

Southern California Risk Management Associates, Inc.
The California Specialty Division of York Insurance Service Group

Presents its

Stewardship Report



Fiscal Year Ending June 30, 2009



INTRODUCTION

Southern California Risk Management Associates, Inc. (SCRMA), the California specialty division of York Insurance Service Group, has been privileged to serve the California JPIA and its members as their workers' compensation third-party administrator since July 1, 2001. SCRMA is the California workers' compensation solution provider with a distinct focus on California self-insured public agencies.

The shared goal of SCRMA and the California JPIA is to ensure the prompt delivery of benefits to the truly injured employees of the members while leveraging the cost containment tools and strategies available to the members to reduce the overall cost of risk without compromising the quality of services.

The purpose of this Stewardship Report is to provide the members of the California JPIA with a broad overview of the activities, successes, and challenges associated with the administration of the California JPIA workers' compensation claims program during FY 2008-2009.



SCRMA Mission Statement

To meet and exceed our clients' expectations with customized claims administration services by recognizing and adapting to the ever changing industry environment, while attracting and retaining the highest quality personnel and clients.

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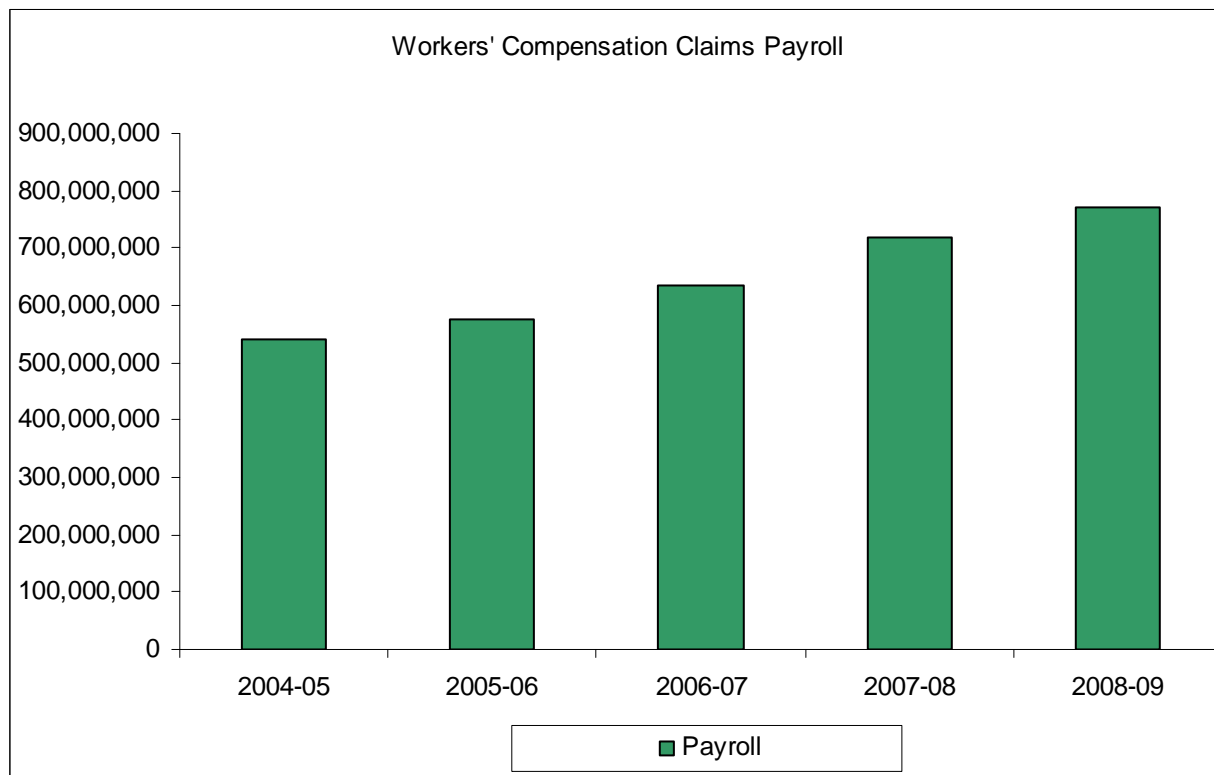
ADDENDUM

I. WORKERS' COMPENSATION CLAIMS STATISTICS: A YEAR IN REVIEW

On July 1, 2008, SCRMA proudly commenced its eighth year as the workers' compensation claims administrator for the California JPIA.

By evaluating how losses are distributed, the causes and the types of injuries being sustained, we can identify trends and provide the California JPIA and its members with information regarding the areas where there should be an increased focus on safety training or loss control efforts.

The following series of graphs and tables focus on the injuries that occurred during FY 2004 through 2009 (narrowing in on the types of injuries that were sustained and the most frequent causes of injuries).



Valued at the end of each fiscal year.

PROGRAM GROWTH

With the addition of two new California JPIA members during FY 2008-2009, California JPIA increased its membership to 106 members. Total membership payroll increased from \$718,246,842 to \$769,592,585 (a 7.1% increase) as reported in the California JPIA's 2009 Self-Insurance Annual Report.

Two new members joined the program for FY 2008-2009:

- Claims handled out of Upland Office:
 - 8/1/08 – Regional Government Services
 - 8/1/08 – Local Government Services

This section includes California JPIA data from the injuries during FY 2008-2009, unless otherwise noted.

DEFINITIONS OF CLAIM CATEGORIES	
<u>Indemnity Claim</u> :	Lost time injury with or without permanent residuals, or a contested claim involving investigation and/or litigation.
<u>Medical Only Claim</u> :	Only medical benefits are paid on claim; usually closes within 4-months.
<u>Litigated</u> :	Claim is disputed and involves litigation.
<u>Future Medical Claim</u> :	A claim that has been settled and remains open for medical treatment.
<u>Companion Claim</u> :	Employee has filed more than one claim, involving a specific and a continuous trauma with the same ending DOI.

BREAKDOWN OF REPORTED LOSSES

Report of Losses	
	Claims
Total Reported	1,298
Closed*	743
<i>*Indemnity closures in FY 08/09 regardless of DOI</i>	

Valued as of 6/30/09, per Annual Report Data.

