
Economy & Efficiency Commission Presentation

Editorial Note: Although every effort has been made to insure the accuracy of the material in this presentation, the scope of the material covered and the discussions undertaken lends itself to the possibility of minor transcription misinterpretations.

**PRESENTATION BY
Mr. Rocky Armfield**

**Topic: The Achievements of Risk Management
March 2, 2006**

Chair Hill introduced Mr. Armfield and welcomed him to the Commission.

The Function and Scope of Risk Management in Los Angeles County

Mr. Armfield began by recalling that Risk Management was centralized in the Chief Administrative Office in 2003. One of the first issues Mr. Armfield was asked to address as County Risk Manager concerned the rate and frequency of cost increases in the Workers' Compensation program. Mr. Armfield pointed out that since the County carries no outside insurance, it has to be managed somewhat like an insurance company. If the County were a stand alone insurance company, it would likely be the fortieth largest in the United States. Whereas a private insurance company of this size would probably employ 500 to 600 employees, Mr. Armfield noted that there are approximately 200 individuals in Risk Management, the Office of the County Counsel, and various departments devoted to managing the system. While the County does not perform the marketing and other functions of a private insurance company, the number of employees performing this function within the County indicates an efficient operation. Although the Risk Management staff is authorized to add 20 positions, Mr. Armfield indicated that department growth would occur in a systematic and orderly manner.

Mr. Armfield stated that Risk Management is becoming increasingly involved in the County's liability claims, as well as in loss control and prevention efforts. Occupational health and medicine is also a large component of Risk Management's program. Mr. Armfield explained the medical screening processes used in determining a potential employee's ability to perform, together with the appeals processes available to applicants to insure a fair hearing. Risk Management also manages the County's Drug and Alcohol Program.

The Cost of Risk

Mr. Armfield described the "cost of risk" as all expenses incurred in operating a risk and insurance program. Expenses include the cost of staffing, insurance purchased from outside sources, and the cost of tort liability and workers' compensation claims. Mr. Armfield declared that the County has set a goal that the cost of risk not exceed 2% of the County's operating budget. Two years ago, the cost of risk amounted to about 2.5% of the budget, and last year fell to about 2.1%.

Mr. Armfield used several charts to show that the cost of risk in 2003–2004 amounted to about \$350 million dollars, falling by \$55 million in 2004–2005, the first ever reduction within the County. These savings were used to reopen a women’s jail, to purchase eighteen buses for the Sheriff’s Department and assist the Sheriff’s Department in recruiting, and to provide other services to the citizens of the County.

Mr. Armfield elaborated on the long term savings this reduction means for the County. Where previous estimates indicated a payout of \$1.1 billion in 2011 for Workers’ Compensation claims, new estimates indicate a payout of approximately \$400 million. The potentially devastating impact on county services has been significantly reduced.

Mr. Armfield cited three efforts that led to the turnaround. First, a consolidated effort of Los Angeles area public agencies such as the County, MTA, LAUSD, the City of Los Angeles, the Chamber of Commerce, and private enterprise such as the Boeing Corporation, Disney, and Costco, aided in proposing legislative reforms which were passed and became effective in 2003–2004. Mr. Armfield described the reforms as fair and timely, but warned that efforts were underway in the current legislative session to challenge and erode these reforms.

Second, Mr. Armfield credited the Loss Control and Prevention Section of Risk Management, under the direction of Steve NyBlom, with generating an awakening of the importance of safety. This was done by working with loss control and safety employees embedded in the departments. The result has been a drop in the numbers and frequency of workers’ compensation, liability, and vehicle claims. Mr. Armfield stressed the importance of this reduction, noting that a workers’ compensation claim may typically take 30 to 35 years for all expenses to be completely paid, and that only 4% of the total claim costs are paid in the first year.

Third, Mr. Armfield cited the personal interest taken by department heads in the prevention and management of workers’ compensation, liability, and other claims. Mr. Armfield credited Chief Administrative Officer David Janssen with taking the lead in accepting this management responsibility and in challenging other department heads to set risk management goals.

2nd Annual Risk Management Report

Mr. Armfield stated that the upcoming Risk Management Annual Report would, for the first time, list loss results by department. This would have a positive effect on future results.

Mr. Armfield shared excerpts from the report with the Commission revealing that from fiscal 2004 to fiscal 2005 the County had achieved an 18% reduction in the County’s cost of risk (from 2.5% to about 2% of the budget), and a 34% decrease in budget expenses for Workers’ Compensation. Mr. Armfield also noted that paid losses from the trust fund have dropped and that there has been a 9% drop in the frequency of claims.

Mr. Armfield expressed his enthusiasm for the work of the Guiding Coalition which is composed of major department heads that drive and manage the County’s strategic plan. The Guiding Coalition has embraced Risk Management as a component of that plan. Two of the strategic objectives within the plan are operational efficiency and fiscal responsibility. Referring again to the report, Mr. Armfield explained that even a small decrease in cost percentage translates into a tremendous amount of money saved. Mr. Armfield noted that if the population of the County grows and more County employees are hired, the goal is to keep the rate of increase in claims lower than the increase of new employees.

