

Council Meeting of  
January 24, 2006

Honorable Mayor and Members  
of the City Council  
City Hall  
Torrance, California

Members of the Council

**SUBJECT: Request for Approval to Pay the State of California Annual  
Self-Insurance Assessment**

**Expenditure: \$100,696.84**

**RECOMMENDATION**

The Human Resources Director recommends that the City Council approve the payment of the FY 2005/06 Self-Insurance Assessment to the State of California Self-Insurance Plans in the amount of \$100,696.84.

Funding

Funding is available in the FY 2005/06 Self-Insurance Fund.

**BACKGROUND**

The City of Torrance is self-insured for workers' compensation. Self-insured employers, including public entities, are required to pay an annual assessment to the State. The assessment covers the costs to administer the State Division of Workers' Compensation, as well the following State administered trust funds:

- Uninsured Employers Benefits Trust Fund which provides benefits for employees who have suffered serious injury and who are suffering from previous and serious permanent disabilities.
- Subsequent Injuries Benefits Trust Fund which provides for employees who are injured while working for uninsured employers.
- Workers' Compensation Fraud Account which funds the investigation and prosecution of workers' compensation fraud.

The assessments are based upon a complicated formula in which statewide payroll figures as well as statewide workers' compensation indemnity payments are taken into account. (ATTACHMENT A provides the State of California invoice and assessment methodology).

Prior to January 2004, the employer share of the assessment was limited to 20% of the total program cost. However, Senate Bill 228 (2003) contained provisions increasing the employer share from 20% to 100% funding of various programs within the Department of Industrial Relations.

In FY 2002/03, the annual assessment paid by the City was \$27,000. The assessment for FY 2004/05 increased to \$117,223.08. The decrease from last year is the direct result of savings related to the 2004 workers' compensation reform. Due to the requirement for 100% user funding as indicated above, we anticipate future assessment will vary based upon ongoing cost reductions, as well as annual statewide increases in payroll and workers' compensation indemnity payments.

### **ANALYSIS**

The payment of the assessment is mandated by California Law. Therefore, approval to pay the assessment is recommended.

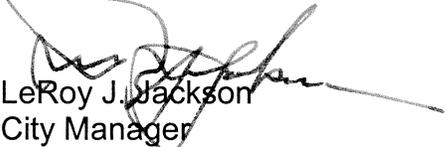
Respectfully Submitted,

ELAINE M. WINER  
HUMAN RESOURCES DIRECTOR

By  Donna M. Rizzo  
Workers' Compensation Administrator

CONCUR:

  
Elaine M. Winer  
Human Resources Director

  
LeRoy J. Jackson  
City Manager

ATTACHMENT: A. State of California Self-Insurance Plan Invoice and Assessment Methodology



STATE OF CALIFORNIA

ARNOLD SCHWARZENEGGER, GOVERNOR

DEPARTMENT OF INDUSTRIAL RELATIONS  
 OFFICE OF THE DIRECTOR  
 P. O. Box 420603  
 San Francisco, CA 94142  
 (510)286-7100



DATE: November 4, 2005

TO: California Self-Insured Employer

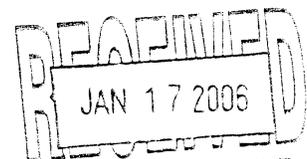
FROM: John M. Rea, Acting Director, Department of Industrial Relations

SUBJECT: Fiscal Year 2005/06 Workers' Compensation Administration Revolving Fund Assessment;  
 Uninsured Employers Benefits Trust Fund Assessment;  
 Subsequent Injuries Benefits Trust Fund Assessment; and  
 Workers' Compensation Fraud Account Assessment

Labor Code Sections 62.5 and 62.6 authorize the Department of Industrial Relations to assess employers for the costs of the administration of the workers' compensation program. Previously, this assessment limited the employer share to 20 percent of the total program cost. The major workers' compensation reform in Senate Bill 899 (2004) contained provisions to increase the employer share to 100 percent. This increased the total amount of the assessment, but will provide a stable funding source to allow the courts to resolve claims more quickly and improve the overall operation of the system.

The purpose of this letter is to inform you that you will be receiving an invoice for your share of the assessments authorized by Labor Code Sections 62.5 and 62.6. The Labor Code requires allocation of the total assessment between insured and self-insured employers in proportion to payroll for the most recent year available.