Break Down of Open Claims	
Indemnity	895
Medical Only	140
Future Medical	267
Companion Claims	86
Total Open	1,388
Litigated	412

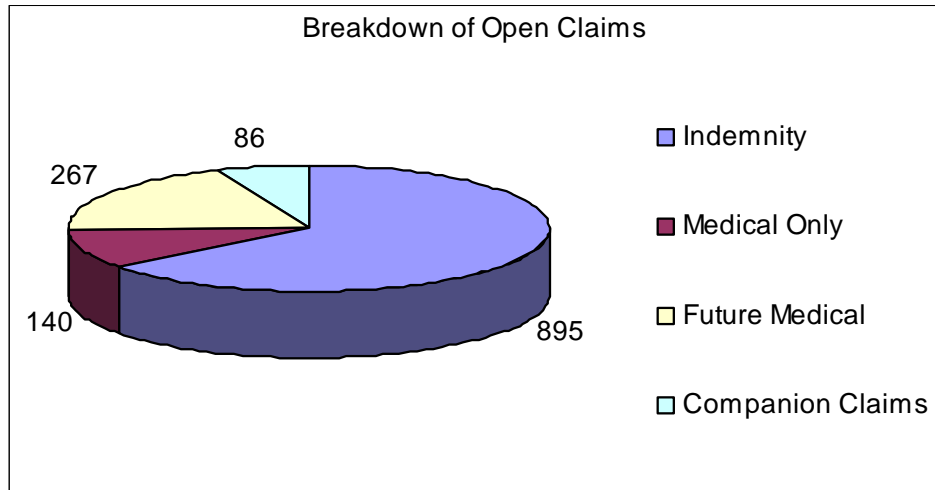
Valued as of 6/30/09 for all dates of injury.

Note: 29.6 % of open claims are litigated, all dates of injury; California JPIA Core Program excludes tail claims.

Financial*	
Paid To Date	\$3,256,873
Total Incurred	\$8,256,301

Valued as of 6/30/09.

** Total Incurred equals Paid to Date plus Outstanding Reserves. Total Incurred from 6/30/08 SIP Annual Report does not include Allocated Expenses.*



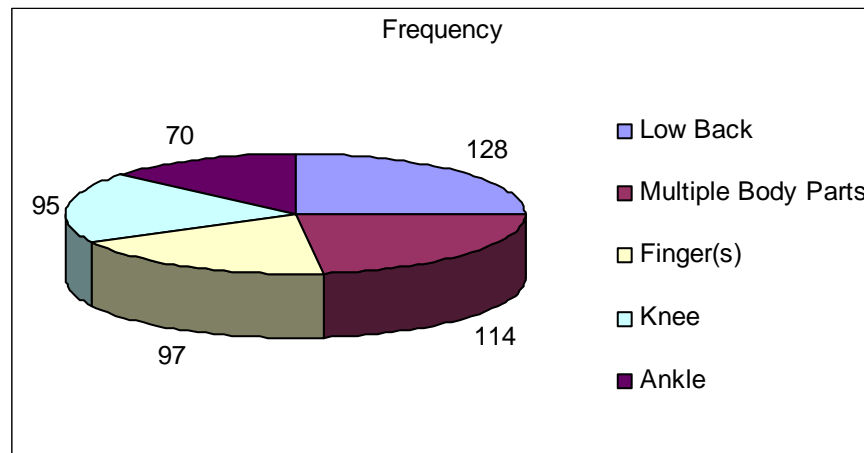
Pie Chart: Total Open Claims
Valued as of 6/30/09

FY 2009 TOP FIVE BODY PARTS INJURED

The top five body parts injured represent 38.8% of Total Injuries and 46.7% of Total Incurred (includes Allocated Expenses).

Body Part	Frequency (Total Injuries)	Severity (Total Incurred)	% of Total (Injuries)	% of Total Dollars
Low Back	128	\$919,063	9.9%	11.1%
Multiple Body Parts	114	\$1,068,157	8.8%	12.9%
Finger(s)	97	\$385,771	7.5%	4.7%
Knee	95	\$1,204,367	7.3%	14.6%
Ankle	70	\$279,646	5.4%	3.4%

Valued as of 6/30/09



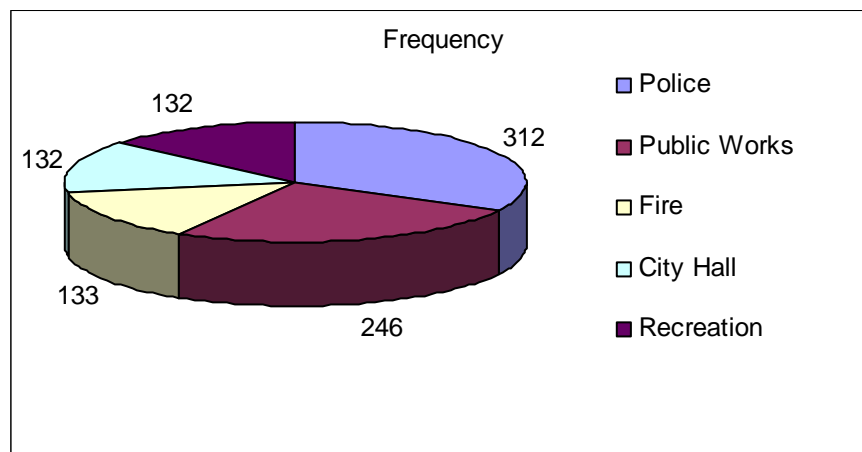
Pie Chart: Top Five Body Parts Injured
Valued as of 6/30/09

FY 2009 TOP FIVE OCCUPATIONS

The top five occupations represent 73.6% of Total Injuries and 72.4% of Total Incurred (includes Allocated Expenses).

