



MEMORANDUM

September 9, 2020

To: Andrew Stolfi, Director, DCBS
Nancy Boysen, Deputy Director, DCBS
Carolina Marquette, Financial Services Manager, DCBS
Sally Coen, Administrator, Workers' Compensation Division, DCBS

From: Justin Fuller, Senior Economist, DCBS

Subject: Workers' Compensation Premium Assessment Rate Recommendation for CY 2021

Issue

In accordance with the requirements of ORS 656.612, the Department of Consumer and Business Services (DCBS) must establish a calendar year (CY) 2021 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 17, 2020, 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 be set at 9.0 percent for insurers, self-insured employers, and self-insured employer groups for calendar year 2021. The current rate is 8.4 percent.

NOTE: Self-insured employers and self-insured employer groups are subject to an additional assessment that is discussed in a separate memorandum dated September 9, 2020 with the subject, "Assessment rate recommendations for CY 2020 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, Workers' Compensation Board, Oregon OSHA, the Ombudsman for Injured Workers, the Small Business Ombudsman, 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 grant monies, investment income, and other miscellaneous revenues.

Rate Setting Parameters

An adequate account balance should

- meet the cash flow needs of the account,
- accommodate the timing of receipts and expenditures,
- ensure stable funding for legislatively approved programs and services during uncertain economic times, and
- minimize the volatility of fees and assessments.

For rate analyses, a multi-year forecast perspective is the generally accepted practice.

The single-year rate recommendation and the multiple-year rates, which are developed for planning purposes only, take into account these objectives, according to the formula:

$$\text{Required Premium Assessment Rate} = \frac{\{\text{Planned and Forecasted Expenditures and Transfers} - (\text{Forecasted Investment Income} + \text{Forecasted Other Revenue})\}}{\text{Forecasted Assessable Premium Base}}$$

For this analysis, the expenditures are based on the agency's CY 2021 planned expenditures. This analysis includes actual information from the DCBS quarterly financial statements through June 30, 2020.

Within the context of these parameters, we have developed a recommendation for the workers' compensation premium assessment rate for CY 2021. For years beyond 2021, we have assumed that the rates will remain 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.

Detailed Recommendations

Single-Year CY 2021 Recommendations

For calendar year 2021, we recommend that the workers' compensation premium assessment rate be set at 9.0 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 rate at 9.0 percent. With this rate schedule, revenues are expected to be lower than expenditures beginning in FY 2021 and extending through the forecast horizon (see Table 1, Appendix 2, and Appendix 3).

This outcome is subject to much uncertainty. This uncertainty arises from many factors, including the impact from COVID-19, how quickly Oregon recovers from the recession, legislative programmatic changes that affect the workers' compensation system, or changes in insurance industry pricing behaviors. This outcome also focuses on revenue. It does not attempt to estimate the department's expenditure reductions due to the COVID-19 recession.

Forecast assumptions

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

Revenue assumptions:

1. Assumes raising the assessment rate to 9.0 percent effective January 1, 2021, and maintaining that rate in future years.
2. Includes actual revenue data through June 2020.
3. Includes an updated assessable earned premium forecast based on the September 2020 Office of Economic Analysis (OEA) forecast.
4. Includes the impact of NCCI's reduction of pure premium rates by 5.6 percent. NCCI's pure premium rate reduction marks the eighth year of large rate decreases. As a result, the CY 2021 pure premium rates will be 48 percent lower than the CY 2013 rates. (These are averages; rates for individual employers differ from this average.)
5. Includes estimates of OR-OSHA federal funds.
6. Includes estimates of investment income based on the latest information from the State Treasurer's Office.
7. Includes estimates of Other Income based on average actual amounts collected through FY 2020.

