Outsourcing vs. Insourcing
When it makes sense to do both:

Managing Workers’ Compensation
Broward County Public Schools

COUNCIL OF THE GREAT CITY SCHOOLS
Chief Human Resource Officers & Chief Information Officers Joint Meeting
February 6, 2018
MISSION
Educating today’s students to succeed in tomorrow’s world.

VISION
Educate all students to reach their highest potential.
2017/18 DISTRICT PROFILE

- 6th Largest Public School System in the Nation
- 2nd Largest Public School System in Florida
- 1st Fully Accredited School System in Florida Since 1962
- 191 Different Languages Spoken by BCPS Students
- 236 Schools, Centers and Technical Colleges

2017/18 Enrollment

<table>
<thead>
<tr>
<th>Grade</th>
<th>Enrollment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-K</td>
<td>5,939</td>
</tr>
<tr>
<td>K – 5</td>
<td>96,374</td>
</tr>
<tr>
<td>6 – 8</td>
<td>48,335</td>
</tr>
<tr>
<td>9 – 12</td>
<td>70,686</td>
</tr>
<tr>
<td>Centers</td>
<td>5,090</td>
</tr>
<tr>
<td>Charter Schools</td>
<td>45,093</td>
</tr>
<tr>
<td>Total</td>
<td>271,517</td>
</tr>
</tbody>
</table>

Personnel

- Total instructional staff: 15,084
- Clerical, support staff, etc.: 10,567
- Administrators: 1,488

Total number of permanent employees (above groups combined): 27,139

- Total number of Substitute/Temporary: 7,181
- Total employees: 34,320
BCPS school buses travel more than 16 million miles annually.

BCPS serves over 35.8 million breakfast, lunch, supper and snack meals each year.
Outsourcing and the SMART Program

- The District amended its approach to implementing its capital program in anticipation of the SMART Program
Outsourcing and the SMART Program

Three Primary Reasons to Outsource:
1. History of Poor Execution in Construction
2. Not Core Business
3. Scalable to need

A NEW DELIVERY MODEL

Awardees / Partners

Program Manager: HEERY

Cost & Program Controls: ATKINS
SMART INVESTMENTS LEAD TO SMART STUDENTS.

DECEMBER 2017/JANUARY 2018 UPDATE

MOVING FORWARD › ON TRACK

SMART Facilities Update

SMART by the Numbers

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$961 MILLION+</td>
<td>1,438</td>
</tr>
<tr>
<td>PROJECTS IN PROGRESS OR COMPLETE</td>
<td>SCHOOL FACILITIES PROJECTS IN PROGRESS</td>
</tr>
<tr>
<td>171</td>
<td>SCHOOL CHOICE ENHANCEMENT PROJECTS UNDERWAY OR COMPLETE</td>
</tr>
</tbody>
</table>

With the new year underway, the SMART program continues to make progress. As of December 31, 2017, 1,438 SMART projects are currently in one of the six phases of the design and implementation process (see chart below). This represents 96 percent of all SMART facility projects and marks an investment of $916 million. The SMART program remains on track to be completed within five to seven years, as originally promised. *Figures below represent the value of projects in each phase as of December 31, 2017.*

<table>
<thead>
<tr>
<th>Phase</th>
<th>Projects</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Project Planning</td>
<td>40</td>
<td>$25.82 M</td>
</tr>
<tr>
<td>2. Hire Designer</td>
<td>408</td>
<td>$197.41 M</td>
</tr>
<tr>
<td>3. Design Project</td>
<td>715</td>
<td>$604.00 M</td>
</tr>
<tr>
<td>4. Hire Contractor/ Vendor</td>
<td>15</td>
<td>$10.36 M</td>
</tr>
<tr>
<td>5. Implement Improvements</td>
<td>163</td>
<td>$55.44 M</td>
</tr>
<tr>
<td>6. Improvements Complete</td>
<td>97</td>
<td>$23.90 M</td>
</tr>
</tbody>
</table>
Workers’ Compensation (WC) is a statutorily mandated (Chapter 440, Florida Statutes) entitlement program for covered employees, who become injured or ill from a work related accident or exposure. When appropriate, WC provides specific guaranteed benefits such as relevant medical care and partial wage replacement.
Three Primary Stakeholders

- INJURED WORKER
- EMPLOYER
- MEDICAL
BCPS Workers’ Comp History

2005 Pre-CBM Structure

- Self-Insured
- Fully Outsourced TPA
  - Subcontracted medical network/services
- Full Compliance with statutory requirements but costs significantly rising
Experience Development

