

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



(415) 703-4600

DATE: 18 November 2003

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

SUBJECT: User Funding Assessment, Uninsured Employers Benefits Trust Fund Assessment, Subsequent Injuries Benefits Trust Fund 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 **2002**, an invoice for assessments and surcharge reflecting your company's (or companies') share of the following is enclosed:

Total	Type	Authority
\$89,377,387	Workers' Compensation "User Funding" Assessment	Labor Code § 62.5
\$35,225,527	Uninsured Employers Benefits Trust Fund Assessment	Labor Code § 62.5
\$8,022,610	Subsequent Injuries Benefits Trust Fund Assessment	Labor Code § 62.5
\$32,003,802	Fraud Surcharge	Labor Code § 62.6

### Payments

Please note that your first installment is **due on or before January 1, 2004** with the balance due on or before **April 1, 2004**.

### Methodology

Labor Code Sections 62.5 and 62.6 require that the four assessment types be allocated between insured and self-insured employers in proportion to payroll for the most recent year available. Please refer to the enclosed document showing methodology used to compute assessment and surcharge amounts and the resulting determination of the respective assessment/surcharge factors.

### Total CA Direct Written Premium

#### 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 2002, your Total California Direct Written Premium for the purposes of these assessments is *the amount reported for calendar 2002 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.*

#### Insurer Groups

If you were part of an insurer reporting group who reported data to the WCIRB for 2002, your Total California Direct Written Premium for the assessment purposes has been determined as *the product of (a) the total 2002 written premium reported to the WCIRB on the aforementioned basis and (b) the ratio of your company's 2002 California written premium as reported in the 2002 Statutory Annual Statement (these amounts include the effect of deductible credits and retrospective rating adjustments) to the total 2002 Statutory Annual Statement California written premium reported for your insurer group as a whole.*

### Calculating Your Assessment/Surcharge Amounts

#### USER-FUNDING ASSESSMENT:

$$(0.002996^1 \times 2002 \text{ Total California Direct Written Premium}) \times 1.361898943^2$$

<sup>1</sup> Section 5.1 of Methodology

<sup>2</sup>  $(\$21,200,000,000) \div (\$15,566,500,073) = 1.361898943$

ratio of the expected total current year (2003) premium to the total direct 2002 written workers' compensation premium of all insurers

Letter to Workers' Compensation Insurers in California from Chuck Cake  
Re: 2003-2004 Workers' Compensation User Funding Assessment, Uninsured  
Benefits Trust Fund Assessment, Subsequent Injuries Benefits Trust Fund Assessment  
and Fraud Surcharge

November 18, 2003

**UNINSURED EMPLOYERS BENEFIT TRUST FUND ASSESSMENT (UEBT):**

$$(0.001115^3 \times 2002 \text{ Total California Direct Written Premium}) \times 1.361898943^2$$

<sup>3</sup> Section 5.3 of Methodology

$$^2 (\$21,200,000,000) \div (\$15,566,500,073) = 1.361898943$$

ratio of the expected total current year (2003) premium to the total direct 2002 written workers' compensation premium of all insurers

**SUBSEQUENT INJURIES BENEFIT TRUST FUND ASSESSMENT (SIBT):**

$$(0.000192^4 \times 2002 \text{ Total California Direct Written Premium}) \times 1.361898943^2$$

<sup>4</sup> Section 5.5 of Methodology

$$^2 (\$21,200,000,000) \div (\$15,566,500,073) = 1.361898943$$

ratio of the expected total current year (2003) premium to the total direct 2002 written workers' compensation premium of all insurers

**FRAUD SURCHARGE:**

$$(0.000685^5 \times 2002 \text{ Total California Direct Written Premium}) \times 1.361898943^2$$

<sup>5</sup> Section 5.7 of Methodology

$$^2 (\$21,200,000,000) \div (\$15,566,500,073) = 1.361898943$$

ratio of the expected total current year (2003) premium to the total direct 2002 written workers' compensation premium of all insurers