Expenditure and transfer assumptions:

1. Includes actual expenditure and transfer data through June 2020.
2. Includes agency planned expenditures for CY 2021.
3. Includes expenditure increases of 3 percent per year after the 2019-2021 biennium. This is the standard assumption for inflation when other information is not available.
4. Includes projected payments to the Oregon Institute of Occupational Health Sciences (OIOHS) of \$1.7 million in FY 2021. These payments match identical payments made from the Workers' Benefit Fund.
5. Includes annual transfers to the Division of Financial Regulation for insurance regulation related to workers' compensation.
6. Includes updated estimates of the transfers to the WBF for the Non-Complying Employer Program expenditures.

PAOA Assessment Summary

At the end of FY 2020, the PAOA had a fund balance of \$67.6 million and a coverage ratio of 3.61 quarters. The PAOA is expected to have negative cash flow for FY 2021. We forecast that revenue will range between \$70 million and \$75 million from FY 2021 through FY 2025 at the recommended assessment rate. We forecast that the fund balance will be -\$15 million at the end of FY 2025.

PAOA assessment rate history

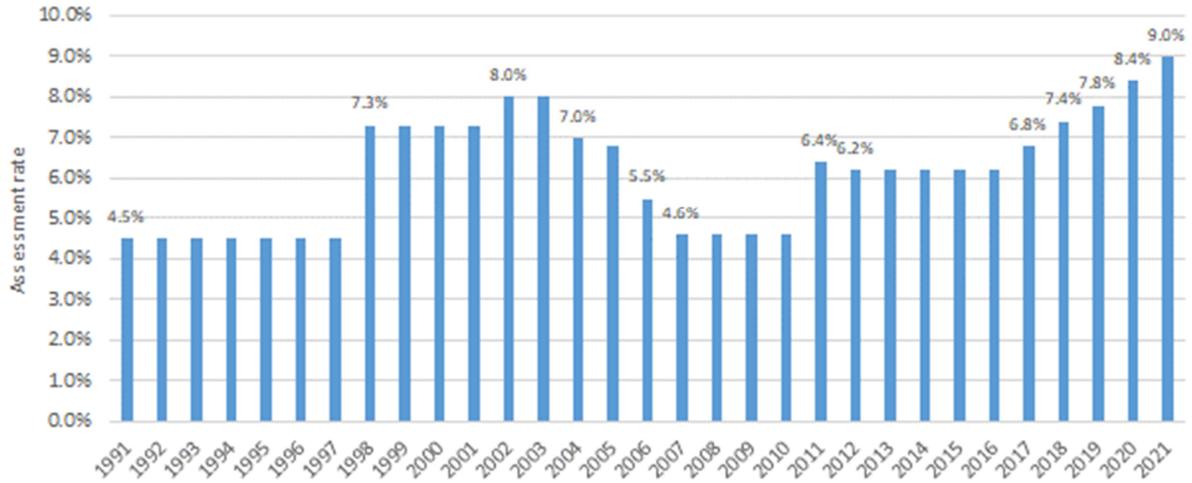


Table 1 displays the financial outcomes for the multiple-year rate schedule articulated previously, based on the baseline September 2019 Oregon Economic and Revenue Forecast.

**Table 1 – PAOA Financial Outcomes,
with proposed 9.0 percent assessment rate effective January 1, 2021**

	2017-2019 biennium		2019-2021 biennium		2021-2023 biennium		2023-2025 biennium	
	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenues	\$72,029,115	\$80,700,710	\$80,461,141	\$70,561,226	\$75,429,936	\$73,986,048	\$72,902,341	\$74,124,259
Expenditures & Transfers	\$68,103,401	\$71,466,841	\$75,545,738	\$84,569,766	\$87,330,472	\$89,878,885	\$92,523,473	\$95,213,768
Excess/(Deficit)	\$3,925,714	\$9,233,869	\$4,915,403	(\$14,008,540)	(\$11,900,536)	(\$15,892,837)	(\$19,621,132)	(\$21,089,509)
Ending Fund Balance	\$53,438,690	\$62,672,560	\$67,587,963	\$53,579,423	\$41,678,887	\$25,786,050	\$6,164,918	(\$14,924,591)
Coverage Ratio	2.98	3.37	3.61	2.50	1.91	1.15	0.27	(0.63)

Appendix 1 – Workers’ Compensation Premium Forecast

The workers' compensation premium forecast was developed using our premium forecasting system, which is a system of econometric models. System inputs include projections of economic variables from the Office of Economic Analysis (OEA) September 2020 Oregon Economic and Revenue Forecast.

