



CITY OF CHICAGO

DEPARTMENT OF FINANCE

Annual Report: Workers' Compensation

Issue date: August 8, 2023

Article XIV of the Municipal Code of Chicago (2-32-1410 *et seq.*) requires an annual report on the City of Chicago's ("City") Workers' Compensation Program ("Program"). This report summarizes Program activity during 2022.

Summary

The 2022 Annual Report summarizes key claim portfolio measures and discusses three key operational improvement initiatives: return-to-work, claim resolution, and overall Program financial reserves.

The Program

A workers' compensation program's performance is evaluated using a number of standard metrics, including those identified in Table 1 below.

*Table 1: Summary of Key Measures, Calendar year data; *n/a denotes not available due to timing; 24-month data can only be reported 1 year in arrears*

	2017	2018	2019	2020	2021	2022
New Claims	1,434	1,284	1,175	861	1,014	993
Closed Claims	1,957	1,921	1,659	1,146	1,178	1,407
Reopened Claims	393	348	290	851	483	530
Denied Claims	303	352	260	73	95	86
Electronic Incidents	233	278	399	1,083	570	305
Open Inventory	1,718	1,429	1,235	1,801	2,120	2,236
Reserves on Open	\$346.4M	\$348.4M	\$312.5M	\$508.8M	\$532.8M	\$571.39M
Total Paid	\$64.8M	\$61.8M	\$53.4M	\$58.1M	\$68.1M	\$73.5M
Average Paid on Closed (at 12 months)	\$4,016	\$4,509	\$3,263	\$2,352	\$4,646	\$4,282
Average Days to Close (at 12 months)	146	144	119	76	84	69
Average Paid on Closed (at 24 months)	\$11,969	\$11,152	\$5,984	\$8,188	\$14,290	n/a
Average Days to Close (at 24 months)	270	250	155	142	176	n/a
Total Claims with Payments Made	3,112	2,988	2,913	3,158	3,546	3,699

A review of Table 1 shows year-over-year performance improved in four key areas between 2021 and 2022: new claims; closed claims; average paid on closed; and average days to close at 12 months.

Open inventory, or the number of claims open at year's end, rose from 2,120 to 2,236 and were above pre-pandemic levels (2,236 vs. 1,235). The multiyear increase in open inventory resulted from the on-going review of hundreds of claims closed by the City prior to August 1, 2019. DOF had to reopen and review each claim to assess if the claims were properly closed and confirm whether the City's statutory obligations have been met. DOF continues to review claim reopens for stabilization.

In 2022, reserves, which represent the ultimate probable cost of claims, increased by \$38.59M year-over-year and by ~\$259M from pre-pandemic levels. As discussed on page four, approximately \$13M of the \$38.59M year-over-year increase came from reopening the claims discussed above. The remaining \$26M increase resulted from new claim activity. The ~\$259M increase over pre-pandemic levels can be attributed to DOF's decision to update the reserves according to industry best practices, which calls for estimating a claim's full value based on currently available information, including projected treatment, disability, and residual impairment.

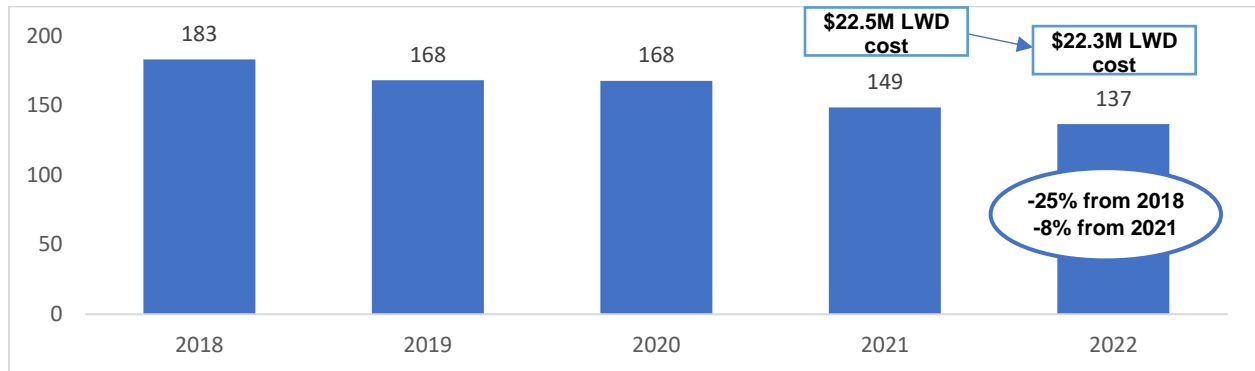
Total Paid in 2022 included indemnity, medical, and expenses, which increased by \$5.4M from 2021. This was driven primarily by two factors: (1) an increase in medical costs of \$1.4M; and (2) the ongoing strategic initiative launched in 2021 to resolve litigated claims. This initiative, which is discussed in more detail in the following section, increased spending by \$4M. However, DOF estimates that resolving these claims earlier in their lifecycle reduced its future spend by between \$1.8M and \$2.8M. DOF, in partnership with Gallagher Bassett, the City's third-party administrator ("TPA"), launched specific litigation management initiatives to drive down long-term claim costs.

