DATE: November 14, 2008

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

FROM: John C. Duncan, Director, Department of Industrial Relations

SUBJECT: Fiscal Year 2008/2009 Assessments:

- Workers’ Compensation Administration Revolving Fund (WCARF)
- Uninsured Employers Benefits Trust Fund (UEBTF)
- Subsequent Injuries Benefits Trust Fund (SIBTF)
- Occupational Safety and Health Fund (OSHF)
- Workers’ Compensation Fraud Account (FRAUD)

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. Newly added to Section 62.5 is an additional assessment to support the mandated activities of the Cal/OSHA program. These assessments provide a stable funding source to allow the courts to resolve claims more quickly, to assure safe and healthy working conditions on the job to prevent injuries from occurring, and to improve the overall operation of the system for California’s workers and employers.

Labor Code Sections 62.5 and 62.6 require allocation of the five assessment types 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 for 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.

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<tr>
<th>Authority</th>
<th>Type</th>
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<th>2009 Factors Applied to Premium</th>
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<td>$195,056,363</td>
<td>0.013583</td>
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<td>0.001185</td>
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<td>Workers’ Compensation Fraud Account Assessment (FRAUD)</td>
<td>$49,559,268</td>
<td>0.003956</td>
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</tbody>
</table>
The total assessment is calculated on the basis of the direct workers’ compensation premiums reported to the Department of Insurance for Calendar Year 2007 by you or your group of carriers. Your first installment is due on or before January 1, 2009, with the balance due on or before April 1, 2009.

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 2007, your Total California Direct Written Premium for assessment purposes is the amount reported for calendar year 2007 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 2007, your Total California Direct Written Premium for assessment purposes has been determined as the product of (a) the total 2007 written premium reported to the WCIRB on the aforementioned basis and (b) the ratio of your company’s 2007 California written premium as reported in the 2007 Statutory Annual Statement (these amounts include the effect of deductible credits and retrospective rating adjustments) to the total 2007 Statutory Annual Statement of California written premium reported for your insurer group as a whole.

HOW YOUR ASSESSMENT AMOUNTS WERE CALCULATED:

WCARF ASSESSMENT (Section 5.1 of attached Methodology):
\[(0.889471006 \times X \text{ 2007 Total California Direct Written Premium}) \times 0.013583\]

UEBTF ASSESSMENT (Section 5.3 of attached Methodology):
\[(0.889471006 \times X \text{ 2007 Total California Direct Written Premium}) \times 0.002241\]

SIBTF ASSESSMENT (Section 5.5 of attached Methodology):
\[(0.889471006 \times X \text{ 2007 Total California Direct Written Premium}) \times 0.000827\]

OSHF ASSESSMENT (Section 5.7 of attached Methodology):
\[(0.889471006 \times X \text{ 2007 Total California Direct Written Premium}) \times 0.001185\]

FRAUD ASSESSMENT (Section 5.10 of attached Methodology):
\[(0.889471006 \times X \text{ 2007 Total California Direct Written Premium}) \times 0.003956\]

* Ratio of the expected total 2008 premium to the 2007 Total Direct Written Premium of all insurers ($11,300,000,000) ÷ ($12,704,180,268) = 0.889471006

REQUIRED EMPLOYER ASSESSMENTS
All workers’ compensation insurance policies you issue with an inception date during the calendar year 2009 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.
Fiscal Year 2008/09 Assessments

Page 3

The assessment factors to be applied to the estimated annual assessable premium for 2009 policies are 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 (510)286-7083 or Naomi P. Carter, Analyst at (510)286-7087 in the Division of Workers’ Compensation, Department of Industrial Relations.

Enclosures
METHODOLOGY

Labor Code Sections 62.5 and 62.6 require the Department of Industrial Relations to levy the total amounts of the Workers' Compensation Administration Revolving Fund Assessment, Uninsured Employers Benefits Trust Fund Assessment, Subsequent Injuries Trust Fund Assessment, Occupational Safety and Health 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 2008-2009

[1.1] Workers' Compensation Administration Revolving Fund Assessment (Labor Code § 62.5)  
Total Assessment Required  
Fund Balance  
DWC 0708 Undercollection  
SIP 0708 Overcollection  
$101,016,100

[1.2] Uninsured Employers Benefits Trust Fund Assessment (Labor Code § 62.5)  
Total Assessment Required  
Fund Balance  
DWC 0708 Undercollection  
SIP 0708 Overcollection  
$11,865,081

[1.3] Subsequent Injuries Benefits Trust Fund Assessment (Labor Code § 62.5)  
Total Assessment Required  
Fund Balance  
DWC 0708 Overcollection  
SIP 0708 Overcollection  
$7,371,917