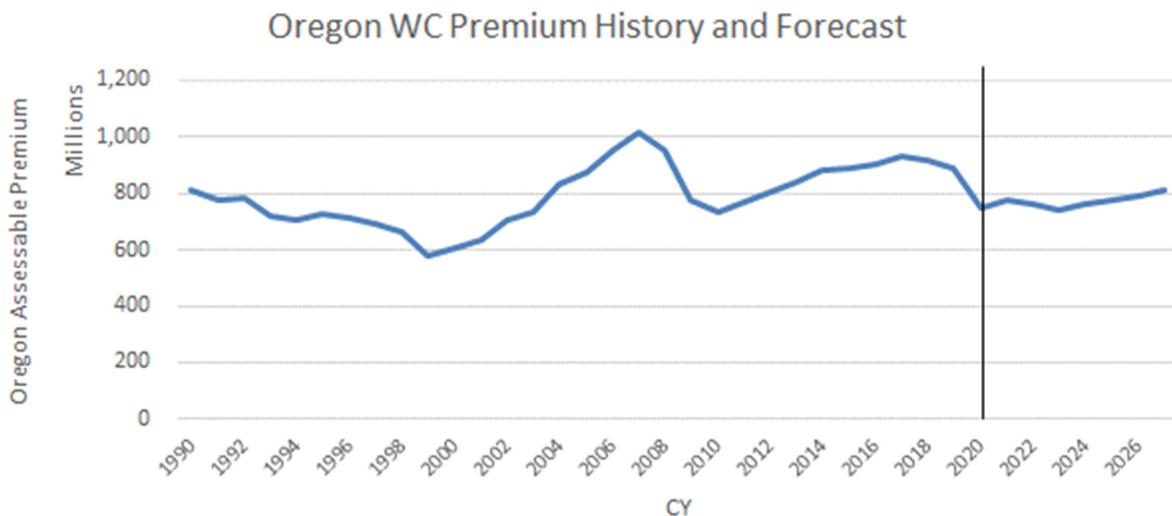
We have reduced revenues produced by this forecast by 5 percent to reflect the significant amount of uncertainty surrounding Oregon’s economy at this time.

In addition to the economic factors, this analysis also reflects the pure premium rate filing by the National Council on Compensation Insurance (NCCI). NCCI filed a reduction in pure premium rates of 5.6 percent for policy year 2021. This is the eighth 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.

We assume that the 5.6 percent reduction in pure premium repeats for the 2022 and 2023 policy years as well. However, the actual pure premium rate changes by NCCI will produce different premium in those years.

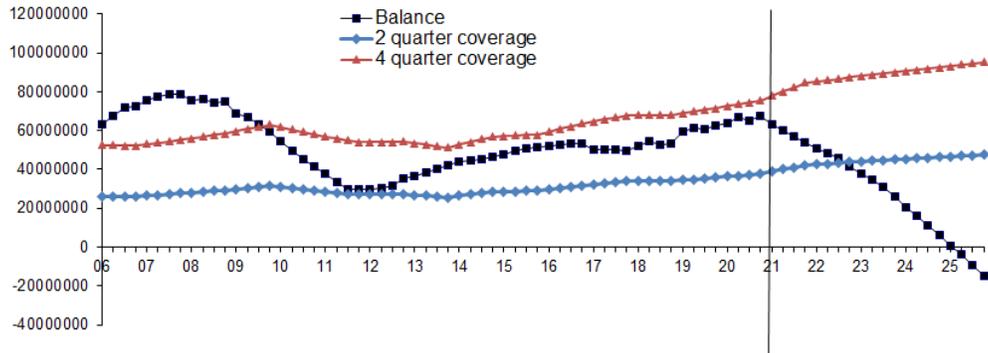
Figure A-1 shows the actual and projected premiums that are used in examining the effects of the assessment rates.

