FISCAL ANALYSIS DEPARTMENT

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Minnesota House of Representatives

Assigned Risk Plan Surplus Grows by $73 million

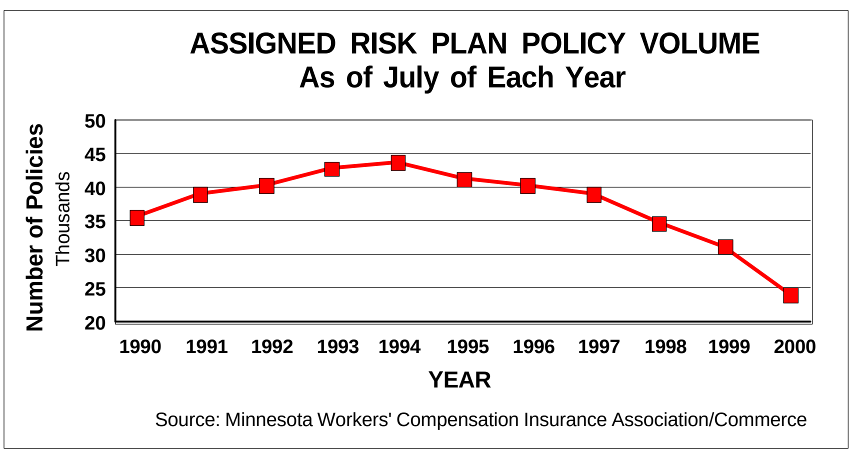
October 2, 2000

The surplus in the Minnesota Workers Compensation Assigned Risk Plan has grown by $73 million to $572 million. The reader will recall that the 2000 Legislature transferred $450 million from the surplus in the Assigned Risk Plan. At the time, the Assigned Risk Plan's 1998 audit showed a surplus of $499 million.

Assigned Risk Plan

The Assigned Risk Plan (ARP) was created by the Legislature to provide workers' compensation insurance coverage to Minnesota employers who are unable to obtain coverage in the voluntary workers' compensation insurance market.

The Commissioner of Commerce is responsible under Minnesota statutes for the overall management of the ARP. A Plan Review Board is responsible for monitoring plan operations, recommending improvements and ensuring certain audits of the Plan. Day-to-day management of ARP is vested in a private vendor under contract with the Department of Commerce.

