Exhibit "2"

MEMORANDUM

September 9, 2020

To: Andrew Stolfi, Director, DCBS
Nancy Boysen, Deputy Director, DCBS
Carolina Marquette, Financial Services Manager, DCBS
Sally Coen, Administrator, WCD, DCBS

From: Justin Fuller, Senior Economist. DCBS

Subject: Assessment rate recommendations for CY 2021 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

Issue

In accordance with the requirements of ORS 656.614 and Senate Bill 1558 (2014), the director needs to determine assessment rates for calendar year (CY) 2021 for three accounts:

- Self-Insured Employer Adjustment Reserve (SIEAR)
- Self-Insured Employer Group Adjustment Reserve (SIEGAR) public-sector subaccount
- Self-Insured Employer Group Adjustment Reserve (SIEGAR) private-sector subaccount

The department will conduct an administrative rulemaking hearing on September 17, 2020, and will solicit testimony from staff and interested parties.

This memo constitutes staff testimony that will be entered into the record.

Summary Recommendations

We recommend that for calendar year 2021, the workers' compensation premium assessment rates in OAR 440-045-0025 remain unchanged at:

- 0.1 percent for self-insured employers
- 0.1 percent for public-sector self-insured employer groups
- 0.5 percent for private-sector self-insured employer groups

NOTES: Self-insured employers and self-insured employer groups also pay the workers' compensation premium assessment in accordance with ORS 656.612. The recommendation for this assessment rate is discussed in the memorandum dated September 9, 2020, with subject, "Workers' Compensation Premium Assessment Rate Recommendation for CY 2021."

Background

The SIEAR and the SIEGAR are part of the Consumer and Business Services Fund. These reserves are used to pay the claims of self-insured employers' workers when DCBS finds that the worker cannot obtain payment from the employer because of the insolvency of the employer or the employer's excess insurer and the exhaustion of the excess insurance and security deposited to secure payment. DCBS can collect assessments from self-insured employers and self-insured employer groups that are sufficient to fund the reserves so that DCBS can carry out these purposes.

Self-Insured Employer Adjustment Reserve (SIEAR)

In addition to the PAOA assessment, about 97 self-insured employers pay an assessment to fund the Self-Insured Employer Adjustment Reserve (SIEAR).

Because of the health of the fund in the late 1980s, DCBS did not collect a SIEAR assessment between 1988 and 2004. Then, due to defaults by some self-insured employers and an increase in one large self-insured employer's reserve exposure, an assessment of 0.2 percent was re-instituted effective January 1, 2005. The current assessment rate for the SIEAR is 0.1 percent.

Self-insured employers are required to maintain security deposits. When a self-insured employer becomes bankrupt, claims costs are paid from SIEAR and then recovered from the security deposits. The table shows the history of the fund's expenditures and recoveries.

Table 1. SIEAR expenditures and recoveries

	Expenditures	Recoveries
FY 2006	339,803	526,666
FY 2007	359,043	404,597
FY 2008	363,077	284,429
FY 2009	341,589	308,393
FY 2010	445,686	370,280
FY 2011	1,391,280	1,151,803
FY 2012	1,133,265	650,976
FY 2013	476,347	452,956
FY 2014	454,557	300,667
FY 2015	540,933	574,647
FY 2016	315,601	364,505
FY 2017	417,760	206,190
FY 2018	298,530	260,598
FY 2019	321,463	6,621
FY 2020	252,523	6,544

The department's fund balance policy, FIN-01, has been revised to state that the SIEAR should have a minimum fund balance approximating the maximum liability over the past decade. SIEAR's estimated long-term liability is based on WCD's estimate of the extent to which future claims costs exceed the bankrupt companies' remaining deposits. WCD does not forecast the likelihood that self-insured employers will become bankrupt.

Over the past decade, the maximum liability has been about $2.3 million. As of June 30, 2020, the SIEAR fund balance was $2.9 million.

Table 2 shows the current forecast financial outcomes (more details are in Appendix 2). The proposed assessment rate of 0.1 percent will generate about $82,000 in FY 2021. We forecast that the fund will also receive about $327,000 per year from recoveries and increasing amounts of investment income. If the proposed assessment rate of 0.1 percent is adopted, the account balance is expected to grow to $3.5 million by the end of FY 2025.

