
Commerce & Labor Committee

HB 3108

Brief Description: Concerning oversight of industrial insurance premium rates.

Sponsors: Representatives Conway and Chase.

Brief Summary of Bill

- Requires the Department of Labor and Industries (Department), in consultation with the Workers' Compensation Advisory Committee (WCAC), to adopt rules establishing the contingency reserve level, prohibiting premium dividends, and permitting temporary rate reductions.
- Requires the Department to set industrial insurance premium rates designed to attempt to limit premium fluctuations.
- Requires the Department to contract for an independent actuarial audit of the rate-setting process when requested by labor or business members of the WCAC within 10 days after proposed rates are filed.

Hearing Date: 2/3/04

Staff: Chris Cordes (786-7103).

Background:

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

Industrial Insurance Funds

The industrial insurance trust fund administered by the Department 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 the Department for these three funds. These employers deduct one-half of the premium for the medical aid fund and the supplemental fund from their

employees' wages. On average, the employees' share is approximately 23 percent of the total composite premium (the total premium for all three funds).

Industrial Insurance Contingency Reserve

The industrial insurance trust fund includes a contingency reserve targeted, under Department 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 and claims administration liabilities. These liabilities are an actuarial calculation of estimated future claim and administrative costs for injuries already incurred on a discounted basis.

Industrial Insurance Premium Rate-Setting

The Department 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.)

Workers' Compensation Advisory Committee

The Workers' Compensation Advisory Committee (WCAC) is a statutory committee composed of 10 members appointed by the Director of the Department. The members include three members representing state fund employers, one member representing self-insured employers, three member representing employees of state fund employers, one member representing employees of self-insured employers, and two non-voting ex officio members representing the Department and the Board of Industrial Insurance Appeals. The Department representative chairs the WCAC. The WCAC is charged with conducting a continuing study of any aspects of workers' compensation that it determines requires its consideration.

Summary of Bill:

In consultation with the WCAC, the Department must adopt rules:

- regarding the level of contingency reserve for the industrial insurance trust funds;
- prohibiting dividends or refunds of premiums when the contingency reserve exceeds the specified level; and
- establishing a process for temporarily reducing rates below the indicated rate level when the contingency reserve exceeds the specified level if (1) employers receive notice of the fixed rate, the temporary rate, and the reason for the temporary rate, and (2) the Legislature is notified of the action at least 60 days before the rate reduction is implemented.

The Department, 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).

Within 10 working days after the Department files proposed industrial insurance premium rates, either the labor members or the business members, or both, of the WCAC may request an independent actuarial audit of the rate-setting process. The Department must contract for the audit which will review, at a minimum, the assumptions used by the Department in setting premium rates and whether the process is appropriately designed to limit premium rate

fluctuations. The results of the audit must be reported to the WCAC, the Governor, and the Legislature. The cost of the audit is paid from the accident and medical aid funds.

These provisions apply to industrial insurance premium rates that take effect on or after January 1, 2005.

Rules Authority: The bill requires the Department of Labor and Industries to adopt rules regarding industrial insurance premium rates.

Appropriation: None.

Fiscal Note: Not requested.

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