Corrective Action Plans and Loss Prevention Plans

Mr. Armfield called attention to large damage awards, such as in the Ramirez case, and to the effort to eliminate liability and claims through the use of a corrective action plan. Finding the root cause of a specific incident and developing a plan to prevent its recurrence is slow and complex but worthwhile. The County now requires a corrective action plan for any specific large loss. Risk Management also now has a program to implement a follow-up audit and modification of the plan if necessary. Mr. Armfield praised the collaborative effort of County Counsel Ray Fortner, CAO David Janssen, the Guiding Coalition, and

department heads in helping to make headway in creating awareness of safety issues and finding solutions.

One of the County's goals is to improve organizational effectiveness and to insure that service delivery systems are efficient and goal oriented. Mr. Armfield explained that one of the objectives of Risk Management, in addition to continued implementation of corrective action plans, is to identify trends in losses and exposure and to work with the departments to develop broader loss prevention plans.

Questions

Commissioner Parks inquired about workers who are able to get workers' compensation benefits on a "tax free" basis. Mr. Armfield responded that under Labor Code §4850 an injured safety employee who qualifies for workers' compensation can receive benefits for up to one year completely tax free. From an economic viewpoint these individuals may have less incentive to return to work quickly.

Commissioner Padilla noted that the rate of Sheriff's Department personnel on workers' compensation exceeded that of LAPD. Mr. Armfield agreed, but noted Sheriff Baca's view differed from LAPD in that he felt an officer should be fit for full duty before returning to work. The Sheriff has been reluctant to assign employees to lighter duty jobs at the same pay rate, fearing they may become entitled to these positions. Mr. Armfield pointed out the need for both the Sheriff and Fire Departments to make a final determination as to whether their Return-To-Work Programs are good for the County.

Commissioner Parks asked about the influence of labor unions on efforts to cut workers' compensation under §4850. Mr. Armfield replied that neither major political party was interested in looking at any reductions under §4850.

Commissioner Selditz recalled the County Grand Jury investigation of Workers' Compensation, noting that representatives from the Fire and Sheriff's Departments were encouraging light duty assignments to speed the return of employees. Additionally, Sheriff Baca wanted to eliminate collusion with the medical profession. Mr. Armfield replied that the reforms of 2003-2004 eliminated much of the abuse. Many medical diagnoses and prognoses are now following established medical guidelines. Patients' physicians and county physicians are communicating and sharing information, often reaching agreement on a return to work process. Mr. Armfield added that Sheriff Baca and Chief Freeman were concerned that too many employees returning to work in light duty assignments would lead to slower response times using the results in the City of Los Angeles as an example. While both departments have stepped up light duty Return-To-Work Programs, worries about light duty assignments leading to entitlement have led to medical release of some personnel.

Mr. Armfield noted the excellent retirement system for safety personnel. LACERA will now allow a safety employee to remain in the system if the employee voluntarily accepts an assignment in a different department, with LACERA paying a difference in salary. Mr. Armfield then described a proposed "mandated Return-To-Work Program" which would allow intra-departmental transfers of employees.

Commissioner Padilla recalled the Commission's report on Risk Management and asked if departments could be held responsible for their share of loss. He also wanted to know if private insurance would be a cost effective option. Mr. Armfield responded that a component of the mandated Return-To-Work Program may require the department with the loss to continue to pay the employee's salary, even though the employee now works in a different department. This approach would also encourage finding the employee a suitable position in the original department. Mr. Armfield commented that private insurance companies are excited by the County's decrease in its cost of risk, but there is still a concern about the unpredictable costs of long term payouts. Continued reductions in cost of risk could make private insurance a viable option in the future.

Commissioner Padilla asked how many employees were typically in Return-To-Work Programs. Chair Hill then asked about the total number of employees who were typically unable to work. Mr. Armfield estimated that about 1,000 employees are typically transitioning back to work. Three percent of employees might be out on workers' compensation or other disabilities at any one time.

Commissioner Padilla inquired about the distribution of claims among departments and if this distribution was consistent from year to year. Mr. NyBlom responded that it has been difficult historically to obtain department specific information, but that methodology is being implemented to determine these numbers.

Chair Hill asked about the impact of obesity, drug and alcohol abuse, and smoking on the productivity of the work force, and related health and accident claims. Mr. Armfield stated that confidentiality laws require a nexus to exist between job performance and the particular problem in order for the employer to raise the issue with the employee or to require drug or alcohol testing. While a baseline physical examination of new applicants is required, medical screening is similarly limited, although health and safety issues are discussed. Follow-up visits may be required to insure capability of job performance. Mr. Armfield explained the difficulties in gathering sufficient data and evidence of a condition relating to job performance and then implementing corrective action. He also emphasized the county's desire to preserve the dignity and confidentiality of the individual.

Mr. Armfield then elaborated on the problem of medical presumptions for safety employees. A presumption is that a specific illness is job related and the illness is covered under workers' compensation regardless of actual cause, lifestyle, heredity, or age. Mr. Armfield pointed out that Arizona has severely limited the use of presumptions and that Nevada has required drug and alcohol testing for covered employees. He suggested that coverage for elderly patients may be better tied to their retirement program rather than workers' compensation.

Chair Hill commended Mr. Armfield for his presentation and thanked him for his thoughtful and enlightening presentation.

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