Authority	Type	Total Assessment for all Payers	Self-Insured Employer Assessment Factor
Labor Code § 62.5	Workers' Compensation Administration Revolving Fund Assessment (WCARF)	\$193,661,250	0.017982
Labor Code § 62.5	Uninsured Employers Benefits Trust Fund Assessment (UEBTF)	\$44,009,333	0.003572
Labor Code § 62.5	Subsequent Injuries Benefits Trust Fund Assessment (SIBTF)	\$14,575,583	0.001586
Labor Code § 62.6	Workers' Compensation Fraud Account Assessment (FRAUD)	\$37,672,254	0.003772



2006 Assessments

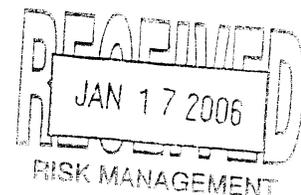
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Attached is a worksheet detailing the methodology used to compute the Workers' Compensation Administration Revolving Fund, Uninsured Employers Benefits Trust Fund, Subsequent Injuries Trust Fund allocation and Workers' Compensation Fraud Account Assessment and to allocate the assessment between insured and self-insured employers.

Your share of the various assessments will be calculated by multiplying the self insured employer assessment factors for each assessment by the total indemnity paid by your organization.

If you have any questions, please contact Mark Johnson, Manager at (916) 483-3392 extension 3006 or Tina Freese, Analyst at (916) 483-3392 extension 3007 in the Self-Insurance Plans office in Sacramento.

Enclosure



California Department of Industrial Relations  
 2005-2006 Workers' Compensation Administration Revolving Fund Assessment,  
 Uninsured Employers Benefits Trust Fund Assessment,  
 Subsequent Injuries Benefits Trust Fund Assessment and  
 Workers' Compensation Fraud Account Assessment

## METHODOLOGY

Labor Code Sections 62.5 and 62.6 require the Department of Industrial Relations to levy the total amounts of the Workers' Compensation Administration Revolving Fund Assessment, Uninsured Employers Benefits Trust Fund Assessment, Subsequent Injuries Trust Fund Assessment and Workers' Compensation Fraud Account Assessment between insured employers and self-insured employers in proportion to payroll paid in the most recent year for which information is available.

### Step 1: Determine Total Assessments Required for 2005-2006

**(1.1) Workers' Compensation Administration Revolving Fund Assessment (Labor Code § 62.5) \$130,119,302**

Total Assessment Required.....	\$193,661,250
Fund Balance.....	(\$71,454,000)
DWC & SIP 0405 Overcollections.....	<u>\$7,912,052</u>
	<b>\$130,119,302</b>

**(1.2) Uninsured Employers Benefits Trust Fund Assessment (Labor Code § 62.5)..... \$25,770,702**

Total Assessment Required.....	\$44,009,333
Fund Balance.....	(\$18,272,000)
DWC & SIP 0405 Overcollections.....	<u>\$33,369</u>
	<b>\$25,770,702</b>

**(1.3) Subsequent Injuries Benefits Trust Fund Assessment (Labor Code § 62.5)..... \$11,405,461**

Total Assessment Required.....	\$14,575,583
Fund Balance.....	(\$3,230,000)
DWC & SIP 0405 Overcollections.....	<u>\$59,878</u>
	<b>\$11,405,461</b>

**(1.4) Workers' Compensation Fraud Account Assessment (Labor Code § 62.6)..... \$27,570,082**

*The workers' compensation fraud account assessment is established by the Department of Insurance, Fraud Commission.*

Total Assessment Required.....	\$37,672,254
Fund Balance.....	(\$20,231,147)
DWC & SIP 0405 Overcollections.....	<u>\$10,128,975</u>
	<b>\$27,570,082</b>

### Step 2: Determine Payroll Amounts

**(2.1) Total payroll for insured employers..... \$371,314,720,047**

*Source: California Workers' Compensation Insurance Rating Bureau (WCIRB) policy year 2002*

**(2.2) Payroll for self-insured employers ..... \$147,174,655,966<sup>1</sup>**

**(2.2.1) 2003-04 Fiscal Year for Public Sector \* ..... \$70,195,065,826**

**(2.2.2) 2004 for Private Sector..... \$76,979,590,140**

*\* Source: Department of Industrial Relations, Office of Self-Insurance Plans (excludes State of California)*

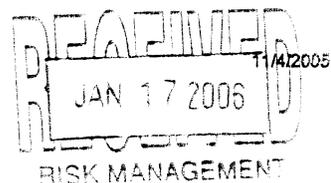
**(2.3) Payroll for State of California (including SCIF)\*\*..... \$11,512,722,532**