Total Experience is one year of claims. Experience = paid + outstanding reserve

Pre CBM
Prior to July 1, 2006

PRE-CRITERIA BASED MODEL
June 22, 2005: BCPS Internal WC Audit

Major Findings

- Lack of an Integrated System
- Lack of Medical Consumerism
- Lack of Employer Oversight
- Passive Return-to-Work Program

Program Compliance ≠ Program Performance
New Program Structure

- Still Fully Outsourced
- TPA - Single Provider of Services
- SBBC Private Label Network
- Nurses on every claim
- Stay-at-Work Program
- Dedicated BCPS WC Specialist
- Based on the Criteria-Based Model (CBM)™

July 2006 - Program Reform

7 Core Principles

1. Comprehensive and Integrated
2. Criteria, Principle-Based
3. Engaged Employer
4. Medical Drives Claims
5. Time is the Enemy!
6. Function is Good
7. Nothing is Routine
Comparison of Models

**Traditional Model**
- Financial-Based Model
- Paper Notification of Injury Coordinated by SBBC location staff
- Discount Medicine Focused on Minimizing Unit Costs
- Large Contracted Clinician Network with Minimal Inclusions
- Subcontracted Nurse Case Managers on Select Claims for Specific Tasks (Fee for Service)
- Employee/Clinician Driven Medical Utilization "Cookbook" Medicine
- Employee Primary Conduit of Information with Supervisor
- Passive Return-to-Work Program

**CBM Model**
- Priority Driver
- Early Intervention
- Private Label Network
- Enhanced Reimbursement Structure Based on Clinical Outcomes (Pay for Performance)
- Concentrated Network of Trained Clinicians Based on Performance
- Medical Consumerism
- In-house Nurse Case Manager on Every Claim Throughout Life of Claim (Service Inclusive)
- Evidenced-Based Medical Philosophy (C.A.R.P.)
- Adjuster/Nurse Primary Conduit for All Communication
- Aggressive Stay-at-Work Program

TRADITIONAL VS. CBM
Early CBM
7/1/06 – 6/30/09

Experience Development

TREMENDOUS FINANCIAL IMPROVEMENT
**Experience at 36 Months**

**Early CBM**
7/1/06 – 6/30/09

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Total Incurred at 36 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 1999-2000</td>
<td>$18,404,398.51</td>
</tr>
<tr>
<td>FY 2000-2001</td>
<td>$17,309,558.76</td>
</tr>
<tr>
<td>FY 2001-2002</td>
<td>$17,534,834.35</td>
</tr>
<tr>
<td>FY 2002-2003</td>
<td>$17,489,066.06</td>
</tr>
<tr>
<td>FY 2003-2004</td>
<td>$17,885,819.01</td>
</tr>
<tr>
<td>FY 2004-2005</td>
<td>$17,184,304.68</td>
</tr>
<tr>
<td>FY 2005-2006</td>
<td>$11,808,906.00</td>
</tr>
<tr>
<td>FY 2006-2007</td>
<td>$8,768,790.18</td>
</tr>
<tr>
<td>FY 2007-2008</td>
<td>$9,343,700.00</td>
</tr>
<tr>
<td>FY 2008-2009</td>
<td>$10,937,414.49</td>
</tr>
</tbody>
</table>

**Average Savings of 45% or $7.9 million per claim year**

**TREMENDOUS FINANCIAL IMPROVEMENT**
Total Experience at 36 Months

Early CBM
7/1/06 – 6/30/09

TREMENDOUS FINANCIAL IMPROVEMENT

Average Savings of 38% or $5.9 million per claim year
Net Claims represent WC claims filed which have expenses associated with them. An increase in report only claims will not impact the average incurred figures.
Lost Work Days

Over 65% reduction in first year of CBM Program. And 80% reduction by year 3.

Early CBM
7/1/06 - 6/30/09

TOTAL LOST DAYS (ILD AND INDEMNITY)

2005-2006: 24,535
2006-2007: 8,028
2007-2008: 5,882
2008-2009: 5,033
Reserve has decreased over $19 million in first 3 years of new WC Model at 75% confidence level, 100% funded.

TREMENDOUS FINANCIAL IMPROVEMENT
Program Complacency

Pre-Self Administered
7/1/09 – 6/30/13

TREND BEGINS TO TURN
Experience Development

Pre- Self Administered
7/1/09 – 6/30/13

FY 1999-2000
FY 2006-2007
FY 2007-2008
FY 2008-2009
FY 2009-2010
FY 2010-2011
FY 2011-2012

NEGATIVE TREND
Total Experience at 36 Months

Pre-Self Administered 7/1/09 – 6/30/13

TREMENDOUS FINANCIAL IMPROVEMENT
Pre-Self Administered
7/1/09 - 6/30/13

Average Experience per Claim

2003-2004 $7,224
2004-2005 $6,672
2005-2006 $5,833
2006-2007 $3,616
2007-2008 $3,522
2008-2009 $3,867
2009-2010 $4,431
2010-2011 $5,144
2011-2012 $5,046
2012-2013 $3,756

