEPARTMENT
DEC 11 11 58 AM '03
COUNTY OF RIVERSIDE
HUMAN RESOURCES DEPARTMENT

A breakdown of the last fiscal year's cost reveals that 36% of total costs went to Medical Care, 38% to Indemnity expenses (weekly benefits), 15% to Legal expenses, and 11% to 4850 Benefits (the labor code requiring Safety members receive full salary and benefits for up to one year). In addition, the County pays an excess insurance premium annually of \$1,016,385 as of July 1, 2003, with the County having responsibility to cover the first \$2,000,000 of each Workers' Compensation claim expense. Other California employers have seen similarly escalating Workers' Compensation costs over the last three years, which has led to recent California legislative efforts to eliminate vocational rehabilitation benefits, limit outpatient surgery payments by instituting a fee schedule, limit chiropractic and physical therapy to 24 visits, and require pharmacies to dispense generic drugs. These reform efforts, while a start, have had little impact on our costs.

Given the size of our Workers' Compensation expenditures and their cost escalation, we cannot afford to wait and see what effect future Workers' Compensation reform legislation will have on the County's costs. In fact, the amount budgeted this year for Workers' Compensation will be insufficient to cover actuarial projected expenses for the remainder of this fiscal year. In addition to the ongoing rate increase, the County underfunded the Program by \$10,000,000 this fiscal year which is expected to be repaid over a three year period. The County must act immediately to start reducing expenses projected to be incurred based on the program's current format, and implement a variety of strategies to ensure all claims and expenses will be able to be paid with the amount currently set aside. This will mean changing a number of ways the County currently does business to reduce this extraordinary expense.

In addition to Workers' Compensation, approximately 5,000 employees use sick leave and 170 employees receive short-term disability benefits each pay period. On an annual basis, we spend approximately \$22.8 million to compensate employees who utilize sick leave. Combined, Workers' Compensation, sick leave and disability insurance cost the County approximately \$60,000,000 per year.

The Nature of the Problem/Specific Findings

Human Resources, in collaboration with a joint Labor-Management Workers' Compensation Committee (including SEIU, LIUNA, RSA, LEMU) formed earlier this year, has analyzed Workers' Compensation claims and cost data and evaluated strategies with proven potential for significant cost reduction.

Three County departments share the bulk of costs: the Sheriff's Department (58%), DPSS (9%) and RCRMC (8%) represent 75% of total County costs. These departments have been the focus of our efforts to determine the most appropriate course of action. An analysis of approximately 1,500 open claims provides insight into the nature of the injuries being covered under Worker's Compensation. These injuries result from a number of "Contributing Factors". Four categories of contributing factors represent 62% of all claims analyzed -- Unsafe Work Behaviors (21%), Repetitive Motion Injuries (17%), Pre-existing Conditions (13%) and Poor Conditioning (11%).

In the Sheriff's Department, 90% of the department's injuries are attributable to 11 contributing factors. Of these factors, the top three accounted for 46% of all injuries: 19% due to Poor Conditioning, 14% due to Pre-existing Conditions and 13% the result of Unsafe Work Behaviors.

One reason Sheriff's Department claims are so high is that several medical conditions are considered "presumptive" injuries for Safety employees; the labor code requires that heart trouble, lower back injuries, hernias, TB, AIDS, hepatitis C and other blood borne infectious diseases, pneumonia, cancer (including leukemia) and meningitis be automatically considered as "work related" as a result of the Safety employee's job (waiting periods from zero to five years apply, depending on the condition). These presumptions, as well as the nature of our Safety employees' jobs, cause high costs and will require extraordinary effort to control. Each year nearly 50 new safety disability retirements are approved (where lifetime medical expenses are paid by Workers' Compensation). This number is expected to grow as Baby Boomers retire.

For DPSS, 90% of the department's injuries are distinguished by eight contributing factors. Of these factors, the top three accounted for 69% of all injuries; 38% due to Repetitive Motion, 16% due to Unsafe Work Behaviors and 15% the result of Pre-existing Conditions.

RCRMC showed similar results, with over 90% of injuries attributable to 10 factors, with the same top three representing 50% of all injuries: 23% due to Repetitive Motion, 16% due to Unsafe Work Behaviors and 11% due to Pre-existing Conditions.

Based on our analysis, the Labor Management Workers' Compensation Committee reached a number of important conclusions:

1. New hires are frequently being placed in positions where individual physical attributes do not meet the physical requirements of the job. New, stringent criteria for County pre-employment examinations must be developed, along with baseline physical information that can accurately identify any pre-disposition to injury or pre-existing condition. This will provide an opportunity for us to work to prevent these injuries, and establish a basis for apportionment of future Workers' Compensation claims.
2. There are a significant number of injuries due to individual situations of employees' poor conditioning and their level of health and wellness. There are many medical conditions that one does not normally think of as Workers' Compensation related, such as high blood pressure, heart problems, back problems, and complications of diabetes, but which are covered, especially for Safety employees. There are also individuals who are generally predisposed to injury due to their health status. Effective pain management is also of considerable concern, especially in the case of many back injuries. Pain is responsible for one in four lost workdays nationwide and 73% of absences due to pain are related to lower back conditions. The taking of prescription drugs and illegal drugs to control pain has medical and Workers' Compensation implications. There is a rising trend of addiction to pain medications such as Oxycontin and Vicodin, and an employee's cognitive functions can be impaired, causing further accidents.