*\*\* Source: (Department of Personnel Administration, Fiscal Year 2004-05)*

**(2.4) Total payroll for self-insured employers..... \$159,094,446,302<sup>2</sup>**

**(2.5) Total combined payroll..... \$530,409,166,349<sup>3</sup>**

*(Insured and self-insured employers)*



California Department of Industrial Relations  
2005-2006 Workers' Compensation Administration Revolving Fund Assessment,  
Uninsured Employers Benefits Trust Fund Assessment,  
Subsequent Injuries Benefits Trust Fund Assessment and  
Workers' Compensation Fraud Account Assessment

**Step 3: Calculate Proportional Payroll for Insured and Self-Insured Employers**

**(3.1) Insured Employers:**

$$\frac{\text{Insured Employer Payroll}}{\text{Total Combined Payroll}} = \frac{\text{Methodology Section (2.1)}}{\text{Methodology Section (2.5)}} = \frac{\$371,314,720,047}{\$530,409,166,349} = \underline{70.01\%}$$

**(3.2) Self-Insured Employers:**

$$\frac{\text{Self-Insured Employer Payroll}}{\text{Total Combined Payroll}} = \frac{\text{Methodology Section (2.4)}}{\text{Methodology Section (2.5)}} = \frac{\$159,094,446,302}{\$530,409,166,349} = \underline{29.99\%}$$

<sup>1</sup> **(2.1) Payroll for Self-Insured Employers** =  $\Sigma$  of Methodology Section (2.2.1) and Methodology Section (2.2.2)

<sup>2</sup> **(2.4) Total Payroll for Self-Insured Employers** =  $\Sigma$  of Methodology Section (2.2) and Methodology Section (2.3)

<sup>3</sup> **(2.5) Total Combined Payroll** =  $\Sigma$  of Methodology Section (2.1) and Methodology Section (2.4)

**Step 4: Determine the Total Assessments for Insured and Self-Insured Employers**

**Workers' Compensation Administration Revolving Fund Assessment**

**Calculation for Insured Employers:**

▶ (WCARF Assessment) X 70.01% = \$130,119,302 X 70.01%	\$91,096,523
▶ INCREASED by credits due individual insurers which undercollected against previous advances [ CCR § 15609].....	\$4,639,250
▶ DECREASED by insurer overcollection 0405 [pursuant to CCR § 15606(f)].....	(\$6,805,019)
<b>(4.1) Resulting Final Insured Employers Workers' Compensation User Funding Assessment.....</b>	<b>\$88,930,754</b>

**Calculation for Self-Insured Employers:**

▶ (WCARF Assessment) X 29.99% = \$130,119,302 X 29.99%	\$39,022,779
▶ DECREASED by the Self-Insurer overcollection from prior year.....	(\$1,107,033)
<b>(4.2) Resulting Final Self-Insured Employers Workers' Compensation User Funding Assessment.....</b>	<b>\$37,915,746</b>

**Uninsured Employers Benefits Trust (UEBT) Fund Assessment**

**Calculation for Insured Employers:**

▶ (UEBTF Assessment) X 70.01% = \$25,770,702 X 70.01%	\$18,042,069
▶ INCREASED by the Insurer undercollection for 0405 [pursuant to CCR § 15606(f)].....	\$304,334
<b>(4.3) Resulting Final Insured Employers UEBT Fund Assessment.....</b>	<b>\$18,346,403</b>

**Calculation for Self-Insured Employers:**

▶ (UEBTF Assessment) X 29.99% = \$25,770,702 X 29.99%	\$7,728,634
▶ DECREASED by the Self-Insurer overcollection from prior year.....	(\$196,846)
<b>(4.4) Resulting Final Self-Insured Employers UEBT Fund Assessment.....</b>	<b>\$7,531,788</b>

**California Department of Industrial Relations**  
**2005-2006 Workers' Compensation Administration Revolving Fund Assessment,**  
**Uninsured Employers Benefits Trust Fund Assessment,**  
**Subsequent Injuries Benefits Trust Fund Assessment and**  
**Workers' Compensation Fraud Account Assessment**

**Subsequent Injuries Benefits Trust (SIBT) Fund Assessment**

**Calculation for Insured Employers:**

▶ (SIBTF Assessment) X 70.01% = \$11,405,461 X 70.01% .....	<b>\$7,984,963</b>
▶ INCREASED by the Insurer undercollection for 0405 [pursuant to CCR § 15606(f)].....	<b>\$51,967</b>
<b>(4.5)</b> Resulting Final Insured Employers SIBT Fund Assessment.....	<b><u>\$8,036,930</u></b>

