



MEMORANDUM

November 17, 2015

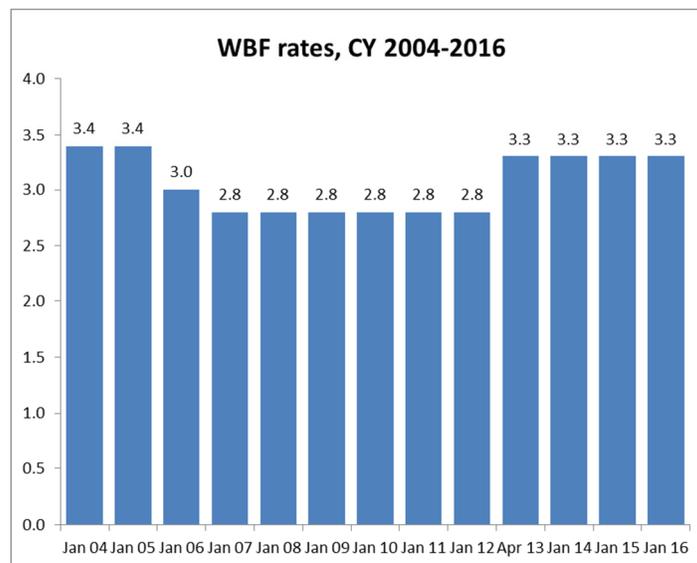
To: John Shilts, Administrator, Workers' Compensation Division, DCBS

From: Gary Helmer, Senior Economist

Subject: Workers' Benefit Fund status as of September 2015

The current Workers' Benefit Fund (WBF) assessment rate is 3.3 cents per hour. This rate was adopted for April 2013 and will be retained through at least December 2016. In August 2016, the director will adopt a rate for CY 2017.

The figure below shows the assessment rates over the past 12 years. DCBS lowered the assessment rate for 2006 and 2007 because the WBF had a large fund balance. The intent was to draw down the fund balance. This lower rate, combined with the recession, lowered the fund balance from \$168.9 million on June 30, 2006 to \$77.0 million on June 30, 2013. The assessment rate was raised for 2013 to resume fully funding WBF expenditures.



Until 2014, the WBF was statutorily required to have a fund balance equivalent to least 12 months of expenditures. At its lowest, the fund balance was equal to about 10 months of expenditures. It currently has approximately 13 months of expenditures.

Among its other provisions, SB 1558 (2014) lowered the WBF minimum required fund balance to 6 months of expenditures. It also specified that the lower fund balance requirement be reviewed by MLAC no later than January 1, 2019.

The table below shows the financial outcomes over the past four years and the forecast for the next two years (it assumes the 3.3 cent-per-hour rate is retained). At the end of FY 2015, the WBF had a fund balance of \$90.0 million. The WBF should continue to see a positive net cash flow in FY 2016 and FY 2017.

A discussion of the WBF programs and recent trends follows the table.

