



December 11, 2008

Informational Circular 2008-13

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 7, 2008 titled “[2nd Injury Fund Report and Assessment for 2009](#)”. The Board certification forms indicate the combined total assessment amount for carriers and self-insureds is \$4,510,136. Based on combined total paid losses in 2007 (latest data available) of \$479,836,263, the assessment rate is 0.94% which is within the statutory limit of 2.5%.
[reference IC § 22-3-3-13 (c)]

The Board has set up two installments to pay half the annual sum due in each installment. Payments are due by January 31, 2009 and June 15, 2009.

Policy Surcharge Factor

The 2009 statewide average policy surcharge factor is 0.0048 compared to the last two years’ average factors of 0.0026 and 0.0065 respectively. 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 0.0048 factor.

At-a-Glance Summary

- Carrier must complete Certification form and send with its payment *to the Board*.
- 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 0.0048 is for informational purposes only to assist members.

Statute Changes

[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 now 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 2009, the split is 13% self-insureds and 87% 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."

Conclusion

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:

- ✓ [2nd Injury Fund Report and Assessment for 2009](#) dated December 7, 2008
- ✓ [Certification for Worker's Compensation Carriers](#), State Form 12386-b
- ✓ Indiana SIF for 2009 - Stepping Through the Process

WORKERS COMPENSATION BOARD OF INDIANA

**SECOND INJURY FUND
CALCULATION OF FUNDING LEVEL**

December 8, 2008

Please note the assessment can be paid in two installments.

The due dates are:

Jan 31, 2009

June 15, 2009



STATE OF INDIANA

MITCHELL E. DANIELS, JR., 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 **AND ASSESSMENT FOR 2009**

December 7th, 2008

Greetings from the Board!

I would like to tell you that all things are rosy and bright with the Second Injury Fund. I can't go *quite* that far, but I can tell you that it doesn't need a bailout to stay afloat and that it will meet its obligations in 2008 without having touched the prudent reserve created this year. Included in the report are the numbers provided by the ICRB and self-insured factors taken from renewal applications for 2006 and 2007 along with historical data of payouts. The assets in the Fund on November 1, 2008 were less than 135% of the payout in 2007, and thus an assessment is appropriate for 2009 in accordance with IC 22-3-3-13 (c)(2).

The cost of prosthetics this year has been higher than projected. Historically, the Fund has seen cyclical jumps in the cost of prosthetics, as they have an average lifespan of three years. In 2007, the Fund paid out more than twice what it did in 2006. We predicted a cost for replacing prosthetics in 2008 of roughly \$330,000. Because of the trend we are seeing in the cost of prosthetics, we used the average of the previous 4 years' replacement figures in calculating the 2009 assessment.

Both the technical development, and thus the cost, of prosthetics have been escalating at a remarkable rate. The Act is not specific as to the standard to be used in choosing a replacement limb for an injured worker. Most likely, there have been improvements to the item since it was last replaced. We will continue to aim toward the "Chevy" model in choosing the new unit; not the moped or the

Mercedes. For the last several years, we have worked almost exclusively with Modern Medical, but we will be doing some comparison shopping in 2009.

The average monthly cost of prosthetics is also included in the calculation of the 3 month prudent reserve for 2009. Nothing was factored in for prosthetics in the 2008 reserve figure.

The first of five installments of the Fund's loan repayment to the Board's Supplemental Fund occurred at the end of 2007. We have not withdrawn the 2008 installment, or the administrative expenses for 2007 or 2008, due to a conflict created by the language of IC 22-3-3-13(g) which states funds shall be used only for the "payment of awards of compensation ordered by the board..." Once this language has been amended, these reimbursements will be paid to the Board.

Payments will be due on January 31st and June 15th if you choose to use the installment option. Remember the 10% penalty set out at IC 22-3-3-13 (c)(2) for late payments and that no reminder will be sent before the due date in June.

Take care and please call me or Mary Taivalkoski if you have questions regarding the assessment or report.

Yours Very Truly,

Linda Peterson Hamilton

2nd INJURY FUND REPORT

November 30, 2008

Expenditures as of 6/28/08	2,098,437.16
Balance as of 6/28/08	2,957,065.31
Actual Balance of Fund at Nov 1st 2008	1,707,347.79
Actual Balance as of Nov 30	1,400,934.47
December Indemnity Payments	306,413.34
Projected Balance of Fund at Dec 31 st 2008	1,094,521.13
Loan Repayment	(192,400.00)
Administrative Fees 2007	(42,000.00)
Administrative Fees 2008	(42,000.00)
Credit Against 2009 Assessment	818,121.13