**Calculation for Self-Insured Employers:**

▶ (SIBTF Assessment) X 29.99% = \$11,405,461 X 29.99% .....	<b>\$3,420,498</b>
▶ DECREASED by the Self-Insurer overcollection from prior year.....	<b>(\$76,488)</b>
<b>(4.6)</b> Resulting Final Self-Insured Employers SIBT Fund Assessment.....	<b><u>\$3,344,010</u></b>

**Workers' Compensation Fraud Account Assessment**

**Calculation for Insured Employers:**

▶ (Fraud Assessment) X 70.01% = \$27,570,082 X 70.01% .....	<b>\$19,301,814</b>
▶ INCREASED by credits due individual insurers which undercollected against previous advances [pursuant to CCR § 15609].....	<b>\$9,582,946</b>
▶ DECREASED by the insurer overcollection 0405 [pursuant to CCR § 15606(f)].....	<b>(\$9,813,605)</b>
<b>(4.7)</b> Resulting Final Insured Employers Workers' Compensation Fraud Account Assessment..	<b><u>\$19,071,155</u></b>

**Calculation for Self-Insured Employers:**

▶ (Fraud Assessment) X 29.99% = \$27,570,082 X 29.99%	<b>\$8,268,268</b>
▶ INCREASED by the Self-Insurer undercollection from prior year.....	<b>(\$315,370)</b>
<b>(4.8)</b> Resulting Final Self-Insured Employers Workers' Compensation Fraud Account Assessment.....	<b><u>\$7,952,898</u></b>

**Step 5: Calculate the Assessments Factors**

**Workers' Compensation Administration Revolving Fund Assessment Factor**

**(5.1) Calculation for Insured Employers:**

$$\frac{\text{Total Insured Employers Assessment}}{\text{Total Direct Workers' Compensation}} = \frac{\$88,930,754}{\$22,600,000,000} = \underline{\underline{0.003935}}$$

\*Estimated Premium (Source: WCIRB estimate for 2005 Policy Year)

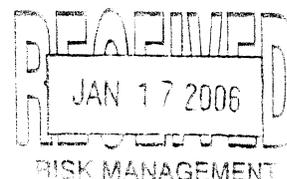
**(5.2) Calculation for Self-Insured Employers:**

$$\frac{\text{Total Self-Insured Employer Assessment}}{\text{Total Amt. of Workers' Comp. Indemnity Pd**}} = \frac{\$37,915,746}{\$2,108,533,089} = \underline{\underline{0.017982}}$$

\*\* SOURCE: Dept. of Industrial Relations, Office of Self-Insurance Plans [ I of Methodology Sections (5.2.1) to (5.2.3)]:

(5.2.1)	2003-04 Public Sector.....	<b>\$948,997,181</b>
(5.2.2)	2004 Private Sector.....	<b>\$977,997,117</b>
(5.2.3)	2004-05 State of California***.....	<b>\$181,538,791</b>

\*\*\* SOURCE: Department of Personnel Administration



**California Department of Industrial Relations  
2005-2006 Workers' Compensation Administration Revolving Fund Assessment,  
Uninsured Employers Benefits Trust Fund Assessment,  
Subsequent Injuries Benefits Trust Fund Assessment and  
Workers' Compensation Fraud Account Assessment**

**Uninsured Employers Benefits Trust (UEBT) Fund Assessment Factor**

**(5.3) Calculation for Insured Employers:**

$$\begin{array}{l} \text{Total Insured Employers Assessment} = \underline{\$18,346,403} = \underline{0.000812} \\ \text{Total Direct Workers' Compensation}^* = \$22,600,000,000 \end{array}$$

\*Estimated Premium (Source: WCIRB estimate for 2005 Policy Year)

**(5.4) Calculation for Self-Insured Employers:**

$$\begin{array}{l} \text{Total Self-Insured Employer Assessment} = \underline{\$7,531,788} = \underline{0.003572} \\ \text{Total Amt. of Workers' Comp. Indemnity Pd}^{**} = \$2,108,533,089 \end{array}$$

\*\*SOURCE: Dept. of Industrial Relations, Office of Self-Insurance Plans [Σ of Methodology Sections (5.4.1) to (5.4.3)]:

(5.4.1)	2003-04 Public Sector.....	\$948,997,181
(5.4.2)	2004 Private Sector.....	\$977,997,117
(5.4.3)	2004-05 State of California***	\$181,538,791