3 BEST YEARS
Lost Work Days

TOTAL LOST DAYS (ILD AND INDEMNITY)

Pre-Self Administered
7/1/09 – 6/30/13

Lost Work Days

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Lost Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-2006</td>
<td>24,535</td>
</tr>
<tr>
<td>2006-2007</td>
<td>8,028</td>
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<td>2007-2008</td>
<td>5,882</td>
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<tr>
<td>2008-2009</td>
<td>5,033</td>
</tr>
<tr>
<td>2009-2010</td>
<td>6,232</td>
</tr>
<tr>
<td>2010-2011</td>
<td>5,635</td>
</tr>
<tr>
<td>2011-2012</td>
<td>5,954</td>
</tr>
<tr>
<td>2012-2013</td>
<td>6,227</td>
</tr>
</tbody>
</table>
“The insurance claims services sector has seen robust private equity deal activity in the last few months, including KKR & Co LP’s $2.4 billion takeover of Sedgwick Claims Management Services and $1.1 billion acquisition of Mitchell International Inc. and Apax Partners LLP’s roughly $3 billion acquisition of One Call Care Management Inc. and Align Networks Inc.”

Global Post – February 2, 2014
In order to insulate SBBC WC program and the CBM model from TPAs and industry as a whole:

- Bring “in-house” core operations and staff to manage the fundamental decision-making including claims and medical consumerism components of the CBM

- Continue to outsource non-core decision-making services, as it specifically relates to the CBM
  - Claims management software system, bill review, etc.
1. BCPS program very unique under CBM model.

2. CBM model proven successful when executed faithfully.

3. Inconsistences in TPA administrations / Volatile Insurance Industry
Current Program Structure

In-House
SBBC WC Unit

- 28 Positions
- Program Mgmt.
- Claims Mgmt.
- Medical Mgmt. & Consumerism
- SAW/RTW
- Strategic Admin Support Services and Operations

Outsourced
TPA Select Service Contract

- Intake & Triage (24/7/365)
- Claims System/Software
- Medical Bill Review, Repricing & Payment
- Contract Administration & Vendor Mgmt.

Current CBM
7/1/13 – Present

Current CBM – Self Admin

Current Program Structure

INSOURCE CORE DECISION MAKING

26
The mission of the Broward County Public Schools Workers’ Compensation Unit is to effectively, efficiently, and ethically manage the Workers’ Compensation Program, thereby producing consistently superior outcomes in both human and financial terms.
Current CBM
7/1/13 – Present

Industry Environment

One year into Self Administration – District’s TPA Acquired

October 1, 2014

AmTrust Financial Services, Inc. Completes Acquisition of Comp Options Insurance Company, Inc.

NEW YORK, Oct. 1, 2014 (GLOBE NEWSWIRE) -- AmTrust Financial Services, Inc. (Nasdaq AFNI) ("the Company") announced today that following the receipt of required regulatory approvals, it has completed the acquisition of Comp Options Insurance Company, Inc. ("Comp Options"), a subsidiary of Blue Cross & Blue Shield of Florida, for cash. The purchase price was approximately 1.2 times tangible book value.

"We are excited to complete the acquisition of Comp Options which expands our presence in one of the largest markets for workers’ compensation insurance risks in the nation," said AmTrust Financial Services, Inc. President and CEO, Barry Zyskind. "We are especially excited to integrate Comp Options complimentary low-hazard workers’ compensation insurance risks as well as the experienced staff that has helped to build the business. In addition, we look forward to working with Comp Options former parent as a marketing partner to further build our insurance business and add value for our shareholders."

Comp Options is a Florida based, workers’ compensation insurer. During the past 12 months, Comp Options generated approximately $70 million in workers’ compensation insurance premium in the state of Florida. Comp Options marketing approach is similar to AmTrust’s, targeting businesses that have a low-hazard risk profile. Comp Options products are marketed through a network of independent agents.
TREMENDOUS FINANCIAL IMPROVEMENT

Total Experience at 36 Months

Current CBM
7/1/13 – Present

FY 2002-2003: $17,885,819
FY 2003-2004: $11,808,906
FY 2004-2005: $9,343,700
FY 2005-2006: $13,981,535
FY 2006-2007: $8,542,738
FY 2007-2008: $9,886,956
FY 2008-2009: $6,000,000
FY 2009-2010: $8,000,000
FY 2010-2011: $10,000,000
FY 2011-2012: $12,000,000
FY 2012-2013: $14,000,000
FY 2013-2014: $16,000,000
FY 2014-2015: $18,000,000