Table 2. SIEAR revenue and expenditure forecasts, with ending balances

SIEAR revenue and expenditure forecast with typical recoveries

	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
Assessment	$227,802	$250,105	$254,953	$81,884	$76,406	$76,790	$76,648	$76,878
Recoveries	$260,598	$6,621	$6,544	$327,098	$427,098	$277,098	$277,098	$277,098
Investment income	$69,891	$72,688	$78,662	$41,377	$37,670	$45,031	$59,524	$81,918
Total Revenues	$558,291	$329,414	$340,159	$450,358	$541,174	$398,919	$413,269	$435,893
Expenditures & Transfers	$298,527	$321,463	$252,523	$390,839	$390,839	$290,839	$290,839	$290,839
Excess/(Deficit)	$259,761	$7,951	$87,636	$59,519	$150,336	$108,080	$122,430	$145,054
Ending Fund Balance	$2,802,069	$2,810,020	$2,897,656	$2,957,175	$3,107,511	$3,215,591	$3,338,022	$3,483,076

Self-Insured Employer Group Adjustment Reserve

The Self-Insured Employer Group Adjustment Reserve (SIEGAR) was created in 1981. Prior to the end of CY 2010, there were seven active self-insured groups, and there had been no exposure to the reserve. However, the recession and other factors caused two of the groups to file for bankruptcy or dissolve and put another group at risk of failure.

As a result of these issues, SB 1558 reformed the system. It allowed groups to vote by July 1, 2014, to dissolve by September 15, 2014, and set up a mechanism for them to resolve their claims debts. In this process, claims will be paid from funds in the following order:

1. the group's security deposit and common claims fund
2. the portion of the SIEGAR that they paid into the account
3. the Workers' Benefit Fund (WBF)

Three private-sector self-insured employer groups are now decertified and are affected by SB 1558's provisions and require the use of WBF monies. Two private-sector self-insured groups and two public-sector self-insured groups remain.

SB 1558 (2014) modified the structure of the SIEGAR. Section 8(5) states

> Assessments paid by self-insured employer groups shall be deposited in the Consumer and Business Services Fund in separate accounts for public employers that are members of a self-insured employer group and for private employers that are members of a self-insured employer group. Moneys deposited in each account may be used only to pay claims expenses of employees of each category of self-insured employer group.

As a result, effective April 1, 2014, SIEGAR contains the original account and two subaccounts: one for the public-sector groups and one for the private-sector groups. In addition to creating the two SIEGAR subaccounts, SB 1558 also permitted the director to set differing assessment rates for the subaccounts.

The remaining balance of the historical portion of the SIEGAR is reserved for payments for the four remaining self-insured employer groups. There will be no SIEGAR expenditures unless one

of the four remaining self-insured employer groups becomes bankrupt. If there are further bankruptcies, claims will be paid from funds in the following order:

1. the group's security deposit and common claims fund
2. the portion of the SIEGAR that they paid into the account

Recently, the department's fund FIN-01 has been revised. It now states that the minimum fund balance for the three subaccounts combined should be $1 million. The next table shows the actual and forecast account balances. The combined fund is just over $1 million, which leads to our recommendation to reduce the assessment rates.

The historical fund is the largest portion of the SIEGAR. It contains about $720,000 (see Table 3). It continues to earn investment income and is expected to have about $781,000 at the end of FY 2025.

Table 3. Revenue and expenditure forecasts of the historical portion of the SIEGAR

	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
Total Revenues	$15,229	$13,766	$18,159	$10,220	$9,179	$10,620	$13,762	$18,589
Expenditures & Transfers	($2)	$0	$0	$0	$0	$0	$0	$0
Excess/(Deficit)	$15,231	$13,766	$18,159	$10,220	$9,179	$10,620	$13,762	$18,589
Ending Fund Balance	$687,156	$700,922	$719,081	$729,301	$738,480	$749,100	$762,862	$781,451

Public-sector self-insured groups

The two public-sector self-insured groups are also the two oldest groups. They were authorized in 1988. The groups have 762 employers, and they had about $8.8 million in simulated premiums in 2019.

