

SENATE BILL REPORT

SHB 1856

As Reported By Senate Committee On:
Labor, Commerce, Research & Development, March 28, 2005

Title: An act relating to industrial insurance fund audits.

Brief Description: Requiring industrial insurance fund audits.

Sponsors: House Committee on Commerce & Labor (originally sponsored by Representatives Conway, Condotta, Wood, McCoy, Kessler, Campbell and Chase).

Brief History: Passed House: 3/10/05, 94-0.

Committee Activity: Labor, Commerce, Research & Development: 3/24/05, 3/28/05 [DPA].

SENATE COMMITTEE ON LABOR, COMMERCE, RESEARCH & DEVELOPMENT

Majority Report: Do pass as amended.

Signed by Senators Kohl-Welles, Chair; Franklin, Vice Chair; Parlette, Ranking Minority Member; Brown, Hewitt, Honeyford and Keiser.

Staff: Jennifer Strus (786-7316)

Background: The Department of Labor and Industries (L&I) administers the Washington industrial insurance system. L&I's responsibilities include operating the state fund from which employers who are not self-insured purchase industrial insurance coverage.

The industrial insurance trust fund administered by L&I 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.

All state fund employers pay premiums to L&I for these three funds. These employers deduct one-half of the premium for the medical aid fund and the supplemental pension fund from their employees' wages.

The State Auditor is required to audit state agencies at intervals determined by the State Auditor. Audits of financial statements must include determinations regarding the validity and accuracy of accounting methods and standards used in the statement's preparation, as well as the accuracy of the statement.

Summary of Amended Bill: L&I is required to prepare financial statements on various industrial insurance funds using generally accepted accounting principles (GAAP) and financial information based on statutory accounting principles.

Beginning in 2006, the State Auditor must conduct annual audits of the state fund, which must be coordinated with other L&I audits that the State Auditor conducts. As part of the audit, the State Auditor may contract with firms qualified to perform a financial audit. The firms doing reviews must be familiar with accounting standards applicable to these accounts and have experience in workers' compensation reserving, discounting, and ratemaking.

The financial audit must include at least:

- an opinion on whether the financial statements were prepared in accordance with GAAP;
- an assessment of the financial impact of proposed rates on the funds' actuarial solvency, taking into consideration various factors, including insurance risks, actuarial assumptions, discount rates, reserving, retrospective rating programs, refunds, individual employer rate classes, as well as standard accounting principles used for insurance underwriting; and
- an actuarial opinion on whether the loss and loss adjustment expense reserves for the Accident Fund, Medical Aid Fund, and Pension Reserve Fund were prepared under GAAP.

The State Auditor must issue an annual report on the results of the audits and reviews within six months of the end of the fiscal year. The report is made to the Governor, majority and minority caucus leadership in both chambers of the Legislature, the Office of Financial Management, and L&I. L&I, within 90 days of delivery of the report, must notify the State Auditor about measures it has taken in response to the report, if any.

Amended Bill Compared to Original Bill: Clarifies that the state auditor must coordinate other required audits of L&I with the audit required under this bill.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: The bill will provide legislators and businesses in the state with the information needed to make decisions about the state fund and premium rates. It provides a transparency to the system that has heretofore been lacking.

Testimony Against: None.

Who Testified: PRO: Mark Johnson, Washington Retail Association; Owen Linch, Teamsters; Gary Smith, Independent Business Association; Rick Slunaker, Associated General Contractors.