Personal activities pursued outside the workplace can also result in exacerbation of injuries and symptoms that are not necessarily work-related but for which we often receive claims.

3. The County needs to dramatically improve workforce awareness of unsafe work practices, especially for repetitive motion injuries (RMI). Decreasing the occurrence of these injuries and subsequent claims will reduce the direct and indirect costs of treating these injuries when they do occur.
4. There is a tremendous cost to the County due to individuals who are in general poor health or physical condition, or as the result of injuries to County employees. Obesity is now considered a chronic disease requiring long-term care, and the US epidemic of obesity and diabetes combined are having profound consequences on health and health care costs today. Epidemiological research has shown that being overweight has been associated with several cardiovascular risk factors including hypercholesterolemia (high cholesterol) and hypertension (high blood pressure). Obesity has been shown to be a risk factor for Carpal Tunnel Syndrome. Obesity has been associated with an increased risk of certain cancers (such as colon, prostate, gallbladder, breast, cervix, and ovary). Obesity has also been linked to an increased rate of other disorders such as gallstones, venous thromboembolism (blood clots in the venous system), and osteoarthritis. The health risks of smoking are well known: lung cancer, cervical cancer, Chronic Obstructive Lung Disease (COPD), stroke (cerebrovascular disease), bladder cancer, coronary heart disease, hypertension (high blood pressure), low back pain and disc disease, pancreatic cancer, oral cancer, laryngeal cancer, premature birth and delayed fetal development, dental and periodontal disease, peripheral vascular disease, and osteoporosis. Studies have found that health plans incur an enormous burden from the treatment of smokers, and of obese and diabetic members (80% of Health Care costs are caused by 20% of the employees).

Approximately 12.3% of all Americans have diabetes (up from 8.9% just a decade ago), and the rates are increasing due to increased prevalence of obesity. Diabetes is the sixth leading cause of death in the US, and the overall risk rate of death among diabetics is about twice that among people without diabetes. Diabetes is a costly chronic health condition, responsible for increased rates of stroke, chronic renal failure (CRF), myocardial infarction, blindness, peripheral vascular disease, and other problems. The medical treatment of these patients leads to dramatically higher health care costs than for non-diabetic patients. Kaiser studies report that in the first year of diagnosis, total medical costs are 210% higher for patients with diabetes compared to those without diabetes. Absence costs for those with chronic health conditions are also much higher.

Since the County left the CalPERS medical system, the County's medical insurance premiums are experience-rated (that is, all claims paid by the insurer are factored into the underwriting formula to a greater degree than if the plans were pooled with other employers' plans). Therefore, the County's medical premiums are directly linked to the amount of health care services our employees utilize.

Employers seeking to contain Workers' Compensation, absence and health care costs in general are implementing a new generation of health management/wellness initiatives aimed at urging employees to practice healthy behaviors and manage their existing illnesses more effectively. These initiatives have a direct effect on Workers' Compensation claims and health premiums over time, as well as sick leave and disability benefits.

5. More vigorous training in safe work behaviors, including lifting, is needed to apply proper techniques for performing the physical aspects of some of our jobs. The purchase of specialized lifting equipment where lifting is commonly required (such as at RCRMC) and re-evaluation of work practices can also reduce the type of injuries currently being seen. Better screening of workers for jobs that require lifting can also be accomplished.
6. The County does not have well-coordinated sick leave and disability programs (Absence Management). Self-administration of all disability programs will enable better overall risk management, quicker return to work (absences less than one year), and lower costs. Currently, the County spends \$245,000 annually to administer short-term disability and \$1.5 million annually on long-term disability premiums. A County-wide absence management program is lacking.
7. The County of Riverside has no formal county-wide "Return-to-Work" program. As a result, sick or injured employees' return to the workplace is not timely. There is no cross-department placement possible (under the current system) for disabled or "light duty" eligible employees. Studies have shown that delays in return to work contribute to a "disability mentality" that is harmful to the employee and lowers the likelihood of return to full productivity. Return to work issues are most problematic in the Sheriff's Department and at RCRMC.

Proposed Solutions

Human Resources and our Labor Management Workers' Compensation Committee have spent several months carefully evaluating a number of strategies to gain greater control over the specific areas of concern outlined above. These strategies require the integration of several new initiatives if the County is to be successful.

A. Repetitive Motion Injuries (RMI)

Riverside County currently receives 100 Workers' Compensation claims per month alleging repetitive motion injuries. For most claimants, the success rate of treatment approaches (including multiple surgeries) has been low.

In 2002, the State of Colorado was recognized by the National Association of State Personnel Executives (NASPE) for successfully decreasing the cost of repetitive motion injuries through its Repetitive Motion Injury Cost Reduction Program that utilized the Dorn Companies' Trauma Release Technique™,

a worksite-based intensive deep tissue physical therapy program. The State of Colorado's program resulted in savings of 50% - 80% in treatment costs, a decrease in the occurrence of injuries and claims, lost work hours on average reduced from nearly 40 hours to less than 6 hours, and a 75% increase in employee productivity.