Table 4. Public-sector self-insured groups, members and premium

Public-Sector Self-Insured Groups

		CY 2017		CY 2018		CY 2019	
Group	Year authorized	Members	Net premium ($ millions)	Members	Net premium ($ millions)	Members	Net premium ($ millions)
CIS Trust	1988	207	$5.93	204	$5.71	192	$5.05
Special Districts Association of Oregon	1988	555	$4.60	556	$4.02	557	$3.77
Total		762	$10.53	760	$9.72	749	$8.82

The proposed assessment rate is 0.1 percent of simulated premiums. This assessment rate would generate about $10,000 in revenue each year. If the assessment rate is maintained, the subaccount should have a balance of about $285,000 by the end of FY 2025.

Table 5. Revenue and expenditure forecasts for the SIEGAR Public-Sector Subaccount

	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
Total Revenues	$24,454	$21,541	$20,349	$10,585	$9,853	$10,452	$11,651	$13,528
Expenditures & Transfers	($2)	$0	$0	$0	$0	$0	$0	$0
Excess/(Deficit)	$24,456	$21,541	$20,349	$10,585	$9,853	$10,452	$11,651	$13,528
Ending Fund Balance	$187,162	$208,703	$229,052	$239,637	$249,490	$259,942	$271,593	$285,121

Private-sector self-insured groups

There are two remaining private-sector self-insured groups. They have 57 members and had $1.2 million in CY 2019 premium.

Table 6. Private-sector self-insured groups, members and premium

Private-Sector Self-Insured Groups

Group	Year authorized	CY 2017 Members	CY 2017 Net premium ($ millions)	CY 2018 Members	CY 2018 Net premium ($ millions)	CY 2019 Members	CY 2019 Net premium ($ millions)
Oregon Operators Self-Insurers Fund	1995	44	$0.73	42	$0.70	40	$0.72
Oregon Educational Employers WC	1996	13	$0.54	12	$0.53	12	$0.44
Total		57	$1.27	54	$1.23	52	$1.16

The current assessment rate for these employers is 1.0 percent of simulated premiums; we propose that it be unchanged. Because of the small size of these groups, this assessment rate is expected to generate $6,000 per year. If the current assessment is maintained, the subaccount should have a balance of about $140,000 by the end of FY 2025.

Table 7. Revenue and expenditure forecasts for the SIEGAR Private-Sector Subaccount

	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
Total Revenues	$17,440	$20,741	$15,941	$6,355	$5,935	$6,243	$6,844	$7,791
Expenditures & Transfers	$2	$0	$0	$0	$0	$0	$0	$0
Excess/(Deficit)	$17,438	$20,741	$15,941	$6,355	$5,935	$6,243	$6,844	$7,791
Ending Fund Balance	$71,004	$91,745	$107,686	$114,041	$119,976	$126,219	$133,063	$140,854

Appendix 1 – Self-insurer simulated premium forecast

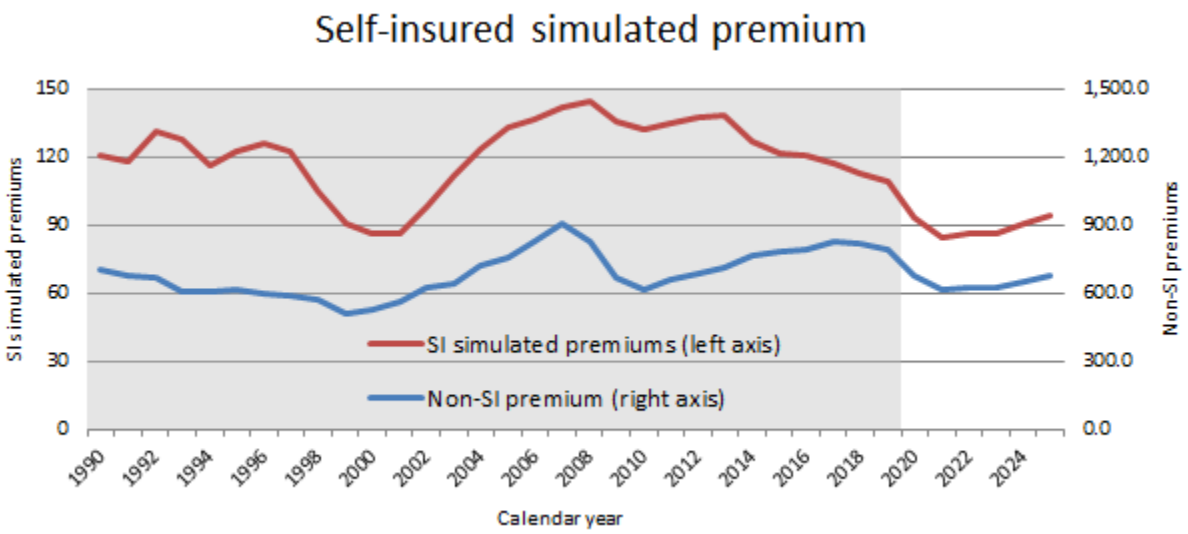
The workers' compensation premium forecast was developed using our premium forecasting system, which is a set of econometric models. System inputs include the economic variables from the Office of Economic Analysis (OEA) June 2020 Oregon Economic and Revenue Forecast.

