

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



(415) 703-4600

DATE: November 29, 2004

TO: All Insurers Authorized to Transact Workers' Compensation in California

FROM: John M. Rea, Acting Director, Department of Industrial Relations

SUBJECT: Fiscal Year 2004/05 Workers' Compensation User Funding Assessment;
 Uninsured Employers Benefits Trust Fund Assessment;
 Subsequent Injuries Benefits Trust Fund Assessment; and
 Workers' Compensation Fraud Account Assessment

Labor Code Sections 62.5 and 62.6 authorize the Department of Industrial Relations to assess employers for the costs of the administration of the workers' compensation program. Previously, this assessment limited the employer share to 20 percent of the total program cost. The major workers' compensation reform in Senate Bill 899 (2004) contained provisions to increase the employer share to 100 percent. This increased the total amount of the assessment, but will provide a stable funding source to allow the courts to resolve claims more quickly and improve the overall operation of the system.

Labor Code Sections 62.5 and 62.6 require allocation of the four assessment types be between insured and self-insured employers in proportion to payroll for the most recent year available. Enclosed with this letter is an invoice for assessments your company's (or companies') share of the following total assessments and a document showing the methodology used to compute the assessment amounts and the resulting determination of the respective assessment/surcharge factors. The factors are applied to the premium amount as described in the following sections of this letter.

Authority	Type of Assessment	Total Assessment for all Payers	2005 Factors Applied to Premium
Labor Code § 62.5	Workers' Compensation User Funding Assessment	\$175,693,750	0.004809
Labor Code § 62.5	Uninsured Employers Benefits Trust Fund Assessment	\$39,746,750	0.000691
Labor Code § 62.5	Subsequent Injuries Benefits Trust Fund Assessment	\$10,485,833	0.000259
Labor Code § 62.6	Workers' Compensation Fraud Account Assessment	\$34,411,424	0.000500

The total assessment is calculated on the basis of the direct workers' compensation premiums reported to the Department of Insurance for Calendar Year 2003 by you or your group of carriers. Your first installment is due on or before January 1, 2005, with the balance due on or before April 1, 2005.

Assessment Methodology for Single Carriers

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 2003, your Total California Direct Written Premium for assessment purposes is the amount reported for calendar 2003 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.

Assessment Methodology for Insurer Groups

If you were part of an insurer reporting group who reported data to the WCIRB for 2003, your Total California Direct Written Premium for assessment purposes has been determined as the product of (a) the total 2003 written premium reported to the WCIRB on the aforementioned basis and (b) the ratio of your company's 2003 California written premium as reported in the 2003 Statutory Annual Statement (these amounts include the effect of deductible credits and retrospective rating adjustments) to the total 2003 Statutory Annual Statement of California written premium reported for your insurer group as a whole.

HOW YOUR ASSESSMENT AMOUNTS WERE CALCULATED:

WORKERS' COMPENSATION USER-FUNDING ASSESSMENT (Section 5.1 of attached Methodology):

$$(1.072463732^* \times 2003 \text{ Total California Direct Written Premium}) \times 0.004809$$

UNINSURED EMPLOYERS BENEFITS TRUST FUND ASSESSMENT (Section 5.3 of attached Methodology):

$$(1.072463732^* \times 2003 \text{ Total California Direct Written Premium}) \times 0.000691$$

SUBSEQUENT INJURIES BENEFITS TRUST FUND ASSESSMENT (Section 5.5 of attached Methodology):

$$(1.072463732^* \times 2003 \text{ Total California Direct Written Premium}) \times 0.000259$$

WORKERS' COMPENSATION FRAUD ACCOUNT ASSESSMENT (Section 5.7 of attached Methodology):

$$(1.072463732^* \times 2003 \text{ Total California Direct Written Premium}) \times 0.000500$$

* Ratio of the expected total 2004 premium to the 2003 Total Direct Written Premium of all insurers
 $(\$23,000,000,000) \div (\$21,445,946,672) = 1.072463732$

REQUIRED EMPLOYER ASSESSMENTS

All workers' compensation insurance policies issued by you with an inception date during the calendar year 2005 must be assessed to recover amounts advanced on behalf of policyholders. Assessable

Premium is 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 dividends.

