
**Labor & Workforce Development
Committee**

HB 2026

Brief Description: Creating the industrial insurance rainy day account.

Sponsors: Representatives Sells and Reykdal.

Brief Summary of Bill

- Creates an industrial insurance Rainy Day Account for Accident Fund and Medical Aid Fund surpluses.
- Provides that if the Director of the Department of Labor and Industries determines to increase rates for the Accident Fund or Medical Aid Fund, the State Treasurer must first transfer the amount needed to fund the increase from the Rainy Day Account.
- Provides that premium dividends may not be distributed and average rates may not be reduced.

Hearing Date: 3/22/11

Staff: Joan Elgee (786-7106).

Background:

Under the state's industrial insurance laws, employers must insure through the State Fund administered by the Department of Labor and Industries (Department) or, if qualified, may self-insure. Employers pay into the Accident Fund, which is used to pay time-loss benefits and permanent partial as well as permanent total disability benefits, and the Medical Aid Fund, which pays for medical benefits. Workers also pay into the Medical Aid Fund. The Department classifies industries by risk and sets basic premium rates. The rates must be the lowest necessary to maintain the actuarial solvency of the Accident and Medical Aid Funds in accordance with recognized insurance principles, and must be designed to attempt to limit fluctuations in premium rates.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

The Workers Compensation Advisory Committee (WCAC) is a 10-member committee tasked with studying aspects of the workers compensation system. Workers and employers are represented on the committee.

Beginning in 2006, the Legislature directed the State Auditor to conduct annual audits of the State Fund. The State Auditor may contract with firms qualified to perform a financial audit. Following the first audit, the WCAC was directed to review the audit and make recommendations as it deemed appropriate to the Department concerning: (1) the appropriate levels of a contingency reserve, and (2) when surplus funds exist in the trust funds, the circumstances which the Department should give premium dividends, or similar measures, or temporarily reduce rates. The WCAC may update its recommendations following subsequent audits.

Summary of Bill:

Legislative findings are made that stability in industrial insurance premium rates benefits both employers and workers. The Legislature further finds that economic and other events may cause benefit costs and premiums collected to change in unanticipated ways. Intent is stated that rather than return any surplus funds in the form of rate holidays, dividends, and other returns, any surpluses should be deposited into a rainy day account to be used in lieu of a rate increase.

An industrial insurance Rainy Day Account (Rainy Day Account) is created as an industrial insurance trust fund. Earnings are retained by the Rainy Day Account. The State Investment Board may invest moneys in the Rainy Day Account in the same manner as other industrial insurance funds. When the Director of the Department of Labor and Industries (Director), in consultation with the State Treasurer and the WCAC, determines that there is a surplus in the Accident Fund or the Medical Aid Fund, the Director must notify the Treasurer and the Treasurer must transfer the surplus balance to the Rainy Day Account. If the Director determines to increase average rates for the Accident or Medical Aid Fund, the Director must notify the Treasurer and the Treasurer must first transfer the amount required to fund the increase from the Rainy Day Account. The Treasurer must separately account for any transfers to and from the Accident Fund and the Medical Aid Fund.

The authority of the WCAC is modified. The WCAC may make recommendations to the Department regarding whether a transfer to the Rainy Day Account is appropriate. The WCAC no longer makes recommendations regarding premium dividends, or similar measures, or temporary rate reductions.

In adjusting rates, the Department may not distribute premium dividends or reduce average rates.

Appropriation: None.

Fiscal Note: Requested on March 19, 2011.

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