



MEMORANDUM

September 6, 2023

To: Andrew Stolfi, Director, DCBS
Sean O'Day, Deputy Director, DCBS
Sally Coen, Administrator, Workers' Compensation Division, DCBS

From: Kelli Borushko, Senior Economist, DCBS
Zoe Alley, Senior Forecasting Analyst, DCBS

Subject: Workers' Compensation Premium Assessment Rate Recommendation for CY 2024

Purpose

In accordance with the requirements of ORS 656.612, the Department of Consumer and Business Services (DCBS) must establish a calendar year (CY) 2024 workers' compensation premium assessment rate for insurers, self-insured employers, and self-insured employer groups. The department, in accordance with ORS 656.612(5), will conduct an administrative rule making hearing on September 21, 2023, and will solicit testimony from staff and interested parties.

Summary Recommendation

We recommend that the workers' compensation premium assessment rate in OAR 440-045-0020 remain 9.8 percent for insurers, self-insured employers, and self-insured employer groups for calendar year 2024.

NOTE: Self-insured employers and self-insured employer groups are subject to an additional assessment that is discussed in a separate memorandum dated September 6, 2023, with the subject, "Assessment rate recommendations for CY 2024 for the Self-Insured Employer Adjustment Reserve, the Self-Insured Employer Group Adjustment Reserve Public-Sector subaccount, and the Self-Insured Employer Group Adjustment Reserve Private-Sector subaccount."

Background

The Premium Assessment Operating Account (PAOA) funds the DCBS program areas that regulate the workers' compensation system: the Workers' Compensation Division (WCD), Workers' Compensation Board (WCB), Oregon OSHA, the Ombuds for Oregon Workers (OOW), the Small Business Ombudsman (SBO), and central services supporting these activities. The primary funding mechanism for the PAOA is the workers' compensation premium assessment. The assessment rate is established by the department in accordance with ORS 656, OARs 440-045-0010 through 440-045-0020, and OAR 440-045-0030. The OAR 440 rules were first adopted in October 1999 as required by Senate Bill 592, which was passed during the 70th Legislative Assembly. In part, the OAR codifies the assessment rates for a calendar year. The

PAOA is also funded by fines and penalties, federal grants, investment income, and other miscellaneous revenues.

Compliance with DCBS Fund Balance Policy

The 9.8 percent assessment rate produces an ending balance for PAOA that complies with DCBS policy FIN-01 which governs acceptable fund balances. FIN-01 requires that assessments and fees be set at a rate that meets the following requirements:

- Meets the cash flow needs of the account
- Accommodates the timing of receipts and expenditures
- Ensures stable funding for legislatively approved programs and services during uncertain economic times
- Minimizes the volatility of fees and assessments

Within these guidelines, we developed this recommendation for the workers' compensation premium assessment rate for CY 2024. For years beyond 2024, we have assumed that the assessment rate remains the same. These rates are used for planning purposes and are not a recommendation as to what those rates should be. The results of our analysis, recommendations, and assessment rate schedule considerations are discussed below.

Single-Year CY 2024 Recommendation

For calendar year 2024, we recommend that the workers' compensation premium assessment rate remain unchanged at 9.8 percent for insurers, self-insured employers, and self-insured employer groups.

Multiple-Year Rate Schedule for Planning Purposes

The multiple-year rate schedule models the effect of maintaining the assessment rate at 9.8 percent. With this rate, revenues are expected to be lower than expenditures beginning in FY 2027 and extending through the forecast horizon.

This outcome is subject to much uncertainty. This uncertainty arises from many factors including unanticipated changes to Oregon's economy, legislative programmatic changes that affect the workers' compensation system, or changes in insurance industry behaviors.

Forecast assumptions

The primary revenue, expenditure, and transfer assumptions used in this analysis are described below.

Revenue assumptions include:

1. Maintaining the assessment rate at 9.8 percent effective January 1, 2024.
2. Actual revenue data through June 30, 2023.
3. Assessable premium forecasts based on the May 2023 Office of Economic Analysis baseline forecast.

4. The impact of NCCI's proposed reduction of pure premium rates by 6.7 percent for CY 2024.
5. Estimates of OR-OSHA federal funds and fines and penalties.
6. Estimates of investment income based on the latest information from the State Treasurer's Office.
7. Estimates of other revenues based on average actual amounts collected through FY 2023.