Department	Frequency	Severity	% of Total (Frq.)	% of Total (Sev.)
Police	312	\$1,932,646	24.0%	23.4%
Public Works	246	\$1,363,036	19.0%	16.5%
Fire	133	\$1,396,263	10.2%	16.9%
City Hall	132	\$860,164	10.2%	10.4%
Recreation	132	\$425,743	10.2%	5.2%

Valued as of 6/30/09



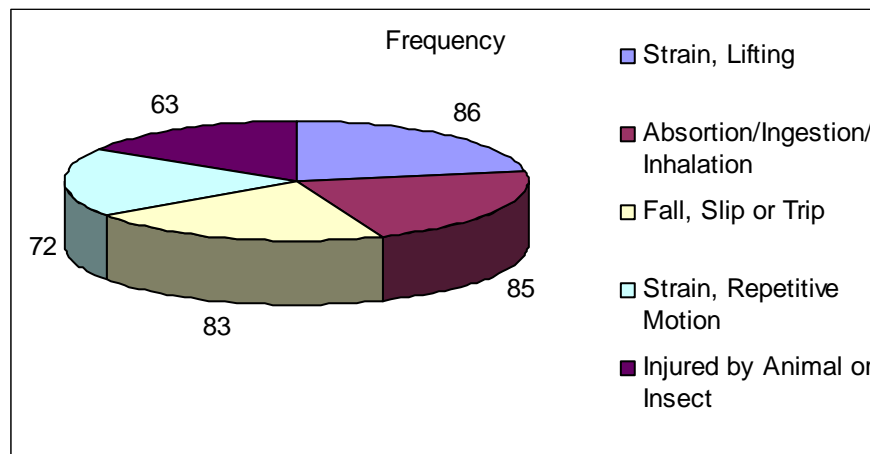
Pie Chart: Top Five Occupations
Valued as of 6/30/09

FY 2009 TOP FIVE CAUSES OF INJURIES

The top five causes of injuries represent 30.0% of Total Injuries and 27.1% of Total Incurred (includes Allocated Expenses).

Injury	Frequency	Severity	% of Freq.	% of Sev.
Strain, Lifting	86	\$580,038	8.8%	11.3%
Absortion/Ingestion/Inhalation	85	\$100,505	7.9%	7.8%
Fall, Slip or Trip	83	\$728,688	7.1%	9.8%
Strain, Repetitive Motion	72	\$680,061	5.5%	1.2%
Injured by Animal or Insect	63	\$147,057	4.6%	5.1%

Valued as of 6/30/09



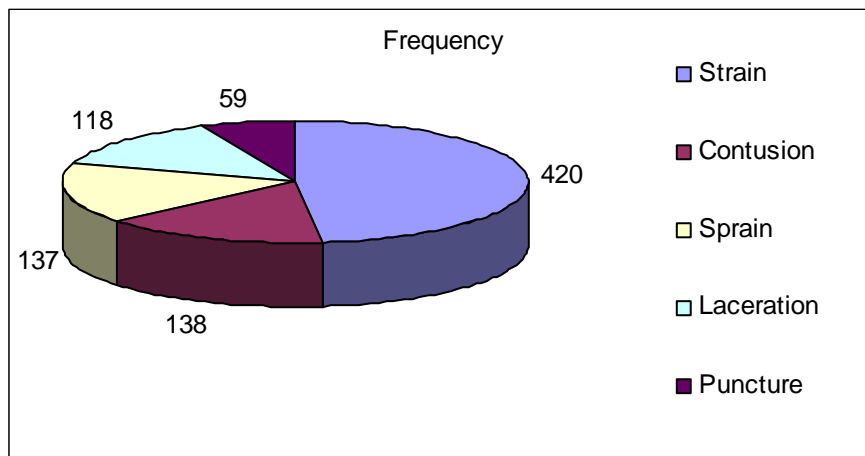
Pie Chart: Top Five Causes of Injury
Valued as of 6/30/09

FY 2009 TOP FIVE CATEGORIES OF THE NATURE OF LOSS

The top five categories of the nature of loss represent 67.2% of Total Injuries and 69.1% of Total Incurred (includes Allocated Expenses).

Injury Type	Frequency	Incurred	% of Frq.	% of Sev.
Strain	420	\$4,215,930	32.4%	51.1%
Contusion	138	\$419,436	10.6%	5.1%
Sprain	137	\$775,785	10.6%	9.4%
Laceration	118	\$179,960	9.1%	2.2%
Puncture	59	\$116,094	4.5%	1.4%

Valued as of 6/30/09



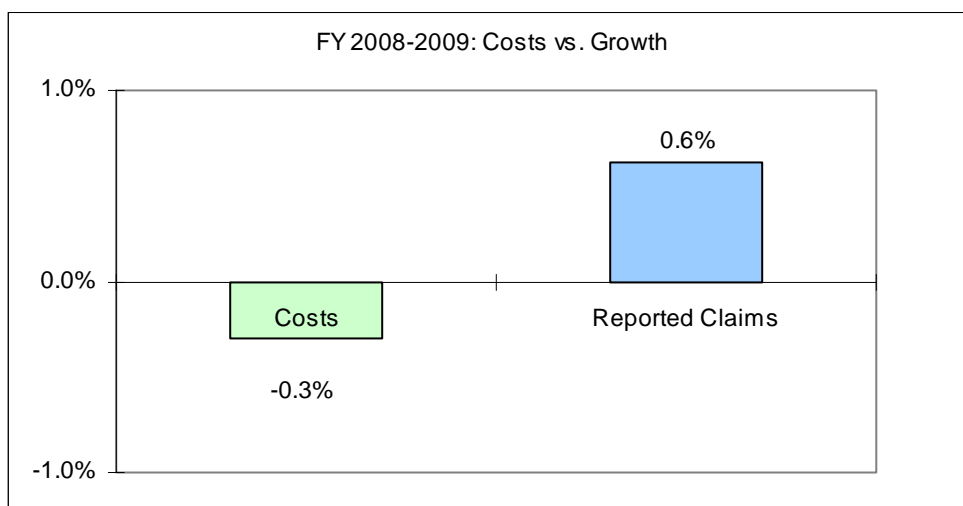
Pie Chart: Top Five Loss Nature
Valued as of 6/30/09

SUMMARY OF PERFORMANCE

Statistical analysis of claims data is one of the methods SCRMA uses to gauge our effectiveness as your workers' compensation claims administrator.

