



January 20, 2005

Informational Circular 2005-01

To: All Members

Second Injury Fund Assessment & Policy Surcharge Factor

Second Injury Fund Assessment

The Workers Compensation Board of Indiana issued its notice to carriers, dated January 10, 2005, for the 2005 Second Injury Fund total potential assessment of 2.05%. The Board has set up two installments. The first is an assessment rate of 1.02% and is due February 14, 2005. The second is an assessment rate of 0.8475% and is due June 14, 2005. A third installment of 0.1825% may be necessary during the last quarter of 2005 at the Board's determination.

Policy Surcharge Factor

With this information, NCCI actuaries have calculated a statewide average policy surcharge factor of 0.004 for the 2005 assessment year. As in the past, the ICRB does not file an advisory policy surcharge factor with the Indiana Department of Insurance (IDOI). Each carrier must calculate and apply its own factor to its policies. This circular and the factors being provided herein are for informational purposes only. For assigned risk policies, servicing carriers should use the 0.004 factor.

At-a-Glance Summary

- Board setup two installments for 2005 SIF assessment:
 - 1) 1.02% due February 15, 2005
 - 2) 0.8475% due June 14, 2005
- Possible third installment of 0.1825% subject to Board determination later in the year.
- Carrier must complete Certification form and send along with its payment to the Board.
- Carrier must show assessment on policies as “a surcharge based on the employer's premium.”
- Surcharge is not premium, as defined by statute. So, the surcharge amount must be excluded for purposes of computation of agent commission and premium taxes.
- Carrier can code surcharge amount using Statistical Code 0935 – Second Injury Fund Surcharge.
- Because each insurance company's paid indemnity losses are different, then each company's assessment payable to the WC Board will be different. Therefore, each company's policy surcharge factor will also be different.
- Carriers are not required to file their policy surcharge factors with the Department of Insurance.
- ICRB has calculated a statewide average surcharge factor of 0.004 for informational purposes only to assist members.

You may access the Board's website to directly access its documents attached to this circular. The Board's website address is <http://www.state.in.us/workcomp/index.html>. From its homepage, in left side column, click on "Insurance Carriers," then click on "Second Injury Fund."

You may access previous ICRB circulars about the Second Injury Fund on our website at <http://www.icrb.net>. From our home page, click on the "CompClues" logo. You will see an alphabetical listing of reference documents. Simply scroll down to the document titled "Second Injury Fund" and open it. The circulars are saved in Adobe Acrobat PDF file format for easy viewing and printing. We hope this information helps in your understanding of the Second Injury Fund.

Sincerely,

A handwritten signature in black ink that reads "Ronald W. Cooper". The signature is written in a cursive, flowing style.

Ronald W. Cooper, CWCP
President

Attachments:

- ✓ Policy Surcharge Factor Calculation - Statewide Average
- ✓ WC Board letter dated January 10, 2005 RE: 2005 Second Injury Fund Assessment
- ✓ Certification, State Form 12386
- ✓ "Calculation of Funding Level" report by Crowe Chizek & Co LLC dated January 7, 2005

Policy Surcharge Calculation - Statewide Average

Calendar Year	(1) Net Premium	(2) Paid Indemnity Loss	(3) Indemnity Loss Ratio (2) / (1)	(4) SIF Assessment Rate	(5) Total Assessment	(6) Policy Surcharge Factor (3) x (4)	(7) Policy Surcharge Factor (5) / (1)
1998	\$ 460,175,247	\$ 103,540,148	0.225				
1999	\$ 457,617,461	\$ 110,372,667	0.241				
2000	\$ 501,173,919	\$ 115,665,733	0.231				
2001	\$ 540,803,501	\$ 121,222,225	0.224				
2002	\$ 594,741,979	\$ 122,065,101	0.205	2.05%	\$ 2,502,335	0.004	0.004
2003	\$ 635,960,851	\$ 114,335,808	0.180	2.05%	\$ 2,343,884	0.004	0.004

Notes:

Calendar year net premium and paid indemnity loss data from NCCI financial call data
 Calendar year 2003 data most recent data available as of January 2005, so it is used in this example
 SIF Assessment from WC Board letter dated January 10, 2005 RE: 2005 Second Injury Fund Assessment
 Policy surcharge factor calculated for informational purposes only
 Policy surcharge factor may be derived from either of two calculations; see columns (6) & (7)

Observation:

The loss ratios have been relatively consistent over this time frame, so we could expect that for calendar year 2004 that the loss ratio would not change significantly from the results shown.



INDIANA WORKER'S COMPENSATION BOARD

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Room W196
Indianapolis, IN
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Telephone: (317) 232-3808
www.in.gov/workcomp

To: Indiana Self-Insured Employers and Worker's Compensation Carriers

From: G. Terrence Coriden, Chairman, Worker's Compensation Board of Indiana

Date: January 10, 2005

RE: 2005 Second Injury Fund Assessment

In accord with IC 22-3-3-13, each carrier writing worker's compensation coverage for Indiana employers and every self-insured Indiana employer must contribute, by assessment, to the Second Injury Fund. The Board is permitted to perform this assessment once per year when the balance of the fund falls below \$1,000,000, on or before October 1st. The amount of the assessment is recommended by an independent firm. Once the recommendation is received, the assessment is subject to a maximum rate of 2.5% of the total amount of all worker's compensation paid to injured employees or their beneficiaries during the previous calendar year.