Workers' Benefit Fund Revenues with actual financial data through September 2015

| Effective Date | 1/2012 | 4/2013 | 1/2014 | 1/2015 | 1/2016 | 1/2017 |
|---|---------------------|---------------------|-------------------|-------------------|-------------------|-------------------|
| Cents-Per-Hour Rate | 0.028 | 0.033 | 0.033 | 0.033 | 0.033 | 0.033 |
| | 2011-2013 | | 2013-2015 | | 2015-2017 | |
| | FY 2012 | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 |
| Revenue: | | | | | | |
| Assessments | 71,357,926 | 72,102,306 | 87,336,237 | 90,498,133 | 93,273,211 | 95,970,578 |
| Other income | (421,227) | 2,848,788 | 3,401,857 | 6,931,692 | 2,740,252 | 2,726,058 |
| Rev. sub-total, exc. NCE revenue | 70,936,699 | 74,951,094 | 90,738,094 | 97,429,825 | 96,013,463 | 98,696,637 |
| Expenditures: | | | | | | |
| Workers with Disability Program | 499,364 | 489,081 | 347,136 | 322,935 | 269,264 | 223,566 |
| Reemp. Assistance Prog., exc. OIOHS | 26,438,240 | 27,440,995 | 28,971,637 | 27,938,251 | 29,172,204 | 32,408,438 |
| Reopened Claims Program | 5,114,912 | 4,665,933 | 4,061,153 | 3,777,357 | 4,557,222 | 4,493,263 |
| Retroactive Program | 51,581,560 | 47,905,907 | 45,051,343 | 42,652,573 | 41,309,398 | 40,440,923 |
| SB 485 Multiple Wage Jobs | 951,776 | 1,019,316 | 1,051,587 | 901,658 | 948,331 | 981,084 |
| SB 1558 Claim Payments | 0 | 0 | 112,193 | 4,654,977 | 2,166,335 | 1,622,286 |
| Exp. Subtotal: WBF Program Costs | 84,585,852 | 81,521,232 | 79,595,049 | 80,247,751 | 78,422,754 | 80,169,561 |
| Central Services Chargeback | 1,430,020 | 1,411,397 | 1,427,223 | 1,289,768 | 1,521,105 | 1,654,169 |
| WCD-WBF Administrative Cost | 2,180,689 | 2,156,946 | 2,225,828 | 2,414,002 | 2,500,624 | 2,511,052 |
| Workers Comp Assessment Unit Cost | 760,230 | 750,718 | 838,301 | 822,542 | 667,851 | 881,697 |
| IWO-WBF Administrative Cost | 50,108 | 54,720 | 52,724 | 54,080 | 52,917 | 54,422 |
| WCB-WBF Administrative Cost | 303,649 | 273,043 | 323,402 | 329,935 | 334,223 | 343,829 |
| Collection Costs (Employment & Revenue) | 680,645 | 583,394 | 655,671 | 585,179 | 573,570 | 579,126 |
| OIOHS (formerly CROET) | 1,563,340 | 1,610,233 | 1,645,945 | 1,700,963 | 1,778,919 | 1,864,594 |
| BOLI transfer out | 461,848 | 372,720 | 382,471 | 382,472 | 304,322 | 405,763 |
| Exp subtotal: WBF Administrative Costs | 7,430,529 | 7,213,171 | 7,551,565 | 7,578,941 | 7,733,532 | 8,294,651 |
| Exp subtotal: WBF exp., exc. NCE | 92,016,381 | 88,734,403 | 87,146,614 | 87,826,692 | 86,156,286 | 88,464,212 |
| Transfers - Other than BOLI | 0 | (318) | (473) | (443) | (381) | 0 |
| Net cash flow | (21,079,682) | (13,783,627) | 3,591,007 | 9,602,690 | 9,856,796 | 10,232,425 |
| NCE net cash flow | (30,652) | (416,954) | 417,646 | (627,650) | (25,768) | 49,458 |
| Total Revenue | 75,153,191 | 80,006,919 | 95,657,505 | 101,931,605 | 100,313,064 | 103,523,301 |
| Total Expenditures | 97,465,018 | 94,181,517 | 92,312,426 | 92,052,357 | 91,047,633 | 93,673,431 |
| Net Cash Flow | (21,110,334) | (14,200,581) | 4,008,653 | 8,975,040 | 9,831,028 | 10,281,882 |
| Ending Fund Balance | 91,215,308 | 77,014,727 | 81,023,380 | 89,998,419 | 99,829,447 | 110,111,329 |
| Balance Coverage Ratio | 3.85 | 3.33 | 3.49 | 3.83 | 4.54 | 4.94 |

WBF Programs

About 92 percent of the WBF's expenditures pay for WBF programs. The WBF program expenditures have been declining due to the decreasing number of people in the Retroactive Program. Retroactive Program expenditures are expected to continue to decline while Reemployment Assistance Program expenditures are expected to increase. The result should be fairly constant WBF program expenditures.

Workers with Disabilities Program

The Workers with Disabilities Program was created by the Legislature in 1981. SB 1197 (1990) restricted the program to claims for which the application for reimbursement had been made before May 1, 1990. The program provides reimbursement to employers or insurers for costs in excess of \$1,000 for injuries suffered or caused by previously disabled workers. Expenditures will continue to decline.

Reemployment Assistance Program

The Reemployment Assistance Program provides incentives for returning injured workers to jobs. The major programs are the Employer-at-Injury Program (EAIP) and the Preferred Worker Program (PWP); there are also several smaller programs.¹ In FY 2015, the program's expenditures were 35 percent of the WBF program expenditures.