The assessment factors to be applied to the estimated annual assessable premium for 2005 policies is shown in the table on the first page. These are the same factors that were used to calculate your attached assessment.

If you have any questions relating to this assessment, please contact Amadeo F. Urbano, Jr., Manager, at (415) 703-4657 or Naomi P. Carter, Analyst at (415) 703-4652 in the Division of Workers' Compensation, Department of Industrial Relations.

Enclosures

**California Department of Industrial Relations
2004-2005 Workers' Compensation User Funding Assessment,
Uninsured Employers Benefits Trust Fund Assessment,
Subsequent Injuries Benefits Trust Fund Assessment and
Workers' Compensation Fraud Account Assessment**

METHODOLOGY

Labor Code Sections 62.5 and 62.6 require the Department of Industrial Relations to levy the total amounts of the Workers' Compensation User Funding Assessment, Uninsured Employers Benefits Trust Fund Assessment, Subsequent Injuries Trust Fund Assessment and Workers' Compensation Fraud Account Assessment 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 2004-2005

(1.1)	Workers' Compensation User Funding Assessment (Labor Code § 62.5).....	\$155,434,146
	Total Assessment Required.....	\$175,693,750
	Fund Balance.....	(\$26,896,961)
	DWC & SIP 0304 Overcollections.....	\$6,637,357
		\$155,434,146
(1.2)	Uninsured Employers Benefits Trust Fund Assessment (Labor Code § 62.5).....	\$19,345,032
	Total Assessment Required.....	\$39,746,750
	Fund Balance.....	(\$18,604,221)
	DWC & SIP 0304 Undercollections.....	(\$1,797,496)
		\$19,345,032
(1.3)	Subsequent Injuries Benefits Trust Fund Assessment (Labor Code § 62.5).....	\$7,799,711
	Total Assessment Required.....	\$10,485,833
	Fund Balance.....	(\$2,393,037)
	DWC & SIP 0304 Undercollections.....	(\$293,085)
		\$7,799,711
(1.4)	Workers' Compensation Fraud Account Assessment (Labor Code § 62.6).....	\$26,499,570
	<i>The workers' compensation fraud account assessment is established by the Department of Insurance, Fraud Commission.</i>	
	Total Assessment Required.....	\$34,411,424
	Fund Balance.....	(\$25,750,875)
	DWC & SIP 0304 Overcollections.....	\$17,839,021
		\$26,499,570

Step 2: Determine Payroll Amounts

(2.1)	Total payroll for insured employers.....	\$385,445,896,545
	<i>Source: California Workers' Compensation Insurance Rating Bureau (WCIRB) policy year 2001</i>	
(2.2)	Payroll for self-insured employers	\$136,984,680,176¹
	(2.2.1) 2002-03 Fiscal Year for Public Sector *	\$63,015,369,856
	(2.2.2) 2003 for Private Sector.....	\$73,969,310,320
	<i>* Source: Department of Industrial Relations, Office of Self-Insurance Plans (excludes State of California)</i>	
(2.3)	Payroll for State of California (including SCIF)**.....	\$11,676,647,755
	<i>**Source: (Department of Personnel Administration, Fiscal Year 2003-04)</i>	
(2.4)	Total payroll for self-insured employers.....	\$148,661,327,931²
(2.5)	Total combined payroll.....	\$534,107,224,476³
	(Insured and self-insured employers)	

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

**California Department of Industrial Relations
2004-2005 Workers' Compensation User Funding Assessment,
Uninsured Employers Benefits Trust Fund Assessment,
Subsequent Injuries Benefits Trust Fund Assessment and
Workers' Compensation Fraud Account Assessment**