All self-insured employers and carriers licensed to write worker's compensation insurance in Indiana must submit a Certification to the Board.

Based solely upon the Fund's claims experience in 2004, the independent firm has recommended an assessment rate of 1.8675%. The full recommendation report is available on the Board's website at www.in.gov/workcomp.

As this report indicates, the annual revenues from the assessment have rarely been sufficient to meet the statutorily required demands of the Fund. As further noted in the report, IC§22-3-3-13(c) allows the Board to approve a rate of up to .25% above the recommended assessment rate.

Based upon the indemnity losses paid in 2004, as reported to the Second Injury Fund by self-insured employers and insurance carriers, and based upon a historical estimated two percent increase in claims against the Fund, the Board has determined that an assessment of 2.05% may be required in order for the Fund to fulfill its obligations in 2005.

The Board is cognizant of the current state of the economy and the many demands placed upon employers in the State of Indiana. Please be assured that the Board will endeavor to keep the necessary assessment rate to the recommended level. Recognizing these factors, the 2005 Second Injury Fund Assessment will be conducted as follows:

- 1) **First installment of the assessment is due by February 14, 2005.** The assessment rate for the first payment is **1.02%** of the total compensation paid to employees, or their beneficiaries, under the Worker's Compensation Act, during the calendar year of 2004 - excluding payments for medical expenses or any payment made under the Occupational Diseases Act.
- 2) **The second installment is due by June 14, 2005.** The assessment rate for the second payment is **.8475%** of the total compensation paid to employees, or their beneficiaries, under the Worker's Compensation Act, during the calendar year of 2004 - excluding payments for medical expenses or any payment made under the Occupational Diseases Act. You are required to meet the deadline of the second payment *without notice from the Board*.
- 3) Upon receipt of the second installment, the Board will then determine whether a third installment will be necessary to meet the Fund's obligations for the remainder of 2005. If a third installment is necessary, the Board shall notify, via electronic mail and website posting, all self-insured employers and insurance carriers subject to the assessment of the obligation to remit a third payment.
- 4) A properly completed Certification, State Form 12386, available on the Board's website, must be executed by a company officer as proof of the amount of compensation paid in 2004 and must accompany your payment.
<http://www.in.gov/workcomp/forms/2ndinjuryfund/index.html>
- 5) Please be certain that your company is in compliance with IC 22-3-3-13(j), which requires those subject to this assessment to provide the name, address and electronic mail address of a representative authorized to receive notice of the assessment each year. **If you received this notice by postal mail, you are not currently compliant with that requirement.**
- 6) Checks are to be made payable to the "WORKER'S COMPENSATION BOARD OF INDIANA" and directed to the attention of Krysten Lester at this office.

Thank you for your immediate attention to this matter. If you have any questions, please contact Krysten Lester at (317) 233-3384 or by e-mail at klester@wcb.state.in.us.

CERTIFICATION

STATE OF _____

COUNTY OF _____

I, _____, hereby CERTIFY that I am _____
(Official Title)

of _____ and that I have knowledge of the
worker's compensation records of this company. I further CERTIFY that the amount of compensation, excluding
medical, paid under the Indiana Worker's Compensation Act to injured employees, or their beneficiaries, during the
calendar year 2004 was \$_____.

I further CERTIFY that the enclosed sum of \$_____ represents 1.02 % of
these compensation payments, which is the first installment of the statutory assessment due and payable to the
Worker's Compensation Board of Indiana for the Second Injury Fund. I agree to pay another \$
which represents .8475% of these payments *without notice* to the Board by June 14, 2005. I further agree that if
notified by the Board during the last quarter of 2005 of the Fund's need for additional revenue, I agree to pay
another .1825% of these payments.

I hereby verify, subject to penalties of perjury, that the facts contained herein are true.

Signature

Date

Company Name

Federal ID Number

Telephone Number

Mailing Address

Contact Email Address*

***Please note that IC§22-3-3-13(j) requires each company subject to this assessment to provide to the Board
the name, address, and E-mail address of a representative authorized to receive the notice of assessment.**

Worker's Compensation Board of Indiana
Second Injury Fund

Calculation of Funding Level
January 7, 2005



WORKER'S COMPENSATION BOARD OF INDIANA
Second Injury Fund

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January 6, 2005

Workers Compensation Board of Indiana
402 W. Washington Street, Room W196
Indianapolis, IN 46204

Dear Board Members:

In accordance with our engagement by the Worker's Compensation Board of Indiana (the "Board") in connection with the funding of the Second Injury Fund (the "Fund") we have prepared a report entitled Second Injury Fund-Calculation of Funding Level (the "Report") which we respectfully submit herewith subject to comments in this letter of transmittal and the Report as to the scope of our inquiry and the conclusions reported.