For FY 2008-2009, total incurred valued at 12 months decreased by 0.3%. The overall number of claims reported increased by eight (8) claims compared to the last fiscal year. There was a decrease in the average cost per claim in the fiscal year 2008-09 as compared to the fiscal year 2007-08. The net result is that average incurred costs per claim decreased from \$6,421 per claim in FY 2007-08 to \$6,361 per claim in FY 2008-09 representing a .09% decrease. During the FY 2008-09, a total of 1,298 claims were reported compared to 1,290 in the prior fiscal year representing a .06% increase. Additionally, the average life span of the claim reported in FY 2008-09 was 82 days compared with an average life span of 109 days for claims reported in FY 2007-08, representing a 25% decrease.

The decrease in the average cost per claim is a clear reflection of the staffing model changes and program enhancements that took place during the last fiscal year. These changes provided reduced caseloads, increased program oversight and a heightened customer service while containing incurred costs of the program.

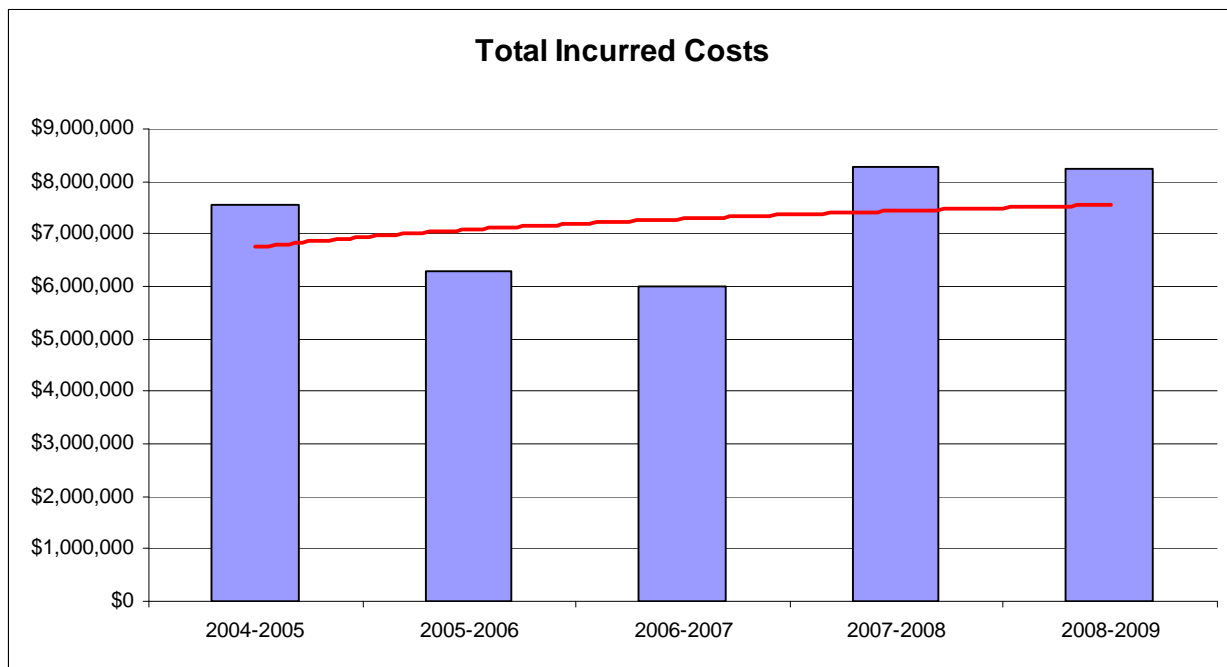


AGGREGATE STATISTICS

TOTAL INCURRED COSTS (2005-2009)

Fiscal Year	Total Incurred (Excludes Allocated Costs)	% Change
2004-2005	\$7,544,083	58.6%
2005-2006	\$6,304,459	-16.4%
2006-2007	\$6,010,244	-4.7%
2007-2008	\$8,282,682	37.8%
2008-2009	\$8,256,301	-0.3%

Valued as of each FY – compiled from SIP Annual Reports.