[1.4] Occupational Safety and Health Fund Assessment (Labor Code § 62.5)  
Total Assessment Required  
Fund Balance  
No DWC 0708 Over/undercollection  
No SIP 0708 Over/undercollection  
$18,960,000

[1.5] Workers' Compensation Fraud Account Assessment (Labor Code § 62.6)  
The workers' compensation fraud account assessment is established by the Department of Insurance, Fraud Commission.  
Total Assessment Required  
Fund Balance  
DWC 0708 Undercollection  
SIP 0708 Overcollection  
$38,074,215
**Step 2: Determine Payroll Amounts**

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<th>Amount</th>
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<tbody>
<tr>
<td>(2.1)</td>
<td>Total payroll for insured employers</td>
<td>$422,300,944,370</td>
</tr>
<tr>
<td>(2.2)</td>
<td>Payroll for self-insured employers</td>
<td>$160,142,021,188</td>
</tr>
<tr>
<td>(2.2.1)</td>
<td>Payroll for 2006-07 Fiscal Year for Public Sector</td>
<td>$80,610,685,708</td>
</tr>
<tr>
<td>(2.2.2)</td>
<td>Payroll for 2007 for Private Sector</td>
<td>$79,331,335,480</td>
</tr>
<tr>
<td>(2.3)</td>
<td>Payroll for State of California (including SCIF)</td>
<td>$15,302,953,056</td>
</tr>
<tr>
<td>(2.4)</td>
<td>Total payroll for self-insured employers (Insured and self-insured employers)</td>
<td>$175,444,974,244</td>
</tr>
<tr>
<td>(2.5)</td>
<td>Total combined payroll (Insured and self-insured employers)</td>
<td>$597,745,918,614</td>
</tr>
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</table>

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

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<th>Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>(3.1)</td>
<td>Insured Employers: Insured Employer Payroll</td>
<td>Methodology Section (2.1) = $422,300,944,370</td>
</tr>
<tr>
<td></td>
<td>Total Combined Payroll</td>
<td>Methodology Section (2.5) = $597,745,918,614</td>
</tr>
<tr>
<td></td>
<td>Proportion</td>
<td>70.65%</td>
</tr>
<tr>
<td>(3.2)</td>
<td>Self-Insured Employers: Self-Insured Employer Payroll</td>
<td>Methodology Section (2.4) = $175,444,974,244</td>
</tr>
<tr>
<td></td>
<td>Total Combined Payroll</td>
<td>Methodology Section (2.5) = $597,745,918,614</td>
</tr>
<tr>
<td></td>
<td>Proportion</td>
<td>29.35%</td>
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**Step 4: Determine the Total Assessments for Insured and Self-Insured Employers**

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<th>Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>(4.1)</td>
<td>Workers' Compensation Administration Revolving Fund (WCARF) Assessment</td>
<td>(WCARF Assessment) X 70.65% = $101,016,100 X 70.65% = $71,367,875</td>
</tr>
<tr>
<td></td>
<td>INCREASED by credits due individual insurers which undercollected against previous advances [CCR, Title 8, §15609].</td>
<td>54,193,302</td>
</tr>
<tr>
<td></td>
<td>INCREASED by insurer undercollection 0708 pursuant to CCR, Title 8, §15606(f).</td>
<td>27,928,059</td>
</tr>
<tr>
<td></td>
<td>Resulting Final Insured Employers Workers' Compensation User Funding Assessment</td>
<td>$153,489,236</td>
</tr>
</tbody>
</table>
Calculation for Self-Insured Employers:

\[
\text{WCARF Assessment} \times \frac{29.35}{100} = 101,016,100 \times 29.35
decreased \text{ by the Self-Insurer overcollection from prior year} \quad (2,146,796) \\
\text{Resulting Final Self-Insured Employers' Workers' Compensation User Funding Assessment} \quad 27,501,429
\]

Calculation for Insured Employers:

\[
\text{UEBTF Assessment} \times \frac{70.65}{100} = 11,865,081 \times 70.65 
\text{increased by credits due individual insurers which undercollected against previous advances} \quad 12,096,492 \\
\text{increased by insurer undercollection 0708 [pursuant to CCR, Title 8, §15606(f)]} \quad 4,846,256 \\
\text{Resulting Final Insured Employers UEBT Fund Assessment} \quad 25,325,428
\]

Calculation for Self-Insured Employers:

\[
\text{UEBTF Assessment} \times \frac{29.35}{100} = 11,865,081 \times 29.35 
\text{decreased by the Self-Insurer overcollection from prior year} \quad (114,337) \\
\text{Resulting Final Self-Insured Employers UEBT Fund Assessment} \quad 3,368,064
\]