The Workers' Compensation Labor Management Workers' Compensation Committee conducted several interviews of the Dorn Companies, the entity that established the State of Colorado's program. After Dorn reviewed the County's RMI claims data and current practices, it was determined that there was an opportunity to produce results similar to those of the State of Colorado. Dorn and the committee agreed to a three month pilot program. In developing the County's pilot program, the committee established the following goals:

- Minimize lost time/increase productivity
- Decrease medical expenses
- Reduce the rate of repeat injuries
- Reduce physical therapy costs
- Decrease visits to therapists

The pilot program began on July 1, 2003 and continues today due to a three month extension. At the program's outset, the following departments were identified to participate based on their current claims volume in the areas of hand/wrist and upper extremity injuries:

- Sheriff
- Probation
- DPSS
- Assessor – Clerk Recorder
- Human Resources

Additional County employees were selected to participate as claims were reported via a 24-hour hotline. Employees evaluated by a physician for pain, numbness/tingling due to RMI, sprains/strains, upper/lower extremity injuries, cervical, thoracic or lumbar injuries, and who were determined to be candidates for treatment, were eligible to participate. An initial evaluation by a physician was required prior to treatment. All employees received an ergonomic assessment performed by HR/Safety and 30-minute worksite treatment sessions; the number of treatments varied based on the type of symptoms/injury.

There was no cost to employees or departments for participating in the pilot program; treatment is a valid medical expense and is paid by Workers' Compensation funds. The pilot program was tracked by Human Resources. Results reported indicate an 86% success rate. The average pain level experienced by participating employees decreased from 8 to 2 (with 10 being intense pain). The Labor Management Workers' Compensation Committee supports County-wide expansion of this program.

B. Pre-Existing Conditions

A priority concern is the high number of Workers' Compensation claims resulting from injuries due to pre-existing conditions. The current practice is to place employees in positions without conducting a functional job assessment comparing the physical aspects of the position with the physical attributes of the employee. In fact, it was determined that there is an emerging practice of placing employees in positions for which they have insufficient physical attributes in relation to the physical requirements of the position.

New hires should be carefully evaluated for their ability to perform all functions of the job, and current employees with existing health conditions must be provided with appropriate health management and other tools to effectively treat and monitor their conditions to enable them to be as productive in their jobs as possible.

The County should also be closely following the guidelines for Safety employees' physical exams recommended by POST (California Commission on Police Officer Standards & Training), as well as utilizing forms and tests developed by POST. The County has been unable to implement some of these guidelines due to the lack of Occupational Health staff dedicated to the Sheriff's Department. Human Resources, with Board approval, recently executed a contract with the Sheriff's Department to provide all Occupational Health Safety services for the department (TB testing, fit testing, vaccinations and training). Two dedicated Occupational Health Nurses have been recruited for this purpose and Human Resources is currently collaborating with the Sheriff's department to implement this contract.

To ensure candidates are matched with appropriate jobs, and their subsequent job-related exposures and/or health conditions are managed, a centralized Human Resources-based Occupational Health Program, encompassing several essential elements, must be developed. The County currently operates a somewhat fragmented Occupational Health program, decentralized among various departments. The program has not been supervised by a Board-Certified Occupational Health physician who has the knowledge of proper body systems required to do the job, which a regular physician does not have. Pre-employment examinations are conducted by contract physicians through the Community Health Agency (CHA), RCRMC and Mental Health. Records of medical surveillance, including vaccinations, TB tests and other monitoring services, in particular for Safety employees, are scattered among various CHA clinics and other County locations, including the Safety Division and community providers. Currently there is no formal hearing conservation program in place for most County departments (required by law). Developing a comprehensive in-house program represents another opportunity to avoid future costs.

Human Resources has hired an Employee Health Medical Director, Dr. Ernest Prochazka (a Board-certified Occupational Medicine physician) who is qualified to assume overall responsibility for a centralized Occupational Health/Wellness program. The program would include pre-employment exams, functional job assessments, a centralized absence management system, a Return to Work consultation program, a tracking system for all baseline physical exams, exposures, vaccination management, drug/alcohol testing, ergonomic evaluations, and other functions essential to a successful Occupational Health program. The County of San Bernardino has demonstrated substantial savings over several years from implementing such an Occupational Health Program and an award-winning Return to Work program (further discussed in the following pages).

Ordinance No. 440 places responsibility with Human Resources for the conduct of pre-employment examinations, but the actual medical examinations have been conducted by the Community Health Agency, for most employees, and by RCRMC for hospital-based employees.

As an initial step towards the development of a comprehensive Occupational Health program, Human Resources has held meetings with the Community Health Agency (CHA) to discuss the transfer of CHA's existing Occupational Health practice to Human Resources under the direction of Dr. Prochazka. The proposed transfer is supported by the Director of CHA and would take place on January 5, 2004. The transfer of certain CHA staff to Human Resources Occupational Health would provide the opportunity for development and implementation of new policies for pre-employment examinations, development of job-specific functional job assessments, and the institution of new technology to manage the process. Transfer of RCRMC Occupational Health staff to Human Resources was accomplished earlier this year.

