
Commerce & Labor Committee

HB 1917

Brief Description: Improving stability in industrial insurance premium rates.

Sponsors: Representative Conway.

Brief Summary of Bill

- Requires the Department of Labor and Industries (Department), in setting industrial insurance premium rates, to set rates designed to attempt to limit premium fluctuations.
- Requires the Department, in consultation with the Workers' Compensation Advisory Committee (WCAC), to adopt rules establishing the contingency reserve level and, when the reserve exceeds those levels, prohibiting premium dividends and permitting temporary rate reductions.

Hearing Date: 2/14/05

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 pension fund from their employees' wages. On average, the employees' share is approximately 20 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:

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 and accident funds).

In consultation with the Workers' Compensation Advisory Committee (WCAC), the Department must adopt rules regarding the level or levels of contingency reserve for the industrial insurance trust funds. The rules must also address the following when the level of the contingency reserve exceeds the specified level:

- prohibiting dividends or refunds of premiums; and
- establishing a process for temporarily reducing rates below the actuarially indicated rate level only 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.

These provisions apply to industrial insurance premium rates that take effect on or after January 1, 2006.

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.