



January 6, 2014

Informational Circular 2014-01

To: All Members

Second Injury Fund Assessment & Policy Surcharge Factor

Second Injury Fund Assessment

The Workers Compensation Board of Indiana (“Board”) issued its notice dated December 31, 2013 titled “[2014 Second Injury Fund Calculation of Funding Level](#)”. The Board certification forms indicate the combined total assessment amount for carriers and self-insureds in 2014 is \$6,270,644. Based on combined total paid losses in 2012 (latest data available) of \$507,103,103, the assessment rate is 1.24% which is within the statutory limit of 2.5%.

[Reference IC § 22-3-3-13 (c)]

Payment of Assessment to WC Board

The Board has set up two installments to pay half the annual sum due in each installment. Payments are due by January 31, 2014 and June 13, 2014 and payable to the Worker’s Compensation Board of Indiana.

Policy Surcharge Factor

The 2014 statewide average policy surcharge factor is 0.0070 compared to the last year’s average factor 0.0078. 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 0.0070 factor.

At-a-Glance Summary

- Carrier must complete Certification form and send with its payment *to the Board*, not ICRB:
[Worker's Compensation Board of Indiana](#)
402 West Washington Street Room W-196
Indianapolis, Indiana 46204
317.232.3808
- Carrier must show assessment on policies as “a surcharge based on the employer's premium.”
- The 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.
- Statistical Code 0935 – Second Injury Fund Surcharge is appropriate to record the amount.
- Because each carrier’s premium is different, then each carrier’s assessment payable to the Board will be different. So, each carrier’s policy surcharge factor may also be different.
- Carriers are not required to file their policy surcharge factors with the IDOI.

- The statewide average surcharge factor of 0.0070 is for informational purposes only to assist members.

Statute Changes in 2006

[House Enrolled Act \(HEA\) 1307](#) effective July 1, 2006 made a few changes in IC § 22-3-3-13 to the calculation of the Second Injury Fund. Here's a summary:

- Assessment limit of 2.5% is based on total paid losses instead of only indemnity losses.
- Total losses are from all entities (carriers, other insuring entities, and self-insureds).
- As of November 1, if the SIF balance exceeds 135% of the prior year's disbursement, no assessment will occur for the next year.
- Assessment applies to "all employers." Assessment is split between self-insured employers and insured employers based on each group's portion of total paid losses. For 2014, the split is 12% self-insureds and 88% insured employers.
- Assessment for insured employers (carriers) is calculated by determining the percentage share of an individual carrier's premium to all carriers premium.
- Assessment for self-insureds is calculated by determining the percentage share of a self-insured's paid losses to all self-insureds' paid losses.
- The Board will calculate the recommended funding level by December 1. This study will determine if an assessment is necessary. The Board "may employ a qualified employee or enter into a contract with an actuary or another qualified firm that has experience in calculating worker's compensation liabilities."

For More Information

You may also access the [Board's website](#) to view the "[2nd Injury Fund Forms](#)" web page.

You may access this and previous ICRB circulars about the "[Second Injury Fund](#)" on our website at www.icrb.net. We hope this information helps in your understanding of the Second Injury Fund assessment process.

Sincerely,

Ronald W. Cooper, CWCP
President

Attachments:

- ✓ [2014 Second Injury Fund Calculation of Funding Level](#) dated December 31, 2013
- ✓ [Certification for Worker's Compensation Carriers](#), State Form 12386-b
- ✓ Indiana SIF for 2014 - Stepping Through the Process

WORKERS COMPENSATION BOARD OF INDIANA

**2014 SECOND INJURY FUND
CALCULATION OF FUNDING LEVEL**

December 31, 2013

Please note the assessment can be paid in two installments.

The due dates are:

January 31, 2014

June 13, 2014



STATE OF INDIANA

MICHAEL R. PENCE, Governor

Linda Peterson Hamilton, Chairman

WORKERS COMPENSATION BOARD

402 West Washington Street, Room W196

Indianapolis, Indiana 46204-2753

Telephone: (317) 232-3808

<http://www.in.gov/workcomp>

SECOND INJURY FUND REPORT

By the Chair

AND ASSESSMENT FOR 2014

December 31, 2013

As 2013 draws to a close, I am happy to report good news. The number of injuries in the workplace continued to decrease; this year by 14%. The Second Injury Fund will end 2013 in the black. \$6,065,977 was collected through the 2013 assessment and \$5,811,434 was paid out in benefits and expenses.

