

FINAL BILL REPORT

EHB 1917

C 410 L 05

Synopsis as Enacted

Brief Description: Improving stability in industrial insurance premium rates.

Sponsors: By Representatives Conway, Wood and Chase.

House Committee on Commerce & Labor

Senate Committee on Labor, Commerce, Research & Development

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 State Industrial Insurance 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 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).

Industrial Insurance Contingency Reserve

The State Industrial Insurance 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 Fund and the Accident Fund 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.

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 Fund and the Accident Fund 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 members 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:

The Department of Labor and Industries (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 Fund and the Accident Fund).

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

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

Votes on Final Passage:

House	96	0
Senate	41	0

Effective: July 24, 2005