In addition to the transfer of functions, Human Resources will transition all Occupational Health staff to a new space that has been allocated to Human Resources Occupational Health in the new Campus Professional Center building currently under construction near RCRMC. The staff at the Occupational Health and Wellness Center, under the direction of Dr. Prochazka, would conduct pre-employment exams, administer a centralized absence management and Return to Work program, conduct Vaccination/Medical Surveillance, and oversee the Health Management/Wellness programs proposed in the following pages. Currently, we contract for physicians to conduct pre-employment examinations - hiring full-time physicians for such activity will be more cost-effective. The rate charged to County departments for pre-employment exams will remain at the current CHA rate for the first year and is sufficient to support an adequate revitalization of the program for the short-term. In the future, the rate charged to departments for pre-employment services may need re-evaluation.

C. Unsafe Work Behaviors and Poor Conditioning/Fitness

Current claims data indicates that many injuries and illnesses covered by sick leave or being paid by Workers' Compensation are the result of a lack of an appropriate overall fitness level needed to perform a job, employees being outside their standard body weight, unsafe work behaviors, and a lack of appropriate health management. Human Resources recommends that the Board approve a program to aggressively influence these areas and reduce Workers' Compensation costs, particularly for Safety employees. Such a program might include, for example:

i) A Fitness Incentive program for all Safety employees to encourage the maintenance of an individual's optimum fitness level, as well as optimum body weight, such as the program used by the Jacksonville Fire Department. The Cooper Institute has developed a Fitness Test Battery specifically designed to accurately measure essential functions in Law Enforcement. The Cooper Institute, a non-profit research/education center dedicated to advancing the understanding of the relationship between living habits and health, has worked with Law Enforcement and the Military since 1976. Riverside County's Sheriff's Department utilizes the principles of the Cooper Institute during the Basic Academy. An ongoing post-academy program could be implemented for Riverside County Safety employees, providing incentives for participation such as:

- Adding 10 points to an individual's promotional score. Promotions are a driving force within the Sheriff's Department. The promotional process is weighted around verbal, written exams, etc., with the scores ultimately totaling 100 points. Adding a "Fitness" component would provide the opportunity to reach 110 points. This would be applied to the overall score similar to how Veterans Preference Points are applied to an entry-level candidate's exam score. Employees who successfully complete the Fitness Incentive would attach a certificate to their promotion application.
- Award of a Fitness Pin to recognize Deputies who meet certain standards, to display on their uniform.

ii) In addition to incentives, no employee should be allowed to continue employment without adequate physical fitness to safely perform the full range of required job functions.

iii) "No Smoking" policy for new Safety employees and smoking cessation programs to assist existing Safety employees, who need help to achieve a "no smoking" lifestyle. According to research conducted by Shell Oil, smokers had a 60% higher frequency rate for accidents and male smokers had a 75% higher rate for motor vehicle accidents.

In addition to the focus on Safety employees, RCRMC work practices, staffing and equipment need evaluation. Without aggressively encouraging better conditioning and maintenance of overall fitness as an ongoing lifestyle behavior, as well as safer work behaviors throughout the County, the number of claims and injuries will continue to grow as the County workforce ages, and the common diseases of aging and lifestyle impact work-related accidents and injuries.

D. Managed Care Delivery System for Workers' Compensation

The Labor Management Workers' Compensation Committee has also explored methods to reduce the direct medical costs associated with Workers' Compensation claims, as well as indirect costs such as lost time, low employee morale, and decreased productivity. There is common concern about the current system's inability to obtain expedited care for employees, where long wait times for appointments result in employees being off work for increasingly longer periods.

Workers' Compensation reform in 1993 included provisions to allow HMOs and other managed care organizations to become certified as Workers' Compensation Health Care Organizations (HCO). The intent was to bring managed care concepts to the Workers' Compensation arena in an effort to reduce costs and provide better patient outcomes. HCOs are licensed by the California Department of Workers'

Compensation (DWC). One of the problems with the Workers' Compensation system today is access to quality care in a timely fashion and HCOs are attempting to address this issue. Several entities in California have emerged with an HCO license. HCOs have taken considerable time since their inception to gain significant market share, for the most part due to the complacent attitude of employers, whose Workers' Compensation premiums, prior to the last 24 months, had remained palatable. Workers' Compensation costs have now skyrocketed for all California employers, insured and self-insured alike.

An HCO is sponsored by the employer, but the decision to participate is made by each individual employee. HCOs provide a responsible, appropriate and cooperative emphasis on returning employees to a productive lifestyle timely, and provide prompt and effective treatment for work-related illnesses/injuries. HCOs provide cohesive communication between the provider, the injured employee and the employer, eliminating uncertainty and aligning goals. HCO Nurse Advocates coordinate with the physician and assist employees with accessing prompt medical treatment, and collaborate to build a Return-to-Work plan on a consensus basis. As previously discussed in section B, a Return to Work Coordinator position would be established under the County's Occupational Health program and this position would represent the County in collaborating with the HCO Nurse Advocates to assist with an employee's timely return to work at either modified or full duties.

HCOs develop a network of local providers specifically chosen for their expertise in treatment of occupational illnesses/injuries. Employees are given access to quality health care providers convenient to their home or workplace. The HCO includes a grievance process to facilitate dispute resolution without the expense of the courtroom. The HCO does not reduce employee access to legal representation; rather, improved employee satisfaction reduces the need for representation. Along with case management, utilization review and bill review (review of physician coding to detect unbundling, up-coding, etc.), HCOs also provide a managed prescription drug program which encourages the use of generic drugs, includes a "Preferred Drug" list, monitors over-usage and drug interactions, and provides the County with discounts off average wholesale prices.