\*\*\*SOURCE: Department of Personnel Administration

**Subsequent Injuries Benefits Trust (SIBT) Fund Assessment Factor**

**(5.5) Calculation for Insured Employers:**

$$\begin{array}{l} \text{Total Insured Employers Assessment} = \underline{\$8,036,930} = \underline{0.000356} \\ \text{Total Direct Workers' Compensation}^* = \$22,600,000,000 \end{array}$$

\*Estimated Premium (Source: WCIRB estimate for 2005 Policy Year)

**(5.6) Calculation for Self-Insured Employers:**

$$\begin{array}{l} \text{Total Self-Insured Employer Assessment} = \underline{\$3,344,010} = \underline{0.001586} \\ \text{Total Amt. of Workers' Comp. Indemnity Pd.}^{**} = \$2,108,533,089 \end{array}$$

\*\*SOURCE: Dept. of Industrial Relations, Office of Self-Insurance Plans [Σ of Methodology Sections (5.6.1) to (5.6.3)]:

(5.6.1)	2003-04 Public Sector.....	\$948,997,181
(5.6.2)	2004 Private Sector.....	\$977,997,117
(5.6.3)	2004-05 State of California***	\$181,538,791

\*\*\*SOURCE: Department of Personnel Administration

**Workers' Compensation Fraud Account Assessment Factor**

**(5.7) Calculation for Insured Employers:**

$$\begin{array}{l} \text{Total Insured Employer Surcharge} = \underline{\$19,071,155} = \underline{0.000844} \\ \text{Total Direct Workers' Compensation}^* = \$22,600,000,000 \end{array}$$

\*Estimated Premium (Source: WCIRB estimate for 2005 Policy Year)

**(5.8) Calculation for Self-Insured Employers:**

$$\begin{array}{l} \text{Total Self-Insured Employer Surcharge} = \underline{\$7,952,898} = \underline{0.003772} \\ \text{Total Amt. of Workers' Comp. Indemnity Pd.}^{**} = \$2,108,533,089 \end{array}$$

\*\*SOURCE: Dept. of Industrial Relations, Office of Self-Insurance Plans [Σ of Methodology Sections (5.8.1) to (5.8.3)]:

(5.8.1)	2003-04 Public Sector.....	\$948,997,181
(5.8.2)	2004 Private Sector.....	\$977,997,117
(5.8.3)	2004-05 State of California***	\$181,538,791

\*\*\*SOURCE: Department of Personnel Administration

California Department of Industrial Relations  
 2005-2006 Workers' Compensation Administration Revolving Fund Assessment,  
 Uninsured Employers Benefits Trust Fund Assessment,  
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**Step 6: Determine Individual Employer's Workers' Compensation  
 Administration Revolving Fund Assessment**

**(6.1) Individual Insured Employers:**

**Assessment Factor [ 0.003935 ] X Employer's Expected Assessable Premium\***

**(6.2) Calculation for Individual Self-Insured Employers:**

**Assessment Factor [ 0.017982 ] X Total Indemnity Paid by the Employer**

**Step 7: Determine Individual Employers Uninsured Employers Benefits  
 Trust (UEBT) Funding Assessment**

**(7.1) Individual Insured Employers:**

**Assessment Factor [ 0.000812 ] X Employer's Expected Assessable Premium\***

**(7.2) Calculation for Individual Self-Insured Employers:**

**Assessment Factor [ 0.003572 ] X Total Indemnity Paid by the Employer**

**Step 8: Determine Individual Employers Subsequent Injuries Benefit Trust  
 (SIBT) Funding Assessment**

**(8.1) Individual Insured Employers:**

**Assessment Factor [ 0.000356 ] X Employer's Expected Assessable Premium\***

**(8.2) Calculation for Individual Self-Insured Employers:**

**Assessment Factor [ 0.001586 ] X Total Indemnity Paid by the Employer**

**Step 9: Determine Individual Employer's Workers' Compensation  
 Fraud Account Assessment**

**(9.1) Individual Insured Employers:**

**Assessment Factor [ 0.000844 ] X Employer's Expected Assessable Premium\***

**(9.2) Calculation for Individual Self-Insured Employers:**

**Assessment Factor [ 0.003772 ] X Total Indemnity Paid by the Employer**

**\* Assessable Premium**

*The premium the insured is charged after all rating adjustments (experience rating, schedule rating, premium discounts, expense constants, retrospective rating, etc.) except for adjustments resulting from the application of deductible plans or the return policyholder dividends.*