Recent and projected Reemployment Assistance Program expenditures
excluding OIOHS (CROET) payments

| | 2011-2013 | | 2013-2015 | | 2015-2017 | |
|---|--------------|--------------|--------------|--------------|--------------|--------------|
| | FY 2012 | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 |
| EAIP | 19,628,311 | 21,290,853 | 21,623,934 | 20,982,727 | 21,842,272 | 24,779,595 |
| PWP claims costs | 2,213,468 | 2,424,879 | 1,941,986 | 2,038,221 | 2,132,050 | 1,819,089 |
| PWP wage subsidy | 2,168,339 | 1,913,767 | 2,468,380 | 2,200,289 | 2,549,979 | 2,920,577 |
| PWP worksite modifications and purchases | 2,425,966 | 1,806,389 | 2,934,429 | 2,713,499 | 2,645,566 | 2,886,178 |
| Other programs | \$2,156 | \$5,107 | \$2,908 | \$3,515 | \$2,336 | \$3,000 |
| Total | \$26,438,240 | \$27,440,995 | \$28,971,637 | \$27,938,251 | \$29,172,204 | \$32,408,438 |

The Employer-at-Injury Program provides incentives to return workers to work prior to claim closure. Benefits available to employers and their workers include wage subsidy, worksite modification, and purchases. Since 2008, more than 25 percent of the claimants with an accepted disabling claim have been in the EAIP. This has gotten these workers back to work more quickly and lowered the amount of temporary disability paid by insurers.

In order to slow the growth rate in the EAIP expenditures, WCD implemented a rule change for wage subsidy reimbursements, effective July 1, 2013. For EAIP programs started after this date, the wage reimbursement was 45 percent of wages rather than 50 percent of wages. The full effect of this change appeared in the financial statements in early FY 2015. FY 2015 EAIP expenditures were about \$640,000 lower than FY 2014 expenditures.

The forecast for the EAIP is created from the claims forecast and the forecast increase in the average cost per placement. The combination of these forecasts results in a forecast increase in EAIP expenditures of 6.6 percent per year.

The Preferred Worker Program is designed to assist injured workers who suffer a permanent disability and who are unable to return to regular work. If an injured worker is hired as a Preferred

¹ The accounting system includes payments to the Oregon Institute for Occupational Health Sciences with the RAP expenditures. These are removed from this table and discussed below.

Worker and has a new injury during the first three years of reemployment, then the Reemployment Assistance Program pays the claims costs, including the administrative costs. The PWP claims costs are expected to grow by about 1.5 percent per year through the forecast horizon. The trend in expenditures is driven by the trend in the number of claims.

The PWP program also pays wage subsidies, direct employment purchases, and worksite modifications. Wage subsidies are forecast as a function of the claims forecast and the forecast change in the statewide average weekly wage. Worksite modifications and obtained employment purchases are forecast as a function of the changes in the number of claims and in inflation.

Reopened Claims Program

The Reopened Claims Program provides reimbursement to insurers and self-insured employers for costs arising from certain claim costs associated with Board Own Motion (BOM) orders. A BOM order may authorize benefits in three cases:

- For claims with a date of injury before January 1, 1966, medical benefits can be authorized.
- For all claims, temporary disability benefit payments can be authorized when, five years after claim closure, a worsening of a compensable injury requires inpatient surgery, outpatient surgery, or treatment requiring hospitalization.
- Senate Bill 485 (2001) authorized the Workers' Compensation Board to grant permanent partial disability benefits for new or omitted medical conditions.

Program expenditures were \$3.8 million in FY 2015. The table below shows the claims costs paid for these three types of benefits (by calendar year).

Because medical benefits are limited to injuries prior to January 1966, there were just 38 claims for which medical payments were made in 2014; the individual payments can be large and volatile. Future medical costs are forecast based on the trend in declining numbers of claims and medical inflation. Temporary disability and PPD benefit expenditures are forecast as a function of claims and the change in the average weekly wage. These costs should slowly increase.

