Vermont State Employees' Association
155 State Street, Montpelier, VT 05602; Phone: (802) 223-5247
Fax: (802) 223-4035 E-mail: vsea@vsea.org Website: www.vsea.org

Privatization of the Risk Management Division

Context from the Governor's FY17 Budget Proposal: "Goals: To reduce the frequency and severity of workplace injuries, efficiently and effectively indemnify workers' compensation claims, coordinate optimum care when injuries or illnesses occur, and comply with all legal mandates related to workers' compensation at the lowest cost to the State."

Background: The Shumlin Administration has initiated a bidding process with the goal of privatizing the Agency of Administration's Risk Management, which currently administers the State's liability, Workers Compensation, General Liability Insurance and workplace safety programs. Risk Management and General Liability insurance currently have an operational budget of $1.6 million, funded by an Internal Service Fund. The following points outline the reasons that VSEA feels privatization will not achieve the goals set forth in the Governor's proposal, and furthermore, is not in the best interest of Vermonters.

- For-Profit Third Party Administrators, like insurance companies, have an incentive to deny claims to maximize profit. The RFP is structured to allow the private administrator to shift the cost of denying claims onto the taxpayer by maintaining the state's responsibility for: fraud surveillance, litigation costs, and cost-shifts of denied claims on to the State Employee health care plan.
- Management claim privatization will save as much as 50% on operational costs. These costs are usually derived from: reduced employee wages and benefits, increased caseloads (risk for errors), and cost-shifts to minimize risk on the contractor (cost remains on taxpayer).
- Out-Of-State Third Party Administrators are not familiar with Vermont specific workers comp laws, and their adjusters handle higher claims caseloads, increasing the likelihood of claims being erroneously accepted or denied.
- Weak Claw Back Provisions- Meeting the performance goals outlined in the RFP while simultaneously drastically reducing operations expenses is unrealistic. The RFP mandates a paltry maximum penalty of $20,000 for failure to meet the performance standards outlined. Bidders may choose to pay the penalty, because the cost of meeting these standards likely exceeds $20,000.
- The Administration has failed to undertake the Cost-Benefit Analysis on hiring more safety coordinators as recommended by the Office of the State Auditor. According to the Risk Management Loss Prevention Study conducted in 2003, the size of Vermont's State workforce necessitates 5-8 Safety Coordinators. There are currently no safety coordinators in the Office of Risk management, down from four in 2010.

ALLIED PRINTING TRADES UNION LABEL COUNCIL 610
Printed in Vermont