

MEMORANDUM

TO: PERSONNEL MANAGEMENT LIAISONS

DATE: April 4, 1994
Reference Code: 94-19

THIS MEMORANDUM SHOULD BE DISTRIBUTED TO:

DEPARTMENT ACCOUNTING, PERSONNEL OFFICERS,
RETURN-TO-WORK COORDINATORS, AND HEALTH/SAFETY OFFICERS

FROM: Department of Personnel Administration

SUBJECT: State Compensation Insurance Fund Service Fee

Effective January 1, 1992, the Department of Personnel Administration (DPA) entered into a Master Agreement with the State Compensation Insurance Fund (SCIF). Under the terms of the contract, SCIF agreed to provide workers' compensation processing and legal representation services to those State agencies that were included in the Master Agreement.

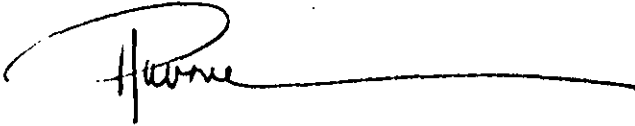
As part of the Master Agreement, it was agreed that a fee to pay for SCIF's services would be added to each medical payment. At the time it was determined that the fee would be 26% in calendar year 1992, 27% in 1993, and 28% in 1994. It was also agreed that the overall cost would be subject to minimum and maximum payments based on the amounts generated by the fee. If less than the minimum amount is collected, the departments will be billed for an additional amount. Conversely, if too much is collected, refunds will be made (this occurred in 1992).

For 1993, the minimum payment is \$30,500,000. In accordance with the agreement, SCIF collected 27% of the medical costs paid for 1993. As of December 1993, SCIF had only collected \$27,582,757.56. This resulted in a potential short fall of \$2,750,000 below the minimum service fee. Since the minimum and maximum caps are part of the agreement, the State is obligated to pay the amount specified.

During the month of April, SCIF will send out supplemental invoices to recover the difference between the amount already collected and the minimum established in the contract. These bills will be calculated by dividing the total medical costs paid on the State contract into the amount paid in medical costs for each state agency.

While neither SCIF nor DPA has been fully satisfied with the rate structure in the agreement, the contract terms and conditions are binding on both parties. Furthermore, DPA believes that the actual cost incurred by SCIF to administer the program in 1993 exceeded the floor in the contract. We have engaged the services of the State Controller's Office to verify the actual costs for 1993 and develop a more effective formula for calculating costs in the future. The report and recommendations should be available by June 30, 1994.

DPA and SCIF will review the agreement after the Controller's staff has completed their review. Departments will be notified of the Controller's findings and any actions anticipated to amend the current agreement by August 1, 1994. If you have any questions please call Jamie Meyers, Manager of the Workers' Compensation and Safety Program, at (916) 327-4024 CALNET (467).

A handwritten signature in black ink, appearing to read "Pavone", with a long horizontal line extending to the right.

Patricia Pavone, Chief
Benefits and Training Division