Reopened Claim reimbursements by benefit type, CY 2010-2014

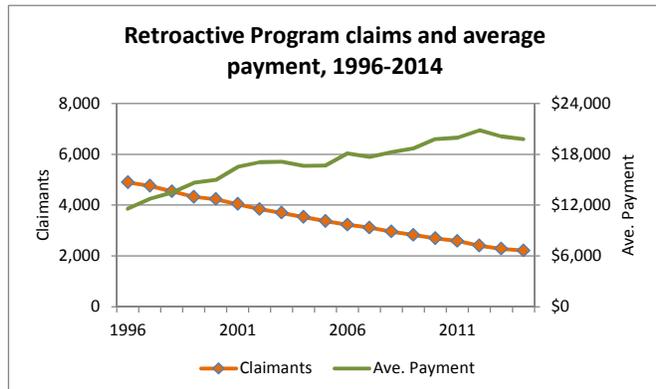
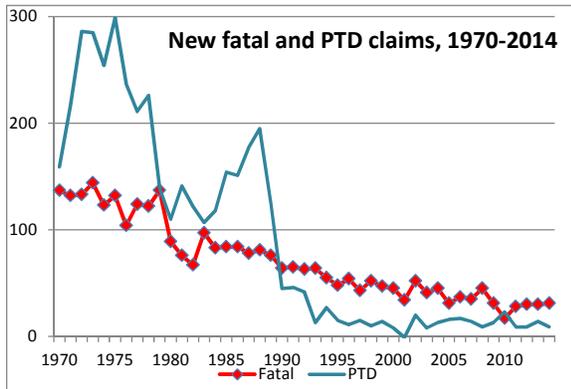
| CY | Medical benefits | Timeloss benefits | PPD benefits | Total |
|------|------------------|-------------------|--------------|-----------|
| 2010 | 1,046,823 | 3,558,355 | 903,287 | 5,508,465 |
| 2011 | 459,738 | 3,823,229 | 837,695 | 5,120,662 |
| 2012 | 442,985 | 3,616,032 | 954,926 | 5,013,943 |
| 2013 | 347,305 | 3,019,242 | 694,535 | 4,061,081 |
| 2014 | 199,710 | 2,791,237 | 779,455 | 3,770,402 |

Retroactive Program

The Retroactive Program is the largest WBF program. It pays benefit increases to workers and their beneficiaries for benefit levels that are lower than current levels. Insurers and self-insured employers pay the benefits and then request reimbursement from the department. In FY 2015, the program had \$42.7 million in expenditures, 53 percent of the WBF program expenditures.

The next two figures illustrate the program's trends. Few new claims are entering the program. During the 1970s, there was, on average, one new fatal or PTD claim each day; over the last decade, there has been less than one claim each week. About 88 percent of the program's expenditures in CY 2014 were for injuries that occurred prior to 1990.

Future expenditures are estimated by forecasting the decline in the number of claims for which there will be reimbursement and the increase in average payments. These forecasts indicate that expenditures should continue to decline.



SB 485 wages for multiple jobs

In 2001, Senate Bill 485 added a new component to the WBF. It allowed wages from multiple jobs to be considered in temporary disability computations. Previously, only the wages from the job at injury could be used. This provision was effective for claims for injuries since January 1, 2002. The insurers' payments for these jobs are reimbursed from the WBF.

SB 1558 Claims Payments

Sb 1558 (2014) permitted the orderly dissolution of self-insured groups that wished to disband. Three of the seven groups disbanded. The statute provided that the WBF would begin paying claims costs for the employees of members of these groups' when the groups' reserves were exhausted. The reserves for all three groups were exhausted by the end of FY 2015. All payments are now being paid directly from the WBF.

About \$4.7 million was paid for these claims in FY 2015. The amounts will decline as claims are closed.

WBF administrative expenditures

In FY 2015, state agency expenditures were \$7.6 million, 8.6 percent of WBF expenditures. Of this amount, \$4.9 million (5.6 percent) were DCBS expenditures², and \$2.7 million (3.0 percent) were paid to other state agencies.

² DCBS expenditures are shown in the first five administrative expenditure lines of the table on page 2.

By statute, the WBF makes payments to the Oregon Institute of Occupational Health Sciences (OIOHS) of 1/16th of a cent per hour. These amounts are matched by equal payments from the Premium Assessment Operating Account (PAOA). These monies fund OIOHS's operations. The payments to the Employment Department and Department of Revenue cover the costs of collecting the WBF assessment. The payments to BOLI are for enforcement of discrimination laws.

Noncomplying Employers Program

The Noncomplying Employers (NCE) program revenue flows into and out of the WBF. The revenue includes NCE recoveries, NCE fines and penalties, and NCE interest. The expenditures are payments to the NCE claims administrator. When expenditures exceed revenue, there is a transfer from PAOA to cover the difference; when revenues exceed expenditures, the transfer is to PAOA.

Although the NCE monies are in the WBF, the program is not statutorily a part of the WBF and is not funded with the WBF assessment.

Coverage ratio

The coverage ratio is defined in DCBS policy as the number of quarters of expenditures that the fund balance covers. Therefore, a coverage ratio of 4 is equivalent to 12 months of expenditures.