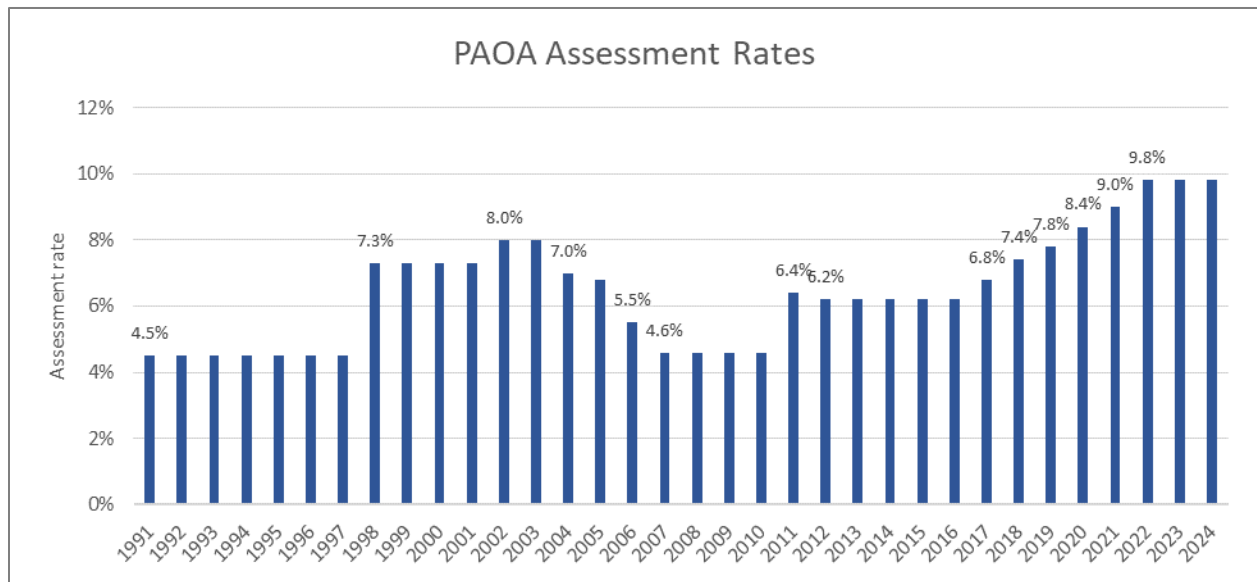
Expenditure and transfer assumptions include:

1. Actual expenditure and transfer data through June 30, 2023.
2. Cost-of-living-adjustment estimates of 6.5 percent in December 2023 and of 6.55 percent in January 2025 and \$1,500 one-time payments in September 2023 for WCD, WCB, and OSHA staff. Future years' expenditures are forecast to increase by 3 percent per year.
3. Projected payments to the Oregon Institute of Occupational Health Sciences (OIOHS) of \$2.0 million in FY 2024.
4. Payments to the Bureau of Labor and Industries of \$221,000 per year for enforcement of anti-discrimination laws.
5. Annual transfers to the Division of Financial Regulation for insurance regulation related to workers' compensation.
6. Updated estimates of the transfers to the Worker Benefit Fund for the Non-Complying Employer Program expenditures.
7. The latest estimates of chargeback.

PAOA Assessment Summary

At the end of FY 2023, PAOA had a fund balance of \$124.3 million and a coverage ratio of 6.30 quarters. We forecast that total revenue will be about \$100.4 million at the recommended assessment rate through FY 2029. We forecast that the fund balance will be \$112.7 million at the end of FY 2029.

The following table shows the PAOA assessment rate history and the 2024 recommendation.



The following table displays the financial outcomes for PAOA under the assumptions outlined above.

PAOA financial outcomes - Maintain 9.8 in CY 2024 - OEA Baseline Forecast										
	2019-2021 biennium		2021-2023 biennium		2023-2025 biennium		2025-2027 biennium		2027-2029 biennium	
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Revenues	\$80,461,141	\$80,294,337	\$96,026,335	\$107,859,512	\$102,424,833	\$101,566,185	\$100,655,323	\$100,326,677	\$100,359,224	\$100,422,598
Expenditures & Transfers	\$72,612,047	\$71,774,978	\$75,968,156	\$81,686,557	\$93,049,331	\$96,547,598	\$99,397,999	\$102,334,114	\$105,676,598	\$108,799,367
Excess/(Deficit)	\$7,849,094	\$8,519,358	\$20,058,179	\$26,172,955	\$9,375,501	\$5,018,586	\$1,257,324	(\$2,007,437)	(\$5,317,374)	(\$8,376,769)
Ending Fund Balance	\$67,587,963	\$79,206,504	\$100,132,585	\$124,251,321	\$131,106,174	\$134,370,782	\$133,852,519	\$130,044,527	\$122,901,118	\$112,671,479
Coverage Ratio	3.77	4.44	5.08	6.30	5.53	5.67	5.31	5.16	4.58	4.20