**REQUIRED EMPLOYER ASSESSMENTS**

All workers' compensation insurance policies issued by you with an inception date during the calendar year 2004 must be surcharged to recover amounts advanced on behalf of policyholders. The user funding factor for 2004 policies, applied to the estimated annual assessable premium\*, is **0.002996**, the same as that used to calculate your user funding assessment. The UEBT funding factor for 2004 policies, applied to the estimated annual assessable premium\*, is **0.001115**, the same as that used to calculate your UEBT funding assessment. The SIBT funding factor for 2004 policies, applied to the estimated annual assessable premium\*, is **0.000192**, the same as that used to calculate your SIBT funding assessment. Similarly, the Fraud Surcharge factor for 2004 policies, applied to the estimated annual assessable premium\*, is **0.000685**, 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 dividends.

If you have any questions, please contact Amadeo F. Urbano, Jr., Staff Services Manager at (415)703-4657 or Naomi P. Carter, AGPA at (415)703-4652 in the Division of Workers' Compensation.

Sincerely,

Chuck Cake, Acting DIR Director

Enclosures

**California Department of Industrial Relations  
2003-2004 Workers' Compensation Administration Revolving Fund Assessment,  
Uninsured Employers Benefits Trust Fund Assessment and  
Subsequent Injuries Benefits Trust Fund Assessment**

**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, Uninsured employers benefits trust fund assessment and subsequent injuries trust fund 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/Surcharge Required for 2003-2004**

<b>(1.1)</b>	User Funding Assessment (Labor Code § 62.5).....	<b>\$89,377,387</b>
<b>(1.2)</b>	Uninsured Employers Benefits Trust Fund Assessment (Labor Code § 62.5).....	<b>\$35,225,527</b>
<b>(1.3)</b>	Subsequent Injuries Benefits Trust Fund Assessment (Labor Code § 62.5).....	<b>\$8,022,610</b>
<b>(1.4)</b>	Fraud Surcharge (Labor Code § 62.6).....	<b>\$32,003,802</b>

*The fraud surcharge is established by the Department of Insurance, Fraud Commission.*

**Step 2: Determine Payroll Amounts**

<b>(2.1)</b>	Total payroll for insured employers.....	<b>\$382,755,949,057</b>
<i>Source: California Workers' Compensation Insurance Rating Bureau (WCIRB) policy year 2000</i>		
<b>(2.2)</b>	Payroll for self-insured employers .....	<b>\$115,302,524,605</b> <sup>1</sup>
<b>(2.2.1)</b>	2001-02 Fiscal Year for Public Sector* .....	<b>\$57,096,682,679</b>
<b>(2.2.2)</b>	2002 for Private Sector.....	<b>\$58,205,841,926</b>

\* *Source: Department of Industrial Relations, Office of Self-Insurance Plans (excludes State of California)*

<b>(2.3)</b>	Payroll for State of California (including SCIF)**.....	<b>\$11,646,909,294</b>
<i>** Source: (Department of Personnel Administration, Fiscal Year 2002-03)</i>		
<b>(2.4)</b>	Total payroll for self-insured employers.....	<b>\$126,949,433,899</b> <sup>2</sup>
<b>(2.5)</b>	Total combined payroll.....	<b>\$509,705,382,956</b> <sup>3</sup>

(Insured and self-insured employers)

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

<b>(3.1) Insured Employers:</b>			
<u>Insured Employer Payroll</u>	=	$\frac{\text{Methodology Section (2.1)}}{\text{Methodology Section (2.5)}}$	=
Total Combined Payroll		$\frac{\$382,755,949,057}{\$509,705,382,956}$	= <b>75.09%</b>
<b>(3.2) Self-Insured Employers:</b>			
<u>Self-Insured Employer Payroll</u>	=	$\frac{\text{Methodology Section (2.4)}}{\text{Methodology Section (2.5)}}$	=
Total Combined Payroll		$\frac{\$126,949,433,899}{\$509,705,382,956}$	= <b>24.91%</b>

