

FOR IMMEDIATE RELEASE

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STATE TREASURER NAPIER REVEALS SEVERE BUDGET SHORTFALLS AND LACK OF FISCAL ANALYSIS BY PREDECESSOR IN SECOND INJURY FUND

*Calls For Complete, Independent Audit and Blue Ribbon Review
in Effort to Forestall Rate Increase*

(Hartford) -- Connecticut State Treasurer Denise L. Nappier announced today that a thorough staff review of the State's Second Injury Fund (SIF), conducted at her initiative, has revealed severe looming shortfalls in the fund, which she said were apparently attributable to a lack of proper fiscal planning by the previous administration.

Nappier called for "an immediate, complete and independent audit of all fiscal aspects of the Second Injury Fund, to provide an independent review of the financial assumptions that should be used to accurately project necessary assessment levels in the future, including any changes in assessment levels."

In a letter mailed today to more than 400 businesses that are assessed charges in the Fund, Nappier explained that her review had revealed looming annual shortfalls, apparently caused by the failure of previous State Treasurer Paul J. Silvester to provide for the repayment of borrowing large sums of money through the bonding process to pay for the settlement of claims through so-called "stipulated agreements."

"These projected annual shortfalls suggest that assessment rates must be increased immediately to close the gap," Nappier said. "An assessment increase would effectively reduce the shortfall, but I believe would also increase the burden on Connecticut businesses. Thus, I will not order a rate increase at this time."

The repayment of principal and interest on bonds, Nappier said, was apparently never factored into the administrative costs of running the state-sponsored insurance program for injured workers. The problem was worsened, she said, when her predecessor reduced assessment rates, with no apparent basis, three times during 1998 -- in effect laying the groundwork for an ever-widening fund shortfall.

"It is really quite astonishing that these substantial, increasing expenses, which should have been known more than a year ago, were ignored in the budgeting and management of the fund. I am taking swift action to cure what our research has revealed to have been an extremely unwise course of fiscal management," Nappier said.

In addition to directing an immediate, complete and independent audit of all fiscal aspects of the Second Injury Fund, Nappier said she has also directed that assessments be frozen at the current 10% and 14.5% rates, for insurance companies and self-insureds respectively, through June 30, 2000. Nappier said the freeze would give employers and insurers adequate time to prepare should a restoration of assessment rates to reasonable, pre-1998 levels be necessary, and said she would finance the program in a different way in the interim.

"Ultimately, my predecessor's actions leave no alternative but an assessment rate hike, but I will do everything possible to prevent it this year," Nappier said. "I am hopeful that these actions will mitigate the damage done by the inexplicable and unwise course of fiscal management of the Fund in recent years."

Imminent shortfalls in the SIF will be paid down through the purchase of commercial paper, in lieu of a bond issue that had been scheduled for October, 1999. Nappier said that postponing the bond sale will 1) forestall additional principal and interest expenses that would have resulted from the sale and 2) provide the Treasurer's Office with an opportunity to study other potential financing options for repayment of outstanding and future principal and interest payments, based on the results of the audit.

Nappier stressed that she continues to support the reforms enacted by the General Assembly earlier this decade to reduce the overall SIF liability, including making lump-sum settlements on claims through negotiated stipulated agreements with injured workers, the expansion of fraud detection and prosecution efforts, the implementation of an aggressive return-to-work program and a revamping of the medical case-management system.

"My only objective here is to ensure that future assessments will be based upon real, solid financial projections and that the SIF will be restored to fiscal good health at the lowest possible cost to those assessed," Nappier said. "Within the next two weeks, I will be naming a Blue Ribbon panel of actuarial, fiscal and insurance experts to guide this audit." Nappier said that although the issues her review of the Second Injury Fund had brought to light were difficult, she was confident that by working with her Blue Ribbon panel, the Treasurer's Office could improve the fiscal underpinnings of the fund and find ways to ensure that a responsible, reliable and prudent funding methodology based on sound actuarial principles is achieved.

Such a methodology, Nappier said, "would be in the best interests of employers, the best interests of the workers the fund was established to assist, and the best interests of the taxpayers who could ultimately bear the burden if a prudent approach is not taken."

Contact: **Bernard L. Kavalier**

Director of Communication

(860) 702-3277 FAX (860) 702-3043

BERNARD.KAVALER@PO.STATE.CT.US