(3.1) Insured Employers:

$$\frac{\text{Insured Employer Payroll}}{\text{Total Combined Payroll}} = \frac{\text{Methodology Section (2.1)}}{\text{Methodology Section (2.5)}} = \frac{\$385,445,896.545}{\$534,107,224,476} = 72.17\%$$

(3.2) Self-Insured Employers:

$$\frac{\text{Self-Insured Employer Payroll}}{\text{Total Combined Payroll}} = \frac{\text{Methodology Section (2.4)}}{\text{Methodology Section (2.5)}} = \frac{\$148,661,327,931}{\$534,107,224,476} = 27.83\%$$

¹ (2.2) Payroll for Self-Insured Employers = Σ of Methodology Section (2.2.1) and Methodology Section (2.2.2)

² (2.4) Total Payroll for Self-Insured Employers = Σ of Methodology Section (2.2) and Methodology Section (2.3)

³ (2.5) Total Combined Payroll = Σ of Methodology Section (2.1) and Methodology Section (2.4)

Step 4: Determine the Total Assessments for Insured and Self-Insured Employers

Workers' Compensation User Funding Assessment

Calculation for Insured Employers:

▶ (User Funding Assessment) X 72.17% = \$155,434,146 X 72.17%	\$112,176,823
▶ INCREASED by credits due individual insurers which undercollected against previous advances [CCR § 15609].	\$4,640,637
▶ DECREASED by insurer overcollection 0304 [pursuant to CCR § 15606(f)].	(\$6,219,971)
(4.1) Resulting Final Insured Employers Workers' Compensation User Funding Assessment.	\$110,597,489

Calculation for Self-Insured Employers:

▶ (User Funding Assessment) X 27.83% = \$155,434,146 X 27.83%	\$43,257,323
▶ DECREASED by the Self-Insurer overcollection from prior year.	(\$417,386)
(4.2) Resulting Final Self-Insured Employers Workers' Compensation User Funding Assessment.	\$42,839,937

Uninsured Employers Benefits Trust (UEBT) Fund Assessment

Calculation for Insured Employers:

▶ (UEBTF Assessment) X 72.17% = \$19,345,032 X 72.17%	\$13,961,310
▶ INCREASED by the Insurer undercollection for 0304 [pursuant to CCR § 15606(f)].	\$1,929,858
(4.3) Resulting Final Insured Employers UEBT Fund Assessment.	\$15,891,168

Calculation for Self-Insured Employers:

▶ (UEBTF Assessment) X 27.83% = \$19,345,032 X 27.83%	\$5,383,722
▶ DECREASED by the Self-Insurer overcollection from prior year.	(\$132,362)
(4.4) Resulting Final Self-Insured Employers UEBT Fund Assessment.	\$5,251,360

Subsequent Injuries Benefits Trust (SIBT) Fund Assessment

Calculation for Insured Employers:

▶ (SIBTF Assessment) X 72.17% = \$7,799,711 X 72.17%	\$5,629,051
▶ INCREASED by the Insurer undercollection for 0304 [pursuant to CCR § 15606(f)].	\$322,424
(4.5) Resulting Final Insured Employers SIBT Fund Assessment.	\$5,951,475

**California Department of Industrial Relations
2004-2005 Workers' Compensation User Funding Assessment,
Uninsured Employers Benefits Trust Fund Assessment,
Subsequent Injuries Benefits Trust Fund Assessment and
Workers' Compensation Fraud Account Assessment**

Calculation for Self- Insured Employers:

▶ (SIBTF Assessment) X 27.83% = \$7,799,711 X 27.83%	\$2,170,660
▶ DECREASED by the Self-Insurer overcollection from prior year.....	(\$29,338)
(4.6) Resulting Final Self-Insured Employers SIBT Fund Assessment.....	<u>\$2,141,322</u>

Workers' Compensation Fraud Account Assessment

Calculation for Insured Employers:

▶ (Fraud Assessment) X 72.17% = \$26,499,570 X 72.17%	\$19,124,740
▶ INCREASED by credits due individual insurers which undercollected against previous advances [pursuant to CCR § 15609].....	\$9,969,022
▶ DECREASED by the insurer overcollection 0304 [pursuant to CCR § 15606(f)].....	(\$17,598,049)
(4.7) Resulting Final Insured Employers Workers' Compensation Fraud Account Assessment..	<u>\$11,495,713</u>

Calculation for Self- Insured Employers:

▶ (Fraud Assessment) X 27.83% = \$26,499,570 X 27.83%	\$7,374,830
▶ DECREASED by the Self-Insurer overcollection from prior year.....	(\$240,972)
(4.8) Resulting Final Self-Insured Employers Workers' Compensation Fraud Account Assessment.....	<u>\$7,133,858</u>

Step 5: Calculate the Assessments Factors

Workers' Compensation User Funding Assessment Factor

(5.1) Calculation for Insured Employers:

$$\frac{\text{Total Insured Employers Assessment}}{\text{Total Direct Workers' Compensation}^*} = \frac{\$110,597,489}{\$23,000,000,000} = \underline{0.004809}$$

*Estimated Premium (Source: WCIRB estimate for 2004 Policy Year)

(5.2) Calculation for Self-Insured Employers:

$$\frac{\text{Total Self-Insured Employer Assessment}}{\text{Total Amt. of Workers' Comp. Indemnity Pd}^{**}} = \frac{\$42,839,937}{\$1,947,878,802} = \underline{0.021993}$$

**SOURCE: Dept. of Industrial Relations, Office of Self-Insurance Plans [S of Methodology Sections (5.2.1) to (5.2.3)]:

(5.2.1) 2002-03 Public Sector.....	\$840,695,793
(5.2.2) 2003 Private Sector.....	\$938,253,029
(5.2.3) 2003-04 State of California***.....	\$168,929,980

***SOURCE: Department of Personnel Administration

Uninsured Employers Benefits Trust (UEBT) Fund Assessment Factor

(5.3) Calculation for Insured Employers:

$$\frac{\text{Total Insured Employers Assessment}}{\text{Total Direct Workers' Compensation}^*} = \frac{\$15,891,168}{\$23,000,000,000} = \underline{0.000691}$$

*Estimated Premium (Source: WCIRB estimate for 2004 Policy Year)

(5.4) Calculation for Self-Insured Employers:

$$\frac{\text{Total Self-Insured Employer Assessment}}{\text{Total Amt. of Workers' Comp. Indemnity Pd}^{**}} = \frac{\$5,251,360}{\$1,947,878,802} = \underline{0.002696}$$

**California Department of Industrial Relations
2004-2005 Workers' Compensation User Funding Assessment,
Uninsured Employers Benefits Trust Fund Assessment,
Subsequent Injuries Benefits Trust Fund Assessment and
Workers' Compensation Fraud Account Assessment**

****SOURCE:** Dept. of Industrial Relations, Office of Self-Insurance Plans [S of Methodology Sections (5.4.1) to (5.4.3)]:

(5.4.1)	2002-03 Public Sector.....	\$840,695,793
(5.4.2)	2003 Private Sector.....	\$938,253,029
(5.4.3)	2003-04 State of California***	\$168,929,980

*****SOURCE:** Department of Personnel Administration

Subsequent Injuries Benefits Trust (SIBT) Fund Assessment Factor

(5.5) Calculation for Insured Employers:

$$\frac{\text{Total Insured Employers Assessment}}{\text{Total Direct Workers' Compensation*}} = \frac{\$5,951,475}{\$23,000,000,000} = \underline{\underline{0.000259}}$$

*Estimated Premium (Source: WCIRB estimate for 2004 Policy Year)

(5.6) Calculation for Self-Insured Employers:

$$\frac{\text{Total Self-Insured Employer Assessment}}{\text{Total Amt. of Workers' Comp. Indemnity Pd.**}} = \frac{\$2,141,322}{\$1,947,878,802} = \underline{\underline{0.001099}}$$