We have made no modifications to this baseline economic forecast, which includes OEA's first forecast of the impact of the COVID-19 recession. In addition to the economic factors, this analysis also reflects the pure premium rate filing by the National Council on Compensation Insurance (NCCI).

The figure displays the historical and projected series of simulated premiums. The simulated premium has declined by significantly between 2014 and 2019. This is due to the pure premium decreases and the decline in the number of self-insured employers.

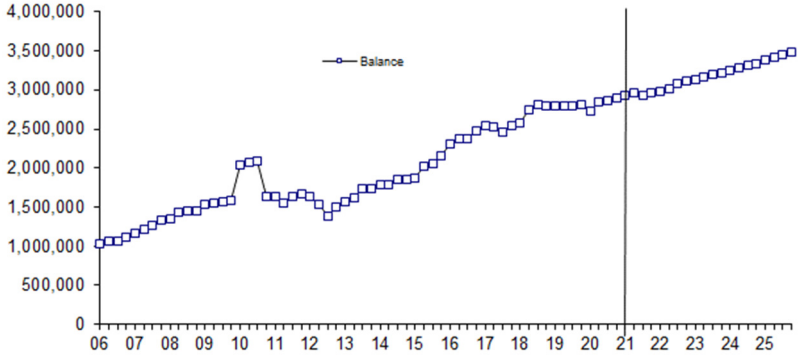
This forecast assumes the continued operation of the current self-insured employers and self-insured employer groups.

Figure A-1. Historical and Projected Simulated Self-Insured Premiums (millions), CY 1997 - 2026



Appendix 2

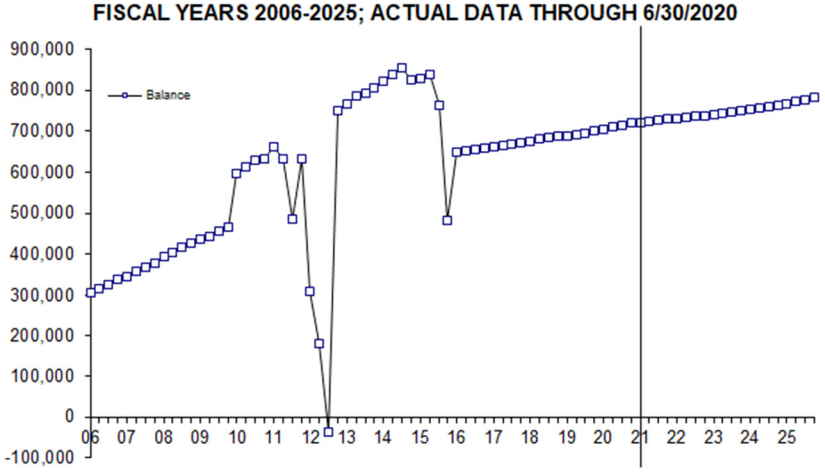
SELF-INSURED EMPLOYER ADJUSTMENT RESERVE
REVENUES, EXPENSES, AND FUND BALANCES
FISCAL YEARS 2006-2025; ACTUAL DATA THROUGH 6/30/2020