Calculation for Insured Employers:

\[
\text{SIBTF Assessment} \times \frac{70.65}{100} = 7,371,917 \times 70.65 
\text{increased by credits due individual insurers which undercollected against previous advances} \quad 4,522,675 \\
\text{decreased by the Insurer overcollection for 0708 [pursuant to CCR, Title 8, §15606(f)]} \quad (390,115) \\
\text{Resulting Final Insured Employers SIBT Fund Assessment} \quad 9,340,819
\]

Calculation for Self-Insured Employers:

\[
\text{SIBTF Assessment} \times \frac{29.35}{100} = 7,371,917 \times 29.35 
\text{decreased by the Self-Insurer overcollection from prior year} \quad (472,802) \\
\text{Resulting Final Self-Insured Employers SIBT Fund Assessment} \quad 1,690,856
\]

Calculation for Insured Employers:

\[
\text{OSHF Assessment} \times \frac{70.65}{100} = 18,960,000 \times 70.65 
\text{no credits due individual insurers, no previous advances} \quad 0 \\
\text{Resulting Final Insured Employers OSH Fund Assessment} \quad 13,395,240
\]

Calculation for Self-Insured Employers:

\[
\text{OSHF Assessment} \times \frac{29.35}{100} = 18,960,000 \times 29.35 
\text{no Self-Insurer over/undercollection from prior year} \quad 0 \\
\text{Resulting Final Self-Insured Employers OSH Fund Assessment} \quad 5,564,760
\]
Workers' Compensation Fraud Account (FRAUD) Assessment

Calculation for Insured Employers:

1. (Fraud Assessment) \( \times \) 70.65% = \( \$38,074,215 \times \ 70.65\% \) .............. \( \$26,899,433 \)
2. INCREASED by credits due individual insurers which undercollected against previous advances [CCR, Title 8, §15609].......................... \( \$14,270,124 \)
3. INCREASED by the insurer undercollection 0708 [pursuant to CCR, Title 8, §15606(f)].......................... \( \$3,535,965 \)
4. \((4.9)\) Resulting Final Insured Employers Workers' Compensation Fraud Account Assessment............. \( \$44,705,522 \)

Calculation for Self-Insured Employers:

1. (Fraud Assessment) \( \times \) 29.35% = \( \$38,074,215 \times \ 29.35\% \) \( \$11,174,782 \)
2. DECREASED by the Self-Insurer overcollection from prior year.......................... \( \$773,281 \)
3. \((4.10)\) Resulting Final Self-Insured Employers Workers' Compensation Fraud Account Assessment.................. \( \$10,401,501 \)

Step 5: Calculate the Assessment Factors

WCARF Assessment Factor

\[(5.1)\] Calculation for Insured Employers:

\[ \frac{\text{Total Insured Employers Assessment}}{\text{Total Direct Workers' Compensation*}} \] = \( \frac{\$153,489,236}{\$11,300,000,000} \) = \( 0.013583 \)

*Estimated Premium (Source: WCIRB estimate for 2008 Policy Year)

\[(5.2)\] Calculation for Self-Insured Employers:

\[ \frac{\text{Total Self-Insured Employer Assessment}}{\text{Total Amt. of Workers' Comp. Indemnity Pd**}} \] = \( \frac{\$27,501,429}{\$1,659,849,831} \) = \( 0.016569 \)

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

\[(5.2.1)\] 2006-07 Public Sector ............................................................... \$868,646,105
\[(5.2.2)\] 2007 Private Sector ............................................................... \$651,495,095
\[(5.2.3)\] 2007-08 State of California** .................................................. \$139,708,631

*** SOURCE: Department of Personnel Administration

UEBTF Assessment Factor

\[(5.3)\] Calculation for Insured Employers:

\[ \text{Total Insured Employers Assessment} = \$26,325,428 \]
\[ \text{Total Direct Workers' Compensation*} = \$11,300,000,000 \]

\( 0.002241 \)\n
*Estimated Premium (Source: WCIRB estimate for 2008 Policy Year)

\[(5.4)\] Calculation for Self-Insured Employers:

\[ \text{Total Self-Insured Employer Assessment} = \$3,368,064 \]
\[ \text{Total Amt. of Workers' Comp. Indemnity Pd**} = \$1,659,849,831 \]

\( 0.002029 \)

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

FY 08-09 METHODOLOGY.xls Page 4 of 6 11/14/2008
**SIBTF Assessment Factor**

(5.5) Calculation for Insured Employers:

\[
\text{Total Insured Employers Assessment} = \frac{\$9,340,819}{\$11,300,000,000} = 0.00827
\]

*Estimated Premium (Source: WCIRB estimate for 2008 Policy Year)

\[
\text{Total Direct Workers' Compensation} = \frac{\$9,340,819}{\$11,300,000,000} = 0.00827
\]

