

# HOUSE BILL REPORT

## SB 6393

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### As Reported by House Committee On: Appropriations

**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:**

Appropriations: 2/24/18, 2/26/18 [DP].

#### **Brief Summary of Bill**

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

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### HOUSE COMMITTEE ON APPROPRIATIONS

**Majority Report:** Do pass. Signed by 33 members: Representatives Ormsby, Chair; Robinson, Vice Chair; Chandler, Ranking Minority Member; MacEwen, Assistant Ranking Minority Member; Stokesbary, Assistant Ranking Minority Member; Bergquist, Buys, Caldier, Cody, Condotta, Fitzgibbon, Graves, Haler, Hansen, Harris, Hudgins, Jinkins, Kagi, Lytton, Manweller, Pettigrew, Pollet, Sawyer, Schmick, Senn, Springer, Stanford, Sullivan, Taylor, Tharinger, Vick, Volz and Wilcox.

**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

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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 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. 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 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 from 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.

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### **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.

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**Appropriation:** None.

**Fiscal Note:** Available.

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

**Staff Summary of Public Testimony:**

(In support) This bill passed the Senate unanimously, and is supported by the National Federation of Independent Business, the Self-Insured Association, and the Washington State Labor Council. It allows the Department of Labor and Industries to take a longer path for self-insured employers to get to the same place as for State Fund employers. It would cause a \$150 million one-time charge to self-insured employers, while the assumptions can be accommodated within the State Fund reserves.

(Opposed) None.

**Persons Testifying:** Tammy Fellin, Department of Labor and Industries.

**Persons Signed In To Testify But Not Testifying:** None.