

HOUSE BILL ANALYSIS

HB 2233

Brief Description: Creating a retrospective rating plan.

Sponsors: Representatives Clements and Conway

Hearing: March 1, 1999

Brief Summary of Bill

- Establishes the industrial insurance retrospective rating plan in statute, modifying the entrance requirements for sponsors of new group retrospective rating plans and deleting the requirement for members of a sponsoring organization to be engaged in substantially similar occupations.

BACKGROUND:

The Department of Labor and Industries determines the premium rates that employers pay for industrial insurance with the state fund. The rates must be the lowest rates necessary to maintain actuarial solvency in accordance with recognized insurance principles. The rating system must also be consistent with recognized principles of workers' compensation insurance and be designed to stimulate and encourage accident prevention. The department may readjust rates in accordance with the rating system.

The department is authorized to insure the workers' compensation obligations of employers as a group, and consider the group as a single employing entity for purposes of dividends or premium discounts, if:

- all employers in the group are members of an organization that has been in existence for at least two years;
- the organization was formed for a purpose other than that of obtaining workers' compensation coverage;
- the occupations or industries of the employers in the organization are substantially similar; and

- the formation and operation of the group will substantially improve accident prevention and claim management.

The department has adopted rules providing for retrospective adjustment of an employer's premium under a retrospective rating plan. The plan is also available to groups of employers qualified under the statute. The plan is available on a voluntary basis for a one-year period, beginning in January, April, July, or October, and may be renewed at the end of that year. The plan must be consistent with recognized insurance principles and be administered under rules adopted by the department. Under department rules, sponsors of retrospective rating groups must meet specified criteria and choose a single industry category for the group plan.

Under the rules, a group sponsor may be placed on probationary status or disqualified until deficiencies have been corrected if additional premium assessments occur in consecutive coverage periods.

SUMMARY OF BILL:

The Department of Labor and Industries is directed to offer a voluntary retrospective rating plan to qualified employers and groups of employers. The plan will be available for one year, renewable at the end of the year. The plan must be consistent with recognized insurance principles and be administered under department rules.

Initial entrance standards for proposed retrospective rating groups. For initial entrance as a retrospective rating group, the following criteria must be met:

- The sponsor of the plan must have been in existence for at least four years.
- The sponsor must exist primarily for a purpose other than providing insurance coverage.
- The sponsor must have a written safety plan and propose methods for cooperating with department claims management activities.
- All employers in the group must be members of the sponsor.
- All employers in the group must have industrial insurance accounts in good standing.
- Fifty percent of the original employers in the group must have been members of the sponsor for one year prior to the group entering the retrospective rating plan.
- The group must be composed of employers who are substantially similar considering the work performed by the employees.
- The initial premium level must be at least \$1.5 million.
- The formation and operation of the group must seek to substantially improve workplace safety for the group's employers.

Industry categories. To ensure that all retrospective rating groups are made up of employers who are engaged in substantially similar activities or services, the sponsor must select a single broad industry category when forming a retrospective rating group as follows:

- Agriculture.
- Vehicle manufacturing, sales, and repair.
- Construction.
- Chemical and food production.
- Property management.
- Government, utilities, schools.
- Health care and pharmaceuticals.
- Logging and wood products.
- Manufacturing.
- Retail.
- Temporary help.
- Transportation.

The department may, by rule, modify the list of industry categories, by adding categories in response to significant changes in marketplace demographics and by removing categories if the industry is no longer found in Washington.

Retrospective rating groups approved prior to the bill's effective date may continue, even if the group does not meet the category criteria.

Sponsoring multiple groups. Sponsors of retrospective rating groups existing on the bill's effective date may not sponsor additional groups in a new industry category until January 1, 2003. Sponsors of groups approved after the bill's effective date may not add other groups in a new industry category until the minimum mandatory adjustment periods are completed for the last formed group. However, sponsors may divide existing groups and merge existing separate groups, as long as the same industry categories are maintained.

Insurers may not sponsor a group or participate in a group's formation.

Disqualification of a group. A group that is required to pay additional premium assessments in two consecutive coverage periods will be placed on probationary status and must undergo a review by the department. A group that is required to pay additional premium assessments in the third consecutive coverage period will be denied future enrollment in the retrospective rating plan and the sponsor may not sponsor another group in the same business category for five coverage periods.

RULES AUTHORITY: The Department of Labor and Industries must administer the

retrospective rating plan under rules that encourage broad participation by qualified employers and sponsors of retrospective rating groups.

FISCAL NOTE: Requested February 23, 1999.

EFFECTIVE DATE: Ninety days after adjournment of session in which bill is passed.