**Calculation for Self-Insured Employers:**

\[
\text{Total Self-Insured Employer Assessment} = \frac{\$1,690,856}{\$1,659,849,831} = 0.001019
\]

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

**OSHF Assessment Factor**

(5.7) Calculation for Insured Employers:

\[
\text{Total Insured Employers Assessment} = \frac{\$13,395,240}{\$11,300,000,000} = 0.001185
\]

*Estimated Premium (Source: WCIRB estimate for 2008 Policy Year)

\[
\text{Total Direct Workers' Compensation} = \frac{\$13,395,240}{\$11,300,000,000} = 0.001185
\]

(5.8) Calculation for Self-Insured Employers:

\[
\text{Total Self-Insured Employer Assessment} = \frac{\$5,564,760}{\$1,659,849,831} = 0.003353
\]

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

**Fraud Assessment Factor**

(5.9) Calculation for Insured Employers:

\[
\text{Total Insured Employer Surcharge} = \frac{\$44,705,522}{\$11,300,000,000} = 0.003956
\]

*Estimated Premium (Source: WCIRB estimate for 2008 Policy Year)

\[
\text{Total Direct Workers' Compensation} = \frac{\$44,705,522}{\$11,300,000,000} = 0.003956
\]

(5.10) Calculation for Self-Insured Employers:

\[
\text{Total Self-Insured Employer Surcharge} = \frac{\$10,401,501}{\$1,659,849,831} = 0.006267
\]

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

**Step 6: Determine Individual Employer's Workers' Compensation Administration Revolving Fund (WCARF) Assessment**

(6.1) Individual Insured Employers:

\[
\text{Assessment Factor} = 0.013583 \times \text{Employer's Expected Assessable Premium*}
\]

(6.2) Calculation for Individual Self-Insured Employers:

\[
\text{Assessment Factor} = 0.016569 \times \text{Total Indemnity Paid by the Employer}
\]
Step 7: Determine Individual Employers Uninsured Employers Benefits Trust Fund (UEBTF) Assessment

(7.1) Individual Insured Employers:
Assessment Factor [ 0.002241 ] X Employer's Expected \textit{Assessable Premium}*

(7.2) Calculation for Individual Self-Insured Employers:
Assessment Factor [ 0.002029 ] X Total Indemnity Paid by the Employer

Step 8: Determine Individual Employers Subsequent Injuries Benefit Trust Fund (SIBTF) Assessment

(8.1) Individual Insured Employers:
Assessment Factor [ 0.000827 ] X Employer's Expected \textit{Assessable Premium}*

(8.2) Calculation for Individual Self-Insured Employers:
Assessment Factor [ 0.000827 ] X Total Indemnity Paid by the Employer

Step 9: Determine Individual Employers Occupational Safety and Health Fund (OSHF) Assessment

(9.1) Individual Insured Employers:
Assessment Factor [ 0.001185 ] X Employer's Expected \textit{Assessable Premium}*

(9.2) Calculation for Individual Self-Insured Employers:
Assessment Factor [ 0.003353 ] X Total Indemnity Paid by the Employer

Step 10: Determine Individual Employer's Workers' Compensation Fraud Account (FRAUD) Assessment

(10.1) Individual Insured Employers:
Assessment Factor [ 0.003956 ] X Employer's Expected \textit{Assessable Premium}*

(10.2) Calculation for Individual Self-Insured Employers:
Assessment Factor [ 0.003956 ] X Total Indemnity Paid by the Employer

* \textit{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.
DATE: November 14, 2008

TO: California Legally Uninsured Employer

FROM: John C. Duncan, Director, Department of Industrial Relations

SUBJECT: Fiscal Year 2008/2009 Assessments:
- Workers’ Compensation Administration Revolving Fund (WCARF)
- Uninsured Employers Benefits Trust Fund (UEBTF)
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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. Newly added to Section 62.5 is an additional assessment to support the mandated activities of the Cal/OSHA program. These assessments provide a stable funding source to allow the courts to resolve claims more quickly, to assure safe and healthy working conditions on the job to prevent injuries from occurring, and to improve the overall operation of the system for California’s workers and employers.

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.

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Attached is a worksheet detailing the methodology used to compute the Workers' Compensation Administration Revolving Fund, Uninsured Employers Benefits Trust Fund, Subsequent Injuries Trust Fund, Occupational Safety and Health 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 the Self-Insurance Plans office in Sacramento at (916)574-0300.

Enclosure
DATE: November 14, 2008

TO: California Self-Insured Employer

FROM: John C. Duncan, Director, Department of Industrial Relations

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If you have any questions, please contact the Self-Insurance Plans office in Sacramento at (916)574-0300.

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