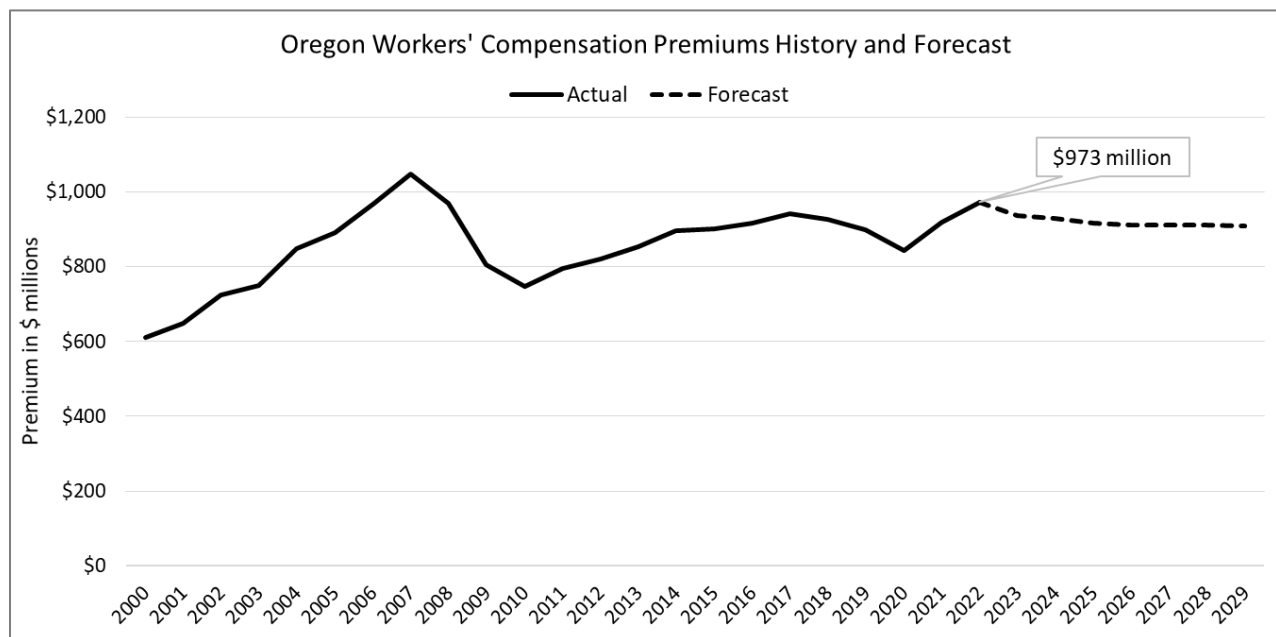
Appendix 1 – Workers’ Compensation Premium Forecast

The workers' compensation premium forecast is developed using the loss cost multiplier, the pure premium rate, and wages and salaries in Oregon. These inputs are gathered from a variety of sources, including the Office of Economic Analysis (OEA) May 2023 Oregon Economic and Revenue Forecast, the biennial Rate Ranking study, and the National Council on Compensation Insurance (NCCI).

NCCI filed a reduction in pure premium rates of 6.7 percent for policy year 2024. This is the eleventh straight year of decreases. These declines are not unique to Oregon. For the past several years, NCCI has reported reductions in most of the states for which it provides rate-making services. Note that COVID-19 workers’ compensation claims were not considered by NCCI when developing this rate change.

