OFFICE OF STATE TREASURER DENISE L. NAPPIER

NEWS

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State Treasury Eliminates $251 Million in Short- and Long-Term Debt in Workers' Compensation Program; Rates Charged to Businesses Also Reduced As Management Reforms, Collaboration with Businesses Results in Landmark Year

When the State Treasurer's Office **completely eliminated the projected 20-year debt** of the Second Injury Fund in just six years by paying off the final $48 million late last week, it marked the latest milestone in a comprehensive series of long-term initiatives designed to return the state operated workers' compensation insurance fund to fiscal stability, and capped a year of significant achievements.

In addition to paying off the long-term debt, the Treasury-run Second Injury Fund, which is financed by assessments on Connecticut employers to cover the costs of injured worker claims, accomplished:

- Dramatic **reductions in rates charged** to Connecticut businesses for the new fiscal year to the lowest levels in more than a decade, with rates for insurance companies that represent employers dropping by 38.5% and self-insured employers receiving a 27.2% reduction, saving businesses $29 million annually,
- Legislative **approval of revisions to state law** recommended by a working group of businesses and the Nappier administration to ensure that businesses making a good-faith effort to comply with state law are not penalized unnecessarily,
- Continuation of a six-year effort to **reduce the program's unfunded liabilities**, which have now dropped by 44%, from $838 million in 1999 to $465 million currently, as a result of a prudent settlement strategy in active cases.

"Sensible, sound fiscal planning, coupled with bold and effective management reforms have brought solid results for Connecticut businesses, making a difference where it counts most, on the bottom line," said State Treasurer Denise L. Nappier.

"These unprecedented achievements are the product of six years of unwavering diligence aimed at turning the Second Injury Fund around and returning to firm financial footing," Nappier said. "The input provided by Connecticut businesses in this effort has been tremendously helpful, and underscores our commitment to work constructively with the business community without compromising any benefits due injured workers."

Eliminating Debt, Reducing the Liabilities of the Fund

Upon taking office in 1999, the Nappier administration inherited substantial short- and long-term debt in the Second Injury Fund, exceeding $251 million. As of June 24, 2005, that debt

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was eliminated, thereby removing the 20-year debt obligation authorized in 1995 to finance settlements of claims and ending the need to assess businesses for the debt component of the program -- a full decade earlier than the 2015 final maturity of the bonds. Since June 2002, the Treasurer's Office has used cash flow of the program to defease long-term debt of $165 million in bonds that remained outstanding from the original debt. This initiative will save Connecticut employers $43.7 million in future interest costs.

In addition to paying off the debt, and through its settlement strategy, the Second Injury Fund has continued to reduce its unfunded liability, the prospective amount needed to pay future claims for injured workers, from $838 million down to the current level of $465 million. Nappier noted that the Treasury's assessment audit program has played an important role in reducing the burden of the Fund on Connecticut businesses. From the program's outset in 2000, $50 million in underpaid assessments has been recovered.

Lowering Assessment Rates to Record Levels

On July 1, 2005, assessment rates for Connecticut businesses will drop by 38.5% for insured and 27.2% for self-insured employers, saving Connecticut businesses $29 million annually. Assessment rates will be reduced to their lowest levels in over a decade. These reductions represent the largest one-year reduction in rates charged to Connecticut employers.

"Our prudent fiscal policies and aggressive repayment of debt have really made a difference, and Connecticut businesses will reap the benefits of lower assessments," Nappier said. "We have been able to reduce rates in four of the past six years, at a time when other business costs have been escalating, offering a measure of relief to Connecticut employers."

As a result of tighter fiscal controls established by her administration, Treasurer Nappier has never had to raise assessment rates charged to businesses. In fact, the effect of all rate reductions and early pay-off of debt has resulted in a cumulative savings of $169 million for Connecticut businesses – reflecting a reduction of 60% in rates assessed for insurance companies and 42% for self-insured employers.

Effective July 1st, rates for insurance companies will decrease from 6.5% to 4.0% for regular policies and from 5.2% to 3.2% for assigned risk policies. Concurrently, the rate for self-insured employers will decrease from 11.6% to 8.4%.

Working with Businesses to Achieve Legislative Changes

In keeping with Treasurer Nappier's commitment to improve the economic well-being of the state and its businesses, the Treasurer's Office worked with Connecticut businesses to develop legislation that would revise key provisions of state law governing the Second Injury Fund.

The legislation, approved by the 2005 General Assembly, sets an annual interest rate of 6% on underpaid assessments, when an audit determines that a company has improperly reported or paid a lower amount than is owed. The legislation distinguishes between interest and penalties, by assessing the full 15% penalty only when there has been a failure to pay the assessment. It would be the first time that such a distinction has been made in state law, affording the Treasury an opportunity to recognize good faith efforts to comply with the law.

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This legislation is the outcome of an historic Second Injury Fund Roundtable, hosted late last year by the Second Injury Fund Advisory Board. Participants of the forum represented a broad cross section of stakeholders: self insured employers, insurance companies, policy makers, legislative leaders and state officials. Treasurer Nappier charged the Roundtable with the task of refining the statutes to more fairly address the concerns of businesses that had made good-faith efforts to comply with the Second Injury Fund reporting requirements and payment of assessments.

The law, which would take effect on July 1, 2006, also clarifies definitions while changing the method of assessing insured employers, exempts the Fund from apportionment claims or claims brought on behalf of insolvent insurers, and caps retroactive liability of the Fund at two years for reimbursement claims.

Treasurer Nappier said the Fund continues to remain true to its mission to “provide quality service both to the injured workers and employers whom we jointly serve.”

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