
Commerce & Labor Committee

HB 2052

Brief Description: Improving stability in industrial insurance rates.

Sponsors: Representatives Conway and Wood.

Brief Summary of 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.

Hearing Date: 3/3/03

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 provides industrial insurance coverage to 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 for injuries already incurred on a discounted basis.

Summary of Bill:

The Department of Labor and Industries, 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 policy 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.

Rules Authority: The bill requires the Department of Labor and Industries to adopt rules.

Appropriation: None.

Fiscal Note: Not requested.

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