

Worker's Compensation Board of Indiana

Second Injury Fund
Calculation of Funding Level

January 17, 2006



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January 17, 2006

Workers Compensation Board of Indiana
402 West Washington Street, Room 196
Indianapolis, Indiana 46204

Dear Board Members:

In accordance with our engagement by the Worker's Compensation Board of Indiana ("Board") in connection with the funding of the Second Injury Fund ("Fund"), we have prepared a report entitled Second Injury Fund-Calculation of Funding Level ("Report") which we respectfully submit herewith subject to comments in this letter of transmittal and the Report as to the scope of our inquiry and the conclusions reported.

The Fund was created by the State of Indiana to provide compensation to employees who have been permanently and totally disabled due to a compensable injury and have also exhausted the statutory maximum 500 weeks of compensation. In addition, the Fund also provides benefits to persons who have suffered an amputation due to a compensable injury and need to repair or replace the prosthetic device.

The Fund collects revenue based upon an assessment of all compensation paid to injured employees by insurance carriers and self-insured employers. The Board is authorized to conduct the assessment if, on or before October 1, the balance in the Fund is less than \$1,000,000. The assessment may not exceed 2.5%.

The purpose of our study was to calculate the assessment necessary to meet the level of historical expenditures within the Fund as required by Indiana Code 22-3-3-13 (d). Our calculation was based upon information provided to us by the Board. Our calculation shows that an assessment of 2.5% is necessary and is based on the previous year's expenditures. Because current year's expenditures rarely equal historical expenditures, the assessment of 2.5% may or may not be sufficient to fund future expenditures (See Exhibits A and B). Indiana Code 22-3-3-13 allows the Board to approve a rate of up to .25% above the amount recommended by this study.

This Report is issued solely for your information and assistance with the calculation of the required assessment for the Second Injury Fund. In the course of preparing this Report, we have made certain assumptions, which may vary from the actual results because events and circumstances frequently do not occur as expected and such variances may be material. Our Report is issued as of the date set forth herein and we have no responsibility to update this Report for events which may occur after the date of this Report.

Respectfully submitted,

A handwritten signature in black ink that reads "John R. Skomp".

John R. Skomp

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Historical Second Injury Fund Expenditures

<u>Year</u>	<u>Expenditures</u>	<u>Percentage Change</u>
88-89	\$ 506,406	N/A
89-90	614,346	21.31%
90-91	619,007	0.76
91-92	767,536	23.99
92-93	817,711	6.54
93-94	914,635	11.85
94-95	958,010	4.74
95-96	1,226,625	28.04
96-97	1,445,551	17.85
97-98	1,719,652	18.96
98-99	2,246,421	30.63
99-00	2,327,755	3.62
2001*	2,646,699	13.70
2002	2,765,475	4.49
2003	2,898,017	4.79
2004	3,051,575	5.30
2005	3,450,365	13.07

*Note: Prior to calendar year 2001 historical expenditures were presented on the State of Indiana's fiscal year basis.

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Historical Second Injury Fund Revenues

<u>Year</u>	<u>Revenues</u>	<u>Percentage Change</u>
88-89 (2)	\$ 1,085,931	N/A
89-90 (1)	5,007	N/A
90-91 (2)	1,546,156	N/A
91-92 (1)	8,892	N/A
92-93	1,547,344	N/A
93-94 (1)	21,058	N/A
94-95 (2)	1,608,576	N/A
95-96 (2)	1,365,303	-15.12%
96-97 (2)	1,338,387	-1.97
97-98 (2)	1,353,732	1.15
98-99 (3)	2,782,098	105.51
99-00 (4)	2,200,524	-20.90
2001 (4)	2,083,172	-5.33
2002 (5)	2,971,879	42.66
2003 (6)	2,721,725	-8.42
2004 (6)	2,956,263	8.62
2005 (7)	3,021,632	2.21

- Notes:
- (1) No assessment imposed
 - (2) Revenues based on 1% assessment
 - (3) Two assessments of 1% each
 - (4) Revenues based on 1.5% assessment
 - (5) Revenues based on 2.09% assessment
 - (6) Revenues based on 1.89% assessment
 - (7) Revenues based on 1.8675% assessment

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Required Funding and Assessment Calculation

Recommended Assessment

Estimated Fund Balance January 1, 2006 (1)	\$ (301,448)
Estimated Expenditures through January 1, 2007 (2)	(3,455,365)
Estimated Revenues from 2.5% Assessment (3)	<u>3,697,239</u>
Estimated Balance January 1, 2007	<u><u>\$ (59,574)</u></u>

Note: (1) Included in the Estimated Fund Balance is the Fund's cash balance as of December 19, 2005, less the pending prosthetic payments of \$24,453.

(2) Included in the Estimated Expenditures are the following line items:

2005 Annual Permanent Total Disability PTD *	\$ 3,173,530
2005 Annual Prosthetics *	276,835
Accounting Fees *	<u>5,000</u>
	<u><u>\$ 3,455,365</u></u>

* Based on 2005 actual

(3) The assessment rate is based on:

1. estimated 2006 expenditures;
2. the maximum allowable assessment rate;
3. the maximum allowable assessment rate being applied to the estimated total worker's compensation paid for 2005 of \$147,889,568.