

DEPARTMENT OF INDUSTRIAL RELATIONS
OFFICE OF THE DIRECTOR
P. O. Box 420603
San Francisco, CA 94142



(415) 703-4600

DATE: 15 November 2002
TO: All Insurers Authorized to Transact Workers' Compensation in California
SUBJECT: User Funding Assessment and Fraud Surcharge

On the basis of the direct workers' compensation premiums reported by you or your carriers to the Department of Insurance for Calendar Year **2001**, an assessment invoice, and/or surcharge reflecting your company or companies share of the following assessment is enclosed:

- the **\$20,444,000** Workers' Compensation "User Funding" Assessment (Pursuant to Labor Code Section 62.5) for **2002-2003**, and
- the **\$30,152,168** surcharge approved by the Fraud Assessment Commission (Pursuant to Labor Code Section 62.6) for **2002-2003**

Payments

Please note that your first installment is **due on or before January 1, 2003** with the balance due on or before **April 1, 2003**.

Methodology

Labor Code Sections 62.5 and 62.6 require the user funding assessment and fraud surcharge be allocated between insured and self-insured employers in proportion to payroll for the most recent year available.

Attached is the methodology used to compute the user funding and fraud allocation and the resulting determination of the respective assessment factors.

Your share of the user funding assessment has been calculated by multiplying the insured employer user funding assessment factor, **0.000971** by your total 2001 California direct written premium, and pursuant to regulations [Title 8, CCR, Subchapter 2.06, Article 1, § 15606(b)], multiplying the result by the ratio of the expected total current year (**2002**) premium (**\$15,000,000,000**) to the total direct **2001** written workers' compensation premium of all insurers (**\$11,862,927,646**) or **1.264443352**.

Similarly, your share of the fraud surcharge has been calculated by multiplying the insured employer fraud assessment factor, **0.001180** by your total **2001** California direct written premium, and, pursuant to regulations [Title 8, CCR, Subchapter 2.06, Article 1, § 15606(b)], multiplying the result by the ratio of the expected total current year (**2002**) premium (**\$15,000,000,000**) to the total direct **2001** written workers' compensation premium of all insurers (**\$11,862,927,646**) or **1.264443352**.

If you were a single carrier and not part of an insurer group who reported data to the WCIRB on an individual company basis for 2001, your total California written premium for the purposes of these assessments is the amount reported for calendar 2001 to the WCIRB, which reflects the premiums charged to policyholders with the exception that it excludes the impact of deductible credits, retrospective rating adjustments, and policyholder dividends.

November 15, 2002

If you were part of an insurer group who reported data to the WCIRB for 2001, your total California written premium for the assessment purposes has been determined as the product of (a) the total 2001 written premium reported to the WCIRB on the aforementioned basis and (b) the ratio of your company's 2001 California written premium as reported in the 2001 Statutory Annual Statement (these amounts include the effect of deductible credits and retrospective rating adjustments) to the total 2001 Statutory Annual Statement California written premium reported for your insurer group as a whole.

All workers' compensation insurance policies issued by you with an inception date during the calendar year **2003** must be surcharged to recover amounts advanced on behalf of policyholders. The user funding factor for **2003** policies, applied to the estimated annual assessable premium*, is **0.000971**, the same as that used to calculate your user funding assessment. Similarly, the fraud surcharge factor for **2003** policies, applied to the estimated annual assessable premium*, is **0.001180**, the same as that used to calculate your fraud surcharge.

*Assessable Premium = the premium the insured is charged after all rating adjustments (experience rating, schedule rating, premium discounts expense constants, retrospective rating, etc.) except for adjustments resulting from the application of deductible plans or the return of policyholder dividend.

If you have any questions, please contact **Sven Norrlander, Administrative Services Chief at (415)703-4658** or **Naomi P. Carter, at (415)703-4652** in the Division of Workers' Compensation.

Sincerely,

Chuck Cake, Acting DIR Director

Enclosures

**California Department of Industrial Relations
2002-2003 Workers' Compensation
User Funding and Fraud Assessment Methodology**

METHODOLOGY

Labor Code sections 62.5 and 62.6 require the Department of Industrial Relations to levy the total amounts of the User funding assessment and Fraud surcharge between insured employers and self-insured employers in proportion to payroll paid in the most recent year for which information is available.