Included with this report are the Certification forms used to calculate individual assessment obligations. These forms use numbers provided by the ICRB as well as self-insured factors taken from new and renewal applications for 2012. Historical data regarding Fund payouts can be found on the last page.

While we expect indemnity payments from the Fund to continue their upward trend as more injured workers are added to the roll, the cost of prosthetics in 2014 should not increase much over that of 2013. Replacement of prosthetics is a cyclical expense of the Fund, although the variations are not as pronounced as they used to be with the increased cost of artificial members. Prosthetics in 2013 were approximately \$239,000 less than in 2012, and we expect one more year of lower numbers. However, the cost of prosthetics roughly doubled from 2006 to 2007 and again from 2011 and 2012. Therefore, our prudent reserve for prosthetics is based on the highest year out of the 3 most recent years.

The fourth of five installments of the Fund's loan repayment to the Board's Supplemental Fund will occur this year, with the other payments occurring in 2007, 2011 and 2012. The administrative expenses included in the assessment will also be taken out for the third time this year. The Board does not process payment of these two administrative expenses until it is sure the obligations to injured workers can be satisfied with the funds on hand.

The administrative costs included in the 2014 assessment are the same as those used for the previous years' assessments; \$42,000. However, the Board has begun tracking the quarterly time commitment of each staff member who works on SIF issues, as well as the number of hours expended by the Attorney General's office in defending the Fund before the Board and in the Court of Appeals and Supreme Court of Indiana. It is expected that the administrative expense factor of the assessment will rise sometime in the future, as it will more accurately reflect the cost of administrating the Fund. However, at this time, we are simply gathering data.

Payments will be due on January 31st and June 13th if you choose to use the installment option. No reminder will be sent before the due date.

Please call Mary Taivalkoski or me if you have questions or comments regarding the assessment, report, or the Fund.

Wishing you good health, happiness, peace and prosperity in the 2014.

Yours very truly,

A handwritten signature in cursive script that reads "Linda Hamilton".

Linda Peterson Hamilton

2nd INJURY FUND REPORT

December 31, 2013

Available Fund Balance 12/31/12	978,192
Revenue from 2013 Assessment	6,065,977
Total Available Monies 2013	7,044,169
Expenditures 2013:	
Indemnity (312 Recipients)	4,794,848
Prosthetics (65 Recipients)	780,300
Loan	192,400
Administrative Fees	42,000
SWCAP-Statewide Cost Allocation Plan	<u>1,886</u>
Total	5,811,434
Available Fund Balance 12/28/2013	1,232,735

2014 Assessment Factors

Indemnity (3 months indemnity)	1,198,712
Prosthetics (3 month avg. expense)	<u>254,814</u>
Total Prudent Reserve	1,453,526

Estimated Expenditures

Indemnity	4,986,642
Prosthetics	826,925
Loan	192,400
Administrative Fees	42,000
SWCAP-Statewide Cost Allocation Plan	<u>1,886</u>
Proposed Need	6,049,853
12/30/2013 Available Fund Balance	- 1,232,735
Final Assessment Amount	6,270,644

* 7.4.2.1 State-Wide Cost Allocation Plan (SWCAP)

Reported and Historical Data Utilized in Assessment of Fund

(Reported in dollars)

Reported by ICRB for 2012:

Total Losses Paid	445,461,000
Total Premiums Written	782,614,000

Reported by ICRB for 2011

Total Losses Paid	436,329,000
Total Premiums Written	692,820,000

Reported by ICRB for 2010

Total Losses Paid	427,048,000
Total Premiums Written	616,420,000

Reported by ICRB for 2009:

Total Losses Paid	424,767,000
Total Premiums Written	620,459,000

~~~~~  
Self-Insured Factors 2012

|                            |                   |
|----------------------------|-------------------|
| Total Indemnity Paid       | 18,066,780        |
| Total Medical Paid         | <u>43,575,323</u> |
| Total Self Insured Factors | 61,642,103        |

Self-Insured Factors 2011

|                            |                   |
|----------------------------|-------------------|
| Total Indemnity Paid       | 21,016,610        |
| Total Medical Paid         | <u>56,316,103</u> |
| Total Self Insured Factors | 77,332,713        |

Self-Insured Factors 2010

|                            |                   |
|----------------------------|-------------------|
| Total Indemnity Paid       | 15,183,200        |
| Total Medical Paid         | <u>46,292,957</u> |
| Total Self Insured Factors | 61,476,157        |

Self-Insured Factors 2009:

|                            |                   |
|----------------------------|-------------------|
| Total Indemnity Paid       | 17,300,704        |
| Total Medical Paid         | <u>41,700,782</u> |
| Total Self Insured Factors | 59,001,486        |

**Historical Second Injury Fund Data re.**

**Total Expenditures Reported By the WCB**

**(Reported in dollars)**

|                             |           |
|-----------------------------|-----------|
| Jan/Dec 2012                |           |
| Prosthetics (68 Recipients) | 1,019,258 |
| Indemnity (302 Recipients)  | 4,735,990 |
| Jan/Dec 2011                |           |
| Prosthetics (67 Recipients) | 585,801   |
| Indemnity (293 Recipients)  | 4,375,287 |
| Jan/Dec 2010                |           |
| Prosthetics (62 Recipients) | 561,247   |
| Indemnity (291 Recipients)  | 4,227,113 |
| Jan/Dec 2009                |           |
| Prosthetics (63 Recipients) | 624,711   |
| Indemnity (289 Recipients)  | 4,099,537 |
| Jan/Dec 2008                |           |
| Prosthetics (50 Recipients) | 527,506   |
| Indemnity (281 Recipients)  | 3,413,452 |
| Jan/Dec 2007                |           |
| Prosthetics (53 Recipients) | 539,340   |
| Indemnity (271 Recipients)  | 3,539,032 |

**CERTIFICATION FOR WORKER'S COMPENSATION CARRIERS**

STATE OF \_\_\_\_\_

COUNTY OF \_\_\_\_\_

I, \_\_\_\_\_, hereby CERTIFY that I am \_\_\_\_\_  
(Official Title)

of \_\_\_\_\_ and that I have knowledge of the  
(Carrier)

workers' compensation records of Carrier. I further CERTIFY that the amount of **direct written premiums** issued by Carrier for Indiana Worker's Compensation Insurance in the calendar year **2012** totaled \$\_\_\_\_\_.

I further CERTIFY that I have calculated Carrier's 2014 assessment for the Second Injury Fund by dividing the above number representing Carrier's Direct Written Premiums by 782,614,000 (which, in dollars represents the total direct written premiums for all worker's compensation carriers in Indiana in 2012), and then multiplying that figure by 5,508,401 (which, in dollars represents the amount for all carriers portion of the 2014 assessment for the Second Injury Fund). This calculation gave me \_\_\_\_\_, which in dollars represents Carrier's total annual assessment.

I further CERTIFY that the enclosed sum of \$\_\_\_\_\_ represents one half of /entire Company's calculated assessment, which is the first installment of the statutory assessment due by **January 31, 2014** and payable to the Worker's Compensation Board of Indiana for the Second Injury Fund. I agree to pay \$\_\_\_\_\_ as payment of the second half of Company's assessment for 2014 *without notice* to the Board by **June 13, 2014**.

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

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Carrier Name

\_\_\_\_\_  
Federal ID Number

\_\_\_\_\_  
Telephone Number

\_\_\_\_\_  
E-mail Address

\_\_\_\_\_  
Mailing Address

\_\_\_\_\_  
City, State, Zip

**\*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.**



**Indiana Second Injury Fund (SIF) Assessment for 2014**  
*Stepping Through the Process (10 steps)*

HEA 1307 effective July 1, 2006  
 Indiana Code § 22-3-3-13

**Step 1**

IC § 22-3-3-13 (c)  
 WC Board sends notice by November 1 to  
     (1) carriers and other insuring entities, and  
     (2) self-insureds  
 that an assessment is necessary

**Step 2**

IC § 22-3-3-13 (c)  
 Entities then send to the WC Board their statements of total paid losses and premium by January 31.

Note: Entities use 2012 year figures since 2013 figures are not yet available. Entities **should report "direct premiums written" and "direct losses paid."**

**Step 3**

IC § 22-3-3-13 (c)  
 The assessment cannot exceed 2.5% of total losses (medical + indemnity). Note: Total losses are from all entities (carriers, other insuring entities, and self-insureds).

**Step 4**

IC § 22-3-3-13 (c)  
