Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Appropriations Committee

HB 2762

Brief Description: Allowing the department to use a different assumption for annual investment returns for the reserve funds for self-insured and state fund pension claims.

Sponsors: Representatives Sells, McCabe and Kilduff; by request of Department of Labor & Industries.

Brief Summary of Bill

- Permits the Department of Labor and Industries to use different calculation methods for State Fund and self-insured pension liabilities.

Hearing Date: 1/22/18

Staff: David Pringle (786-7310).

Background:

Employers must provide industrial insurance through the State Fund administered by the Department of Labor and Industries (Department) or, if qualified, may self-insure. To be certified by the Department as a self-insurer, an employer must have sufficient financial ability to ensure prompt payment of compensation to its injured workers and must meet other requirements. The Department requires self-insurers to provide surety in an amount determined by the Department to cover the self-insurer's industrial insurance liabilities.

A worker is entitled to permanent total disability (TPD, also referred to as pension) benefits if the worker has lost two major limbs, or has total loss of eyesight, paralysis, or other condition permanently incapacitating the worker from performing any work at any gainful occupation. A worker receives 60 to 75 percent of the worker's wages depending on the worker's marital status and number of children, subject to a minimum and maximum. The Department pays pensions out of the Pension Reserve Fund, and moneys are transferred from the Accident Fund or from the self-insured employer into the Pension Reserve Fund. A self-insured employer may choose to provide the pension directly by paying and posting a bond with the Department, assigning an

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account to the Department, or provide a purchased annuity with sufficient funds to insure payment of the pension.

When calculating the amount paid from the State Fund into the Pension Reserve Fund, or the equivalent payment or obligation by a self-insured employer, the Department is required by statute to calculate the amount "in the same manner." This includes applying actuarial assumptions, including an expected rate of investment return or "discount rate" to the determination. Currently the discount rate used to calculate the present value of the pension annuity is set in rule at 6.2 percent. The Workers' Compensation Advisory Committee has reduced this rate in recent years, and has set the target discount rate at 4.5 percent, consistent with a recommendation of the Washington State Investment Board. As the discount rate is lowered, additional amounts must be transferred to the Pension Reserve Fund from the State Fund and provided by self-insured employers to make up the projected shortfall in the investment return on the amounts deposited as compared to the annuity value. For the State Fund, costs may be spread over time, but for self-insured employers, the amounts must be paid in a lump sum. The Department estimates that as of June 30, 2016, the lump-sum amount required from self-insured employers for reducing the discount rate from 6.2 to 4.5 percent would be $156 million.

If investment returns do not meet the rate that was projected, additional yearly transfers from the state fund and payments by self-insured employers are also required.

Summary of Bill:

The Department of Labor and Industries may use different methods of calculating State Fund and self-insured liabilities when determining the annuity values of a pension based upon the rates of mortality disability, remarriage, and interest.

Appropriation: None.

Fiscal Note: Available.

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