The committee evaluated proposals from HCOs to determine if an HCO should be offered to County employees. The HCOs that were reviewed, while unique in their offerings, offered similar services overall, including prompt access to quality network providers, emphasis on an employee's return to work, and cost saving incentives. HCO results from one vendor identified a 50% average claim cost savings on 10,000 claims over a three year period. Employers who have successfully implemented an HCO were surveyed by the committee and those who provided us with details of their success and cost savings results include Mills College, International Aluminum, AIG and Farmer John. Statistics provided by these employers clearly identified that lost time and permanent disability were reduced with successful treatment, allowing employees enrolled in an HCO to return to a productive lifestyle as much as 30% sooner. Increased enrollee satisfaction lowered litigation costs by as much as 50%. Their HCO results also showed that expedited medical treatment increased initial medical costs but reduced overall expenditures by accelerated closure of each claim. Total claim costs were reduced as much as 22% among the surveyed employers, and a reduction in prolonged staffing shortages led to increased morale. We estimate, conservatively, that HCO implementation will save \$1.5 to \$2 million in Workers' Compensation costs, annually.

The committee established that the County's goal should be to implement an HCO on February 1, 2004. As a result of this decision, discussions are underway to develop an installation timeline. While the County expects to see similar cost savings as other employers, savings will not be as significant because the union that represents Sheriff Department employees, RSA, has declined to participate (to date) in the HCO. (The Sheriff's Department represents 58% of all Workers' Compensation costs).

In anticipation of the additional workload that will be generated from HCO administration and eligibility maintenance, HR proposes to add an Office Assistant III position dedicated to this process. Savings produced by the HCO would fund the programs discussed herein.

E. Employee Health Management/Wellness

The County should be concerned that over the next five years, there will be a 42% increase in employees in the workplace age 55 or over. This is the employee group that generates the largest portion of employer-covered medical costs, sick leave and injuries. Several simultaneous forces are combining to produce elevated medical care usage and increased costs that will be challenging for employers to control. The current health care industry has little to do with health enhancement and disease prevention; it's an industry of diagnosis and treatment. This system shows no signs of changing, and spends less than 5% of its total budget on health assessments and behavior modification programs, placing an increased burden on employers.

One of the ways that the committee determined claims from employees with ongoing health conditions could be reduced is to provide an avenue for employees to obtain ongoing health management tools at the workplace. It has been reported that employers today who provide comprehensive worksite-based health management spend around \$60 annually on each employee. These employers invest about eighty times this amount for diagnosis and treatment of medical problems after the fact than they invest to help employees achieve optimum health. This huge discrepancy between the costs of treatment versus the money spent on maintenance is a fundamental factor driving the health care system's spiraling costs. This reactive rather than proactive approach persists despite solid documented evidence that 50% to 70% of all diseases are associated with modifiable health risks and therefore potentially preventable. There is increasing documentation that specific disease management - - especially that directed towards diabetes, asthma, arthritis and stress-related depression - - is cost-beneficial in the short term. In a recent Towers Perrin study, 47.5% of companies with some form of health management/wellness program in place saw a decline in absenteeism. Of those, 22% said their healthcare costs decreased, some by more than 30%.

A foundation of today's health management programs is the Health Risk Appraisal (HRA) questionnaire which surveys employees about their health habits and lifestyles (e.g. smoking, exercise, nutrition), as well as basic health indicators (e.g. blood pressure, cholesterol). HRAs are typically processed by a third party, and the resulting individual reports give direction to the employee about changes they can make to improve overall health and reduce risks. In Kalamazoo County, Michigan, an IPMA (International Personnel Management Assoc.) survey found successful programs offered by the County were specifically designed around its HRA survey results. In 2001, 28% of employers reported using an HRA, according to a Hewitt Associates survey. Along with HRA reporting, regular access to proactive, quality, targeted intervention programs for obesity control, optimal nutrition, physical fitness, and stress management (to name a few) need to be supported by innovative and substantial incentives. One of the most effective incentives used in a five year NIH-funded research project involved 4,000 municipal employees. Annual participation in an HRA survey was required in order for an employee to receive employer-sponsored health care coverage. During this entire period, the employer's health insurance costs increased 2% versus the national average of around 18% annually. A wellness program incentive provided by the City of Concord uses "wellness points", which can be used to offset an employee's share of health insurance. Spouses are included in the City's various on-site health screenings

Most organizations reported that a formal Wellness committee or similar task force was invaluable in providing the leadership to promote the program and ensure its credibility. Successful (and relatively inexpensive) programs already in place at several public agencies include the City of Concord, CA, City of Jacksonville Fire Dept., AR, Kalamazoo County, MI, and City of Vancouver, BC.

The County's commercial health plans make available various chronic disease management programs, as well as wellness activities and opportunities for employees to improve their health. While these programs are available, an employer can no longer rely on the insurance carriers to provide the assistance needed for employees with ongoing conditions such as diabetes, asthma and heart disease, along with addressing obesity, smoking and stress-related depression. Insurers are simply not having the desired impact and health insurance premiums continue to escalate at alarming rates. As part of the County's new direct Health Insurance contracting arrangement, \$25,000 - \$50,000 has been provided by the carriers for the County to use towards the cost of its own health management/wellness programs.

