

HOUSE BILL REPORT

HB 2052

As Reported by House Committee On:
Commerce & Labor

Title: An act relating to improving stability in industrial insurance rates.

Brief Description: Improving stability in industrial insurance rates.

Sponsors: Representatives Conway and Wood.

Brief History:

Committee Activity:

Commerce & Labor: 3/3/03, 3/5/03 [DPA].

Brief Summary of Amended Bill

- Requires the Department of Labor and Industries (Department) to set industrial insurance premium rates designed to attempt to limit premium fluctuations.
- Requires the Department to adopt rules regarding the contingency reserve and paying industrial insurance premium dividends.

HOUSE COMMITTEE ON COMMERCE & LABOR

Majority Report: Do pass as amended. Signed by 5 members: Representatives Conway, Chair; Wood, Vice Chair; Hudgins, Kenney and McCoy.

Minority Report: Do not pass. Signed by 4 members: Representatives Chandler, Ranking Minority Member; Condotta, Assistant Ranking Minority Member; Crouse and Holmquist.

Staff: Chris Cordes (786-7103).

Background:

The Department of Labor and Industries (Department) administers the Washington workers' compensation system. Its responsibilities include operating the state fund which insures the industrial insurance obligations of employers who are not self-insured.

The industrial insurance trust fund administered by the Department includes three basic

funds: the accident fund, the medical aid fund, and the supplemental pension fund. The *accident fund* is used to pay time-loss benefits, permanent partial disability awards, and pensions. The *medical aid fund* is used to pay medical and vocational rehabilitation benefits. The *supplemental pension fund* is used to pay cost-of-living adjustments to workers receiving time-loss or pension payments.

The Department must classify industries according to hazard and set industrial insurance premium rates for each classification at the lowest level necessary to maintain actuarial solvency of the medical aid and the accident funds in accordance with recognized insurance principles. (Premium rates for the supplemental pension fund are set on a "current payment" basis because this fund does not accumulate reserves.)

All state fund employers pay premiums to the Department for these three funds. The state fund employers deduct one-half of the premium for the medical aid fund and the supplemental fund from their employees' wages. On average, the employees' share is approximately 23 percent of the total composite premium (the total premium for all three funds).

The industrial insurance trust fund includes a contingency reserve targeted at about 10 percent of liabilities under a Department policy approved by the Workers' Compensation Advisory Committee. The contingency reserve is the amount in the medical aid and accident funds that exceeds the benefit and claims administration liabilities. These liabilities are an actuarial calculation of estimated future claim and administrative costs on a discounted basis for injuries already incurred.

Summary of Amended Bill:

The Department of Labor and Industries (Department), in setting industrial insurance premium rates, must set rates designed to attempt to limit fluctuations in premiums (in addition to maintaining actuarial solvency of the medical aid and accident funds).

The Department must adopt rules, in consultation with the Workers' Compensation Advisory Committee, regarding the level of contingency reserve for the industrial insurance trust funds. The rules must: (1) include a process by which the Department may pay premium dividends if the contingency reserve exceeds the amount required under the rule; and (2) require 30 days' notice to the Legislature before implementing a dividend.

These requirements do not authorize the Department to set industrial insurance premium rates below the actuarially indicated rates.

Amended Bill Compared to Original Bill:

The amendment makes a technical correction to make the bill's language consistent.

Appropriation: None.

Fiscal Note: Requested on March 5, 2003.

Effective Date of Amended Bill: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: The main concern for the industrial insurance system is to be certain that the actuarially indicated premium rates are the adopted rates. It is hypocritical now to threaten benefit cuts when no one suggested benefit increases during the period that the fund was flush with investment income. We need to learn from the major mistakes that were made in handling these issues in the last decade. Everyone seemed to forget that the stock market goes both up and down and, instead, relied on investments when setting the rates. If the indicated rates produce a higher than anticipated contingency reserve, then it makes sense to consider paying dividends. Dividends might include both direct dividends to employers and indirect returns to workers through benefit enhancements or workplace safety programs.

Testimony Against: The underlying premise of the bill is flawed because it is the condition of the industrial insurance system that drives the rates. Stability in rates was the Department's goal in setting the rates over the last few years. Setting rates below the actuarially indicated rates is a way for the Department to smooth rates over time. It is not clear if the bill requires dividends to be made from both the accident and medical aid funds. The Department does not have the information it would need to make dividends to workers for the premiums they pay into the medical aid fund. If the Department is required to pay dividends whenever the level in the contingency reserve exceeds the goal, the administrative cost could be more than the dividend amount.

Testified: (In support) Michael Temple, Washington State Trial Lawyers Association.

(Neutral) Robby Stern, Washington State Labor Council.

(With concerns) Bob Malooly, Department of Labor and Industries.

(Opposed) Rick Slunaker, Associated General Contractors of Washington.