**As of November 1, if the SIF balance exceeds 135% of the prior year's disbursement, no assessment will occur.**

**Step 5**

IC § 22-3-3-13 (d)  
**WC Board assesses "all employers."** The assessment calculation begins by determining the percentage share of two groups: self-insureds and insured employers.

The percentage is based upon each group's portion of "total paid losses."

***Example:***

In this example, the SIF assessment is \$6,270,644.

| <b>Entity</b>     | <b>2012 Total Paid Losses</b> | <b>Percent</b> | <b>Assessment Amt in Cert Form</b> | <b>Assessment Percentage</b> |
|-------------------|-------------------------------|----------------|------------------------------------|------------------------------|
| Self-insureds     | \$61,642,103                  | 12%            | \$762,243                          |                              |
| Insured employers | \$445,461,000                 | 88%            | \$5,508,401                        |                              |
| <b>Total</b>      | <b>\$507,103,103</b>          | <b>100%</b>    | <b>\$6,270,644</b>                 | <b>1.24%</b>                 |



The example shows (using rounded figures) that self-insureds are responsible for 12% (\$762 thousand) of the \$6.3 million assessment and insured employers are responsible for 88% (\$5.5 million).

### **Step 6**

IC § 22-3-3-13 (d)(3)

The assessment for carriers is calculated by determining the percentage share of an **individual carrier's premium to all carriers premium.**

Carriers collect the assessment of insured employers via a SIF surcharge on the policy.

#### *Example:*

In this example, we use Indiana 2012 statewide premium of \$783 million.

| <b>Entity</b>      | <b>2012 Direct Premium Written</b> | <b>Percent</b> | <b>Assessment</b> | <b>Surcharge Factor</b> |
|--------------------|------------------------------------|----------------|-------------------|-------------------------|
| Carrier A          | \$9,000,000                        | 1.1%           | \$63,346          | <b>0.0070</b>           |
| Total All Carriers | \$782,614,000                      | 100%           | \$5,508,401       | <b>0.0070</b>           |

The example shows that Carrier A writes \$9 million in premium and is responsible for 1.1% (\$63,346) of the insured employers portion (\$5.5 million).

### **Step 7**

IC § 22-3-3-13 (d)(4)

As noted above in Step 2, entities use 2012 **year "direct premiums written."**

### **Step 8**

IC § 22-3-3-13 (d)(5)

The assessment for self-insureds is calculated by determining the percentage share of a **self-insured's paid losses to all self-insureds' paid losses.**

### **Step 9**

IC § 22-3-3-13 (e)

The WC Board will calculate the recommended funding level by December 1. This study will determine if an assessment is necessary.



**Step 10**

IC § 22-3-3-13 (f)

Carriers collect the assessment of insured employers via a SIF surcharge on the policy. Each carrier’s surcharge can be different since a carrier’s projected premium for 2014 may differ from the amount reported for 2012 (See Step 2).

*Example 1:*

In this example, Carrier A wrote \$9 million in premium in 2012 and is responsible to pay a \$63,346 assessment. Carrier A projects 2014 premium to remain at \$9 million. It can recoup the cost of that assessment by applying a surcharge on its policies. It can calculate its surcharge on the policy as follows:

$$63,346 / 9,000,000 = 0.0070 \text{ or } .70\%$$

Let’s assume that Employer X premium is \$10,000 and is insured by Carrier A which applies a 0.0070 surcharge factor to total estimated annual premium.

The example shows that Employer X with \$10,000 in estimated premium pays a SIF surcharge of \$70.

| Entity     | Total Estimated Annual Premium | Surcharge Factor | Surcharge Amount |
|------------|--------------------------------|------------------|------------------|
| Employer X | \$10,000                       | 0.0070           | \$70             |

*Example 2:*

In this example, Carrier A wrote \$9 million in premium in 2012 and is responsible to pay a \$63,346 assessment. Carrier A projects 2014 premium to increase to \$12 million. It can recoup the cost of that assessment by applying a surcharge on its policies. It can calculate its surcharge on the policy as follows:

$$63,346 / 12,000,000 = 0.0053 \text{ or } .53\%$$

Let’s assume that Employer X premium is \$10,000 and is insured by Carrier A which applies a 0.0053 surcharge factor to total estimated annual premium.

The example shows that Employer X with \$10,000 in estimated premium pays a SIF surcharge of \$53.

| Entity     | Total Estimated Annual Premium | Surcharge Factor | Surcharge Amount |
|------------|--------------------------------|------------------|------------------|
| Employer X | \$10,000                       | 0.0053           | \$53             |