

7. Assessments and Funding

The Division of Workers' Compensation manages two trust funds: the Workers' Compensation Administration Trust Fund (WCATF) and the Special Disability Trust Fund (SDTF). Both funds are supported by annual assessments against workers' compensation insurance premiums, actual or estimated. For insurance companies, self-insurance funds, the Joint Underwriting Association, and assessable mutual insurance companies, assessments are based on actual premiums; for self-insured employers, assessments are calculated on the premium for comparable coverage from commercial insurers.

Workers' Compensation Administration Trust Fund (WCATF)

Prior to the implementation of significant statutory changes passed by the 2000 Florida Legislature, the Division of Workers' Compensation, in accordance with section 440.51, F. S., determined the funding level for a fiscal year based upon the administrative expenses for the previous fiscal year. Assessments were calculated by prorating these total expenses among insurance companies, self-insurance funds, assessable mutuals, the Workers' Compensation (WC) Joint Underwriting Association, and self-insurers. The assessment was identified as a percentage of net premiums collected or net premiums calculated for self-insurers, not to exceed 4%.

For fiscal year 2000, the assessment rate was 3.48%, a .73 percentage-point increase from the previous year's 2.75%. Table 1.1 shows the assess-

ment rates and revenues collected for the WCATF, by fiscal year, since 1986. The elevated assessment rate for fiscal year 2000 increased revenues by almost \$21 million (25.1%) from 1999 levels, resulting in the highest revenues over the 15-year period from 1986 through 2000, \$103.7 million.

The passage of Senate Bill 2532 (Chapter 2000-150, Laws of Florida) on the last day of the 2000 legislative session substantially modified the calculation of funding for the WCATF. By July 1 of each year, the division is required to notify carriers and self-insurers of the assessment rate for the next *calendar* year. Assessments are based on the anticipated expenses of administering the workers' compensation statute during that calendar year. The prorating of expenses among insurers remains unchanged.

Notably, Chapter 2000-150, Laws of Florida, achieved important equity goals relative to assessments for the WCATF and the Special Disability Trust Fund (SDTF), which is described below. By clarifying the definition of "net premium," the bill removed long-standing confusion surrounding that term and helped to ensure greater uniformity throughout the industry of the premium base used to figure assessments for both trust funds. The bill also closed the large deductible policy loophole for the WCATF created when many formerly self-insured employers purchased large deductible commercial policies, thereby exempting all of their deductible premium dollars from assessment by the division. Beginning July 1, 2001, all large deductible policyholders must pay on the deductible amount of the policy as well as the nondeductible amount. The expanded premium base resulting from the greater equity of assessments will allow a

Table 1.1

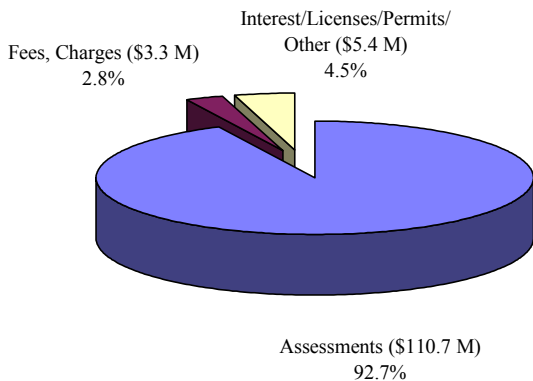
**Workers' Compensation Administration Trust Fund
Assessment Rates and Total Revenues (Fiscal Years 1986-2001)**