Period Ending	Total Revenue	Total Expenses	Excess (Deficit)	Ending Fund Balance
FY 2014	$572,254	$454,557	$117,697	$1,852,763
FY 2015	$853,110	$540,933	$312,177	$2,164,940
FY 2016	$630,526	$315,601	$314,925	$2,479,862
06/30/17	163,766	88,113	75,653	2,542,305
FY 2017	$480,203	$417,760	$62,443	$2,542,305
FY 2018	$558,291	$298,530	$259,761	$2,802,069
09/30/18	78,788	94,867	(16,079)	2,785,990
12/31/18	75,370	75,382	(12)	2,785,978
03/31/19	77,567	75,139	2,428	2,788,406
06/30/19	97,689	76,075	21,614	2,810,020
FY 2019	$329,414	$321,463	$7,951	$2,810,020
09/30/19	87,880	165,117	(77,237)	2,732,783
12/31/19	80,902	(27,560)	108,462	2,841,245
03/31/20	83,981	64,825	19,156	2,860,401
06/30/20	87,396	50,141	37,255	2,897,656
FY 2020	$340,159	$252,523	$87,636	$2,897,656
09/30/20	102,362	72,710	29,653	2,927,309
12/31/20	100,338	72,710	27,628	2,954,937
03/31/21	100,711	122,710	(21,998)	2,932,939
06/30/21	146,946	122,710	24,237	2,957,175
FY 2021	$450,358	$390,839	$59,519	$2,957,175
09/30/21	147,750	122,710	25,040	2,982,216
12/31/21	148,098	122,710	25,388	3,007,604
03/31/22	147,067	72,710	74,358	3,081,962
06/30/22	98,259	72,710	25,549	3,107,511
FY 2022	$541,174	$390,839	$150,336	$3,107,511
09/30/22	98,892	72,710	26,182	3,133,693
12/31/22	99,842	72,710	27,132	3,160,825
03/31/23	100,424	72,710	27,715	3,188,540
06/30/23	99,761	72,710	27,052	3,215,591
FY 2023	$398,919	$290,839	$108,080	$3,215,591
09/30/23	102,225	72,710	29,516	3,245,107
12/31/23	102,730	72,710	30,021	3,275,127
03/31/24	103,973	72,710	31,263	3,306,391
06/30/24	104,341	72,710	31,631	3,338,022
FY 2024	$413,269	$290,839	$122,430	$3,338,022
09/30/24	108,111	72,710	35,401	3,373,423
12/31/24	107,922	72,710	35,212	3,408,635
03/31/25	109,332	72,710	36,623	3,445,258
06/30/25	110,528	72,710	37,818	3,483,076
FY 2025	$435,893	$290,839	$145,054	$3,483,076

Appendix 3

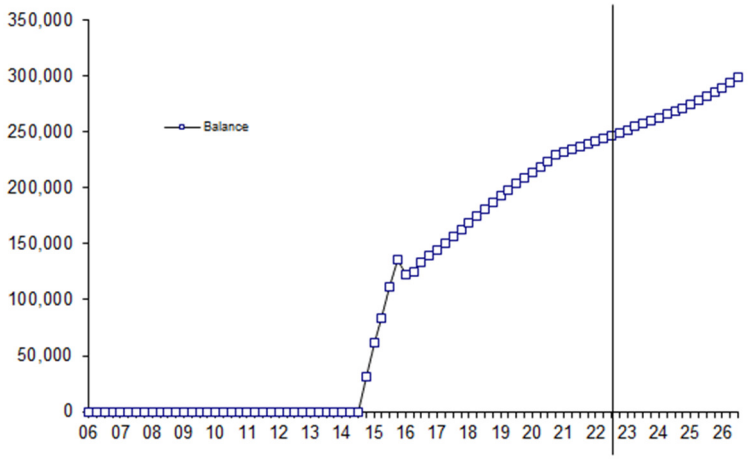
SELF-INSURED EMPLOYER GROUP ADJUSTMENT RESERVE (HISTORICAL) REVENUES, EXPENSES, AND FUND BALANCES FISCAL YEARS 2006-2025; ACTUAL DATA THROUGH 6/30/2020