Figure A-1. Historical and Projected Workers’ Compensation Earned Premiums, Control and Recession, CY 1990 - CY 2027 (Actual through CY 2019)



Appendix 2

WORKERS' COMPENSATION PREMIUM ASSESSMENT OPERATING ACCOUNT REVENUES, EXPENSES, FUND BALANCES, AND COVERAGE RATIOS FISCAL YEARS 2006-2025; ACTUAL DATA THROUGH 3/31/2020 9.0% ASSESSMENT RATE EFFECTIVE 1/1/2021



Period Ending	Total Revenue	Total Expenses	Excess (Deficit)	Ending Fund Balance	Coverage Ratio
FY 2012	\$60,090,619	\$54,220,530	\$5,870,089	\$35,294,743	2.67
FY 2013	\$57,916,624	\$51,266,041	\$6,650,583	\$41,945,326	3.40
FY 2014	\$61,447,498	\$56,911,587	\$4,535,911	\$46,481,237	3.29
FY 2015	\$62,892,441	\$57,822,851	\$5,069,590	\$51,550,827	3.50
FY 2016	\$65,620,276	\$63,673,148	\$1,947,128	\$53,497,955	3.54
FY 2017	\$63,747,278	\$67,732,257	(\$3,984,979)	\$49,512,976	2.97
09/30/17	18,335,386	15,807,875	2,527,511	52,040,487	3.29
12/31/17	16,855,330	14,152,665	2,702,665	54,743,153	3.87
03/31/18	18,314,520	20,225,176	(1,910,656)	52,832,497	2.61
06/30/18	18,523,879	17,917,686	606,193	53,438,690	2.98
FY 2018	\$72,029,115	\$68,103,401	\$3,925,714	\$53,438,690	2.98
09/30/18	20,908,497	15,127,400	5,781,097	59,219,699	3.91
12/31/18	19,870,063	17,580,222	2,289,842	61,509,541	3.50
03/31/19	19,149,118	20,186,239	(1,037,121)	60,472,420	3.00
06/30/19	20,773,032	18,572,892	2,200,140	62,672,560	3.37
FY 2019	\$80,700,710	\$71,466,841	\$9,233,869	\$62,672,560	3.37
09/30/19	19,560,650	18,445,412	1,115,238	63,787,798	3.46
12/31/19	18,714,909	15,871,132	2,843,777	66,631,575	4.20
03/31/20	21,021,139	22,496,259	(1,475,120)	65,156,455	2.90
06/30/20	21,164,443	18,732,935	2,431,508	67,587,963	3.61
FY 2020	\$80,461,141	\$75,545,738	\$4,915,403	\$67,587,963	3.61
09/30/20	17,314,016	21,781,849	(4,467,832)	63,120,131	2.90
12/31/20	17,850,045	20,767,110	(2,917,065)	60,203,066	2.90
03/31/21	17,247,914	20,631,588	(3,383,674)	56,819,392	2.75
06/30/21	18,149,251	21,389,220	(3,239,969)	53,579,423	2.50
FY 2021	\$70,561,226	\$84,569,766	(\$14,008,540)	\$53,579,423	2.50
09/30/21	18,957,312	21,909,386	(2,952,073)	50,627,350	2.31
12/31/21	19,601,276	21,808,831	(2,207,555)	48,419,795	2.22
03/31/22	18,912,642	21,803,590	(2,890,948)	45,528,847	2.09
06/30/22	17,958,706	21,808,665	(3,849,959)	41,678,887	1.91
FY 2022	\$75,429,936	\$87,330,472	(\$11,900,536)	\$41,678,887	1.91
09/30/22	18,610,394	22,557,107	(3,946,712)	37,732,175	1.67
12/31/22	19,258,893	22,441,058	(3,182,165)	34,550,010	1.54
03/31/23	18,601,336	22,437,777	(3,836,441)	30,713,569	1.37
06/30/23	17,515,425	22,442,944	(4,927,519)	25,786,050	1.15
FY 2023	\$73,986,048	\$89,878,885	(\$15,892,837)	\$25,786,050	1.15
09/30/23	18,155,982	23,232,655	(5,076,673)	20,709,377	0.89
12/31/23	18,772,278	23,097,587	(4,325,309)	16,384,069	0.71
03/31/24	18,125,480	23,094,051	(4,968,571)	11,415,497	0.49
06/30/24	17,848,600	23,099,179	(5,250,579)	6,164,918	0.27
FY 2024	\$72,902,341	\$92,523,473	(\$19,621,132)	\$6,164,918	0.27
09/30/24	18,488,815	23,924,947	(5,436,133)	728,786	0.03
12/31/24	19,108,736	23,766,567	(4,657,832)	(3,929,046)	(0.17)
03/31/25	18,430,507	23,760,159	(5,329,652)	(9,258,698)	(0.39)
06/30/25	18,096,201	23,762,095	(5,665,893)	(14,924,591)	(0.63)
FY 2025	\$74,124,259	\$95,213,768	(\$21,089,509)	(\$14,924,591)	(0.63)