<sup>1</sup> **(2.2) Payroll for Self-Insured Employers** = Σ of Methodology Section (2.2.1) and Methodology Section (2.2.2)

<sup>2</sup> **(2.4) Total Payroll for Self-Insured Employers** = Σ of Methodology Section (2.2) and Methodology Section (2.3)

<sup>3</sup> **(2.5) Total Combined Payroll** = Σ of Methodology Section (2.1) and Methodology Section (2.4)

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

### User Funding Assessment

#### Calculation for Insured Employers:

▶ (User Funding Assessment) X 75.09% = \$89,377,387 X 75.09%	\$67,113,480
▶ INCREASED by credits due individual insurers which undercollected against previous advances [ CCR § 15609]	\$3,457,689
▶ DECREASED by the fund balance [pursuant to CCR § 15606(f)]	(\$6,770,959)
▶ DECREASED for SIP undercollection	(\$294,784)
<b>(4.1) Resulting Final Insured Employers User Funding Assessment</b>	<b>\$63,505,426</b>

#### Calculation for Self-Insured Employers:

▶ (User Funding Assessment) X 24.91% = \$89,377,387 X 24.91%	\$22,263,907
▶ INCREASED by the Self-Insurer undercollection from prior year	\$294,784
<b>(4.2) Resulting Final Self-Insured Employers User Funding Assessment</b>	<b>\$22,558,691</b>

### Uninsured Employers Benefits Trust (UEBT) Fund Assessment

#### Calculation for Insured Employers:

▶ (UEBTF Assessment) X 75.09% = \$35,225,527 X 75.09%	\$26,450,848
▶ INCREASED by credits due individual insurers which undercollected against previous advances [pursuant to CCR § 15609]	\$0
▶ DECREASED by the fund balance [pursuant to CCR § 15606(f)]	(\$2,805,253)
▶ DECREASED for SIP undercollection	\$0
<b>(4.3) Resulting Final Insured Employers UEBT Fund Assessment</b>	<b>\$23,645,595</b>

#### Calculation for Self-Insured Employers:

▶ (UEBTF Assessment) X 24.91% = \$35,225,527 X 24.91%	\$8,774,679
▶ INCREASED by the Self-Insurer undercollection from prior year	\$0
<b>(4.4) Resulting Final Self-Insured Employers UEBT Fund Assessment</b>	<b>\$8,774,679</b>

### Subsequent Injuries Benefits Trust (SIBT) Fund Assessment

#### Calculation for Insured Employers:

▶ (SIBTF Assessment) X 75.09% = \$8,022,610 X 75.09%	\$6,024,178
▶ INCREASED by credits due individual insurers which undercollected against previous advances [pursuant to CCR § 15609]	\$0
▶ DECREASED by the fund balance [pursuant to CCR § 15606(f)]	(\$1,962,178)
▶ DECREASED for SIP undercollection	\$0
<b>(4.5) Resulting Final Insured Employers SIBT Fund Assessment</b>	<b>\$4,062,000</b>

**Calculation for Self- Insured Employers:**

▶ (SIBTF Assessment) X 24.91% = \$8,022,610 X 24.91%	\$1,998,432
▶ INCREASED by the Self-Insurer undercollection from prior year	\$0
<b>(4.6)</b> Resulting Final Self-Insured Employers SIBT Fund Assessment	<b>\$1,998,432</b>

**Fraud Surcharge**

**Calculation for Insured Employers:**

▶ (Fraud Surcharge) X 75.09% = \$32,003,802 X 75.09%	\$24,031,655
▶ INCREASED by credits due individual insurers which undercollected against previous advances [pursuant to CCR § 15609]	\$6,884,107
▶ DECREASED by the fund balance [pursuant to CCR § 15606(f)]	(\$15,976,875)
▶ DECREASED for SIP undercollection	(\$426,921)
<b>(4.7)</b> Resulting Final Insured Employers Fraud Surcharge	<b>\$14,511,966</b>