The Labor Management Workers' Compensation Committee has concluded that there needs to be a redirection of priorities towards programs such as those mentioned above in order to reduce injuries, impact absenteeism, improve work productivity, reduce health care usage and costs, optimize health, and improve employee morale. As a result of discussions with Human Resources, the County's Community Health Agency (CHA) will contract with Human Resources through an MOU to provide a variety of health management/wellness programs to improve the health of employees County-wide. The Occupational Health space allocated to Human Resources in the new Campus Building includes a large training/conference room, which can be used for these activities. Other space will be identified to provide employees with access to resources County-wide. Occupational Health will also offer individual counseling and monitoring for employees coping with chronic conditions.

Human Resources is also collaborating with LIUNA to bring its "Health and Safety Fund" Low Back Care and Stress Management programs to the County, both of which have proven to be successful for other employers whose LIUNA members have participated in the programs.

The committee agreed that an aggressive marketing campaign will need to be undertaken to inform and involve employees, including wall posters, invitations, emails and prize drawings, as well as promoting utilization of the Occupational Health and Wellness Center. As noted, PacifiCare, Health Net and Exclusive Care have each made a substantial monetary contribution to help underwrite the County's Wellness Program. LIUNA has expressed support through their Health and Safety Fund.

F. Safety Member Disability Retirement

In order for an employee to be awarded disability retirement benefits, a Workers' Compensation claim has to be approved for a compensable injury. Over the past four years, Workers' Compensation has been working closely with Human Resources staff on these claims. The bulk of disability retirement benefits are awarded to Safety employees. Each month we receive, on average, about 5 requests for industrial disability retirement for Safety members. Over 43% of all Safety employees who have retired in the past have been industrial disability retired -- an alarming and emerging trend that needs to be addressed. There is an increased cost associated with these benefits -- the pension benefit paid is a minimum of 50% of what the employee's pension benefit would have been had the employee reached age 50 (normal retirement age) regardless of age or actual service. Additionally, all lifetime medical bills related to the medical condition causing the disability are paid for by the County. For some employees, we must reserve (set aside) \$200,000-\$300,000 for future medical costs. For some, lifetime medical costs could approach \$1,000,000 (liver transplant, for example).

While it is important that these benefits are awarded to those who qualify, the law makes it extremely difficult for the County to deny a claim made by a Safety employee, even if the condition pre-existed County employment, when the condition present is considered "presumptive". As stated previously, the labor code requires that cancer, heart trouble, lower back, hernia, TB, AIDS, Hepatitis C, pneumonia and meningitis be automatically considered as having manifested as a result of the Safety employee's job. Many of these "industrial disability" retirements are not happening at normal retirement age. The actuarial cost to the County for a Deputy Sheriff hired at age 25 and industrial disability retired at age 35, for example, is around \$375,000. Medical costs for heart, liver and back problems can create additional costs of several hundred thousand dollars. As mentioned earlier, an essential component of an Occupational Health program would be baseline pre-employment exams, redesigned to include functional job assessments, ensuring that pre-existing conditions are clearly identified and candidates are matched to appropriate jobs. We have recently returned several Safety employees successfully to work -- even though they had originally sought Safety Industrial Disability Retirement, and we must continue these efforts. But, we must work harder to prevent the underlying, presumptive and disabling conditions in the first place. We will evaluate the benefit of periodic in-service physicals and health (heart and cancer) screening. The No-Smoking Policy, Fitness Policy, and Wellness Activities, as discussed earlier, will also serve to reduce disability retirement.

G. Drug Abuse

The cost to U.S. employers for the use of illegal drugs in the workplace is estimated at \$81 billion annually (U.S. Dept. of Labor statistics). It has been found that 7% of any given full-time employee population uses illegal drugs. Employees who use illegal drugs are ten times more likely to miss work, four times more likely to be involved in workplace accidents, and five times more likely to file a Workers' Compensation claim. These employees are also responsible for 40% of all workplace fatalities, are 33% less productive and generate three times higher medical care costs than their co-workers (according to the American Council for Drug Education).

The County has an opportunity to impact these statistics. Currently, drug testing is conducted solely for DOT-governed job positions (primarily Drivers). Using new rapid results technology, drug testing can be made available to all managers and supervisors, through Human Resources Occupational Health, to perform testing upon reasonable cause. Human Resources and County Counsel are presently researching a drug testing program that can be negotiated with our Unions and will return to the Board with specific recommendations in the near future.

H. Fraud

State law requires the County to include a Fraud unit within its Workers' Compensation division. The County District Attorney continues to aggressively fight Workers' Compensation fraud. A summary of past fraud cases revealed 61 files identified by the Workers' Comp Fraud Adjuster since January 1998. Of the thirty-two cases submitted to the District Attorney's Office, thirteen were prosecuted; six resulted in felony convictions. To date \$95,219 has been ordered in restitution; \$45,797 has been collected. The State Department of Insurance recently enforced stricter procedures for fighting fraud. It is recommended that the Board ask the District Attorney's Office to assign additional dedicated staff members to work more closely with County Workers' Compensation on potential cases. There is also a need for assignment of an additional full-time Fraud Adjuster within Workers' Compensation (currently part-time due to workloads), if the County is to more effectively fight fraud.