Appendix 3

WORKERS' COMPENSATION PREMIUM ASSESSMENT OPERATING ACCO REVENUE, EXPENDITURES, TRANSFERS, AND FUND BALANCES FISCAL YEARS 2019-2025; ACTUAL DATA THROUGH 6/30/2020 9.0% ASSESSMENT RATE EFFECTIVE 1/1/2021

<u>REVENUES</u>	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Assessments	\$69,297,191	\$71,151,323	\$61,520,094	\$66,126,876	\$64,785,929	\$63,855,781	\$65,402,603
Fines and Penalties	1,973,118	2,085,403	1,804,006	1,821,006	1,838,006	1,855,006	\$1,873,006
Investment Income	1,388,423	1,404,515	891,478	599,372	477,431	304,872	(\$40,032)
Federal Funds	7,539,430	6,269,652	6,145,648	6,680,682	6,680,682	6,680,682	\$6,680,682
Other	502,549	(449,752)	200,000	202,000	204,000	206,000	\$208,000
Total	\$80,700,710	\$80,461,141	\$70,561,226	\$75,429,936	\$73,986,048	\$72,902,342	\$74,124,259
 <u>EXPENDITURES</u>							
Administration	\$55,796,067	\$60,066,732	\$67,934,398	\$70,507,486	\$72,616,492	\$74,794,820	\$77,031,089
Chargeback	10,255,479	10,579,298	12,400,366	12,772,377	13,155,549	13,550,215	13,956,722
Oregon Health Sciences University	1,980,638	1,966,017	1,673,948	1,766,552	1,850,217	1,937,645	1,998,511
Total	\$68,032,183	\$72,612,047	\$82,008,713	\$85,046,416	\$87,622,258	\$90,282,680	\$92,986,322
 <u>ADJUSTMENTS/TRANSFERS</u>							
Non-Complying Employer	(\$3,123,122)	(\$2,606,062)	(\$2,174,885)	(\$1,897,049)	(\$1,861,841)	(\$1,826,958)	(\$1,792,398)
DFR for workers' comp. regulation	(53,479)	(129,629)	(130,168)	(131,007)	(138,787)	(157,834)	(179,048)
BOLI Transfer	(256,000)	(256,000)	(256,000)	(256,000)	(256,000)	(256,000)	(256,000)
Misc Transfers/Adjustments	(2,057)	58,000	0	0	0	0	0
Total	(3,434,658)	(2,933,691)	(2,561,053)	(2,284,056)	(2,256,628)	(2,240,792)	(2,227,447)
Excess / (Deficit)	\$9,233,869	\$4,915,403	(\$14,008,540)	(\$11,900,536)	(\$15,892,837)	(\$19,621,131)	(\$21,089,509)
Ending Fund Balance	\$62,672,560	\$67,587,963	\$53,579,423	\$41,678,887	\$25,786,050	\$6,164,919	(\$14,924,590)