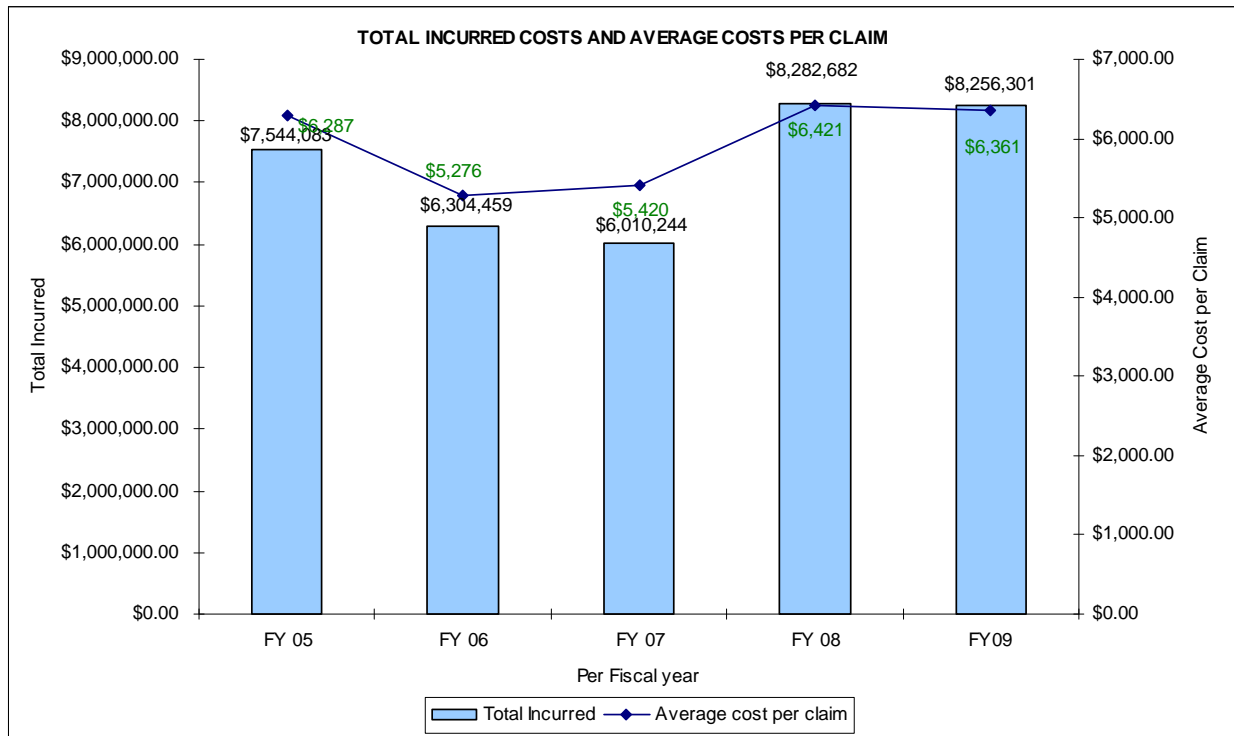
Valued at the end of each FY

**TOTAL INCURRED COSTS (2005-2009)
(Excluding Allocated Costs)**

Fiscal Year	FY 05	FY 06	FY 07	FY 08	FY 09
Total Incurred	\$7,544,083	\$6,304,459	\$6,010,244	\$8,282,682	\$8,256,301
Average cost per claim	\$6,287	\$5,276	\$5,420	\$6,421	\$6,361
Total Reported	1,200	1,195	1,195	1,290	1,298

Compiled from the SIP Annual Reports for each year valued at the end of each fiscal year

Over the last five (5) fiscal years the Total Incurred, Average Cost per Claim, and Total Reported for the California JPIA has remained relatively static. However, during this same period of time the California JPIA added 22 additional members and the total payroll has increased by 42%. This stability can be attributed to the implementation of SB899, RTWi, ScriptNet and the increased participation in the California JPIA's transitional duty program.

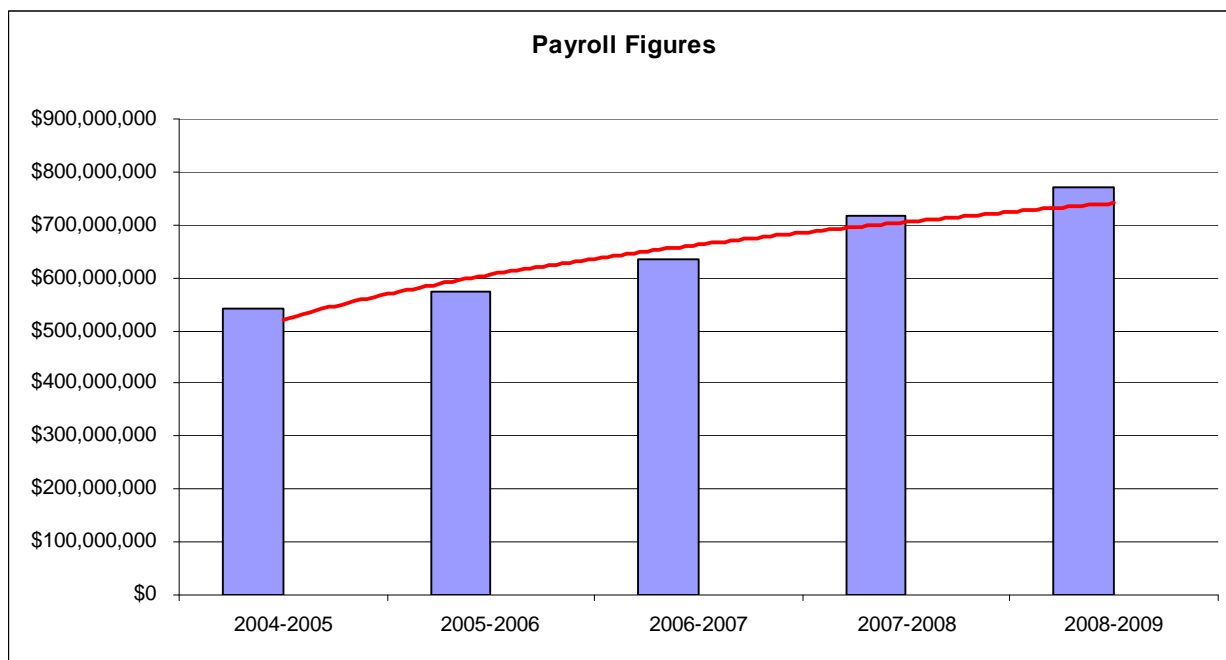


SCRMA compiled this information from the California JPIA's Public Self-Insurer's Annual Reports and other available information. Future analysis of the effectiveness of the program from one year to another could include: (i) the growth in reported claims in relation to member-by-member growth in payroll, (ii) incremental incurred costs in relation to member-by-member growth in payroll, (iii) benefit increases and (iv) appellate decisions adverse to employers, and (v) the increasing cost of medical care.

PAYROLL FIGURES

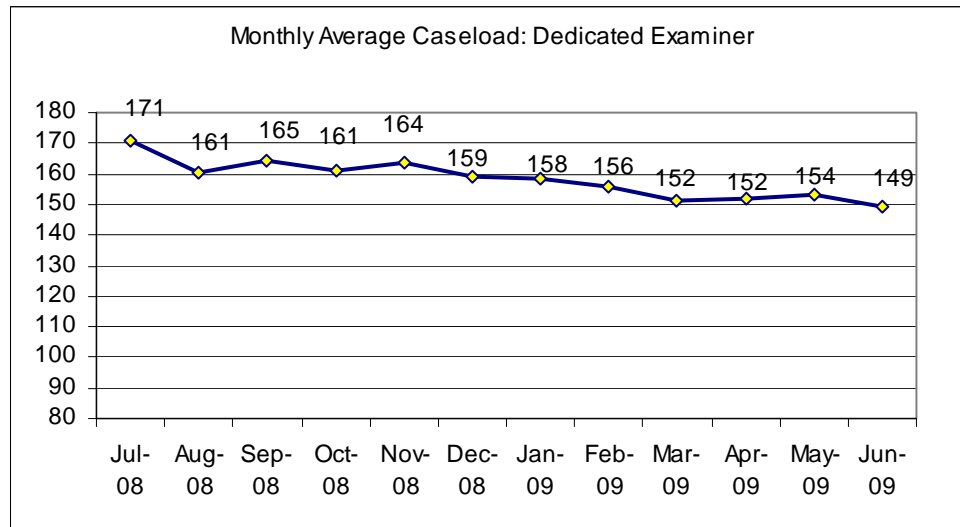
Fiscal Year	Total Payroll	% Change
2004-2005	\$542,137,923	
2005-2006	\$574,714,904	6.0%
2006-2007	\$633,851,906	10.3%
2007-2008	\$718,246,842	13.3%
2008-2009	\$769,592,585	7.1%

Valued as of each FY – compiled from SIP Annual Reports.