Period Ending	Total Revenue	Total Expenses	Excess (Deficit)	Ending Fund Balance
FY 2014	$1,046,020	$1,027,642	$18,378	$825,077
FY 2015	$25,085	$366,235	($341,150)	$483,927
FY 2016	$12,897	($161,707)	$174,604	$658,531
06/30/17	3,091	0	3,091	671,925
FY 2017	$13,394	$0	$13,394	$671,925
FY 2018	$15,229	$0	$15,229	$687,156
09/30/18	0	0	0	687,156
12/31/18	4,115	0	4,115	691,271
03/31/19	4,743	0	4,743	696,014
06/30/19	4,908	0	4,908	700,922
FY 2019	$13,766	$0	$13,766	$700,922
09/30/19	4,918	0	4,918	705,840
12/31/19	4,019	0	4,019	709,859
03/31/20	4,026	0	4,026	713,885
06/30/20	5,196	0	5,196	719,081
FY 2020	$18,159	$0	$18,159	$719,081
09/30/20	3,015	0	3,015	722,096
12/31/20	2,498	0	2,498	724,594
03/31/21	2,575	0	2,575	727,168
06/30/21	2,133	0	2,133	729,301
FY 2021	$10,220	$0	$10,220	$729,301
09/30/21	2,320	0	2,320	731,621
12/31/21	2,393	0	2,393	734,014
03/31/22	2,129	0	2,129	736,143
06/30/22	2,338	0	2,338	738,480
FY 2022	$9,179	$0	$9,179	$738,480
09/30/22	2,476	0	2,476	740,957
12/31/22	2,688	0	2,688	743,645
03/31/23	2,812	0	2,812	746,457
06/30/23	2,643	0	2,643	749,100
FY 2023	$10,620	$0	$10,620	$749,100
09/30/23	3,204	0	3,204	752,304
12/31/23	3,305	0	3,305	755,609
03/31/24	3,576	0	3,576	759,186
06/30/24	3,676	0	3,676	762,862
FY 2024	$13,762	$0	$13,762	$762,862
09/30/24	4,521	0	4,521	767,383
12/31/24	4,457	0	4,457	771,839
03/31/25	4,756	0	4,756	776,595
06/30/25	4,856	0	4,856	781,451
FY 2025	$18,589	$0	$18,589	$781,451

Appendix 4

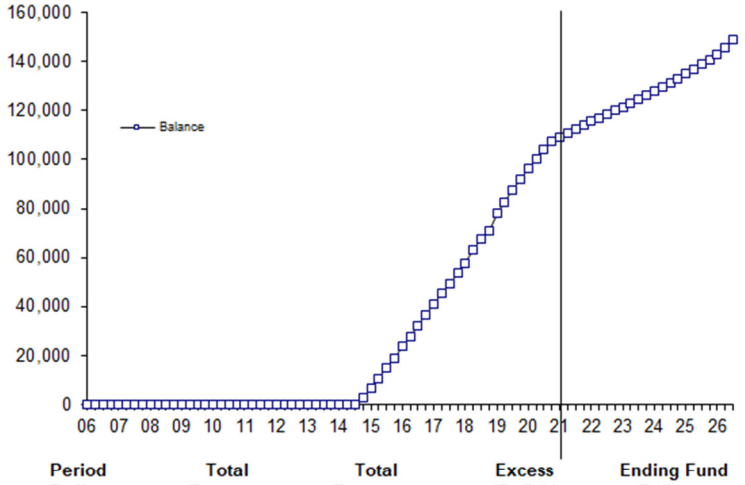
SELF-INSURED EMPLOYER GROUP - PUBLIC SUBACCOUNT
REVENUES, EXPENSES, AND FUND BALANCES
FISCAL YEARS 2006-2025; ACTUAL DATA THROUGH 6/30/2020