2009 Assessment Factors

Indemnity (3 months indemnity)	925,000.00
Prosthetics (3 month avg. expense)	90,611.00
Total Prudent Reserve	1,015,612.00
Estimated Expenditures	
Indemnity	3,675,907.00
Prosthetics	483,548.00
Recommended Assessment	4,356,946.00

Reported and Historical Data Utilized in Assessment of Fund

Reported by ICRB for 2007:

Total Losses Paid	418,292,000
Total Premiums Written	796,025,000

Reported by ICRB for 2006

Total Losses Paid	395,044,000
Total Premiums Written	822,627,000

Self-Insured Factors 2007:

Total Indemnity Paid	18,136,827
Total Medical Paid	43,407,436
Total Self-Insured Losses Paid	61,544,263

Self- Insured Factors 2006:

Total Indemnity Paid	20,558,814.19
Total Medical Paid	33,304,025.91
Total Self-Insured Losses Paid	53,862,840.10

Total Expenditures Reported By the WCB

Jan/Nov 2008 Prosthetics Indemnity	483,547.72 3,369,493.84
---------------------------------------	----------------------------

Jan/Dec 2007 Prosthetics Indemnity	539,340.26 3,539,032.20
---------------------------------------	----------------------------

Jan/Dec 2006 Prosthetics Indemnity	246,604.01 3,432,705.28
---------------------------------------	----------------------------

Jan/Dec 2005 Prosthetics Indemnity	276,835.78 3,185,737.86
---------------------------------------	----------------------------

Jan/Dec 2004 Prosthetics Indemnity	139,710.18 2,900,396.86
---------------------------------------	----------------------------

Jan/Dec 2003 Prosthetics Indemnity	229,764.64 2,592,605.72
---------------------------------------	----------------------------

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)

worker's 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 **2007** totaled \$_____.

I further CERTIFY that I have calculated Carrier's 2009 assessment for the Second Injury Fund by dividing the above number representing Carrier's Direct Written Premiums by 796,025,000 (which, in dollars represents the total direct written premiums for all worker's compensation carriers in Indiana in 2007), and then multiplying that figure by 3,790,543 (which, in dollars represents the amount for all carriers portion of the 2009 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 Company's calculated assessment, which is the first installment of the statutory assessment due on **January 31, 2009** 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 2009 *without notice* to the Board by **June 15, 2009**.

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

***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 Assessment (SIF) for 2009
Stepping Through the Process

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 2007 year figures since 2008 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 \$4.5 million.

Entity	2007 Total Paid Losses	Percent	Assessment Amt in Cert Form	Assessment Percentage
Self-insureds	\$ 61,544,263	13%	\$719,593	
Insured employers	\$418,292,000	87%	\$3,790,543	
Total	\$479,836,263	100%	\$4,510,136	0.94%



The example shows that self-insureds are responsible for 13% (\$720 thousand) of the \$4.5 million assessment and insured employers are responsible for 87% (\$3.8 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 2007 statewide premium of \$796 million.

Entity	2007 Direct Premium Written	Percent	Assessment	Surcharge Factor
Carrier A	\$9,000,000	1.1%	\$42,857	0.0048
Total All Carriers	\$796,025,000	100%	\$3,790,543	0.0048

The example shows that Carrier A writes \$9 million in premium and is responsible for 1.1% (\$42,857) of the insured employers portion (\$3.8 million).

Step 7

IC § 22-3-3-13 (d)(4)

As noted above in Step 2, entities use 2007 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 2009 may differ from the amount reported for 2007 (See Step 2).

Example 1:

In this example, Carrier A wrote \$9 million in premium in 2007 and is responsible to pay a \$42,857 assessment. Carrier A projects 2009 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:

$$42,857 / 9,000,000 = 0.0048 \text{ or } .48\%$$

Let’s assume that Employer X premium is \$10,000 and is insured by Carrier A which applies a 0.0048 surcharge factor to total estimated annual premium.

Entity	2009 Total Estimated Annual Premium	Surcharge Factor	Surcharge Amount
Employer X	\$10,000	0.0048	\$48

The example shows that Employer X with \$10,000 in estimated premium pays a SIF surcharge of \$48.

Example 2:

In this example, Carrier A wrote \$9 million in premium in 2007 and is responsible to pay a \$42,857 assessment. Carrier A projects 2009 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:

$$42,857 / 12,000,000 = 0.0036 \text{ or } .36\%$$

Let’s assume that Employer X premium is \$10,000 and is insured by Carrier A which applies a 0.0036 surcharge factor to total estimated annual premium.

Entity	Total Estimated Annual Premium	Surcharge Factor	Surcharge Amount
Employer X	\$10,000	0.0036	\$36

The example shows that Employer X with \$10,000 in estimated premium pays a SIF surcharge of \$36.