The Fund was created by the State of Indiana to provide compensation to employees who have been permanently and totally disabled due to a compensable injury and have also exhausted the statutory maximum of 500 weeks of compensation. In addition, the Fund also provides benefits to persons who have suffered an amputation due to a compensable injury and need to repair or replace the prosthetic device.

The Fund collects revenue based upon an assessment of all compensation paid to injured employees by insurance carriers and self-insured employers. The Board is authorized to conduct the assessment, if on or before October 1, the balance in the Fund is less than \$1,000,000. The assessment may not exceed 2.5%.

The purpose of our study was to calculate the assessment necessary to meet the level of historical expenditures within the Fund as required by Indiana Code 22-3-3-13 (d). Our calculation was based upon information provided to us by the Board. Our calculation shows that an assessment of 1.8675% is necessary and is based on the previous year's expenditures. Because current years expenditures rarely equal historical expenditures, the assessment of 1.8675% may or may not be sufficient to fund future expenditures (See exhibits A and B). Indiana Code 22-3-3-13 allows the Board to approve a rate of up to .25% above the amount recommended by this study.

This Report is issued solely for your information and assistance with the calculation of the required assessment for the Second Injury Fund. In the course of preparing this Report, we have made certain assumptions, which may vary from the actual results because events and circumstances frequently do not occur as expected and such variances may be material. Our Report is issued as of the date set forth herein and we have no responsibility to update this Report for events which may occur after the date of this report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Christopher R. Johnston".

Cristopher R. Johnston

WORKER'S COMPENSATION BOARD OF INDIANA
Second Injury Fund

Historical Second Injury Fund Expenditures

<u>Year</u>	<u>Expenditures</u>	<u>Percentage Change</u>
88-89	\$ 506,406	N/A
89-90	614,346	21.31%
90-91	619,007	0.76%
91-92	767,536	23.99%
92-93	817,711	6.54%
93-94	914,635	11.85%
94-95	958,010	4.74%
95-96	1,226,625	28.04%
96-97	1,445,551	17.85%
97-98	1,719,652	18.96%
98-99	2,246,421	30.63%
99-00	2,327,755	3.62%
2001*	2,646,699	13.70%
2002	2,765,475	4.49%
2003	2,898,017	4.79%
2004	3,051,575	5.30%
Average Percentage Increase		16.38%

*Note: Prior to calendar year 2001 historical expenditures were presented on a state fiscal year basis.

WORKER'S COMPENSATION BOARD OF INDIANA
Second Injury Fund

Historical Second Injury Fund Revenues

<u>Year</u>	<u>Revenues</u>	<u>Percentage Change</u>
88-89(2)	\$ 1,085,931	N/A
89-90(1)	5,007	N/A
90-91(2)	1,546,156	N/A
91-92(1)	8,892	N/A
92-93	1,547,344	N/A
93-94(1)	21,058	N/A
94-95(2)	1,608,576	N/A
95-96(2)	1,365,303	-15.12%
96-97(2)	1,338,387	-1.97%
97-98(2)	1,353,732	1.15%
98-99(3)	2,782,098	105.51%
99-00(4)	2,200,524	-20.90%
2001(4)	2,083,172	-5.33%
2002(5)	2,971,879	42.66%
2003(6)	2,721,725	-8.42%
2004(6)	2,956,263	8.62%
Average Percentage Increase		17.70%

- Notes:
- (1) No assessment imposed
 - (2) Revenues based on 1% assessment
 - (3) Two assessments of 1% each
 - (4) Revenues based on 1.5% assessment
 - (5) Revenues based on 2.09% assessment
 - (6) Revenues based on 1.89% assessment

WORKER'S COMPENSATION BOARD OF INDIANA
Second Injury Fund

Required Funding and Assessment Calculation

Recommended Assessment

Estimated Fund Balance January 1, 2005 (1)	\$	148,628
Estimated Expenditures through January 1, 2006 (2)		3,056,575
Estimated Revenues from 1.8675% Assessment (3)		<u>2,917,947</u>
Estimated Balance January 1, 2006	\$	<u><u>10,000</u></u>

Note: (1) Included in the Estimated Fund Balance is the fund's cash balance as of December 22, 2004, less the pending prosthetic payments of \$15,848.75. Also included in the cash balance is the amount due to the Supplemental Administrative Fund (SAF).

(2) Included in the Estimated Expenditures are the following line items:

2004 Annual Permanent Total Disability PTD *	\$	2,896,016
2004 Annual Prosthetics *		155,559
Accounting Fees *		<u>5,000</u>
		<u><u>\$ 3,056,575</u></u>

* Based on 2004 actual

(3) The assessment rate is based on 1) estimated 2005 expenditures 2) an estimated ending fund balance of \$10,000 3) the assumption that the repayment of \$138,000 to the SAF will not be made in 2005 and 4) applied to the estimated total worker's compensation paid for 2004.