****SOURCE:** Dept. of Industrial Relations, Office of Self-Insurance Plans [S of Methodology Sections (5.6.1) to (5.6.3)]:

(5.6.1)	2002-03 Public Sector.....	\$840,695,793
(5.6.2)	2003 Private Sector.....	\$938,253,029
(5.6.3)	2003-04 State of California***	\$168,929,980

*****SOURCE:** Department of Personnel Administration

Workers' Compensation Fraud Account Assessment Factor

(5.7) Calculation for Insured Employers:

$$\frac{\text{Total Insured Employer Surcharge}}{\text{Total Direct Workers' Compensation*}} = \frac{\$11,495,713}{\$23,000,000,000} = \underline{\underline{0.000500}}$$

*Estimated Premium (Source: WCIRB estimate for 2004 Policy Year)

(5.8) Calculation for Self-Insured Employers:

$$\frac{\text{Total Self-Insured Employer Surcharge}}{\text{Total Amt. of Workers' Comp. Indemnity Pd.**}} = \frac{\$7,133,858}{\$1,947,878,802} = \underline{\underline{0.003662}}$$

****SOURCE:** Dept. of Industrial Relations, Office of Self-Insurance Plans [S of Methodology Sections (5.8.1) to (5.8.3)]:

(5.8.1)	2002-03 Public Sector.....	\$840,695,793
(5.8.2)	2003 Private Sector.....	\$938,253,029
(5.8.3)	2003-04 State of California***	\$168,929,980

*****SOURCE:** Department of Personnel Administration

Step 6: Determine Individual Employer's Workers' Compensation User Funding Assessment

(6.1) Individual Insured Employers:

Assessment Factor [**0.004809**] X Employer's Expected Assessable Premium*

(6.2) Calculation for Individual Self-Insured Employers:

Assessment Factor [**0.021993**] X Total Indemnity Paid by the Employer

Step 7: Determine Individual Employers Uninsured Employers Benefits Trust (UEBT) Funding Assessment

**California Department of Industrial Relations
2004-2005 Workers' Compensation User Funding Assessment,
Uninsured Employers Benefits Trust Fund Assessment,
Subsequent Injuries Benefits Trust Fund Assessment and
Workers' Compensation Fraud Account Assessment**

(7.1) Individual Insured Employers:

Assessment Factor [0.000691] X Employer's Expected Assessable Premium*

(7.2) Calculation for Individual Self-Insured Employers:

Assessment Factor [0.002696] X Total Indemnity Paid by the Employer

**Step 8: Determine Individual Employers Subsequent Injuries Benefit Trust
(SIBT) Funding Assessment**

(8.1) Individual Insured Employers:

Assessment Factor [0.000259] X Employer's Expected Assessable Premium*

(8.2) Calculation for Individual Self-Insured Employers:

Assessment Factor [0.001099] X Total Indemnity Paid by the Employer

**Step 9: Determine Individual Employer's Workers' Compensation
Fraud Account Assessment**

(9.1) Individual Insured Employers:

Assessment Factor [0.000500] X Employer's Expected Assessable Premium*

(9.2) Calculation for Individual Self-Insured Employers:

Assessment Factor [0.003662] 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 policyholder dividends.

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



(415) 703-4600

DATE: November 29, 2004

TO: California Self-Insured Employer

FROM: John M. Rea, Acting Director, Department of Industrial Relations

SUBJECT: Fiscal Year 2004/05 Workers' Compensation User Funding Assessment;
 Uninsured Employers Benefits Trust Fund Assessment;
 Subsequent Injuries Benefits Trust Fund Assessment; and
 Workers' Compensation Fraud Account Assessment

Labor Code Sections 62.5 and 62.6 authorize the Department of Industrial Relations to assess employers for the costs of the administration of the workers' compensation program. Previously, this assessment limited the employer share to 20 percent of the total program cost. The major workers' compensation reform in Senate Bill 899 (2004) contained provisions to increase the employer share to 100 percent. This increased the total amount of the assessment, but will provide a stable funding source to allow the courts to resolve claims more quickly and improve the overall operation of the system.