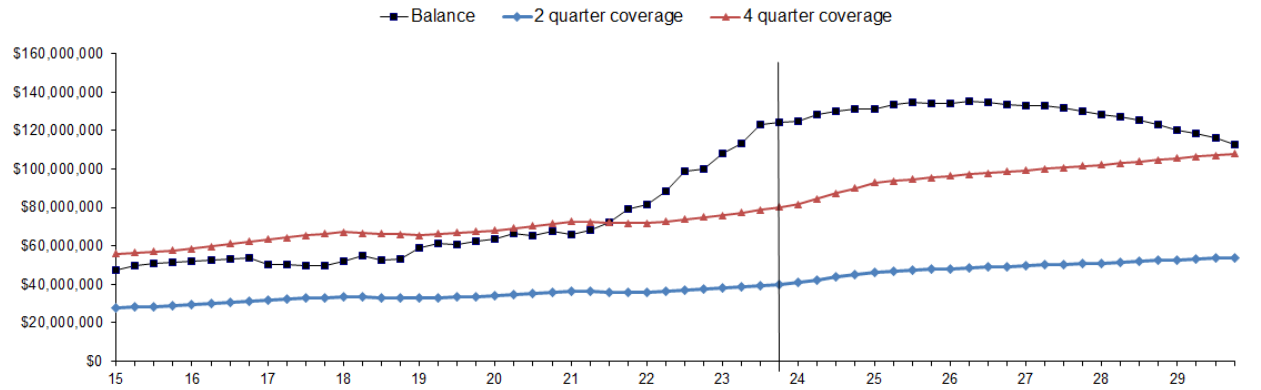
We assume that the 6.7 percent reduction in pure premium repeats for the 2025 policy year. After 2025, we assume that the pure premium rate will change in line with recent history. However, the actual pure premium rate changes by NCCI will produce different premium in those years.

The following graph shows actual workers’ compensation premium from 2002 through 2022 and forecast premium through 2029.



Appendix 2

WORKERS' COMPENSATION PREMIUM ASSESSMENT OPERATING ACCOUNT REVENUES, EXPENSES, FUND BALANCES, AND COVERAGE RATIOS FISCAL YEARS 2015-2029; ACTUAL DATA THROUGH 6/30/2023 9.8% ASSESSMENT RATE EFFECTIVE 1/1/2024



