

Notice to insurers of correction to November 18, 2003 assessment invoice

Recently, the Division of Workers' Compensation ("DWC") mailed invoices to insurance carriers that set forth the required annual assessments for the Workers' Compensation Administration Revolving Fund (the user funding assessment), the Fraud Surcharge, the Subsequent Injuries Benefits Trust Fund, and the Uninsured Employers Benefits Trust Fund.*

To determine the user funding assessment for each insured employer, an employer's total direct written premium is multiplied by a user funding assessment factor (the product of total insured employers' assessment divided by the estimated total premium for 2003 for all insured employers) and the ratio between the expected total current year (2003) premium to the total direct 2002 written workers' compensation premium of all insurers. See the November 18, 2003 cover letter from Chuck Cake, Acting Director of the Department of Industrial Relations, and Section 5.1 of the Methodology.

The user funding assessment factor for 2003 was determined to be 0.002996. However, in the course of reviewing the invoices sent to insurers, it was discovered that the database application generating the invoices erroneously rounded up the user funding assessment factor from 0.002996 to 0.003. This error has resulted in all user funding assessments being increased by approximately 0.1335% over the correct amount

(Note: The three other assessments on the invoices, for the Fraud Surcharge, the Subsequent Injuries Benefits Trust Fund, and the Uninsured Employers Benefit Trust Funds, were not affected by the rounding error and appear correctly on the invoices. Further, the error only applies to the invoices of insured employers. The assessments sent to self-insured employers were done by another method and are correct.)

To rectify this situation, DWC requests that insurers pay the assessment as stated on their recently received invoice. DWC will make a downward adjustment on the second invoice sent to insurers, which will be mailed in late February or early March with a due date of April 1, 2004, so that the correct total amount of the assessment, the sum of the two invoices due January 1, 2004 and April 1, 2004, respectively, will be paid by each insurer. By adjusting the second invoice, no insurer will make a total excess payment based on the indicated software error.

DWC will, however, allow insurers the option of paying the correct, lower amount on their first invoice. Should an insurer desire to pay their correct user funding assessment (based on the 0.002996 adjustment factor) on the invoice due January 1, 2004, they are requested to advise DWC that they will be adjusting their invoice and paying the correct amount. DWC will monitor all payments received and ensure that the second invoice due April 1, 2004 is accurate.

To advise DWC that an adjusted invoice and payment will be sent, or for further questions regarding the assessment, please contact Amadeo F. Urbano, Staff Services Manager, at (415) 703-4657, or Naomi P. Carter, AGPA, at (415) 703-4652.

*Recent legislation has significantly altered the nature and scope of funding for California's workers' compensation system. Assembly Bill 1756 amended Labor Code Section

62.5 to establish the Subsequent Injuries Benefits Trust Fund and the Uninsured Employers Benefits Trust Fund. These trust funds, which pay the non-administrative benefits of the Subsequent Injuries Fund and Uninsured Employer Fund programs, are to receive 100% of their funding through direct employer assessments. Senate Bill 227 further amended Labor Code Section 62.5 by requiring that 100% of DWC's operating budget be funded through direct employer assessments.