DENISE L. NAPPIER
TREASURER

# State of Connecticut
## Office of the Treasurer

HOWARD G. RIFKIN
DEPUTY TREASURER

July 1, 2005

The Honorable M. Jodi Rell
Governor, State of Connecticut
State Capitol Building
Hartford, Connecticut 06106

Dear Governor Rell:

Please find enclosed the *Annual Report of the Financial Condition of the Second Injury Fund* as required by Section 31-349f of the Connecticut General Statutes.

I am pleased to report that the Second Injury Fund (hereinafter referred to as "the Fund") enjoys continued fiscal stability as a result of sound management and prudent fiscal policies, and has achieved a number of noteworthy milestones.

As of June 24, 2005, long and short-term debt has been eliminated, thereby removing the 20-year debt obligation authorized in 1995 to finance settlements of claims. This accomplishment eliminates 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 excess cash and reserves to defease long-term debt of $165 million in bonds that remained outstanding from the original debt. The initiative will save Connecticut employers $43.7 million in future interest costs.

In addition to paying off the long-term debt, the Fund accomplished dramatic reductions in rates charged to Connecticut businesses to the lowest levels in more than a decade. Rates for insurance companies will drop by 38.5% and self-insured employers will receive a 27.2% reduction in the coming fiscal year. Effective today, July 1, 2005, rates for insurance companies 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%. These reductions represent the largest one-year reduction in rates charged to Connecticut employers. In fact, the effects of all rate reductions and early pay-off of debt over the past six years have resulted in a cumulative savings of $169 million for Connecticut businesses – reflecting a cumulative reduction of 60% in rates assessed for insurance companies and 42% for self-insured employers.

In keeping with my commitment to improve the economic well-being of the State and its businesses, the Treasurer's Office worked with Connecticut businesses to draft legislation (Public Act 05-199) that will clarify key provisions of state law governing the Fund, particularly in an effort to more fairly address the concerns of businesses that sought to comply with the Fund's reporting requirements and payment of assessments. This legislation is the product of a historic roundtable, convened by my Office and hosted last year by the Fund's 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. This legislation awaits your signature to become law.

The Treasury continues its efforts to reduce the Second Injury Fund's unfunded liabilities, which have now dropped by 44%, from $838 million in 1999 to $465 million at present.

The assessment audit program has also 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.

Also during fiscal year '05, the Fund achieved a total of 169 settlements at a cost of $8,705,420. Since July 1, 1995, when the General Assembly passed legislation authorizing $750 million in bonds to settle claims to cover the projected $6 billion unfunded liability, a total of 6,832 settlements have been paid at a cost of $470,954,301. The number of injured workers now receiving benefits is 405, compared to 422 at this time a year ago. Total benefit payments to injured workers totaled $32 million during fiscal year '05. The number of open, active claims is now at 2,225, compared to 2,259 last year. Unfunded reserves are estimated at $464,400,000.

These achievements are the product of six years of unwavering diligence that has allowed for the stabilization of operations while reducing the costs of the Fund without compromising any benefits due injured workers. If you or your staff have any questions concerning the financial condition of the Second Injury Fund, please feel free to call me or Assistant Treasurer Alberta Mendenhall.

Sincerely,

Denise L. Nappier
State Treasurer

cc: Distribution List

*As of 6/29/05*

**ANNUAL REPORT OF THE SECOND INJURY FUND**
**FOR FISCAL YEAR ENDING JUNE 30, 2005**

**1. Estimate of the Fund's unfunded liability for July 1, 2004 and July 1, 2005:**

A. The unfunded liability of the Second Injury Fund as of **July 1, 2004** was estimated at **$497,000,000.**

B. The unfunded liability of the Second Injury Fund as of **July 1, 2005** is estimated at **$464,400,000.**

| | # Open Claims | Reserve Value |
|---|---|---|
| Claim Inventory 7/1/05 | 2,225 | $461,900,000 |
| Estimated Future Claims (FY 2006)* | 400 | 2,500,000 |
| **Total Estimated Liability as of 7/1/05** | | **$464,400,000** |

*Anticipated uninsured employer and concurrent employment claims incurred but not reported as of 7/1/05

**2. The effect of settlements and stipulations on the unfunded liability:**

During FY '05 the Second Injury Fund paid **169** settlements at a cost of **$8,705,420.**

Since July 1, 1995 a total of **6,832** settlements have been paid at a cost of **$470,954,301.**

**3. The number and actual amount of assessments levied under section 31-354 for the previous fiscal year (FY05):**

| **Category** | **# of Assessments** | **Amounts** |
|---|---|---|
| Insured Employers | 4 | $ 72,255,000* |
| Self-Insured Employers | 4 | 13,239,750* |
| **Total** | | **$ 88,916,679*** |

*Estimated amount

**4. The number and estimated amount of assessments for the coming year (FY06):**

| **Category** | **# of Assessments** | **Amounts** |
|---|---|---|
| Insured Employers | 4 | $ 39,792,247 |
| Self-Insured Employers | 4 | 11,500,000 |
| **Total** | | **$ 51,292,247** |

**5. Any recommendation for legislative change to improve the operation of the Fund:**

1. Repeal Section 31-354b to reflect the elimination of bonded debt.
2. Modify relevant sections of 31-354 to reflect the elimination of bonded debt.