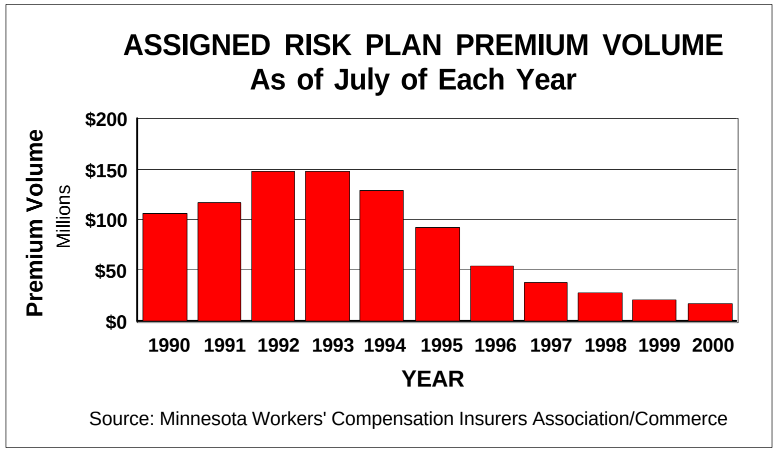


Source: Minnesota Workers' Compensation Insurance Association/Commerce

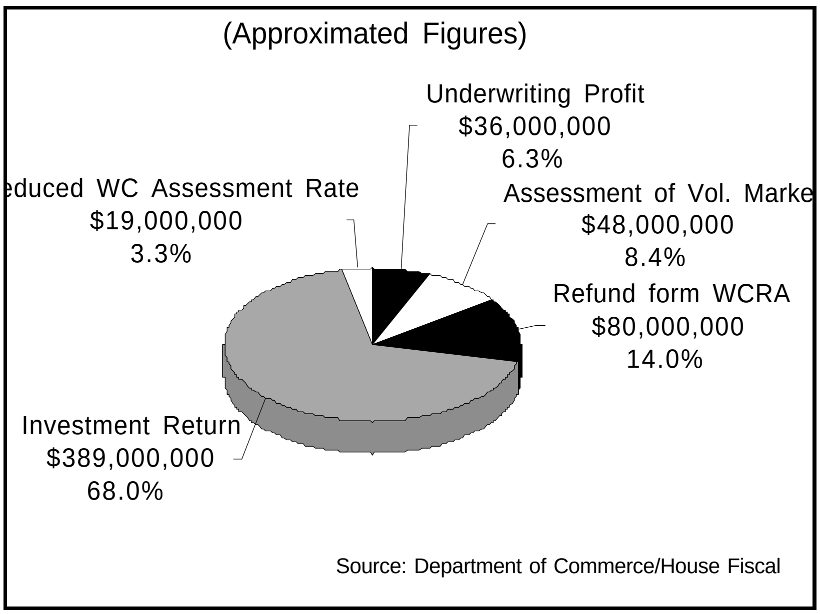
Minnesota employers participation in ARP has steadily decreased in recent years, both in terms of policy numbers and premium volumes.

The number of ARP policies peaked in September 1994 at 44,245. At the time, ARP represented about 10 percent of the workers compensation market. As of July 2000 the number of ARP policies dropped to 24,066, a market share of less than 2 percent.

The premium volume in the ARP has been on a steady decline since the early 1990's. The volume peaked in October 1992 at $154.6 million. The volume as of July 2000 was $17.4 million.



<u>Total Assigned Risk Plan Surplus</u>
Based on the audit released this summer, the surplus in the Assigned Risk Plan at the end of calendar year 1999 was $553 million. An additional $19 million in ARP surplus was created on July 1, 2000 when the Workers Compensation Special Fund assessment rate dropped from 30% to 20%. The combined total surplus is $572 million.



The biggest contributing factor to the ARP surplus is investment returns. Fully 68% or $389 million of the Plan's $572 million surplus is from investment returns according to estimates by the Department of Commerce.

The second largest factor is an $80 million refund to the Plan from the Workers Compensation Reinsurance Association. This refund contributed 14% of the Plan's surplus.

Special assessments of the voluntary insurance market accounted for $48 million, or 8.4% of the surplus according to Commerce's estimates. By Minnesota law, if the ARP is running a deficit, a special assessment can be levied against the voluntary insurance market to make the ARP solvent. In 1987 and in 1991 special assessments were levied totaling $48.7 million.

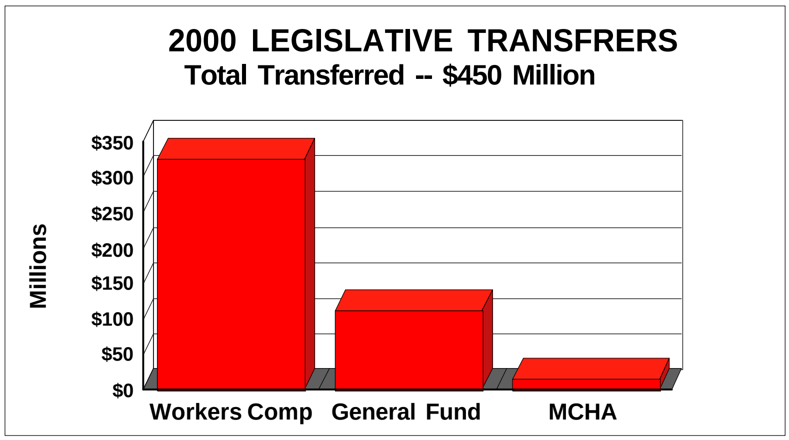
Commerce estimates that underwriting profits accounted for $36 million of the surplus, or 6.3%. The final component contributing to the ARP surplus was the reduction of the Workers Compensation Special Fund assessment rate on July 1, 2000. The Assigned Risk Plan pays this assessment. The assessment reduction will save the ARP $19 million in what otherwise would have to be held in reserve for the Plan's Workers Compensation Special Fund payable liability.

