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RECEIVED

OCT 28 2004

Property & Casualty
Section

MEMORANDUM

TO: All Workers' Compensation Insurance Companies, Self-Insured Employers, Group Trusts and Third-Party Administrators

FROM: Catherine B. Leapheart, Director
Missouri Department of Labor and Industrial Relations

Scott Lakin, Director
Missouri Department of Insurance

DATE: October 27, 2004

SUBJECT: Workers' Compensation Administrative Tax, Second Injury Fund Surcharge and Administrative Surcharge for the 2005 Calendar Year

As required by Chapter 287, RSMo, the state of Missouri assesses a workers' compensation administrative tax, an administrative surcharge and second injury fund surcharge to maintain the fiscal integrity of the workers' compensation administrative fund and the second injury fund. During the coming calendar year 2005, the state of Missouri will assess a workers' compensation administrative tax of **0 percent**, an administrative surcharge of **0 percent** and a second injury fund surcharge of **3.5 percent**.

Our Departments are pleased that we can alleviate the administrative tax and administrative surcharge at this time for Missouri employers.

The revenue from the administrative tax and the administrative surcharge is used to fund the administrative expenses associated with the administration of the Missouri Workers' Compensation laws. State law requires the Director of the Division of Workers' Compensation to estimate the amount of revenue required to administer the workers' compensation laws each year and to determine the rate of tax to be paid in the following calendar year. If the estimated available balance of the fund on December 31 of the year the tax rate determination is made falls below 110 percent of the previous year's expenses, the director must impose a tax not to exceed 2.0 percent. Based on the division director's assessment of the fund balance and prior expenditures, a 0% administrative tax and a 0% administrative surcharge are needed for calendar year 2005.

It is important to note that the administrative surcharge required by §287.716, RSMo, will always be assessed at the same rate as the workers' compensation administrative tax. The

administrative surcharge will be assessed at the same time and in the same manner as the administrative tax assessment, but it is not an administrative tax. The portion of a workers' compensation deductible policy subject to the administrative surcharge will no longer be subject to the administrative tax. As a result, there should be no net impact on the revenue generated by the new combination of the administrative tax and the administrative surcharge when compared to the previous administrative tax alone. Employers that self-insure their workers' compensation risk are not subject to the administrative surcharge.

The revenue generated by the second injury fund surcharge is used to pay benefits from the fund. The amount of surcharge assessed must be adequate to generate, as nearly as possible, 110 percent of the amount projected to be paid from the Second Injury Fund in the ensuing calendar year, minus the balance contained in the fund at the end of the previous calendar year. Based on the division director's assessment of the fund balance and projected expenditures, this assessment will be set at 3.5 percent for 2005.

A copy of the second injury fund surcharge form is available on the Internet at www.dolir.mo.gov/. To order a mailed copy, please call 573-526-4963.

The Department of Labor and Industrial Relations and the Department of Insurance look forward to working with you in 2005. If you have questions or need additional information, contact the Division of Workers' Compensation at 888-837-6069 or the Department of Insurance at 800-394-0964.