Step 1: Determine Total Assessments Required for 2002-2003

User Funding Assessment

Pursuant to the provisions of Labor Code Section 62.5,
the employer assessments required for 2002-2003 is:

\$20,444,000

Fraud Surcharge

The fraud surcharge is established by the Fraud Commission.
The Commission authorized an assessment for 2002-2003 of:

\$30,152,168

Step 2: Determine Payroll Amounts

Total payroll for insured employers: **\$339,514,256,824**

(Source): California Workers' Compensation Insurance Rating Bureau,
[WCIRB] Policy year 1999

Payroll for self-insured employers: **\$111,229,084,581**

(excluding State of California)

(Source): Department of Industrial Relations, Office of Self-Insurance Plans,

2000-01 Fiscal Year for Public Sector = \$50,665,194,013

2001 for Private Sector = \$60,563,890,568

Payroll for State of California (including SCIF) **\$14,076,111,021**

(Source: Department of Personnel Administration, Fiscal Year 2000-01)

Total payroll for self-insured employers **\$125,305,195,602**

Total combined payroll **\$464,819,452,426**

(Insured and self-insured employers)

Step 3: Calculate Proportional Payroll for Insured and Self-Insured Employers

Insured Employers:

Insured Employer Payroll = **\$339,514,256,824** **73.04%**

Total Combined Payroll \$464,819,452,426

Self-Insured Employers:

Self-Insured Employer Payroll = **\$125,305,195,602** **26.96%**

Total Combined Payroll \$464,819,452,426

Step 4: Determine the total assessments for Insured and Self-Insured Employers

User Funding Assessment

Total Insured Employers Assessment:

Total Assessment Required x 73.04% = \$20,444,000 x 73.04% = **\$14,932,298**

increased by credits due individual insurers which undercollected

against previous advances [pursuant to CCR Sec 15609] **\$2,151,638**

decreased by the fund balance [pursuant to CCR Sec 15606(f)] **(\$2,665,632)**

increased for SIP overcollection **\$143,081**

Resulting Final Insured Employers Assessment: **\$14,561,385**

**2002-2003 Workers' Compensation
User Funding and Fraud Assessment Methodology**

Total Assessment Required x 26.96% = \$20,444,000 x 26.96% =	\$5,511,702
decreased by the Self-Insurer overcollection from prior year	<u>(\$143,081)</u>
Resulting Final Self-Insured Employers Assessment:	\$5,368,621

Fraud Surcharge

Total Insured Employers Surcharge:

Total Surcharge Required x 73.04% = \$30,152,168 x 73.04% =	\$22,023,144
Increased by credits due individual insurers which undercollected against previous advances [pursuant to CCR Sec 15609]	\$5,455,652
decreased by the fund balance [pursuant to CCR Sec 15606(f)]	<u>(\$10,010,009)</u>
increased for SIP overcollection	\$225,633

Resulting Final Insured Employers Surcharge:	\$17,694,420
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Total Self-Insured Employers Surcharge:

Total Surcharge Required x 26.96% = \$30,152,168 x 26.96% =	\$8,129,024
This amount is decreased by the Self-Insurer overcollection from the prior year	<u>(\$225,633)</u>

Resulting Final Self-Insured Employers Assessment:	\$7,903,391
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**Step 5: Calculate the Assessment Factors for Insured and Self-Insured Employers
User Funding Assessment Factors**

Insured Employers User Funding Assessment Factor:

<u>Total Insured Employers Assessment =</u>	<u>\$14,561,385</u>	0.000971
Total Direct Workers' Compensation	\$15,000,000,000	
Estimated Premium (Source: WCIRB estimate for 2002 Policy Year)		

Self-Insured Employers User Funding Assessment Factor:

<u>Total Self-Insured Employer Assessment =</u>	<u>\$5,368,621</u>	0.003138
Total Amount of Workers' Compensation Indemnity Paid	\$1,710,786,880	

2000-01 Public Sector =	\$710,728,675
2001 Private Sector =	\$856,704,372
Department of Personnel Administration, 2000-01 State of California =	\$143,353,833

Fraud Surcharge Assessment Factor

<u>Total Insured Employer Surcharge =</u>	<u>\$17,694,420</u>	0.001180
Total Direct Workers' Compensation	\$15,000,000,000	
Estimated Premium (Source: WCIRB estimate for 2002 Policy Year)		

