



January 7, 2013

Informational Circular 2013-01

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, 2012 titled “[2013 Second Injury Fund Calculation of Funding Level](#)”. The Board certification forms indicate the combined total assessment amount for carriers and self-insureds in 2013 is \$6,386,488. Based on combined total paid losses in 2011 (latest data available) of \$513,661,713, the assessment rate is 1.24% 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, 2013 and June 14, 2013.

Policy Surcharge Factor

The 2013 statewide average policy surcharge factor is 0.0078 compared to the last year’s average factor 0.0066. 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 0.0078 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 0.0078 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 2013, the split is 15% self-insureds and 85% 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:

- ✓ [2013 Second Injury Fund Calculation of Funding Level](#) dated December 31, 2012
- ✓ [Certification for Worker's Compensation Carriers](#), State Form 12386-b
- ✓ Indiana SIF for 2013 - Stepping Through the Process

WORKERS COMPENSATION BOARD OF INDIANA

**2013 SECOND INJURY FUND
CALCULATION OF FUNDING LEVEL**

December 31, 2012

Please note the assessment can be paid in two installments.

The due dates are:

January 31, 2013

June 14, 2013



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

by the Chair

AND ASSESSMENT FOR 2013

January 4, 2013

Happy New Year from the Board!

The Second Injury Fund will meet its obligations in 2012, leaving a healthy base toward the 2013 assessment. Included in this report are the numbers provided by the ICRB and self-insured factors taken from renewal applications for 2011 along with historical data of payouts.

The cost of indemnity in 2012 was approximately \$700 less than estimated. The cost of prosthetics was \$410,000 higher than projected. In fact, the cost of prosthetics in 2012 was double that of 2011 although the same number of prosthetic replacements occurred in both years; 67. This doubling also occurred in 2006 to 2007; however, we provided 7 more prosthetics in 2007 than in 2006.

We are seeing a change in the cyclical cost of artificial limbs, which historically jumped up once every three years, as that is the average lifespan of many prosthetics. As they have become more complicated and functional, prosthetic devices have also become more expensive. In some cases, the artificial member to be replaced is no longer available in the same form and the next level prosthesis must be used. However, while it is sometimes difficult to deny a permanently injured worker the most advanced artificial limb available, the Fund still provides only the Chevy version; not the Cadillac and replacement most closely resembles the original item.

Because of the trend we had been seeing in the cost of prosthetics, we used the average of the previous four years' replacement figures in calculating the 2012 assessment. As a precaution, we are estimating the cost of prosthetics in 2013 to equal the actual cost in 2012, but we are leaving the three month prudent reserve figure for prosthetics the same as 2012.

As with the 2012 assessment, there is a 4% increase in the cost of indemnity built into the 2013 assessment. This was also the actual cost increase seen in 2012.

The fourth of five loan installments and the administrative costs are the same as in previous years. SWCAP is estimated based on previous years' charges against the Fund. Other details are available in the historical data attached.

Payments will be due on January 31st and June 14th, 2013, 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 Mary Taivalkoski or me if you have questions regarding the assessment or report.

Yours very truly,

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

Linda Peterson Hamilton

2nd INJURY FUND REPORT

December 31, 2012

Available Fund Balance 12/31/11	2,073,063
Revenue from 2012 Assessment	4,629,949
Total Available Monies 2012	6,703,011
Expenditures 2012:	
Indemnity	4,553,836
Prosthetics	1,019,258
Loan	192,400
Administrative Fees	42,000
SWCAP-Statewide Cost Allocation Plan	<u>3,724</u>
Total	5,811,218
Available Fund Balance 12/28/2012	891,793

2013 Assessment Factors

Indemnity (3 months indemnity)	1,138,459
Prosthetics (3 month avg. expense)	<u>146,450</u>
Total Prudent Reserve	1,284,909
Estimated Expenditures	
Indemnity	4,735,990
Prosthetics	1,019,258
Loan	192,400
Administrative Fees	42,000
SWCAP-Statewide Cost Allocation Plan	<u>3,724</u>
Proposed Need	7,278,281
12/28/2012 Available Fund Balance	- 891,793
Final Assessment Amount	6,386,488

* 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 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

Reported by ICRB for 2008:

Total Losses Paid	436,611,000
Total Premiums Written	710,109,000

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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        |

Self-Insured Factors 2008:

|                                |                   |
|--------------------------------|-------------------|
| Total Indemnity Paid           | 17,686,744        |
| Total Medical Paid             | <u>48,563,961</u> |
| Total Self-Insured Losses Paid | 66,250,705        |