<u>2000 Legislative Session Assigned Risk Plan Surplus Transfers</u>

The 2000 Legislative Session transferred $450 million of the surplus in the Assigned Risk Plan.

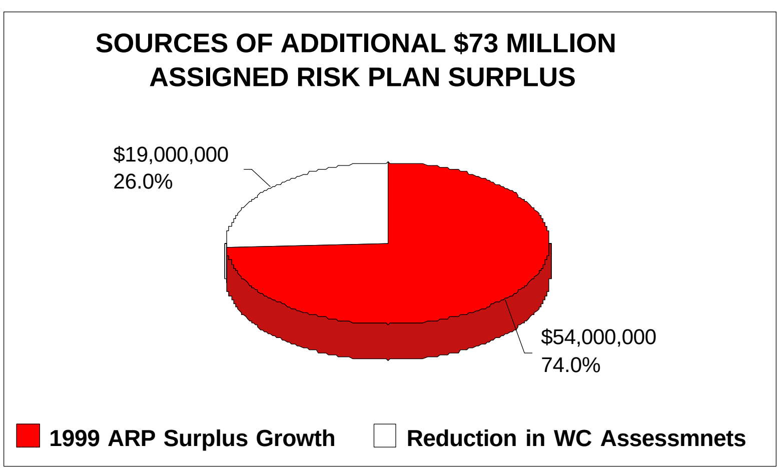
- **Workers Compensation Special Fund** — $325 million was transferred to the Workers Compensation Special Fund to pay liabilities associated with the second injury and supplementary benefit program. The funds are targeted to fully settle claims. The appropriation allowed the Workers' Compensation fund assessment rate to be reduced from 30% to 20% effective July 1, 2000.
- **Minnesota Compensation Health Association (MCHA)** — $15 million was transferred to the MCHA program to reduce the funds operating deficit in calendar year 2001. This appropriation will in turn reduce the annual MCHA deficiency assessments paid by health insurance companies subject to the assessment by a like amount.
- **General Fund** — $ 110 million was transferred to the General Fund for general state purposes.

The reader is advised that a lawsuit has been filed with the District Court in Ramsey County seeking to enjoin implementation of these transfers. As of this writing the lawsuit remains pending with no decision from the court forthcoming.



In addition to the $450 million directly transferred from the Assigned Risk Plan, approximately $49 million of the Plan's surplus was left within the Plan. The surplus is to serve as a reserve that would be available to satisfy any outstanding obligations in the event the Plan is liquidated.

<u>Additional $73 Million Assigned Risk Plan Surplus Available</u>



An additional $73 million in Assigned Risk Plan surplus is available for the Governor and Legislature to consider in 2001. It is important to note that these dollars are one-time funds and thus any actions regarding these funds need to be consistent with this fact.

Two sources account for the additional $73 million in Assigned Risk Plan surplus.

- First and foremost, is the $54 million growth in the Plan surplus in calendar year 1999. This represents 74% of the total surplus growth.

- Second, is the interaction between the Assigned Risk Plan reserve requirements and the 2000 Legislature's $325 million appropriation to the Workers Compensation Special Fund. As noted previously, this appropriation allowed the WC assessment rate to be reduced from 30% to 20%. Because the Assigned Risk Plan pays this assessment, the reduction will save the Plan $19 million in what otherwise would have to be held in reserve for the Plan's Workers Compensation Special Fund payable liability. The $19 million became additional Plan surplus as of July 1, 2000.

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