I. Workplace Safety

Workers' Compensation claims data reveal that 22% of claims had one or more of the following Contributing Factors: unsafe conditions/environment, unsafe act, and/or failure to follow safety procedures. Safety should be more of a focus for County managers. While the principles underlying behavioral change to increase safety are simple, establishing sustainable behavior change and improvement in a real-world environment is not. Organizations that have implemented successful behavior-based safety processes have built positive culture change and significantly cut bottom line costs. By taking a more intense and proactive approach on safety-related behavior, the County can make improvements in its safety performance and impact Workers' Compensation costs.

Over the past 20 years a methodology for safety improvement has developed, integrating behavioral science, quality, and organizational development principles with safety management in order to reduce industrial injuries. This approach is commonly referred to as Behavior-Based Safety (BBS). At the core of BBS is the ability to influence employees before accidents happen. A world leader in the training of behavior-based safety techniques and whose programs have been successfully implemented by the State of Kansas and the City of Albuquerque is BST, Inc., an organization based in Ojai, California that consults with hundreds of companies in the U.S. as well as organizations in over 30 countries. According to BST statistics, its techniques are still utilized at 69% - 100% of the sites where they were implemented over the past 13 years. Its clients have realized sustained results and long-term continuous improvement in their safety records.

The County needs to reinvigorate its Safety programs. The Safety Division should place a more concerted effort on the kind of programs outlined above. Dr. Prochazka, Employee Health Medical Director, will work closely with the County's Safety Division to develop appropriate training programs to

reduce the number of safety-related injuries, including a partnership with a behavioral science training organization such as BST. Nevertheless, Occupational Health and Safety cannot be successful without the cooperation of department management in taking a fresh look at current practices and behaviors, prompting effective communication, and identifying areas needing assistance. Human Resources will work with Department Managers to improve their loss management and safety prevention skills. This goal can be facilitated by the Board mandating that all supervisors complete a specialized training program focused on Workers' Compensation and Safety Management.

J. Return-to-Work

For many employees on long-term Workers' Compensation or sick leave, alternative "light-duty" work may be appropriate. A formal, centralized Return-to-Work program could identify "modified-duty" opportunities and return employees to work sooner. Such programs have been found to generate substantial savings. For example, the County of San Bernardino's formal Return-to-Work program realized \$2,534,358 savings over a twelve month period. Such a program would require a central Return-to-Work Coordinator to identify modified duty placements, enforce policy (for occupational and non-occupational injuries), incorporate safety, and enforce work restrictions. A Return-to-Work program would also provide an opportunity to reduce Short-term and Long-term Disability insurance costs in addition to reducing overall Workers' Compensation costs. We recently lost a significant County case for failure to reassign a "disabled" employee to available alternative duty assignments. In order to be effective, such a program must work across department lines and provide incentives for certain departments to accept other departments' disabled workers. A Policy and Program implementing cross-department return-to-work is in development. We have been working successfully with the Sheriff's Department, but have an immediate need for a dedicated professional to focus on return-to-work within current Sheriff's Department policy.

K. Non-Occupational Absence Management

Equally significant in cost and effect in the workplace are non-occupational absences due to illness or injury. Each year we spend in excess of \$7,000,000 for disability of a non-work related nature as well as \$23,000,000 for sick leave costs. Many of the solutions outlined above can also be brought to bear on non-occupational absences to minimize direct costs (overtime, healthcare costs, and disability payments) as well as indirect costs (employee morale, lost productivity, and training) and to return affected employees to a productive lifestyle as quickly as possible. A number of forward-looking employers have implemented a "total health and productivity" management approach that integrates across insurance lines (workers' compensation, medical, short-term/long-term disability, etc.) and strengthens lost time management as well as improving overall employee health (including the health of dependents -- an often overlooked cost). This approach includes a Return-to-Work program, which provides a focus across departmental lines and identifies all modified duty opportunities in an employee's own department as well as elsewhere, absentee tracking software, concurrent case management, and health management/wellness tools, all working together in a cohesive absence management partnership to reduce costs. The current County practice of monitoring absent employees solely at the department level has proved to be ineffective in containing the costs associated with absenteeism; a formal, centralized approach will better serve departments and employees alike.

The County of San Bernardino's award-winning Employee Health and Productivity (EHaP) program can serve as a model and has produced substantial savings. In a 2000 Kaiser study in which the County participated with other large California employers, San Bernardino's program resulted in a saving of 1,698 work days on 2,806 cases. Lost work days for San Bernardino employees with asthma were 46% below those of other employers in the study. Over a twelve month period, EHaP results from 846 cases managed through the program reported an average 6.69 absence days saved and \$1,220 labor cost savings for every case. Total program litigation cost savings over the period were \$70,000 and total program net savings were \$862,000. Additionally, a twelve month study (01/02) of Modified Duty placement of 760 employees reported a total savings of \$2,534,358. Critical to EHaP's success is the intake line which employees are required to call immediately once they are off work. Information is entered in a tracking system and a Care Coordinator evaluates the case and collaborates with the

employee, physician, and supervisor to secure the necessary services to bring the employee back to a healthy state and identify modified duty for return to work as quickly as possible. We propose a program modeled upon EHaP be implemented in Riverside County.

