

Worker's Compensation Board of Indiana
Second Injury Fund

Calculation of Funding Level
January 22, 2004



WORKER'S COMPENSATION BOARD OF INDIANA
Second Injury Fund

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January 22, 2004

Worker's Compensation Board of Indiana
402 W. Washington Street, Room W196
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Dear Board Members:

In accordance with our engagement by the Worker's Compensation Board of Indiana (the "Board") in connection with the funding of the Second Injury Fund (the "Fund") we have prepared a report entitled Second Injury Fund – Calculation of Funding Level (the "Report") which we respectfully submit herewith subject to comments in this letter 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 of 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 1.892% is necessary and is based on the previous year's expenditures. Because current year expenditures rarely equal historical expenditures, the assessment of 1.892% may or may not be sufficient to fund future expenditures (See Exhibits A and B). Indiana Code 22-3-3-13 (c) 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, appearing to read "Christopher R. Johnston". The signature is written in a cursive style with a large, stylized initial "C".

Cristopher R. Johnston
Executive

WORKER'S COMPENSATION BOARD OF INDIANA
 Second Injury Fund

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%
Average Percentage Increase		13.66%

*Note: Prior to calendar year 2001 historical expenditures were presented on a state fiscal year basis.

WORKER'S COMPENSATION BOARD OF INDIANA

Second Injury Fund

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%
Average Percentage Increase		12.20%

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
 N/A - not applicable due to no assessment
 levied in alternating years.

WORKER'S COMPENSATION BOARD OF INDIANA
Second Injury Fund

Required Funding and Assessment Calculation

Recommended Assessment

Estimated Fund Balance January 1, 2004 (1)	\$	178,460
Estimated Expenditures through January 1, 2005 (2)		2,898,017
Estimated Revenues from 1.892% Assessment (3)		<u>2,729,557</u>
Estimated Balance January 1, 2005	\$	<u><u>10,000</u></u>

Notes: (1) Included in the Estimated Fund Balance are the fund's estimated cash balance and remaining amount due to the Supplemental Administrative Fund.

(2) Estimated Expenditures, as provided by the Worker's Compensation Board of Indiana, include the following line items:

2004 Annual Permanent Total Disability PTD*	\$	2,635,442
2004 Annual Prosthetics*		257,575
Consulting Fees		<u>5,000</u>
	\$	<u><u>2,898,017</u></u>

*Based on 2003 actual

(3) The assessment has been calculated based on the estimated 2004 expenditures and an estimated ending fund balance of \$10,000.