OFFICE OF
STATE TREASURER
DENISE L. NAPPIER

NEWS

FOR IMMEDIATE RELEASE
Monday, May 15, 2000

NAPPIER POLICIES PREVENT RATE INCREASE FOR BUSINESSES; BLUE RIBBON COMMISSION FINDS TIGHTER FISCAL CONTROLS, FINANCING ALTERNATIVES IMPROVE FISCAL SITUATION AT SECOND INJURY FUND IN WAKE OF SILVESTER ACTIONS

Financing savings pegged at $485.3 million over 15 years

A year ago, Connecticut State Treasurer Denise L. Nappier was advised that -- because of poor management and a series of election-year rate changes by former Treasurer Paul Silvester--it was necessary for her to increase rates charged to Connecticut businesses by the Second Injury Fund in order to keep the Fund solvent into the future.

The Second Injury Fund is a state operated workers' compensation insurance fund which assesses Connecticut employers to cover the costs of claims by injured workers.

Nappier was reluctant to take that advice, saying she preferred not to increase rates charged businesses without more thorough review of the facts, and without giving businesses ample time to plan for new rates. Instead, she initiated a series of policies aimed at limiting the size of any rate increase that would be necessary in the future.

Today, Nappier's reluctance to raise rates and the steps she ordered to improve management of the Fund paid off with good news for hundreds of Connecticut businesses. At the final meeting of the Blue Ribbon Commission she appointed as part of a comprehensive review of the Fund, Nappier was told that her initiatives have reduced fund costs sufficiently to eliminate the need to increase rates. The Treasurer accepted the Commission report and recommendations, announcing that businesses will be spared the rate increase that had been widely expected.

During the past year, Nappier ordered a series of management reforms, including:

- creation of a Blue Ribbon Commission to review the Fund's financial status and practices,
- an independent third-party audit of the Fund by a leading international accounting firm,
- stricter internal policies regarding the cost and volume of settlements,

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- hiring of a full-time controller for the first time in the Fund's history and strengthening of internal financial management controls.
- development of standardized examination procedures to ensure that insurance companies and employers are paying the correct assessment

"We have brought escalating costs associated with settling cases – principally debt retirement – under control, improved management of the Fund, and instituted policies to ensure responsible, reliable and prudent management decisions, based on sound actuarial principles," Nappier said. "Had I increased rates a year ago, Connecticut businesses would have been paying more than was necessary. My goal was to prevent that, and we have," Nappier said.

With its rate recommendation made today, the Commission cited some key changes that contributed to eliminating the need to raise rates:

- Accurate caseload assumptions, which revised downward the number of cases forecast to be transferred to the Fund by nearly one third;
- Development and implementation of uniform settlement practices, resulting in an average 12% reduction in average settlement costs;
- Projected savings from implementation of operations improvements
- Recovery and projected recovery of past due assessments from insurers and self-insured employers;
- Increased assessment revenue as a result of post-audit compliance
- Revised debt assumptions and an alternative settlement financing plan, which together will provide $485.3 million in savings during the life of financing plan.

"The bottom line is that the lower number of claims and the lower costs of settlements, combined with our alternative settlement financing plan, will provide $485.3 million in savings during the life of financing plan – and save $19.5 million in the next fiscal year alone. Those are costs that businesses won't have to pay because of the actions we've taken, Nappier said."

In August 1999, for example, the rate of settlement, which had been projected for FY 2000 at $1.5 million a week, was down to $1.5 million a month.

The Blue Ribbon Commission of actuarial, fiscal and insurance experts included Andrew Sullivan, a consultant and former tax partner with KPMG Peat Marwick, William R. Berkley, founder and CEO of W.R. Berkley Corporation, a property/casualty insurance holding company, and David F. Mohrman, an actuary, risk management consultant and principal with Tillinghast-Towers Perrin. The independent audit of the Second Injury Fund's budget assumptions was conducted by Deloitte & Touche, one of the leading international auditing firms.

"I said last spring that I would do everything possible to avoid a rate increase," Nappier said. "I am extremely pleased that the policies I put in place have been successful in mitigating the damage done by the political manipulation and bad fiscal management of the Fund by my predecessor."

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The experience of the past year has also unveiled inaccuracies in the projections upon which costs were based in data provided to Treasurer Nappier when she took office in early 1999. "At the time, I felt it was important that we challenge the assumptions that were made, and view those assumptions in light of some actual experience," Nappier said. "Having done so, we learned that reality has proven very different."

For example, the projections incorrectly assumed the transfer of more than 700 new cases by July 1999. In reality, the number of actual transfers was significantly lower. Beyond that, in May 1999, Nappier's office instituted a policy to tighten control over the size and volume of stipulated settlements. For example, in August 1999, the rate of settlement, which had been projected for FY 2000 at $1.5 million a week, was down to $1.5 million a month. The reduction in caseload projections and tighter settlement controls dramatically reduced the projections for settlement costs.

> *"The bottom line is we will achieve $485.3 million in savings during the life of the financing plan – and save $19.5 million in the next fiscal year alone. Those are costs that businesses won't have to pay because of the*

"As we lower the cost of settlements, we lower the amount of money that must be borrowed to pay for those settlements," Nappier explained. "That in turn lowers the amount of money we must pay in principal and interest on those loans, which dramatically lowers the amount of money we must ask businesses to pay to cover the costs of the Fund. And we can accomplish this at no sacrifice to the just interests of injured workers. Higher than justified settlements only benefit lawyers," Nappier added.

Nappier said the Fund is now on the strongest financial management footing ever, stressing that the current status is, "in the best interests of employers, the workers the Fund was established to assist, and the taxpayers who could ultimately bear the burden if a prudent approach is not taken."

The Second Injury Fund currently has 5,337 open cases, including nearly 900 in which injured workers receive payroll benefits, medical expenses, or both. The Treasurer expressed her appreciation to the members of the Blue Ribbon Commission for offering their expertise and guidance throughout the review of Second Injury Fund operations.

- *See accompanying charts.*

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