| Fiscal Year | Assessment Rate | Revenues |
|-------------|-----------------|---------------|
| 1986 | 2.40% | \$34,631,889 |
| 1987 | 2.00% | \$34,918,694 |
| 1988 | 1.40% | \$35,867,800 |
| 1989 | 1.40% | \$37,322,264 |
| 1990 | 1.40% | \$43,556,000 |
| 1991 | 1.60% | \$55,000,000 |
| 1992 | 1.50% | \$53,000,000 |
| 1993 | 1.40% | \$51,000,000 |
| 1994 | 1.66% | \$62,017,600 |
| 1995 | 3.22% | \$93,436,220 |
| 1996 | 3.15% | \$98,710,066 |
| 1997 | 2.50% | \$90,165,687 |
| 1998 | 2.40% | \$92,485,615 |
| 1999 | 2.75% | \$82,953,596 |
| 2000 | 3.48% | \$103,738,676 |
| 2001 | 3.74%/2.75%* | \$119,419,182 |

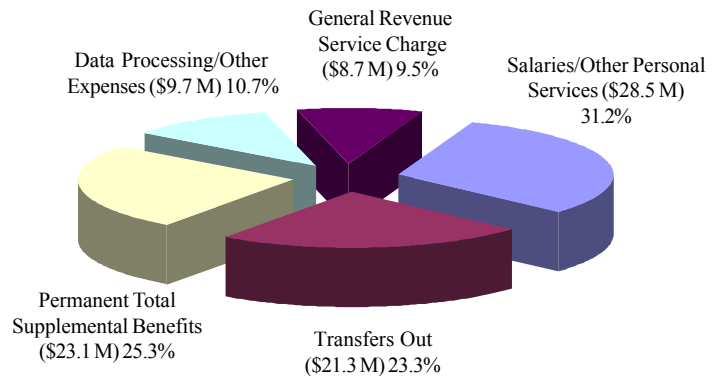
*Chapter 2000-150, Laws of Florida changed the assessment period to a calendar year.
Source: Division of Workers' Compensation

Figure 1.1

**Workers' Compensation Administration Trust Fund
Revenue Sources and Disbursements* (Fiscal Year 2001)**



Source: Division of Workers' Compensation



Source: State Comptroller Central Accounting Ledger as of 6/30/2001

reduction in assessment rates across the board, benefiting the vast majority of Florida employers who purchase workers' compensation insurance. Through Chapter 2000-150, Laws of Florida, the Legislature enacted the anticipated savings into law with the statutory assessment cap on the WCATF lowered from 4% to 2.75%, effective January 1, 2001. The result of these legislative changes had an immediate effect upon assessments. Even though the assessment rate dropped from 3.74% to 2.75%, as required by law, assessments for fiscal year 2001 increased over the previous year by more than \$15 million, a 15% increase.

Revenues derived from assessments are used to cover expenses for the Division of Workers' Compensation (administrative and Permanent Total supplemental benefit payments), the Office of Judges of Compensation Claims, a portion of the Agency for Health Care Administration, and a small portion of the Department of Insurance's Bureau of Workers' Compensation Fraud. Figure 1.1 illustrates the breakout of revenue sources and disbursements for fiscal year 2001.

The Special Disability Trust Fund (SDTF)

Annual assessments for the SDTF are used primarily to provide reimbursement to self-insurers and carriers for costs generated whenever a covered worker with a previous impairment sustains a second work-related injury, while a small portion of the assessments fund administrative operations in the division required to make the reimbursements. Having been prospectively abolished by the Legislature, the SDTF does not accept new claims for injuries sustained after December 31, 1997.

As dictated by section 440.49, F. S., the an-

nual assessments are calculated to produce an amount during the ensuing fiscal year that, when combined with any fund balance in excess of \$100,000 on June 30 of the current fiscal year, is equal to the average of:

- a. the sum of disbursements from the fund during the previous three calendar years, and,
- b. two times the disbursements of the most recent calendar year.

A 1993 SDTF audit conducted by the Auditor General determined the 'balance in the fund' should be defined as the cash balance less any approved liabilities rather than the simple cash balance used to calculate assessment rates in prior years. The determination has had a negligible effect on the assessment rate for the fund, since legislation has capped the SDTF assessment rate at 4.52% since 1995.

