

This is to provide our initial response to your request for AIA's assistance in surveying our members about large deductible workers' compensation assessments and taxes. In the interest of avoiding unnecessary and duplicative work, for the Task Force as well as our members. AIA staff is compiling a consolidated draft AIA response to your Industry Survey form. We then are vetting this draft with our members so that, when we finalize it, it should reflect the best collective judgment of AIA's membership and staff.

Following is a report on AIA's progress to date:

- Questions Nos. 1-3 -- responses for 15 jurisdictions nearly complete
- Question No. 4 -- response pending
- Questions Nos. 5 and 6 -- responses final and attached

Before we devote further AIA resources to completing Questions 1-3 for all jurisdictions, we would like to confirm that these responses, in form and content, will meet your needs. For purposes of today's call, therefore, we have attached sample responses to these three questions for the state of Alabama. If these responses are satisfactory, we will proceed to complete the remaining 50 jurisdictions, and get these to you as soon as possible.

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American Insurance Association

Questions 1-3 (Alabama):

**Workers' Compensation Taxes and Assessments  
American Insurance Association  
July 2007**

**NOTES:**

- As used herein, the term "Gross" means plus loss reimbursements or deductible credits under a large deductible (LD) workers' compensation (WC) policy, and the term "Net" means net with respect to these amounts.
- Included herein are all assessments on the WC line, but only WC-specific taxes (not general fund, multi-line premium taxes). Under the law in all states, the general fund, multi-line premium tax base begins with direct written premium from page 14 of the Annual Statement, this base is net with respect to WC LD policies, and the tax is payable to the insurance or tax (or revenue) department (depending on the state).

	Taxes and Assessments	Base	Treatment of Large Deductibles in Base
AL	<p><b>WC Administration Trust Fund</b></p> <p><b>Rate:</b> Determined annually. \$250 plus proportionate amount. Total assessment among all insurers not to exceed \$5 million per year.</p> <p><b>Pay to:</b> Department of Industrial Relations</p> <p><b>Base:</b> Total gross claims for compensation and medical payments paid</p> <p><b>Prospective or Retrospective Base:</b> Retrospective; Data is taken from the preceding calendar year</p> <p><b>Years of Data:</b> The preceding one-year period ending on December 31<sup>st</sup> (Ala. Code § 25-5-316(h))</p>	<p>"Each insurance carrier, self-insured employer, and group fund shall be assessed \$250.00. The gross claims for compensation and medical payments paid by the carriers, self-insured employers, and group funds are the basis for computing the amount to be assessed. The amount of assessment shall be based upon the proportion that the total gross claims for compensation and medical payments paid by the carrier, self-insured employer, or group fund during the preceding calendar year bore to the total gross claims for compensation and medical payments paid by all carriers, self-insured employers, and group funds during that period. The total assessment shall not exceed \$5,000,000.00 per year. The director shall determine if the assessment shall be a specific amount or shall be a percentage of gross claims for compensation and medical payments paid by the insurance carriers, self-insured employers, and group funds. An assessment shall not exceed an amount reasonably necessary to defray the necessary administration expense." (Ala. Code § 25-5-316(d))</p>	<p>Gross (of loss reimbursements)</p>

<b>Insurance Guaranty Association</b>		
<p><b>Rate:</b> Determined annually; not to exceed 1% of member's net direct written premiums for the calendar year preceding the assessment on the kinds of insurance in the account.</p> <p><b>Pay to:</b> Insurance Guaranty Association</p> <p><b>Base:</b> Net direct written premiums</p> <p><b>Prospective or Retrospective Base:</b> Retrospective; Data is taken from the preceding year</p> <p><b>Years of Data:</b> The preceding one-year calendar period.</p>	<p>"The assessments of each member insurer shall be in the proportion that the net direct written premiums of the member insurer for the calendar year preceding the assessment on the kinds of insurance in the account bears to the net direct written premiums of all member insurers for the calendar year preceding the assessment on the kinds of insurance in the account. Each member insurer shall be notified of the assessment not later than 30 days before it is due. No member insurer may be assessed in any one year on any account an amount greater than one percent of that member insurer's net direct written premiums for the calendar year preceding the assessment on the kinds of insurance in the account." (Ala. Code § 27-42-8(3))</p>	<p>Net</p>

## **American Insurance Association**

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### **Response to Question No. 5**

In funding the workers' compensation benefit delivery system (e.g., second injury funds and workers' compensation agency operations), the relative shares of assessments should be borne by both insurers and self-insureds, and further should be based on losses "gross" of the large deductible amount. This basis helps to assure that the benefit delivery system is adequately funded in a manner that equitably maintains a level playing field between insured and self-insured employers.

The share of the funding burden that is borne by insurers should be based, in turn, on premium, determined "gross" of the large deductible amount. This basis helps to assure an equitable allocation among workers' compensation writers, whether or not they write large deductible products, and from a financial accounting standpoint, allows the insurer to book the assessments when the premiums are written, rather than when losses are incurred.

Both state premium taxes and insurer assessments for workers' compensation residual market mechanisms should be based on premium "net" of the large deductible amount, because the "cost" of losses within the deductible will be borne by the employer, not the carrier, and does not constitute "premium."

### **Response to Question No. 6**

No applicable, in light of response to Question No. 5.