**Calculation for Self- Insured Employers:**

▶ (Fraud Surcharge) X 24.91% = \$32,003,802 X 24.91%	\$7,972,147
▶ INCREASED by the Self-Insurer undercollection from prior year	\$426,921
<b>(4.8)</b> Resulting Final Self-Insured Employers Fraud Surcharge	<b>\$8,399,068</b>

**Step 5: Calculate the Assessments/Surcharge Factors**

**User Funding Assessment Factor**

**(5.1) Calculation for Insured Employers:**

$$\frac{\text{Total Insured Employers Assessment}}{\text{Total Direct Workers' Compensation*}} = \frac{\$63,505,426}{\$21,200,000,000} = \underline{0.002996}$$

\*Estimated Premium (Source: WCIRB estimate for 2003 Policy Year)

**(5.2) Calculation for Self-Insured Employers:**

$$\frac{\text{Total Self-Insured Employer Assessment}}{\text{Total Amt. of Workers' Comp. Indemnity Pd**}} = \frac{\$22,558,691}{\$1,782,472,019} = \underline{0.012656}$$

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

<b>(5.2.1)</b> 2001-02 Public Sector	\$733,107,553
<b>(5.2.2)</b> 2002 Private Sector	\$884,983,066
<b>(5.2.3)</b> 2001-02 State of California***	\$164,381,400

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

**Uninsured Employers Benefits Trust (UEBT) Fund Assessment Factor**

**(5.3) Calculation for Insured Employers:**

$$\frac{\text{Total Insured Employers Assessment}}{\text{Total Direct Workers' Compensation*}} = \frac{\$23,645,595}{\$21,200,000,000} = \underline{0.001115}$$

\*Estimated Premium (Source: WCIRB estimate for 2003 Policy Year)

**(5.4) Calculation for Self-Insured Employers:**

$$\frac{\text{Total Self-Insured Employer Assessment}}{\text{Total Amt. of Workers' Comp. Indemnity Pd}^{**}} = \frac{\$8,774,679}{\$1,782,472,019} = \underline{0.004923}$$

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

(5.4.1)	2001-02 Public Sector.....	\$733,107,553
(5.4.2)	2002 Private Sector.....	\$884,983,066
(5.4.3)	2001-02 State of California***	\$164,381,400

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

**Subsequent Injuries Benefits Trust (SIBT) Fund Assessment Factor**

**(5.5) Calculation for Insured Employers:**

$$\frac{\text{Total Insured Employers Assessment}}{\text{Total Direct Workers' Compensation}^*} = \frac{\$4,062,000}{\$21,200,000,000} = \underline{0.000192}$$

\*Estimated Premium (Source: WCIRB estimate for 2003 Policy Year)

**(5.6) Calculation for Self-Insured Employers:**

$$\frac{\text{Total Self-Insured Employer Assessment}}{\text{Total Amt. of Workers' Comp. Indemnity Pd}^{**}} = \frac{\$1,998,432}{\$1,782,472,019} = \underline{0.001121}$$

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

(5.6.1)	2001-02 Public Sector.....	\$733,107,553
(5.6.2)	2002 Private Sector.....	\$884,983,066
(5.6.3)	2001-02 State of California***	\$164,381,400

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

**Fraud Surcharge Factor**

**(5.7) Calculation for Insured Employers:**

$$\frac{\text{Total Insured Employer Surcharge}}{\text{Total Direct Workers' Compensation}^*} = \frac{\$14,511,966}{\$21,200,000,000} = \underline{0.000685}$$

\*Estimated Premium (Source: WCIRB estimate for 2003 Policy Year)

**(5.8) Calculation for Self-Insured Employers:**

$$\frac{\text{Total Self-Insured Employer Surcharge}}{\text{Total Amt. of Workers' Comp. Indemnity Pd}^{**}} = \frac{\$8,399,068}{\$1,782,472,019} = \underline{0.004712}$$

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

(5.8.1)	2001-02 Public Sector.....	\$733,107,553
(5.8.2)	2002 Private Sector.....	\$884,983,066
(5.8.3)	2001-02 State of California***	\$164,381,400