Period Ending	Assessment Income ^{2,6}	Investment Income	Total Revenue	Total Expenses	Expenses	Chargeback	Excess (Deficit)	Transfers/ Adjustments ⁵	Ending Fund Balance	Coverage Ratio
FY 2015	\$54,352,142	\$933,333	\$62,892,441	\$58,444,726	\$50,286,885	\$8,157,841	\$4,447,715	\$621,875	\$51,550,827	3.49
FY 2016	\$57,379,265	\$957,661	\$65,620,276	\$63,580,155	\$52,825,667	\$10,754,488	\$2,040,120	(\$92,992)	\$53,497,955	3.45
FY 2017	\$55,598,895	\$69,703	\$63,747,278	\$67,160,444	\$56,394,586	\$10,765,858	(\$3,413,166)	(\$571,813)	\$49,512,976	2.99
FY 2018	\$64,263,208	\$681,365	\$72,029,115	\$65,616,966	\$56,495,419	\$9,121,547	\$6,412,149	(\$2,486,435)	\$53,438,690	3.25
FY 2019	\$69,297,191	\$1,388,423	\$80,700,710	\$68,032,183	\$57,776,704	\$10,255,479	\$12,668,527	(\$3,434,658)	\$62,672,559	3.61
FY 2020	\$71,151,323	\$1,404,515	\$80,461,141	\$72,612,047	\$62,032,749	\$10,579,298	\$7,849,094	(\$2,933,691)	\$67,587,963	3.77
FY 2021	\$71,975,351	\$543,929	\$80,294,337	\$71,774,978	\$60,469,290	\$11,305,688	\$8,519,358	\$3,099,183	\$79,206,504	4.44
09/30/21	19,586,347	200,795	21,206,525	18,931,680	16,866,742	2,064,938	2,274,845	(222,563)	81,258,786	4.12
12/31/21	20,969,525	7,437	22,581,390	16,222,212	16,097,896	124,316	6,359,178	675,665	88,293,629	4.48
03/31/22	22,790,735	29,689	25,579,947	15,011,516	15,011,516	0	10,568,431	(223,813)	98,638,247	5.01
06/30/22	23,998,834	78,845	26,658,473	25,802,748	16,372,734	9,430,013	855,726	638,612	100,132,585	5.08
FY 2022	\$87,345,441	\$316,766	\$96,026,335	\$75,968,156	\$64,348,889	\$11,619,267	\$20,058,179	\$867,902	\$100,132,585	
09/30/22	24,129,768	67,541	25,860,525	17,873,545	17,873,545	0	7,986,980	117,201	108,236,766	5.49
12/31/22	23,532,451	503,425	27,909,244	22,578,637	16,476,641	6,101,996	5,330,607	(22,785)	113,544,588	5.76
03/31/23	24,235,149	618,742	27,293,856	16,991,392	16,991,392	0	10,302,464	(765,753)	123,081,299	6.25
06/30/23	23,711,363	522,643	26,795,887	24,242,982	17,466,372	6,776,610	2,552,905	(1,382,882)	124,251,321	6.30
FY 2023	\$95,608,731	\$1,712,351	\$107,859,512	\$81,686,557	\$68,807,950	\$12,878,606	\$26,172,955	(\$2,054,220)	\$124,251,321	
09/30/23	22,725,269	287,523	25,652,470	23,626,082	19,458,952	4,167,129	2,026,389	(1,206,855)	125,070,855	5.28
12/31/23	23,634,280	296,932	26,570,890	22,949,830	18,757,284	4,192,545	3,621,061	(414,913)	128,277,003	5.41
03/31/24	22,725,269	292,847	25,657,795	23,401,330	19,045,926	4,355,404	2,256,465	(482,532)	130,050,936	5.49
06/30/24	21,606,295	297,704	24,543,677	23,072,090	18,764,819	4,307,271	1,471,587	(416,348)	131,106,174	5.53
FY 2024	\$90,691,113	\$1,175,005	\$102,424,833	\$93,049,331	\$76,026,982	\$17,022,349	\$9,375,501	(\$2,520,648)	\$131,106,174	
09/30/24	22,506,558	304,264	25,455,622	25,033,592	20,385,535	4,648,056	422,031	(419,220)	131,108,985	5.53
12/31/24	23,406,820	312,637	26,364,258	23,633,043	18,790,589	4,472,454	3,101,215	(416,348)	133,793,852	5.65
03/31/25	22,506,558	306,837	25,458,195	24,121,703	19,654,178	4,467,525	1,336,493	(500,625)	134,629,720	5.68
06/30/25	21,332,170	311,139	24,288,109	24,129,261	19,524,771	4,604,490	158,848	(417,785)	134,370,782	5.67
FY 2025	\$89,752,104	\$1,234,878	\$101,566,185	\$96,547,598	\$78,355,073	\$18,192,525	\$5,018,586	(\$1,753,978)	\$134,370,782	
09/30/25	22,221,010	319,474	25,190,457	24,847,612	20,163,037	4,684,575	342,845	(420,660)	134,292,968	5.33
12/31/25	23,109,850	329,526	26,089,350	24,847,612	20,163,037	4,684,575	1,241,738	(417,785)	135,116,921	5.36
03/31/26	22,221,010	321,750	25,192,733	24,851,387	20,166,812	4,684,575	341,346	(517,920)	134,940,347	5.35
06/30/26	21,205,467	327,341	24,182,782	24,851,387	20,166,812	4,684,575	(668,605)	(419,223)	133,852,519	5.31
FY 2026	\$88,757,338	\$1,298,091	\$100,655,323	\$99,397,999	\$80,659,697	\$18,738,301	\$1,257,324	(\$1,775,588)	\$133,852,519	
09/30/26	22,089,029	336,459	25,080,686	25,581,620	20,756,507	4,825,113	(500,933)	(422,102)	132,929,484	5.27
12/31/26	22,972,590	348,985	25,976,773	25,581,620	20,756,507	4,825,113	395,154	(419,223)	132,905,414	5.27
03/31/27	22,089,029	338,164	25,082,391	25,585,437	20,760,325	4,825,113	(503,046)	(538,566)	131,863,801	5.23
06/30/27	21,187,428	344,200	24,186,826	25,585,437	20,760,325	4,825,113	(1,398,612)	(420,663)	130,044,527	5.16
FY 2027	\$88,338,074	\$1,367,808	\$100,326,677	\$102,334,114	\$83,033,664	\$19,300,450	(\$2,007,437)	(\$1,800,555)	\$130,044,527	
09/30/27	22,070,237	352,964	25,083,676	26,417,220	21,447,354	4,969,866	(1,333,543)	(423,545)	128,287,438	4.79
12/31/27	22,953,046	366,567	25,980,089	26,417,220	21,447,354	4,969,866	(437,131)	(420,663)	127,429,644	4.75
03/31/28	22,070,237	353,595	25,084,308	26,421,079	21,451,213	4,969,866	(1,336,771)	(559,722)	125,533,151	4.68
06/30/28	21,191,567	359,108	24,211,151	26,421,079	21,451,213	4,969,866	(2,209,928)	(422,105)	122,901,118	4.58
FY 2028	\$88,285,088	\$1,432,234	\$100,359,224	\$105,676,598	\$85,797,134	\$19,879,464	(\$5,317,374)	(\$1,826,035)	\$122,901,118	
09/30/28	22,074,549	370,707	25,111,062	27,198,172	22,079,210	5,118,962	(2,087,110)	(424,990)	120,389,017	4.49
12/31/28	22,957,531	386,472	26,009,808	27,198,172	22,079,210	5,118,962	(1,188,364)	(422,105)	118,778,548	4.43
03/31/29	22,074,549	370,162	25,110,517	27,201,512	22,082,550	5,118,962	(2,090,995)	(582,225)	116,105,328	4.33
06/30/29	21,148,667	376,740	24,191,212	27,201,512	22,082,550	5,118,962	(3,010,300)	(423,549)	112,671,479	4.20
FY 2029	\$88,255,296	\$1,504,081	\$100,422,598	\$108,799,367	\$88,323,519	\$20,475,848	(\$8,376,769)	(\$1,852,869)	\$112,671,479	