As in the WCATF, the assessment rate is prorated among insurance companies, self-insurance funds, the Joint Underwriting Association, assessable mutuals, and self-insurers. The assessments are expressed as a percentage of net premiums written or net premiums calculated for self-insurers. Although the statutory cap remains at 4.52% following recent legislation, large deductible policyholders may continue to avoid assessments on the deductible portion of the policy for purposes of assessment for the SDTF.

The assessment rates and revenues for the SDTF since 1986 are listed in Table 1.2. Note that total revenues for fiscal year 2001 rose by more than \$28 million (20.6%) despite the unchanged assessment rate. Breakouts of fund revenues and disbursements during fiscal year 2001 are displayed in Figure 1.2. It is instructive to note that more than nine of every ten dollars expended from the fund (92.7%) went to reimbursements for carriers and self-insurers.

Table 1.2

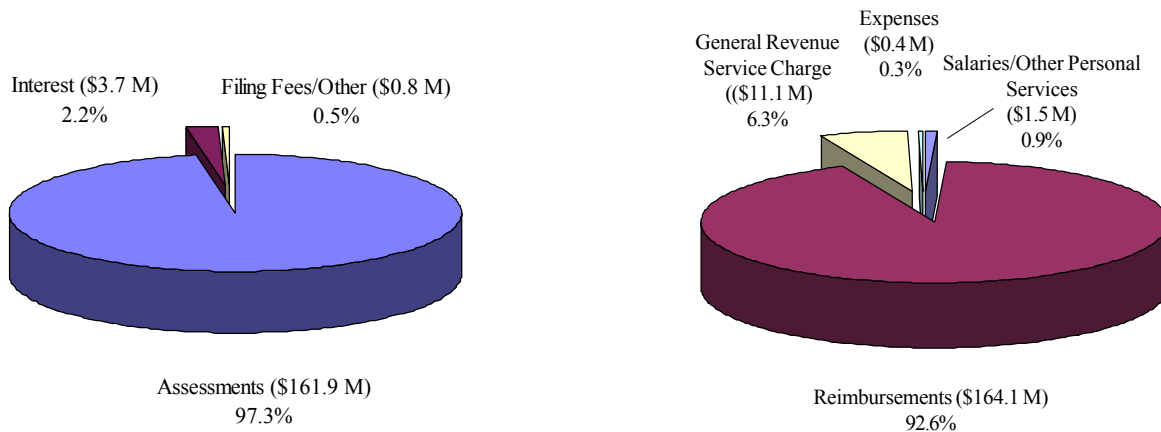
Special Disability Trust Fund Assessment Rates and Total Revenues (Fiscal Years 1986-2001)

| Fiscal Year | Assessment Rate | Revenues |
|-------------|-----------------|---------------|
| 1986 | 2.15% | \$31,185,050 |
| 1987 | 2.15% | \$35,564,193 |
| 1988 | 1.30% | \$32,347,672 |
| 1989 | 1.20% | \$32,167,773 |
| 1990 | 2.00% | \$48,403,436 |
| 1991 | 2.00% | \$76,663,778 |
| 1992 | 2.14% | \$70,708,906 |
| 1993 | 2.72% | \$95,946,973 |
| 1994 | 3.36% | \$115,380,449 |
| 1995 | 4.52% | \$166,827,717 |
| 1996 | 4.52% | \$172,868,903 |
| 1997 | 4.52% | \$139,176,056 |
| 1998 | 4.52% | \$140,898,077 |
| 1999 | 4.52% | \$132,339,956 |
| 2000 | 4.52% | \$138,006,002 |
| 2001 | 4.52% | \$166,434,403 |

Source: Division of Workers' Compensation

Figure 1.2

Special Disability Trust Fund Revenue Sources and Disbursements* (Fiscal Year 2001)



Source: Division of Workers' Compensation

Source: State Comptroller Central Accounting Ledger as of 6/30/2001