TREMENDOUS FINANCIAL IMPROVEMENT
Cash Flow

CLAIMS COSTS - 4 BEST YEARS

Current CBM
7/1/13 - Present

Average reduction of $3.3M per year
Lost Days

TOTAL LOST DAYS (ILD AND INDEMNITY)

Current CBM
7/1/13 - Present

Average Reduction of 35% in past two years “in-house”
Total Program Costs

Current CBM
7/1/13 - Present

4 Year Average Cost (TPA)
$18,572,092

4 Year Average Cost (Self-Admin)
$14,783,422

$3.8M

4 Year Average Decrease 20%

Program Costs by Fiscal Year

Claims Costs  Total Administrative Costs
Reserves have decreased $42M in 11 years of new WC Model at 75% confidence level, 100% funded.

Actual current reserve is $20,814,000, at the (50%) and confidence (50%) level.
The Self-Insurer Experience Modification is used in the calculation of the District’s annual WC state assessment. The rating is promulgated by the state based on a formula using payroll and loss reports submitted by the District.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Experience Modification</th>
<th>State Self-Insurer Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-2007</td>
<td>2.33</td>
<td>$2,134,260</td>
</tr>
<tr>
<td>2007-2008</td>
<td>1.99</td>
<td>$1,561,101</td>
</tr>
<tr>
<td>2008-2009</td>
<td>1.76</td>
<td>$1,076,701</td>
</tr>
<tr>
<td>2009-2010</td>
<td>1.39</td>
<td>$650,385</td>
</tr>
<tr>
<td>2010-2011</td>
<td>1.21</td>
<td>$251,181</td>
</tr>
<tr>
<td>2011-2012</td>
<td>1.31</td>
<td>$321,652</td>
</tr>
<tr>
<td>2012-2013</td>
<td>1.27</td>
<td>$425,013</td>
</tr>
<tr>
<td>2013-2014</td>
<td>1.25</td>
<td>$484,785</td>
</tr>
<tr>
<td>2014-2015</td>
<td>1.43</td>
<td>$513,785</td>
</tr>
<tr>
<td>2015-2016</td>
<td>1.14</td>
<td>$381,316</td>
</tr>
<tr>
<td>2016-2017</td>
<td>1.16</td>
<td>$367,990</td>
</tr>
<tr>
<td>2017-2018</td>
<td>1.08</td>
<td>$378,707</td>
</tr>
</tbody>
</table>
Employee Satisfaction

Triage / Initial Survey
Mail-in
- Very Satisfied: 95%
- Generally Satisfied: 74%
- Generally Dissatisfied: 3%
- Very Dissatisfied: 2%

Post Closure Survey
Online
- Very Satisfied: 77%
- Generally Satisfied: 48%
- Generally Dissatisfied: 12%
- Very Dissatisfied: 11%
- Other: 29%
Claim Counts

FOCUS ON LOSS PREVENTION

Average of 3% reduction
Medical Inflation Is Forecast to Accelerate This Year and Next

US Medical Consumer Price Index Growth Rate

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>3.0</td>
</tr>
<tr>
<td>2012</td>
<td>3.7</td>
</tr>
<tr>
<td>2013</td>
<td>2.5</td>
</tr>
<tr>
<td>2014</td>
<td>2.4</td>
</tr>
<tr>
<td>2015</td>
<td>2.6</td>
</tr>
<tr>
<td>2016f</td>
<td>3.4</td>
</tr>
<tr>
<td>2017f</td>
<td>3.3</td>
</tr>
</tbody>
</table>

f Forecast
Medical Care Consumer Price Index, Urban Consumers
Frequency of observation: annual; latest historical data point: 2015; forecast years: 2016 and 2017
Sources: US Bureau of Labor Statistics and Moody's Analytics
## Components of the Rate Indication

<table>
<thead>
<tr>
<th>Component</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Castellanos</em> (First-Year Impact)</td>
<td>+15.0%</td>
</tr>
<tr>
<td>Medical Fee Change (SB 1402)</td>
<td>+1.8%</td>
</tr>
<tr>
<td><em>Westphal</em></td>
<td>+2.2%</td>
</tr>
<tr>
<td><strong>Overall:</strong></td>
<td><strong>+19.6%</strong></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$714M (19.6% x $3.645B)</td>
</tr>
</tbody>
</table>

Figures are multiplicative, not additive.
It (almost) happened again. Self-Insured TPA services spared

Source: AmTrust Financial Services, Inc.  
October 28, 2016 08:50 ET

AmTrust Financial Services, Inc. Enters Agreement to Acquire AmeriHealth Casualty Insurance Company

AmTrust to build presence in workers’ compensation in Pennsylvania and New Jersey
THANK YOU