

**Frequently Asked Questions
About
Minnesota Workers' Compensation Reinsurance Association
Surplus Distribution Recovery Program**

On May 19, 2009, the Board of Directors for the Workers' Compensation Reinsurance Association voted to enact a Surplus Distribution Recovery Program and assess its members and Minnesota employers a total of \$268 million to help reduce a \$423.7 million 2008 year-end deficit. The Minnesota Commissioner of Labor & Industry must authorize the assessment.

1. Why is the WCRA making an assessment?

The WCRA ended its 2008 fiscal year with a \$423.7 million deficit. Over the long term, a deficit of that size will not provide sufficient funds to pay for current and future catastrophic claims for injured workers. While the WCRA currently has positive cash flows and will be able to meet its obligations for a number of years, the assessment will allow the WCRA to continue to fulfill its obligations to Minnesota employers for their injured employees for many years into the future.

2. How much is the WCRA deficit?

On December 31, 2008, the deficit was \$423.7 million.

3. How did the deficit occur?

Two factors led to the WCRA deficit. The primary factor is a policy recommendation made in the early 1990s by the Commissioner of Labor and Industry. At that time, financial markets were robust and the WCRA had achieved strong results creating a large operating surplus. The Commissioner recommended that, because the WCRA is a nonprofit organization and can assess its members if needed, it shouldn't maintain large surpluses and should distribute those surpluses to its members and policyholders. The surplus distributions the WCRA has made since 1992 have benefited WCRA members and policyholders, but reduced its ability to withstand volatile investment markets. The second factor is the worldwide recession and the recent dramatic declines in the investment markets.

4. How much has the WCRA returned to members in surplus distributions?

Since 1992, the WCRA has distributed more than \$1.2 billion in surplus funds to its insurers and Minnesota employers in four separate distributions.

5. What if there had been no surplus distributions?

Without surplus distributions, at the end of 2008 the WCRA would have had a surplus of about \$1.6 billion and would not have to levy any assessments.

6. Who has to pay the assessment?

All WCRA members, as of December 31, 2008, will participate in the Surplus Recovery Distribution Program. In addition, Minnesota employers will pay a small surcharge on their insurance premiums from 2010 to 2014.

7. How will insurers and Minnesota's self-insured employers be assessed?

Some 400 insurers and self-insured Minnesota employers will be assessed based on historic exposures with the WCRA. These assessments will be spread out in five equal annual installments with the first payment due on January 15, 2010.

8. How much will the assessments be for individual companies?

The annual assessment amounts will range from a few dollars for small employers to several million dollars for the WCRA's largest insurer members. Insurers and self-insured Minnesota employers will receive notice of the estimated amount of their assessments by July 1, 2009.

9. When will the assessments start?

The first payment of the five annual assessments for insurers and self-insurers will be due January 15, 2010. Surcharges for Minnesota employers will be assessed on policies initiated between January 1, 2010 and December 21, 2014.

10. Could the WCRA eliminate its deficit entirely through improved investment performance?

It is unlikely that the WCRA will be able to recover from the deficit solely through market gains. To determine whether it could make up the deficit through improved investment performance the WCRA asked for an analysis from Barclays Global Investors, a large investment manager. Assuming a \$400 million deficit and factoring in expected market returns for the next 10 years, BGI concluded that the WCRA had about a 10-17 percent chance of using investments only to make up its deficit over the next 10 years. This analysis supports the WCRA's decision to make an assessment to reduce its deficit.

11. Will the assessments solve the deficit problem completely?

Not entirely. The five-year Surplus Distribution Recovery Program will eliminate about 60% of the deficit. The remainder is anticipated to be replenished by investment income over the next 15 to 20 years. The WCRA Board reviewed numerous scenarios and decided this combination of assessments and future investment results was the most prudent choice to rebuild its resources and to reduce the financial impact on employers and insurers.

12. What's the WCRA's investment track record?

From 1979-2008, the WCRA achieved an average annual return of 9 percent, outperforming the expected 7 percent return.

13. Who decides that there will be an assessment and the amount?

The Board of Directors of the WCRA reviews all pertinent information and decides whether to make an assessment. The Minnesota Commissioner of Labor and Industry must then approve that recommendation. The Minnesota Commissioner of Commerce is involved in structuring the assessments to employers. This is not a decision taken lightly or made quickly. The WCRA Board discussed possible solutions for reducing the deficit for several months before determining that an assessment was necessary.

14. Is there an opportunity for public comment?

Yes. There will be a public meeting conducted by the Commissioner of Labor & Industry and Commissioner of Commerce at 10:30 a.m. on June 4 at the Minnesota Humanities Center.

15. What if insurers or employers cannot pay the assessment?

If assessments are not received by the various payment deadlines, the WCRA will charge its members 8 percent interest on the amount owed, and the WCRA may offset any unpaid assessments against any claims reimbursements or premium credits owed to a member.

16. Will there be future assessments?

It is the goal of the WCRA Board to address the deficit with a single assessment program spread over five years. The WCRA Board diligently reviewed many scenarios and selected the assessment level that it believes will be sufficient to reduce the deficit when combined with positive results from the recovering financial markets. We are also in discussions with the Commissioner of Labor & Industry about whether the policy of returning excess surpluses – one of the chief contributing factors leading to the assessments - should be continued.

If you have additional questions, contact James Heer at j.heer@wcra.biz or Carl Cummins @c.cummins@wcra.biz.