

SENATE BILL REPORT

EHB 1917

As Reported By Senate Committee On:
Labor, Commerce, Research & Development, March 31, 2005

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

Brief Description: Improving stability in industrial insurance premium rates.

Sponsors: Representatives Conway, Wood and Chase.

Brief History: Passed House: 3/14/05, 96-0.

Committee Activity: Labor, Commerce, Research & Development: 3/29/05, 3/31/05 [DP].

SENATE COMMITTEE ON LABOR, COMMERCE, RESEARCH & DEVELOPMENT

Majority Report: Do pass.

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

Staff: Jennifer Strus (786-7316)

Background: The industrial insurance trust fund administered by the Department of Labor & Industries (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. On average, the employees' share is approximately 25 percent of the total composite premium (the total premium for all three funds).

The industrial insurance trust fund includes a contingency reserve targeted, under L&I policy, at about 10 percent of the trust fund liabilities. The contingency reserve is the amount in the medical aid and accident funds that exceeds the benefit, claims administration, and other liabilities of the funds. These liabilities include an actuarial calculation of estimated future claim and administrative costs for injuries already incurred on a discounted basis.

L&I 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.

Summary of Bill: L&I, in setting industrial insurance premium rates, must set rates designed to attempt to limit fluctuations in premium rates, in addition to maintaining actuarial solvency of the medical aid and accident funds.

After the State Auditor issues the first report on its audit of the industrial insurance funds that will be required if either Substitute House Bill 1856 or Substitute Senate Bill 5614 is enacted, the Workers' Compensation Advisory Committee (WCAC) must review the report. If the WCAC deems it appropriate, it may make recommendations to L&I concerning the level of contingency reserve that is appropriate to maintain actuarial solvency of the Accident and Medical Aid Funds, limit premium rate fluctuations, and account for economic conditions. The recommendations may also address the circumstances under which L&I should give premium dividends or temporarily reduce rates when surplus funds exist in the trust funds.

These provisions apply to industrial insurance premium rates that take effect on or after January 1, 2008.

Appropriation: None.

Fiscal Note: Not requested.

Committee/Commission/Task Force Created: No.

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

Testimony For: The business community had strong feelings about having the state auditor conduct its audit pursuant to HB 1856 or SB 5614 before deciding how to deal with premium rate fluctuations. This bill represents a good balance between the original bill and the employer communities' need to wait for the audit report so that more informed decisions about rate stability can be made.

Testimony Against: None

Who Testified: PRO: Rep. Steve Conway, prime sponsor; Amber Carter, Association of Washington Business.