

HOUSE BILL REPORT

HB 2188

As Reported by House Committee On:
Labor & Workplace Standards

Title: An act relating to promoting transparency in certain industrial insurance rate increases.

Brief Description: Promoting transparency in certain industrial insurance rate increases.

Sponsors: Representatives Schmidt, Dufault, Abbarno, McEntire, Jacobsen, Ybarra, Barnard, Graham and Couture.

Brief History:

Committee Activity:

Labor & Workplace Standards: 1/28/26, 2/3/26 [DP].

Brief Summary of Bill

- Requires the Department of Labor and Industries to annually publish the actuarially indicated rate for each workers' compensation risk classification and disclose when it sets a premium rate below the actuarially indicated rate for any classification.

HOUSE COMMITTEE ON LABOR & WORKPLACE STANDARDS

Majority Report: Do pass. Signed by 8 members: Representatives Berry, Chair; Fosse, Vice Chair; Schmidt, Ranking Minority Member; Ybarra, Assistant Ranking Minority Member; Bronoske, McEntire, Obras and Ortiz-Self.

Staff: Kelly Leonard (786-7147).

Background:

Under the Industrial Insurance Act, a worker who is injured in the course of employment or injured or disabled from an occupational disease is entitled to workers' compensation

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benefits. Benefits may include medical, temporary time-loss, vocational rehabilitation benefits, and permanent disabilities benefits. Employers must either insure through the Industrial Insurance Fund (State Fund) administered by the Department of Labor and Industries (L&I) or, if qualified, may self-insure. L&I administers the workers' compensation system and manages the State Fund.

Premium Rate Setting.

The State Fund includes four separate funds: the Accident Fund, the Medical Aid Fund, the Supplemental Pension Fund, and the Stay at Work program 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 Stay at Work fund pays employers partial reimbursement for wages, training, and equipment costs provided under light duty or transitional work for injured workers. The Supplemental Pension Fund is used to pay cost-of-living adjustments to workers receiving time-loss or pension payments. Employers and workers pay premiums to L&I for these four funds. Workers pay one-half of the amount for medical benefits within each risk classification, which is generally about 24 percent of the total premium. Premiums are paid based on hours worked, not wages earned.

Premium rates are generally based on the worker's risk of injury. To that end, L&I must classify all occupations or industries according to their hazard level. There are currently over 300 risk classifications. Hazardous industries generally pay higher rates. L&I is required to set premium rates at the lowest rate necessary to maintain actuarial solvency of the accident and medical aid funds in accordance with recognized insurance principles. L&I must design rates in a manner to limit fluctuations, encourage accident prevention, and facilitate collection. L&I annually calculates base rates for each risk classification based on five years of claim costs. L&I will not increase rates for any class by more than 25 percent compared to the overall rate change. An employer's final rate is the applicable base rate as modified by an experience factor, which compares an employer's actual claim history against others in the same risk class.

Contingency Reserve.

L&I maintains a contingency reserve to stabilize rates and cover unexpected future events that will likely occur. This includes economic downturns, natural disasters, or changes in law. The Workers' Compensation Advisory Committee sets reserve targets and manages the reserve. In recent years, L&I has used the reserve to keep premium rate increases lower than the actual expected cost of claims.

Annual Audits.

The State Auditor conducts annual audits of the State Fund and assesses premium rates based on actuarial principles.

Summary of Bill:

L&I must publish the actuarially indicated rate for each workers' compensation risk classification as part of its proposed premium rates for the upcoming year. If L&I limits the maximum premium rate increase for any risk classification below the level indicated by applying generally accepted actuarial principles to the risk class, L&I must publish information about the limitation when it proposes its premium rates, including:

- the rate classifications limited by L&I and the respective proposed rate;
- what the rate for the classification would have been according to generally accepted accounting principles had a maximum increase limitation not been set; and
- the premium rate increase imposed upon other risk classes as a result of the limitation.

L&I must also publish the information on its website and submit it to the Legislature and the Workers' Compensation Advisory Committee.

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) The workers' compensation system is an important safety net for injured workers. The state should have a clear picture of its financial health and what is driving premium rate decisions. In recent years the actual premium rates for workers' compensation have not matched the actuarial rates. In an effort to stabilize rates, L&I has kept the rates lower. For 2026, premium rates increased by an average of 4.9 percent across all risk classifications, even though the actuarial indicated increase should have exceeded 13 percent. Employers are saving money in the short-term but not the long-term. This current practice is not sustainable. There are significant challenges coming down the pipeline. L&I should be transparent about these important policy decisions. If there are risk classifications that should have higher premium rates, then those costs should be paid from the reserve fund and not shifted to other risk classifications. The bill will require L&I to publish data when it keeps rates lower than the actuarial indicated rates and when it is cost-shifting across rate classifications. This will help alert key stakeholders to warning signs if there are issues in the system. The bill is about gathering information only.

(Opposed) None.

(Other) This information is already ascertainable through other means, but L&I can publish it alongside other data currently available on its website. The bill requires L&I to publish when an actual rate is lower than an actuarial indicated rate. For 2026, this would apply to

all risk classifications. The bill also requires L&I to disclose when it caps an increase despite higher claims costs for a specific risk classification. It is important to note that L&I will not increase a particular premium rate for circumstances outside an employer's control. This includes certain policy changes, such as the impacts to certain first responder employers caused by the Legislature's expansion of the post-traumatic stress disorder presumption for occupational disease. The costs of the increase in claims is spread across the system. In that particular case, the increase is about \$24 million, which is spread out across a \$2.4 billion system with over 200,000 employers. It is also accurate to say that L&I is paying out more funds in benefits than what it collects in premiums, but there are many factors allowing that to occur, including investment returns on reserves.

Persons Testifying: (In support) Representative Suzanne Schmidt, prime sponsor; Andrea Reay, Washington Hospitality Association; Michael Ennis, Building Industry Association of Washington (BIAW); and James Crandall, AWB.

(Other) Tammy Fellin, Department of Labor and Industries.

Persons Signed In To Testify But Not Testifying: None.