L. Other Solutions

In addition to the above, Human Resources proposes that the current allocation of Workers' Compensation costs by department be changed to better reflect each department's actual claims experience, rewarding those departments that embrace safety training, encourage safe work behaviors, and lower their experience. Therefore, it is proposed that the current allocation -- 60% based on a department's claims experience/40% on payroll -- be changed to 80% claims experience/20% payroll.

Over the next two months, Human Resources will also be collaborating with Purchasing Services to release a Request for Proposal (RFP) for Excess Workers' Compensation insurance in an effort to reduce the one million dollar premium paid this past July 1, which is projected to increase yet again by 25% to 40%.

Progress to Date

Human Resources and the Workers' Compensation Labor Management Workers' Compensation Committee are united in striving to obtain quality and effective care for all County employees who incur job-related illness or injuries, as well as changing employee behaviors to have a positive impact on employees' overall health, fitness and safety. There are programs already underway in this effort. We have hired a Board Certified Occupational Health Medical Director. The new Trauma Release Technique pilot program is already beginning to make a difference as seen in the results described above. A broad-based training program on Safe Work Practices is in place. Safety Officer functions have been centralized. All Material Safety Data Sheets (MSDS), which provide critical chemical information, are now available on-line to employees via the County's Intranet. We carefully evaluate each disability retirement application and deny questionable claims. The Workers' Compensation division has been identifying and winning fraud cases and strives to build on its ongoing practice. The County's administrative costs are 10% lower than the average cost of other large California Counties. The frequency of claims is also lower than the average among large Counties, the result of an effective collaboration between our Human Resources Workers' Compensation and Safety Divisions. A recent audit of our Workers' Compensation Division conducted by the State gave Riverside County an excellent performance rating. Claims Adjusters continually participate in training to ensure a thorough understanding of the law and its application to claims. An analysis of employees on leaves of absence (Short-term/Long-term Disability, Family Medical Leave, Administrative Leave, etc.) is already underway in preparation for the implementation of a formal Return-to-Work program. Our Occupational Health nurses have updated clinical guidelines for RCRMC's Occupational Health program and are beginning work on updated Pre-Employment exam guidelines. Mandatory supervisor training on FMLA requirements is also underway, using new guidelines and new forms. However, more is needed.

Immediate Recommendations

Human Resources and the Labor Management Workers' Compensation Committee now seek the Board's approval to re-allocate already existing Workers' Compensation and Occupational Health Funds necessary to make the resources available and to staff the positions required to ensure attaining the strategic goals. Human Resources recommends that the Board:

1. Transfer Pre-Employment examination responsibility, current fees, and positions to Human Resources Occupational Health from the Community Health Agency (CHA) (the program is self-supporting based on fee revenue).
2. Approve the implementation of a Managed Care Workers' Compensation HCO; and contract with Health Net Plus for such services (Attachment "B").

3. Adopt the proposed 80%/20% allocation formula for department Workers' Compensation rates for FY 2004-05.
4. Approve the roll-out of the Trauma Release Technique program for RMI injuries on a County-wide basis.
5. Direct Human Resources to negotiate with RSA on behalf of the Sheriff's Department to extend the HCO program to all Safety employees, and collaborate with the Sheriff's Department and RSA on the development of a Wellness program for employees (including a "No Smoking Policy" for new employees).
6. Authorize negotiation of "reasonable cause" drug testing with all County unions.
7. Approve one initial Registered Nurse IV for the Return-to-Work (RTW) Program now, to be funded from the Worker's Compensation Fund. This position will immediately focus on returning safety employees to modified or full work duties, and will work closely with the Sheriff's Department, employees' physicians, Worker's Compensation staff, and the Disability Retirement Coordinator to accomplish this goal.
8. Approve the attached Resolution No. 440-8531 and Attachment "A" implementing the staffing and budgetary recommendations needed for the above actions.

Additional Future Recommended Actions

Further actions will be necessary, and we will return to the Board with further specific information and requests regarding these additional steps:

1. Adopt a mandatory Supervisory Workers' Compensation and Safety Training policy; adopt a behavior based safety training approach; develop a comprehensive hearing conservation program.
2. Approve the purchase of Absence Management/Employee Health software.
3. Approve the implementation of a County-wide Health Management/Wellness program for all County employees, with funding from Workers' Compensation savings, and health plan contributions.
4. Authorize the addition of a Lifter classification, and the purchase of specialized lifting equipment for RCRM.
5. Authorize better integration of all Occupational and Non-Occupational job absence through adoption of a formal absence management program.
6. Authorize self-administration of the current short-term disability program (We currently self-fund some disability programs).
7. Approve a County-wide Return-to-Work program (RTW) and approve the positions necessary to staff this effort. These positions will be funded from Workers' Compensation savings and the HCO Program.

Everyone County-wide will benefit from a reduction in sick leave, medical costs, and Workers' Compensation costs and the subsequent reduction in the rates charged to departments. The above programs can be funded from a portion of savings from the HCO and TRT programs. At this time we estimate annual net savings to begin at approximately \$1,000,000 per year (net of expenses), and to grow to \$5-10 million per year, while controlling emerging cost patterns. An annual report of estimated savings will be presented to the Board. Human Resources urges the Board to approve the above recommendations to ensure all potential avenues to reduce absence costs, particularly Workers' Compensation costs, are pursued expeditiously in order to reap short-term as well as long term rewards.