

# SENATE BILL REPORT

## SB 6393

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As Passed Senate, February 12, 2018

**Title:** An act relating to allowing the department to use a different assumption for annual investment returns for the reserve funds for self-insured and state fund pension claims.

**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:** Senators Braun, Keiser, King, Mullet, Palumbo and Conway; by request of Department of Labor & Industries.

**Brief History:**

**Committee Activity:** Ways & Means: 1/30/18, 2/05/18 [DP].

**Floor Activity:**

Passed Senate: 2/12/18, 47-0.

**Brief Summary of Bill**

- Permits the Department of Labor and Industries (L&I) to use different calculation methods for state fund and self-insured pension liabilities.

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### SENATE COMMITTEE ON WAYS & MEANS

**Majority Report:** Do pass.

Signed by Senators Rolfes, Chair; Frockt, Vice Chair; Braun, Ranking Member; Honeyford, Assistant Ranking Member; Bailey, Becker, Billig, Brown, Carlyle, Conway, Darneille, Fain, Hasegawa, Hunt, Keiser, Mullet, Palumbo, Pedersen, Ranker, Rivers, Schoesler, Van De Wege, Wagoner and Warnick.

**Staff:** Amanda Cecil (786-7460)

**Background:** Employers must provide industrial insurance through the state fund administered by L&I or, if qualified, may self-insure. To be certified by L&I 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. L&I requires self-insurers to provide surety in an amount determined by L&I to cover the self-insurer's industrial insurance liabilities.

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*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.*

A worker is entitled to total permanent 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. L&I pays pensions out of the pension reserve fund, and monies 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 L&I, assigning an account to L&I, or providing 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, L&I 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. L&I 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:** L&I 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.

**Creates Committee/Commission/Task Force that includes Legislative members:** No.

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

**Staff Summary of Public Testimony:** PRO: There are sufficient reserves in the accident fund to allow for investment rates to change without impacting rates but this same change would result in a large bill to self-insurers. This will allow that cost to be phased in gradually. This bill has broad support in the business and labor community to allow for this good government bill.

**Persons Testifying:** PRO: Patrick Connor, NFIB/Washington; Tammy Fellin, Labor & Industries; Kris Tefft, Washington Self Insurers Association.

**Persons Signed In To Testify But Not Testifying:** No one.