II. STAFFING

California JPIA DEDICATED STAFFING CONFIGURATION Implemented after July 1, 2008	
Branch Manager, Linda Tomlinson	
Claims Position	% of Time
A. Unit Manager, Upland (1)	100%
B. Unit Manager, Valencia/San Jose (1)	22%
C. Claims Adjustors, Upland (5)	100%
D. Claims Adjustors, Valencia (1)	80%
E. Claims Adjustors, San Jose (1)	25%
F. Future Medical Adjustor, Upland (1)	100%
G. Future Medical Adjustor, Valencia (1)	33%
H. Claims Assistants, Upland (2)	100%
I. Claims Assistants, Valencia (1)	33%
J. Claims Assistants, San Jose (1)	15%
K. Set Up Desk, Upland (1)	100%
L. Medical Only Adjuster, Upland (1)	100%



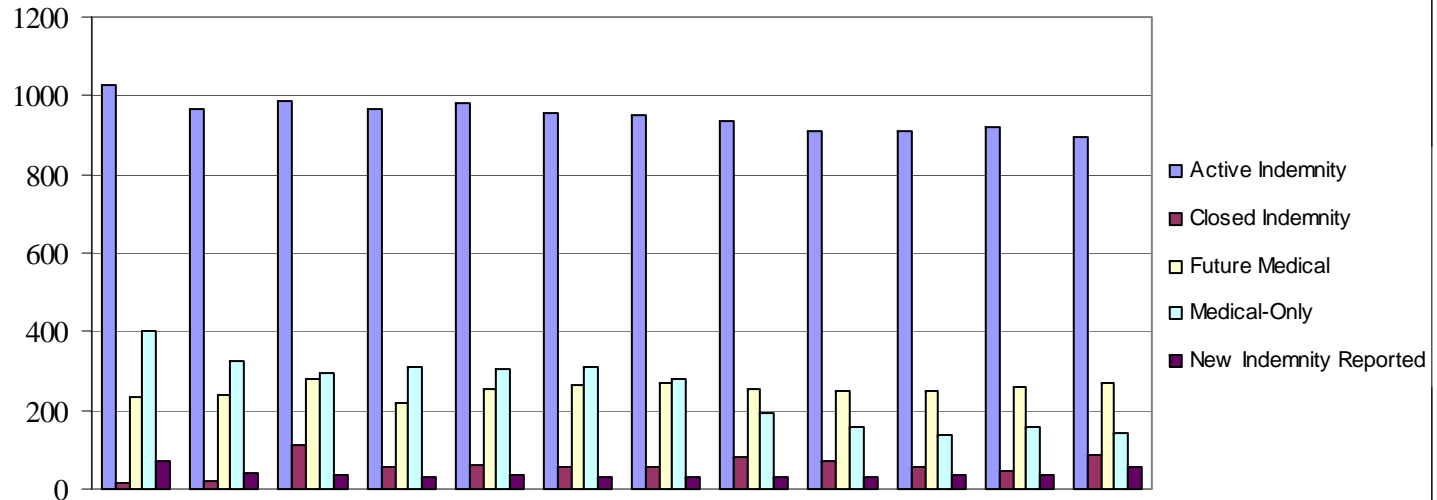
As the workers' compensation third-party administrator for the California JPIA, SCRMA is responsible for managing all open claims that fall under the California JPIA's self-insured program and all new claims that are reported. Due to the fact that workers' compensation claims have a very long "tail" liability and claims may remain open for the life of an employee, it is important for the California JPIA and SCRMA to carefully monitor the pending caseload and the requisite staffing.

**CASE COUNT BREAKDOWN BY MONTH
FOR FY 2008-2009**

This table captures all indemnity claims reported and is an illustration of month-by-month changes during FY 2008-2009 (excludes MO's reported as some MO's may elevate to indemnity claims).

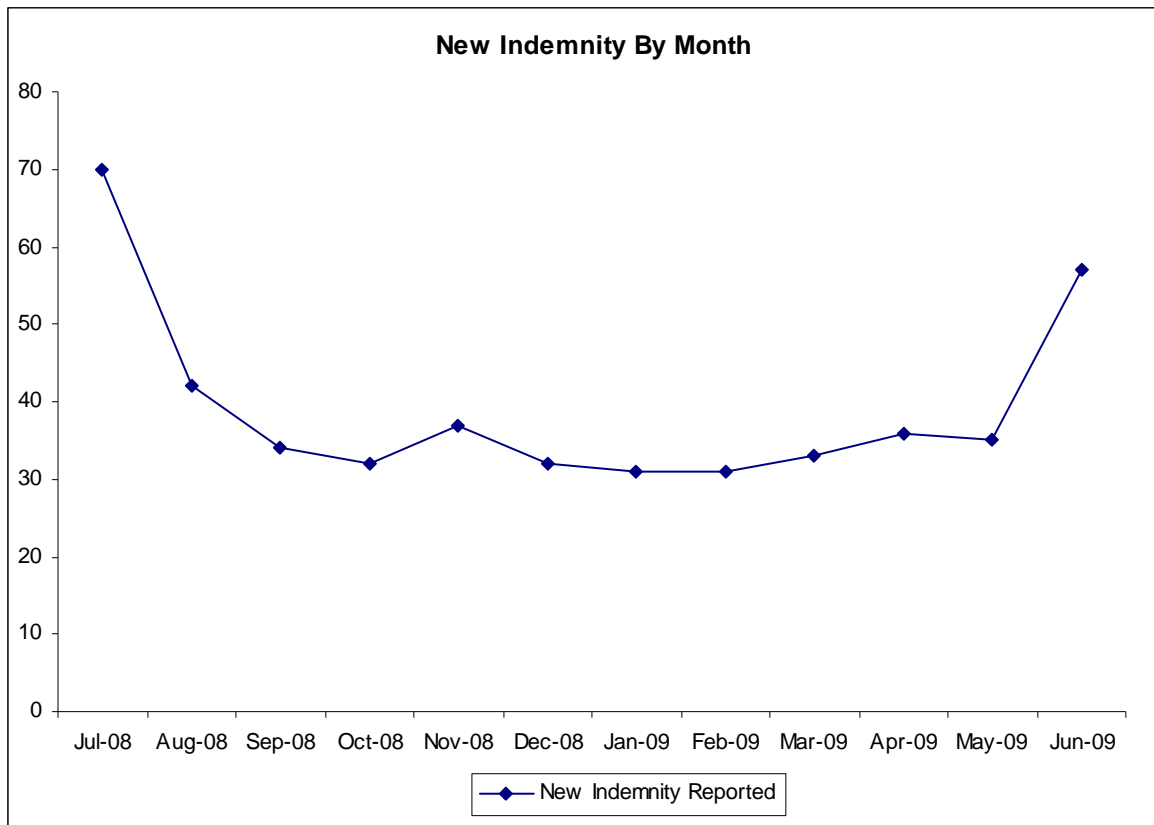
Month	Active Indemnity	Closed Indemnity	Future Medical	Pending Medical-Only	New Indemnity Reported
July 2008	1027	13	235	402	70
August 2008	964	19	237	323	42
September 2008	987	113	281	293	34
October 2008	965	57	220	310	32
November 2008	981	62	255	305	37
December 2008	955	57	264	310	32
January 2009	950	57	268	278	31
February 2009	936	82	255	195	31
March 2009	909	69	251	156	33
April 2009	911	56	250	139	36
May 2009	921	44	260	158	35
June 2009	895	84	267	140	57

