

## **Worker's Compensation (SWIF) Accounting**

On July 1, 1985, the State System of Higher Education became self-insured for workers' compensation insurance. Each university is responsible for the payment of all workers' compensation claims. The University is liable for claims up to \$200,000 per occurrence. The System's Collective Reserve pays any amounts in excess of \$200,000 or by a catastrophic insurance policy. Contributions from each university fund the State System's collective reserve which are based on the university's percentage of gross payroll to the system's total gross payroll. If the collective reserve is sufficiently funded, no transfers may be needed from each University. The Chancellor's office will notify the University of the amount and timing of payments required. Besides the System's Collective Reserve, each university maintains its own reserve. Millersville charges the collective reserve to fund 1401. The amount of the required reserves is calculated using an actuarial study performed biannually by an outside consultant. The Chancellor's Office is responsible for arranging the actuarial study.

We charge worker's compensation expense to each department based on a percentage of gross payroll. This percentage is usually determined prior to the beginning of the fiscal year by the accounting department and should approximate the percentage required to maintain the reserve at the level recommended by the actuarial study. A Lotus spreadsheet is used to assist in calculating the appropriate percentage. We will adjust the rate annually or as needed to cover the anticipated liability.

### **Administrative Costs**

The State System has hired an outside administrator to handle the processing of worker's compensation claims. Each university pays administrative costs directly to the claims administrator quarterly. The current claims administrator is INSERVCO. The expense is charged to the Worker's Compensation Designated fund 1401, administrative expense account. The human resources department is responsible for verifying the accuracy of the invoice and submitting it to accounts payable for payment.

### **Claim Payments**

Claim payments are processed by INSERVCO. Payments to INSERVCO for actual claims paid are transferred from our bank account periodically (weekly.) As a part of the CoreStates bank reconciliation process, the accounting department makes a cash disbursement entry from fund 1401-2605, INSERVCO claims payments.

### **Year End Issues**

The SWIF fund should be periodically examined, especially at year end, to ensure the institution's reserve is sufficient. Any reserve fund in excess of the required amount may be designated as SWIF designated fund balance. The amount can be transferred to a separate fund such as fund 1402 SWIF Surplus for internal tracking but is a part of unallocated fund balance on financial statement. On the other hand, if the reserve does not contain sufficient funds, the funds would come from the this fund 1402 to the extent available, with the remaining need to be allocated through the payroll expense process

## **Worker's Compensation (SWIF) Estimate**

Calculate the estimate of worker's compensation charge as follows:

1. Calculate the required additions budget amount by adding the projected retained losses (per actuary), the projected contribution to the System's collective reserve, and the projected quarterly administrative fees.
2. Calculate the University's required year-end reserve by adding the required reserve at the beginning of the fiscal year and the projected retained losses (per actuary). Subtract the projected claims to be paid.
3. Calculate the University's projected actual year-end reserve by adding the actual required reserve at the beginning of the fiscal year to the projected total payroll additions to the reserve and subtracting the total of the contribution to the collective reserve, the quarterly administration fees and the claims paid through the year.
4. Compare the required year end reserve in #2 to the projected/actual year-end reserve in #3 to determine if we expect an excess or shortfall in the reserve.
5. Calculate the projected payroll additions to the University's reserve by multiplying the determined rate by the total budgeted payroll for all ledgers (E&G, Food Services, Resident Life, Grants.)
6. Calculate the projected payroll additions to the University's reserve by subtracting the actual payroll costs to date from the total budgeted payroll. Multiply the difference by the SWIF rate to determine the remaining projected payroll additions to the reserve. Add this total to the payroll premiums posted to date to obtain the total projected payroll additions to the reserve.
7. Compare the projected payroll additions in #5 to the projected payroll additions in #6.
8. Calculate the projected Worker's Compensation rate by dividing the required additions budget in #1 by the total payroll budget.