

Revenue Proposal: *Workers' Compensation Loss Portfolio Transfer*

Proposal Overview

This proposal outlines the City's opportunity to leverage a Workers' Compensation Loss Portfolio Transfer (LPT) to reduce the City of Chicago's financial liability associated with workers' compensation claims. A LPT is a reinsurance agreement that allows the City to transfer a portion of its self-insured workers' compensation liabilities to a reinsurer. Under this arrangement, the reinsurer assumes responsibility for existing and future claims in exchange for a fixed premium payment, negotiated between the City and the reinsurer.

Context

The City is self-insured and does not pay premiums to a workers' compensation insurance company to pay claims. According to the [latest available annual report](#), in 2023, the City of Chicago managed a total of 3,164 workers' compensation claims. In 2023, City paid off \$77.2 million in claims from the prior year, including indemnity, medical, and expenses. As of year-end, the City's open claim inventory stood at 1,854, with reserves totaling \$558.7 million, a \$13.2 million decrease from the previous year. Average cost per settlement payment has largely stayed consistent over the past five years \$30,000 per claim. The Department of Finance notes that the City's workers compensation reserves -- open claims are an important financial measure that quantify the total financial exposure and represent the City's aggregate liabilities -- decreased by \$13.2 million in 2023. This is due to a "shift in focus from reopening files to resolution."

By transferring these claims to a reinsurer, the proposal claims City could reduce its financial exposure while securing a fixed-cost premium structure.

Estimated Revenue

This proposal was not proposed to generate any additional revenue for the City, rather, its purpose would be to serve as a cost-cutting measure for existing City operations.

Based on preliminary estimates presented in the proposal, the City could transfer these liabilities for an annual premium ranging from \$15 to \$25 million, depending on contract negotiations. This approach would remove the \$300 million legacy claim liability from the City's financial records, potentially reducing overall workers' compensation costs by 33%. ***These figures are drawn directly from the submitted proposal; COFA was unable to verify these projections through publicly available data.***

Implementation & Stakeholders

Transferring the City's financial liability associated with workers' compensation would require changes to the City appropriations and management ordinance but would not require any state law changes.

Responsible departments

- ***Department of Finance:*** oversight of financial structure and execution of the transfer, including managing payments to the reinsurer, accounting for the liability shift; ensuring alignment with City's overall financial strategy

- ***Department of Human Resources:*** coordinate internal communication and training for impacted employees; manage the transition process for claimants; maintaining continuity in employee support services
- ***Department of Law:*** support for ordinance updates; support negotiation of contractual terms with the reinsurer; ensuring regulatory and statutory compliance
- ***Mayor's Office of Budget and Management and Office of the Chief Financial Officer:*** ensure alignment with budget priorities; incorporating LPT into long-term financial planning

Discussion

There are no direct equity considerations or regressive tax implications associated with this proposal, nor are there any additional revenue opportunities. However, the City may be able to decrease spending on existing workers' compensation operations and free up City funds for other purposes.

Proponents

Supporters of the proposal include government efficiency advocates, department leaders, and public sector financial reform organizations who view the shift as a strategic cost-saving measure. They argue that transferring the City's liability to a reinsurer could improve long-term fiscal stability and streamline administrative processes.

Opponents

Critics of the proposal may include some current workers' compensation claimants who are concerned about losing the familiarity and perceived accountability of working directly with the City. They may object to having their claims managed by a private reinsurer, fearing reduced responsiveness or changes in claim handling practices.