DOF launched several significant strategic initiatives in 2021. These continued in 2022 and are expected to drive down long-term program costs. These initiatives are highlighted in greater detail below.

Operational Improvement Initiatives

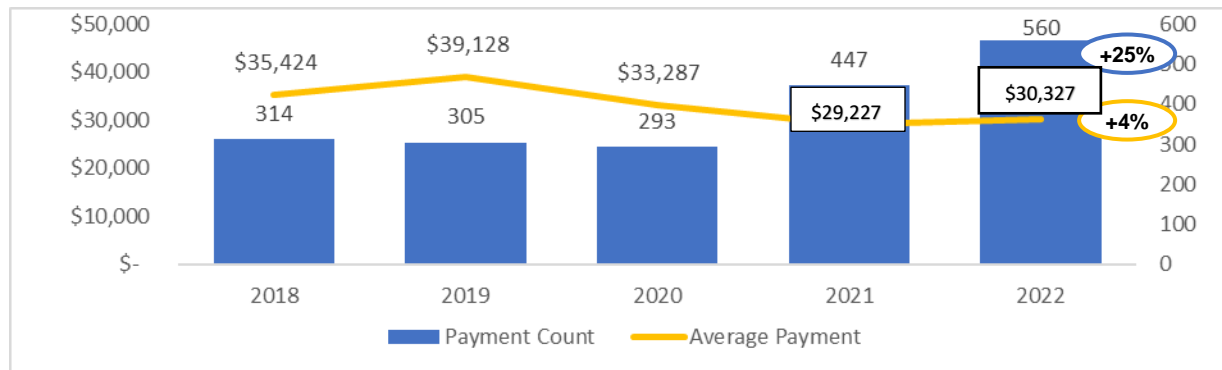
Lost Workdays: Average lost workdays improved from 183 days in 2018 to 137 days in 2022, a 25% reduction. The chart below illustrates the reduction in total cost of lost workdays.

Chart 1: Average Lost Workdays (LWD) on all Claims by Year



Claim Resolution: The majority of the City’s financial exposure comes from aged, litigated claims. DOF made a strategic decision in 2021 to address this backlog of ~1,500 claims in an attempt to reduce the City’s exposure. This has resulted in a net reduction of ~400 of these claims in 2022. In addition to addressing these aged, litigated claims, DOF actively sought to resolve its statutory obligations via settlement, reducing long-term exposure and additional legal costs. This resulted in a 25% increase in settlement activity compared to 2021 (from 447 to 560) and a 91% increase compared with 2020 (from 293 to 560). (See Chart 2). Reducing this backlog is expected to meaningfully reduce the City’s financial exposure.

Chart 2: Settlement activity, showing the count of settlement payments by year and the average cost per payment



Financial Reserves: Reserves on open claims are an important financial measure that quantify the total financial exposure and represent the City’s aggregate liabilities. During the transition away from the Committee on Finance, it was discovered that the City’s reserves were inadequate. Industry standard practices are to reserve a claim file for the ultimate probable cost of the claim. Prior to August 1, 2019, the Program had a practice of raising small, incremental reserve amounts to cover current payments only. The reserves were insufficient for the full financial exposure of the file. During the transition, the TPA reviewed all open claims

and reserves were increased significantly from prior levels. This increase is described in detail in the 2019/20 report.

In 2022, reserves increased by another \$38.59M. Of this 7% increase, \$13M came from re-opening pre-August 1, 2019, claims against the City, which are described in “The Program” section of this Annual Report. DOF, driven by industry best practices, has reopened and reserved these claims during 2021 and 2022. The 2022 year-end reserves represent the full scope of liabilities against the City at present.

Conclusion

2019 and 2020 were critical years for establishing governance, controls, and claim handling best practices. In 2021, DOF expanded its strategy and made significant progress in reducing lost workdays, returning employees to work more quickly, and resolving open claims. In 2022, accelerated settlements aligned with DOF’s strategy to reduce the overall backlog of aged litigation and a reduction in lost workdays. DOF will continue to build upon these improvements going forward.

Appendix – Glossary of Key Terms

- New Claims: Claims setup within the period.
- Closed Claims: Number of claims where the status changed from open to closed during the period.
- Reopened Claims: Number of claims previously closed, that were re-opened within the period.
- Open Inventory: Number of claims with a status of open at the end of the period.
- Total Paid: Total amount paid for all categories of spending (indemnity, medical, and expense) during the period.
- Reserves on Open (Total Incurred): The total expected financial exposure for claims open at the end of the period.
- Lost Workdays: The number of days an injured worker received temporary total disability payments.