<u>Total Self-Insured Employer Surcharge =</u>	<u>\$7,903,391</u>	0.004620
Total Amount of Workers' Compensation Indemnity Paid	\$1,710,786,880	
(Source): Dept. of Industrial Relations, Office of Self-Insurance Plans:		
2000-01 Public Sector =	\$710,728,675	
2001 Private Sector =	\$856,704,372	
Department of Personnel Administration, 2000-01 State of California =	\$143,353,833	

**2002-2003 Workers' Compensation
User Funding and Fraud Assessment Methodology**

Step 6: Determine individual employer's User Funding Assessment

Individual Insured Employer User Funding Assessment:
Assessment Factor **.000971** x Employer's Expected Assessable Premium*

Individual Self-Insured Employer User Funding Assessment:
Assessment Factor **.003138** x Total Indemnity Paid by the Employer

Step 7: Determine individual employer's Fraud Surcharge

Individual Insured Employer Fraud Surcharge:
Assessment Factor **.001180** x Employer's Expected Assessable Premium*

Individual Self-Insured Employer Fraud Surcharge:
Assessment Factor **.004620** x Total Indemnity Paid by the Employer

* Assessable Premium = The premium the insured is charged after all rating adjustments (experience rating, schedule rating, premium discounts, expense constants, retrospective rating, etc.) except for adjustments resulting from the application of deductible plans or the return of policy holder dividend.

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OFFICE OF THE DIRECTOR
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(415) 703-4600

DATE : November 15, 2002
TO : All Self-Insured Employers in California
SUBJECT : Workers' Compensation "User Funding" Assessment and Fraud Surcharge

Dear California Self-Insured Employer:

The purpose of this letter is to inform you that you will be receiving an invoice for your share of the **\$20,444,000** Workers' Compensation "User funding" Assessment for **2002-2003**, and the **\$30,152,168** surcharge approved by the Fraud Assessment Commission for **2002-2003**.

Labor Code sections 62.5 and 62.6 require that the total assessment be allocated between insured and self-insured employers in proportion to payroll for the most recent year available.

Attached is the methodology used to compute the user funding and fraud allocation and the resulting determination of the respective assessment factors.

Your share of the user funding assessment will be calculated by multiplying the self insured employer user funding assessment factor, **0.003138**, by the total indemnity paid by your organization. Similarly, your share of the fraud surcharge will be calculated by multiplying the self-insured employer fraud assessment factor, **0.004620**, by the total indemnity paid by your organization.

If you have any questions, please contact **Sven Norrlander, Administrative Services Chief** at **(415)703-4658** or **Naomi P. Carter** at **(415)703-4652** in the Division of Workers' Compensation.

Sincerely,

Chuck Cake, Acting DIR Director

Enclosure

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OFFICE OF THE DIRECTOR
P. O. Box 420603
San Francisco, CA 94142



(415) 703-4600

DATE : November 15, 2002
TO : State of California as Legally-Uninsured Employers
SUBJECT : Workers' Compensation "User Funding" Assessment and Fraud Surcharge

Dear State of California Agency:

The purpose of this letter is to inform you that you will be receiving an invoice for your share of the **\$20,444,000** Workers' Compensation "User funding" Assessment for **2002-2003**, and the **\$30,152,168** surcharge approved by the Fraud Assessment Commission for **2002-2003**.

Labor Code sections 62.5 and 62.6 require that the total assessment be allocated between insured and self-insured employers in proportion to payroll for the most recent year available.

Attached is the methodology used to compute the user funding and fraud allocation and the resulting determination of the respective assessment factors.

Your share of the user funding assessment will be calculated by multiplying the self insured employer user funding assessment factor, **0.003138** by the total indemnity paid by your organization. Similarly, your share of the fraud surcharge will be calculated by multiplying the self-insured employer fraud assessment factor, **0.004620**, by the total indemnity paid by your organization.

If you have any questions, please contact **Sven Norrlander, Administrative Services Chief** at **(415)703-4658** or **Naomi P. Carter, at (415)703-4652** in the Division of Workers' Compensation.

Sincerely,

Chuck Cake, Acting DIR Director

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