

WORKERS COMPENSATION BOARD OF INDIANA

**SECOND INJURY FUND
CALCULATION OF FUNDING LEVEL**

November 28, 2006

Please note the assessment can be paid in two installments.

The due dates are:

Jan 31, 2007

June 30, 2007



STATE OF INDIANA

MITCHELL E. DANIELS, JR., Governor

Linda Peterson Hamilton, Chairman

WORKERS COMPENSATION BOARD

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November 28, 2006

To the Indiana Worker's Compensation Community:

In accordance with the 2006 amendments to the Indiana Worker's Compensation Act, the Board has prepared the attached report entitled Second Injury Fund-Calculation of Funding Level.

The Second Injury Fund (SIF) was created by the State of Indiana to provide compensation to employees who have been permanently and totally disabled due to a compensable work injury in the State and have also exhausted the statutory maximum 500 weeks of compensation. In addition, the Fund provides benefits to persons who have suffered an amputation due to a compensable work injury and need to repair or replace the appropriate prosthetic device. The needs of the fund are calculated on an annual basis, with twelve years of historical data.

As of 2007, the Fund may collect revenue of up to 2.5% of all Direct Losses Paid by the Indiana Workers' Compensation Community of Insurers (Carriers and Self-Insureds) as reported by the Indiana Compensation Rating Bureau ("ICRB") for the year ending 2 years prior ("Base Year") to the year of the proposed assessment. The Board is authorized to conduct the assessment if, on or before November 1st of the Calculation Year, the balance in the Fund is less than one hundred thirty-five percent (135%) of the Base Year's disbursements. In the attached report, the Base Year is 2005, the Calculation Year is 2006 and the year of the assessment is 2007.

The purpose of this Report is to explain the calculations used in arriving at the assessment for calendar year 2007. Our calculations were based on the Indiana Worker's Compensation Board's Database System and information provided by the ICRB to the Board in July of 2006, based on 2005 losses paid. Because current year's expenditures rarely equal historical expenditures, the assessment recommended may or may not be sufficient to fund future expenditures. Indiana Code 22-3-3-23 allows the Board to approve a rate of up to .25% above the amount recommended by this Report. Likewise, any balance remaining in the Fund at calendar year end will carry over for use in the following year and be taken into consideration in the calculation for the next year's assessment. As you will see, we are pleased to announce the Fund is projected to be in the black at year end, and this figure was considered in the calculations. It is the intention of the Board to adequately fund the SIF in the future so that loans to the Fund, from the Worker's Compensation Board will not be necessary.

This report is issued solely for your information and assistance with the calculation of the required assessment for the 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. This Report is issued as of the date set forth above and all updates or revisions will be at the direction of the Chairman of the Indiana Workers' Compensation Board. This material should also be read in conjunction with the NonRule Policy Document also on the website.

Respectfully submitted:

Linda Hamilton, Chairman

Wendy Baker, Assessment Analyst

Mary Taivalkoski, Policy Advisor & Administrator

WORKER'S COMPENSATION BOARD OF INDIANA

Recommended Assessment	\$6,413,977
Estimated Fund Balance 2006 year end (1)	\$1,072,277
Estimated Expenditures through December 2007 (2)	\$6,221,577
Estimated Revenues from 1.6325% Assessment	\$6,398,268

Note:

(1) Included in the Estimated Fund Balance is the Fund's Cash balance as of year end 2006 (-) estimated pending prosthetic expenditures as double year to date's expenditures of July/2006

(\$129,819.00) + current average increase rate of expenditures (13.09%) to equal
 $(2 * 129,819.00) * 13.09\% + 129,819 = 163,805.00$

(2) In the Estimated Expenditures are the following line items:

Past year's (2006) ½ year to date Systems Total Disbursements (Prosthetic & PTD) multiplied by 2, times the average increase rate of expenditures (13.09%) to equal
 $(2 * 2,059,859) * (13.09\%) + 2,059,859 = 2,599,130.00$

I.C. 22-3-3-13 (d) states the assessment should include the administrative expenses of the SIF. In order to arrive at a reasonable figure, the Board evaluated the time spent by its staff members on SIF matters. Six individuals work on the fund in some capacity. Consideration was given to the actual employees' salaries and percentage of time each allocated to the Fund. Discussion was then had with the Board's advisor in State Personnel Department. If one employee was hired by the Board to administer the fund, the appropriate salary range for that job description was ascertained. This figure was in line with the first calculation of actual administrative costs, without consideration to overhead expenses. \$42,000 is the figure used to cover administrative expenses in the equation.

This Code Section also requires repayment of all loans made to the SIF. A total of \$962,000.00 has been loaned to the SIF from the Worker's Compensation Board's Supplemental Fund; a dedicated fund described in I.C. 22-3-5-6. The equation includes the repayment of \$192,400.00 in 2007, which equals 1/5 of the \$962,000.00 outstanding loan.