Period Ending	Total Revenue	Total Expenses	Excess (Deficit)	Ending Fund Balance
FY 2014	$30,611	$0	$30,611	$30,611
FY 2015	$105,753	$0	$105,753	$136,364
FY 2016	$2,947	$0	$2,947	$139,311
FY 2017	$23,395	$0	$23,395	$162,706
FY 2018	$24,454	$0	$24,454	$187,162
09/30/18	6,499	0	6,499	193,661
12/31/18	3,715	0	3,715	197,376
03/31/19	6,076	0	6,076	203,452
06/30/19	5,251	0	5,251	208,703
FY 2019	$21,541	$0	$21,541	$208,703
09/30/19	5,279	0	5,279	213,982
12/31/19	5,244	0	5,244	219,226
03/31/20	4,807	0	4,807	224,033
06/30/20	5,019	0	5,019	229,052
FY 2020	$20,349	$0	$20,349	$229,052
09/30/20	2,825	0	2,825	231,877
12/31/20	2,667	0	2,667	234,544
03/31/21	2,698	0	2,698	237,242
06/30/21	2,394	0	2,394	239,637
FY 2021	$10,585	$0	$10,585	$239,637
09/30/21	2,461	0	2,461	242,097
12/31/21	2,490	0	2,490	244,588
03/31/22	2,408	0	2,408	246,996
06/30/22	2,494	0	2,494	249,490
FY 2022	$9,853	$0	$9,853	$249,490
09/30/22	2,546	0	2,546	252,036
12/31/22	2,624	0	2,624	254,661
03/31/23	2,673	0	2,673	257,334
06/30/23	2,608	0	2,608	259,942
FY 2023	$10,452	$0	$10,452	$259,942
09/30/23	2,822	0	2,822	262,764
12/31/23	2,864	0	2,864	265,628
03/31/24	2,967	0	2,967	268,595
06/30/24	2,998	0	2,998	271,593
FY 2024	$11,651	$0	$11,651	$271,593
09/30/24	3,307	0	3,307	274,900
12/31/24	3,294	0	3,294	278,193
03/31/25	3,411	0	3,411	281,605
06/30/25	3,516	0	3,516	285,121
FY 2025	$13,528	$0	$13,528	$285,121

Appendix 5

SELF-INSURED EMPLOYER GROUP - PRIVATE SUBACCOUNT
REVENUES, EXPENSES, AND FUND BALANCES
FISCAL YEARS 2006-2025; ACTUAL DATA THROUGH 6/30/2020



Period Ending	Total Revenue	Total Expenses	Excess (Deficit)	Ending Fund Balance
FY 2014	$2,621	$0	$2,621	$2,621
FY 2015	$16,463	$0	$16,463	$19,084
FY 2016	$17,510	$0	$17,510	$36,592
FY 2017	$16,974	$0	$16,974	$53,566
FY 2018	$17,440	$0	$17,440	$71,004
09/30/18	6,859	0	6,859	77,863
12/31/18	4,631	0	4,631	82,494
03/31/19	4,872	0	4,872	87,366
06/30/19	4,379	0	4,379	91,745
FY 2019	$20,741	$0	$20,741	$91,745
09/30/19	4,472	0	4,472	96,217
12/31/19	3,939	0	3,939	100,156
03/31/20	3,984	0	3,984	104,140
06/30/20	3,546	0	3,546	107,686
FY 2020	$15,941	$0	$15,941	$107,686
09/30/20	1,679	0	1,679	109,365
12/31/20	1,606	0	1,606	110,971
03/31/21	1,622	0	1,622	112,592
06/30/21	1,448	0	1,448	114,041
FY 2021	$6,355	$0	$6,355	$114,041
09/30/21	1,481	0	1,481	115,521
12/31/21	1,496	0	1,496	117,017
03/31/22	1,457	0	1,457	118,474
06/30/22	1,502	0	1,502	119,976
FY 2022	$5,935	$0	$5,935	$119,976
09/30/22	1,528	0	1,528	121,504
12/31/22	1,566	0	1,566	123,070
03/31/23	1,591	0	1,591	124,661
06/30/23	1,558	0	1,558	126,219
FY 2023	$6,243	$0	$6,243	$126,219
09/30/23	1,665	0	1,665	127,884
12/31/23	1,687	0	1,687	129,572
03/31/24	1,739	0	1,739	131,310
06/30/24	1,753	0	1,753	133,063
FY 2024	$6,844	$0	$6,844	$133,063
09/30/24	1,906	0	1,906	134,969
12/31/24	1,901	0	1,901	136,870
03/31/25	1,960	0	1,960	138,830
06/30/25	2,024	0	2,024	140,854
FY 2025	$7,791	$0	$7,791	$140,854