The purpose of this letter is to inform you that you will be receiving an invoice for your share of the assessments authorized by Labor Code Sections 62.5 and 62.6. The Labor Code requires allocation of the total assessment between insured and self-insured employers in proportion to payroll for the most recent year available.

Authority	Type of Assessment	Total Assessment for all Payers	Self-Insured Employer Assessment Factor
Labor Code § 62.5	Workers' Compensation User Funding Assessment	\$175,693,750	0.021993
Labor Code § 62.5	Uninsured Employers Benefits Trust Fund Assessment	\$39,746,750	0.002696
Labor Code § 62.5	Subsequent Injuries Benefits Trust Fund Assessment	\$10,485,833	0.001099
Labor Code § 62.6	Workers' Compensation Fraud Account Assessment	\$34,411,424	0.003662

Attached is a worksheet detailing the methodology used to compute the Workers' Compensation User Funding, Uninsured Employers Benefits Trust Fund, Subsequent Injuries Trust Fund allocation and Workers' Compensation Fraud Account Assessment and to allocate the assessment between insured and self-insured employers.

Your share of the various assessments will be calculated by multiplying the self insured employer assessment factors for each assessment by the total indemnity paid by your organization.

If you have any questions, please contact Mark Johnson, Manager at (916)483-3392 extension 3006 or Tina Freese, Analyst at (916)483-3392 extension 3007 in the Self-Insurance Plans office in Sacramento.

Enclosure

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



(415) 703-4600

DATE: November 29, 2004

TO: California Legally Uninsured Employer

FROM: John M. Rea, Acting Director, Department of Industrial Relations

SUBJECT: Fiscal Year 2004/05 Workers' Compensation User Funding Assessment;
 Uninsured Employers Benefits Trust Fund Assessment;
 Subsequent Injuries Benefits Trust Fund Assessment; and
 Workers' Compensation Fraud Account Assessment

Labor Code Sections 62.5 and 62.6 authorize the Department of Industrial Relations to assess employers for the costs of the administration of the workers' compensation program. Previously, this assessment limited the employer share to 20 percent of the total program cost. The major workers' compensation reform in Senate Bill 899 (2004) contained provisions to increase the employer share to 100 percent. This increased the total amount of the assessment, but will provide a stable funding source to allow the courts to resolve claims more quickly and improve the overall operation of the system.

The purpose of this letter is to inform you that you will be receiving an invoice for your share of the assessments authorized by Labor Code Sections 62.5 and 62.6. The Labor Code requires allocation of the total assessment between insured and self-insured employers in proportion to payroll for the most recent year available.

Authority	Type of Assessment	Total Assessment for all Payers	Legally Uninsured Employer Assessment Factor
Labor Code § 62.5	Workers' Compensation User Funding Assessment	\$175,693,750	0.021993
Labor Code § 62.5	Uninsured Employers Benefits Trust Fund Assessment	\$39,746,750	0.002696
Labor Code § 62.5	Subsequent Injuries Benefits Trust Fund Assessment	\$10,485,833	0.001099
Labor Code § 62.6	Workers' Compensation Fraud Account Assessment	\$34,411,424	0.003662

Attached is a worksheet detailing the methodology used to compute the Workers' Compensation User Funding, Uninsured Employers Benefits Trust Fund, Subsequent Injuries Trust Fund allocation and Workers' Compensation Fraud Account Assessment and to allocate the assessment between insured and self-insured employers.

Your share of the various assessments will be calculated by multiplying the self insured employer assessment factors for each assessment by the total indemnity paid by your organization.

If you have any questions, please contact Mark Johnson, Manager at (916)483-3392 extension 3006 or Tina Freese, Analyst at (916)483-3392 extension 3007 in the Self-Insurance Plans office in Sacramento.

Enclosure