

Worker's Compensation Board of Indiana
Second Injury Fund

Calculation of Funding Level
December 20, 2002



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WORKER'S COMPENSATION BOARD OF INDIANA
Second Injury Fund

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December 20, 2002

Worker's Compensation Board of Indiana
402 W. Washington Street, Room W196
Indianapolis, Indiana 46204

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 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 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 Section 13(d). Our calculation was based upon information provided to us by the Board. Our calculation shows that an assessment of 1.887% will be necessary to retire one-third of the inter-fund borrowings and fund the estimated expenditures from January 1, 2003 through December 31, 2003. The assessment is based on historic expenditure levels and the total existing debt now held by the fund.

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 cursive script, appearing to read "Christopher R. Johnston".

Cristopher R. Johnston
Partner

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%
Average Percentage Increase		15.54%

WORKER'S COMPENSATION BOARD OF INDIANA
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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%
Average Percentage Increase		10.55%

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

WORKER'S COMPENSATION BOARD OF INDIANA
Second Injury Fund

Required Funding and Assessment Calculation

Recommended Assessment

Estimated Fund Balance January 1, 2003 (1)	\$	68,405
Estimated Expenditures through January 1, 2004 (2)		2,827,318
Estimated Revenues from 1.887% Assessment (3)		<u>2,620,914</u>
Estimated Balance January 1, 2004 (4)	\$	<u><u>(138,000)</u></u>

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

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

2003 Annual Permanent Total Disability PTD	\$	2,540,087
2003 Annual Prosthetics		282,232
Accounting Fees		<u>5,000</u>
		<u><u>\$ 2,827,318</u></u>

(3) The assessment has been calculated based on 1) the level of revenues required to pay for Estimated Expenditures and 2) the assumption that the repayment of \$138,000 to the SAF will not be made in 2003.

(4) Represents the remaining balance due to the SAF.