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

## **Step 6: Determine Individual Employer's User Funding Assessment**

**(6.1)** Individual Insured Employers:  
Assessment Factor [ 0.002996 ] X Employer's Expected Assessable Premium\*

**(6.2)** Calculation for Individual Self-Insured Employers:  
Assessment Factor [ 0.012656 ] X Total Indemnity Paid by the Employer

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

**(7.1)** Individual Insured Employers:  
Assessment Factor [ 0.001115 ] X Employer's Expected Assessable Premium\*

**(7.2)** Calculation for Individual Self-Insured Employers:  
Assessment Factor [ 0.004923 ] 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 [ 0.000192 ] X Employer's Expected Assessable Premium\*

**(8.2)** Calculation for Individual Self-Insured Employers:  
Assessment Factor [ 0.001121 ] X Total Indemnity Paid by the Employer

## **Step 9: Determine Individual Employer's Fraud Surcharge**

**(9.1)** Individual Insured Employers:  
Assessment Factor [ 0.000685 ] X Employer's Expected Assessable Premium\*

**(9.2)** Calculation for Individual Self-Insured Employers:  
Assessment Factor [ 0.004712 ] 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 18, 2003  
TO : All Self-Insured Employers in California  
SUBJECT : Workers' Compensation "User Funding" Assessment, Uninsured Employers Benefits Trust Fund Assessment, Subsequent Injuries Benefits Trust Fund 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 **\$89,377,387** Workers' Compensation "User funding" Assessment, **\$35,225,527** Uninsured Employers Benefits Trust Fund Assessment, **\$8,022,610** Subsequent Injuries Benefits Trust Fund Assessment for **2003-2004**, and the **\$32,003,802** surcharge approved by the Fraud Assessment Commission for **2003-2004**.

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, uninsured employers benefits trust fund, subsequent injuries trust fund 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, **0.012656**, by the total indemnity paid by your organization.

Your share of the uninsured employers benefits trust fund assessment and subsequent injuries benefits trust fund assessment will be calculated by multiplying the self insured employer uninsured employers benefits trust fund assessment factor and subsequent injuries benefits trust fund assessment factor, **0.004923** and **0.001121** respectively 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, **0.004712**, by the total indemnity paid by your organization.

If you have any questions, please contact Amadeo F. Urbano, Jr. Staff Services Manager at (415)703-4657 or Naomi P. Carter, AGPA at (415)703-4652 in the Division of Workers' Compensation.

Sincerely,

Chuck Cake, Acting DIR Director

Enclosure

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



(415) 703-4600

DATE : November 18, 2003  
TO : State of California as Legally-Uninsured Employers  
SUBJECT : Workers' Compensation "User Funding" Assessment, Uninsured Employers Benefits Trust Fund Assessment, Subsequent Injuries Benefits Trust Fund 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 **\$89,377,387** Workers' Compensation "User funding" Assessment, **\$35,225,527** Uninsured Employers Benefits Trust Fund Assessment, **\$8,022,610** Subsequent Injuries Benefits Trust Fund Assessment for **2003-2004**, and the **\$32,003,802** surcharge approved by the Fraud Assessment Commission for **2003-2004**.

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, uninsured employers benefits trust fund, subsequent injuries benefits trust fund allocation 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, **0.012656**, by the total indemnity paid by your organization.

Your share of the uninsured employers benefits trust fund assessment and subsequent injuries benefits trust fund assessment will be calculated by multiplying the self insured employer uninsured employers benefits trust fund assessment factor and subsequent injuries benefits trust fund assessment factor, **0.004923** and **0.001121** respectively 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, **0.004712**, by the total indemnity paid by your organization.

If you have any questions, please contact Amadeo F. Urbano, Jr. Staff Services Manager at (415)703-4657 or Naomi P. Carter, AGPA at (415)703-4652 in the Division of Workers' Compensation.

Sincerely,

Chuck Cake, Acting DIR Director

Enclosure