Case Count Distribution



	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09
Active Indemnity	1027	964	987	965	981	955	950	936	909	911	921	895
Closed Indemnity	13	19	113	57	62	57	57	82	69	56	44	84
Future Medical	235	237	281	220	255	264	268	255	251	250	260	267
Medical-Only	402	323	293	310	305	310	278	195	156	139	158	140
New Indemnity Reported	70	42	34	32	37	32	31	31	33	36	35	57

The line graph captures all indemnity claims reported and is an illustration of month-by-month changes during FY 2008-2009.



III. TRANSITIONAL DUTY

Providing transitional duty is not a law established in the California Labor Code. The provision of transitional duty is voluntary on the part of the employer, and the acceptance of transitional duty is voluntary on the part of the injured employee. The law encourages employers to reasonably accommodate the injured employee during their recovery period providing benefits to both parties.

Studies have shown that injured employees may recover sooner if they are assigned meaningful jobs within their medical work restrictions. The employer has a right to return the employee back to work a transitional duty assignment during their medical recovery and within their documented work restrictions. The hard savings are the monies paid in temporary disability and Labor Code 4850 benefits and the costs to provide overtime pay or hire a replacement employee. Some of the soft savings may be: preventing deterioration of employment skills, loss of self-confidence or the associated mental despondency that may result in the prolonged absence from work and workplace morale.

If an employer is able to offer transitional duty, communication between SCRMA and the member, as well as between SCRMA and the medical provider, is paramount. SCRMA is charged with the timely payment of benefits, and communication with the member when providing transitional duty or terminating transitional duty.

An employee has the right to refuse transitional duty; however, if the member offers bonafide transitional duty and the employee refuses, the employee is not entitled to temporary disability benefits. As indicated previously, it is important to communicate the provision of transitional duty to your adjuster at SCRMA.

During fiscal year 2008-2009, seventy-two (72) members participated in a transitional duty program. The participation translated into savings of temporary disability and Labor Code 4850 benefits totaling \$1,791,842.

IV. RTWi (EMBEDDED NURSE)

SCRMA began working closely with California JPIA in early 2008 and placed an “embedded nurse” in the Upland office. RTW, Inc. (RTWi) was identified as the vendor partner, and was charged to utilize their proprietary software and expertise with the combined goal of reducing the cost of claims.

With initial implementation and success of the embedded nurse in SCRMA’s Upland office, the program was rolled out to the two other SCRMA offices (Valencia and San Jose) handling California JPIA claims and was available to all California JPIA members during the last fiscal year.

Within 48 hours of the claim being reported to SCRMA, an RTWi nurse contacts the injured employee, employer and medical provider. Detailed information gathered by the nurse is encoded into the predictive software which includes, but is not limited to, the mechanics of injury, the injured workers’ medical history, behavioral issues, psychosocial issues, employment issues and any pre-existing medical conditions.

The goal of the program is to have the medical expertise of the RTWi embedded nurse readily available to the claims staff, thus improving the adjuster to medical contact. This, in turn, will assist in returning the employees to transitional or full duty much quicker and help facilitate closing the claims much sooner.

Within the first 48 hours RTWi identifies 15% of the claims that will drive 80% of the cost of the overall claims program. Rapid intervention and developing a plan to address global issues have lowered the cost of disability and reduced the time the employee remains away from productivity.

The results of this program are reflected in the ‘Summary of Performance’ on Page 13, and assist in reducing the overall incurred costs of the program.

V. FRAUD

California continues to lead the nation in suspected workers' compensation fraud cases. The California Fraud Assessment Commission approved a 2.5% budget increase for the California Department of Insurance Fraud Division and participating District Attorneys. Although this percentage increase is much lower than the 12.5% requested, it is at least a step on the right direction. The approved increase will not cover the cost of inflation for those agencies; however, assessments will be paid for by all California employers.

A recent report by the National Insurance Crime Bureau (NICB) shows that the number of questionable claims is up during the first quarter of 2009 compared with the first quarter of 2008, providing a snapshot of what claims analysts call "opportunistic fraud." The report is an analysis of questionable claims submitted by more than 1,000 NICB member companies in the first quarter of 2009 versus the same period a year ago. A questionable claim is a claim that is reviewed by an insurance company and classified as possibly fraudulent.

FRAUD STATISTICS:

- Workers' compensation fraud cost the insurance industry \$5 billion each year. (National Insurance Crime Bureau)
- It is estimated that fraud accounts for 10% of the property/casualty insurance industry's incurred losses and loss adjustment expenses or about \$30 billion a year. (Insurance Information Institute)
- Insurance fraud is the second most costly white collar crime, after tax evasion, and costs Americans about \$30 billion each year. (National Insurance Crime Bureau)
- The number of suspected fraudulent claims related to workers compensation insurance was up 71% during the first quarter this year compared with last year.