Appendix 3

Workers' Compensation Premium Assessment Operating Account
Revenue, Expenditures, Transfers, And Fund Balances
Fiscal Years 2022-2029; Actual Data Through 6/30/2023
9.8% Assessment Rate Effective 1/1/2024

Revenues	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Assessments	\$87,345,441	\$95,608,731	\$90,691,113	\$89,752,104	\$88,757,338	\$88,338,074	\$88,285,088	\$88,255,296
Fines and Penalties	1,268,756	1,940,938	1,960,347	\$1,979,951	\$1,999,750	\$2,019,748	\$2,039,945	\$2,060,345
Investment Income	316,766	1,712,351	1,175,005	\$1,234,878	\$1,298,091	\$1,367,808	\$1,432,234	\$1,504,081
Federal Funds	7,026,344	8,509,962	8,509,962	\$8,509,962	\$8,509,962	\$8,509,962	\$8,509,962	\$8,509,962
Other	69,028	87,530	88,405	\$89,289	\$90,182	\$91,084	\$91,995	\$92,915
Total Revenue	\$96,026,335	\$107,859,512	\$102,424,833	\$101,566,185	\$100,655,323	\$100,326,677	\$100,359,224	\$100,422,598
Expenditures								
Administration	\$62,435,682	\$66,832,917	\$74,024,562	\$76,335,918	\$78,625,996	\$80,984,776	\$83,732,892	\$86,244,879
Chargeback	11,619,267	12,878,606	17,022,349	18,192,525	18,738,301	19,300,450	19,879,464	20,475,848
Oregon Health Sciences University	1,913,207	1,975,033	2,002,420	2,019,155	2,033,702	2,048,888	2,064,242	2,078,641
Total Expenditures	\$75,968,156	\$81,686,557	\$93,049,331	\$96,547,598	\$99,397,999	\$102,334,114	\$105,676,598	\$108,799,367
Transfers								
Non-Complying Employer	(\$368,332)	(\$2,940,841)	(\$2,233,465)	(\$1,450,138)	(\$1,455,892)	(\$1,461,652)	(\$1,467,419)	(\$1,473,193)
DFR for workers' comp. regulation	(8,411)	(51,503)	(48,886)	(66,184)	(82,840)	(98,697)	(117,903)	(137,616)
BOLI Transfer	(232,000)	(210,000)	(221,000)	(221,000)	(221,000)	(221,000)	(221,000)	(221,000)
Misc Transfers/Adjustments	1,476,645	1,148,124	(17,298)	(16,656)	(15,857)	(19,206)	(19,713)	(21,060)
Total Transfers	867,902	(2,054,220)	(2,520,648)	(1,753,978)	(1,775,588)	(1,800,555)	(1,826,035)	(1,852,869)
Net Cash Flow	\$20,926,081	\$24,118,736	\$6,854,853	\$3,264,608	(\$518,264)	(\$3,807,992)	(\$7,143,409)	(\$10,229,639)
Ending Fund Balance	\$100,132,586	\$124,251,321	\$131,106,175	\$134,370,783	\$133,852,519	\$130,044,527	\$122,901,118	\$112,671,479