**Historical Second Injury Fund Data re.  
Total Expenditures Reported By the WCB  
(reported in dollars)**

|              |           |
|--------------|-----------|
| Jan/Dec 2010 |           |
| Prosthetics  | 561,247   |
| Indemnity    | 4,227,113 |
| Jan/Dec 2009 |           |
| Prosthetics  | 624,711   |
| Indemnity    | 4,099,537 |
| Jan/Dec 2008 |           |
| Prosthetics  | 527,506   |
| Indemnity    | 3,413,452 |
| Jan/Dec 2007 |           |
| Prosthetics  | 539,340   |
| Indemnity    | 3,539,032 |
| Jan/Dec 2006 |           |
| Prosthetics  | 246,604   |
| Indemnity    | 3,432,705 |

**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 **2011** totaled \$\_\_\_\_\_.

I further CERTIFY that I have calculated Carrier's 2013 assessment for the Second Injury Fund by dividing the above number representing Carrier's Direct Written Premiums by 692,820,000 (which, in dollars represents the total direct written premiums for all worker's compensation carriers in Indiana in 2011), and then multiplying that figure by 5,428,515 (which, in dollars represents the amount for all carriers portion of the 2013) 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, 2013** 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 2013 *without notice* to the Board by **June 15, 2013**.

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 2013**  
*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 2011 year figures since 2012 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 \$6,386,490.

| Entity            | 2011 Total Paid Losses | Percent     | Assessment Amt in Cert Form | Assessment Percentage |
|-------------------|------------------------|-------------|-----------------------------|-----------------------|
| Self-insureds     | \$77,332,713           | 15%         | \$957,975                   |                       |
| Insured employers | \$436,329,000          | 85%         | \$5,428,515                 |                       |
| <b>Total</b>      | <b>\$513,661,713</b>   | <b>100%</b> | <b>\$6,386,490</b>          | <b>1.24%</b>          |



The example shows (using rounded figures) that self-insureds are responsible for 15% (\$958 thousand) of the \$6.4 million assessment and insured employers are responsible for 85% (\$5.4 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 2011 statewide premium of \$693 million.

| <b>Entity</b>      | <b>2011 Direct Premium Written</b> | <b>Percent</b> | <b>Assessment</b> | <b>Surcharge Factor</b> |
|--------------------|------------------------------------|----------------|-------------------|-------------------------|
| Carrier A          | \$9,000,000                        | 1.3%           | \$70,519          | <b>0.0078</b>           |
| Total All Carriers | \$692,820,000                      | 100%           | \$5,428,515       | <b>0.0078</b>           |

The example shows that Carrier A writes \$9 million in premium and is responsible for 1.3% (\$70,519) of the insured employers portion (\$5.4 million).

### **Step 7**

IC § 22-3-3-13 (d)(4)

As noted above in Step 2, entities use 2011 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 2013 may differ from the amount reported for 2011 (See Step 2).

#### *Example 1:*

In this example, Carrier A wrote \$9 million in premium in 2011 and is responsible to pay a \$70,519 assessment. Carrier A projects 2013 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:

$$70,519 / 9,000,000 = 0.0078 \text{ or } .78\%$$

Let's assume that Employer X premium is \$10,000 and is insured by Carrier A which applies a 0.0078 surcharge factor to total estimated annual premium.

The example shows that Employer X with \$10,000 in estimated premium pays a SIF surcharge of \$78.

| Entity     | Total Estimated Annual Premium | Surcharge Factor | Surcharge Amount |
|------------|--------------------------------|------------------|------------------|
| Employer X | \$10,000                       | 0.0078           | \$78             |

#### *Example 2:*

In this example, Carrier A wrote \$9 million in premium in 2011 and is responsible to pay a \$70,519 assessment. Carrier A projects 2013 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:

$$70,519 / 12,000,000 = 0.0059 \text{ or } .59\%$$

Let's assume that Employer X premium is \$10,000 and is insured by Carrier A which applies a 0.0059 surcharge factor to total estimated annual premium.

The example shows that Employer X with \$10,000 in estimated premium pays a SIF surcharge of \$59.

| Entity     | Total Estimated Annual Premium | Surcharge Factor | Surcharge Amount |
|------------|--------------------------------|------------------|------------------|
| Employer X | \$10,000                       | 0.0059           | \$59             |