Recommendations per INWCB

Assessment rate is based on:

Estimated 2007 expenditures	\$6,221,577.00
Below the maximum rate of (2.5%) to be 1.6325% of the 2005 Direct Losses Paid as reported by ICRB of \$391,930,675. =	\$6,398,268.00

WORKERS COMPENSATION BOARD OF INDIANA

SECOND INJURY FUND CALCULATION OF FUNDING LEVEL

Historical Second Injury Fund Expenditures

<u>YEAR</u>	<u>EXPENDITURES</u>	<u>PERCENTAGE CHANGE</u>
1993 - 94	\$914,635.00	11.85%
1994 - 95	\$958,010.00	4.74%
1995 - 96	\$1,226,625.00	28.04%
1996 - 97	\$1,445,551.00	17.85%
1997 - 98	\$1,719,652.00	18.96%
1998 - 99	\$2,246,421.00	30.63%
1999 -2000	\$2,327,755.00	3.62%
2001	\$2,646,699.00	13.70%
2002	\$2,765,475.00	4.49%
2003	\$2,898,017.00	4.79%
2004	\$3,051,575.00	5.30%
2005	\$3,450,365.00	13.07%
2006		
	average increase in change	13.09%

WORKERS COMPENSATION BOARD OF INDIANA

SECOND INJURY FUND CALCULATION OF FUNDING LEVEL

Historical Second Injury Fund Revenues

	<u>12 year historical % average increase</u>	<u>REVENUES</u>	<u>PERCENTAGE CHANGE</u>
state FY	1993 - 94	\$21,058.00	
	1994 - 95	\$1,608,576.00	7538.79%
	1995 - 96	\$1,365,303.00	-15.12%
	1996 - 97	\$1,338,387.00	-1.97%
	1997 - 98	\$1,353,732.00	1.15%
	1998 - 99	\$2,782,098.00	105.51%
	1999 -2000	\$2,200,524.00	-20.90%
calender yr	2001	\$2,083,172.00	-5.33%
	2002	\$2,971,879.00	42.66%
	2003	\$2,721,725.00	-8.42%
	2004	\$2,956,263.00	8.62%
	2005	\$3,021,632.00	2.21%
	2006		

WORKER'S COMPENSATION BOARD OF INDIANA NONRULE POLICY DOCUMENT

Title: Second Injury Fund Assessment Calculations Following Adoption of Public Law 134-2006, Section 5.

Identification Number: WCB – 001- NPD

Date Originally Effective: December 1st, 2006

Date Revised: None

Other Policies Repealed or Amended: None

Brief Description of the Subject Matter: This supplemental interpretation of certain provisions in Indiana Code 22-3-3-13, as amended by P.L. 134-2006, will ensure that calculation and collection of assessments to be paid to the Worker's Compensation Board's Second Injury Fund are carried out in a manner to meet the Fund's financial obligations.

Citation Affected: IC 22-3-3-13.

This nonrule policy document is intended solely as guidance and does not have the effect of law or represent formal Worker's Compensation Board of Indiana (Board) decision or final action. This nonrule policy document shall be used in conjunction with applicable laws. It does not replace applicable laws, but rather, supplements Indiana Code 22-3-3-13, as amended in 2006. This nonrule policy document shall be put into effect by the Board on December 1, 2006. The Board will submit the policy to the Indiana Register for publication. Revisions to the policy will follow the same procedure of presentation and publication.

Background

The Second Injury Fund (SIF) was created to provide extended compensation for permanently and totally disabled workers who have exhausted the statutory compensation paid by their employer and to pay for the replacement and/or repair of prosthetic devices/prosthetics. It is funded through an assessment on all insured and self-insured employers in the state. As the number of beneficiaries of the SIF has grown and the cost of prosthetics has risen, the previous method of calculating the annual assessment became inadequate to provide the funds necessary for the SIF to meet its financial obligations. More than \$960,000 has been loaned to the SIF from dedicated funds maintained by the Board. Therefore, in 2006, the Indiana Legislature amended the language in an attempt to spread the burden of the assessment more broadly to all employers in the state and to provide enough monies for the SIF to operate in the black for several years to come.

For the purpose of carrying out the intent of the legislature in amending IC 22-3-3-13, and in order to continue the administration of the SIF, the Board is implementing the following policy and procedure.

Policy Resolution

IC 22-3-3-13(c)(2):

Worker's compensation insurance carriers must submit the statements to the Board no later than **July 31st**. This submission date will still ensure that the SIF is administered to meet its financial needs.

IC 22-3-3-13(d)(3):

Each carrier shall calculate its assessment due in accordance with the formula set out in the Act by comparing the premiums received by it from insured employers with all premiums received by all carriers from insured employers. Thereafter, each carrier shall tender the correct assessment, on behalf of its insured employers, to the Board.

IC 22-3-3-13(d)(4):

The term "entire written premium" is not a term of art used in the insurance industry. The term "direct written premium" is widely used and understood in the industry. Thus, the term "direct written premium" shall be the basis for calculating assessments to be paid by insurance carriers on behalf of their insured employers.

Explanation

In order to create a consistent, logical and manageable means of calculating assessments to be paid to the Board's SIF, workers' compensation insurance carriers should apply the slightly varied terms set out above when reading IC 22-3-3-13 (c) (2), (d) (3), (d) (3) (B) (i), (d) (3) (B) (ii), and (d) (4). In so doing, the intent of the legislature may be carried out and the SIF will be adequately and accurately funded to meet its financial needs.