SCRMA continues partnering with RJN Investigations to protect California JPIA's interests against fraudulent claims.

Although fraud statistics indicate an increase in questionable claims in the industry during the first quarter of 2009, California JPIA files do not reflect that same occurrence. Since 2001, SCRMA examiners have identified and referred twenty-two (22) cases of fraudulent activity on the program. Of those referrals, five (5) have resulted in arrests and five (5) have resulted in convictions with a restitution amount totaling \$58,840.51.

VI. MEDICAL COSTS

Medical costs continue to increase, resulting in a 16% increase in premiums beginning in 2009. This is in contrast to prior years where the California Workers' Compensation Institute (CWCI) reported that there was a 15% reduction of inpatient hospitalizations between 2002 and 2006 with the most notable decline between 2004 and 2005. (Recall the workers' compensation reforms of 2004 when medical treatment was subjected to treatment guidelines and mandatory utilization review as well as second opinion spinal surgical regulations).

Simultaneously, the number of work-related injuries decreased sharply, falling 13%, for all claims and a reduction of 26% for lost time claims. While the number of hospitalizations decreased, the total average number of procedures and surgical procedures increased, pushing average charges for surgical back hospitalizations up markedly. The hospitalizations for work-related back injuries dropped 25% over the five year sample, while non-work related hospitalizations for back injuries increased 4% for the same period.

VII. AUDITS

The fourth annual claims audit for fiscal year 2008-2009 was conducted in SCRMA's Upland office on July 20, 2009 through August 4, 2009.

Please refer to the attached addendum for an overview of the audit findings.

VIII. THE FUTURE

The continued success of the California JPIA workers' compensation program is the direct result of the California JPIA Risk Management staff and leadership, members, and the dedication of the SCRMA staff.

As we move into fiscal year 2009 – 2010, SCRMA is rebranding under the York name. With this seamless transition, California JPIA will continue to receive the attention to detail and dedication of the claims staff afforded under the SCRMA logo.

The future of the California JPIA program can be affected by case law, legislative changes and benefit rate changes. Litigation claims alleging injury to internal, psych and sleep disturbance are being watched in the industry and will potentially increase the cost of benefits as well as expenses to defend such cases.

The temporary total disability rate increased in 2009 by \$41.68 to a maximum weekly rate of \$958.01 compared to the prior year of \$916.33. The changes are based on the change in the State Average Weekly Wages. As this rate changes the cost of temporary total disability benefits will change.

As of June 1, 2009, Medicare Set Aside (MSA) submissions are required to account for what is deemed to be "reasonably probable" future prescription needs even if not supported by current medical records or payment histories and priced at "Red Book" prices (retail). This will cause an increase in the amount to Compromise and Release claims where an MSA is required.

The new fiscal year saw changes in the way paperwork is processed through the legal system at the Workers' Compensation Appeals Board (WCAB) implemented a new paperless process. EAMS (Electronic Adjudication Management System) is a computer based system designed and implemented by the State to "simplify and improve" the Department of Workers' Compensation's claims management process, eliminate redundancy, create efficiencies, preserve claimant confidentiality and make the system more accessible to interested parties. While this is a step towards a paperless system for the WCAB, the process created 30 new forms for submission of documents, increased document preparation time for the claims staff and has slowed the process at the WCAB prolonging the life of an open claim awaiting settlement approval.

Since 2001, it continues to be SCRMA's absolute privilege working with the California JPIA and its members. It is our desire to continue providing the highest level of customer service, dedication, and technical competency to the members of the California JPIA for many years to come.

ADDENDUM

The fourth annual California JPIA claims audit was conducted by Mr. David G. Guyer of MTI Insurance Claims Consulting from July 20, 2009 through August 4, 2009 in SCRMA's Upland, California office.

The focus of this year's audit was on claims administration activities during the past fiscal year July 2008 through June 2009. The audit measured adherence to statutory requirements, industry best practices, contractual agreements and the Key Performance Indicators (KPI's) mutually developed between California JPIA and SCRMA and implemented December 2008.

The audit consisted of one hundred and twenty five (125) randomly selected claims by Ms. Diana Rich, California JPIA Workers' Compensation Program Manager. For the first time an audit scorecard was utilized, objectively grading the claims administration performance. In addition, Mr. Guyer implemented a "Claims Audit Comments" form providing an avenue of open conversation on files identified with deficiencies.

SCRMA is happy to report an overall audit performance score of 84%, reflecting considerable improvement of the prior year's audit. The scorecard graded fifty-five (55) performance categories. SCRMA scored 100% in nineteen of the categories listed on the scorecard, 70% of the categories were scored between 80% - 100% and of which 53% of the categories were scored 90% -100%, of which 53% were scored 90 – 100. The remaining 30% of the categories pertained to administrative functions, none of which involving any direct delivery of benefits to the injured workers.

Additional staffing and reduced caseloads during the past fiscal year are identified as performance improvements documented by the audit. Under the direction of the California JPIA, SCRMA added a fifth indemnity claims examiner, and created a new position of future medical examiner. The future medical examiner assumed all claims with lifetime medical awards from the indemnity examiners. This action reduced indemnity claims examiners caseloads allowing time to proactively administer claims towards conclusion quicker. The overall closing ratio totaled 124% for fiscal year 2008-09.

A new claim set-up desk was implemented, triaging all new claims filed by California JPIA members. This position is responsible for making immediate three-point contacts with the injured worker, the member, and the treating medical facility along with timely issuance of all initial benefit notices. These activities relieve the claims examiner of these tasks, allowing them to focus on the administration of their caseloads.

In addition, a medical only/bill processor position was established which handles all medical only claims (no lost time) and manual processing of all non-reviewable bills. These new positions have provided a positive impact upon the workloads of the claims examiner, the overall processing of claims and the performance level of the staff.

SCRMA recognizes and appreciates the opportunities an audit such as the one conducted by Mr. Guyer provides in our goals to provide a better work product to the California JPIA. SCRMA looks forward to hosting California JPIA's audit representative for fiscal year 2009 -2010.