



MEMORANDUM

September 1, 2022

To: Andrew Stolfi, Director, DCBS
Mary Moller, Deputy Director, DCBS
Carolina Marquette, Chief Financial Officer, DCBS
Sally Coen, Administrator, Workers' Compensation Division, DCBS

From: Justin Fuller, Senior Economist, DCBS
Kelli Borushko, Senior Forecasting Analyst, DCBS

Subject: Workers' Compensation Premium Assessment Rate Recommendation for CY 2023

Issue

In accordance with the requirements of ORS 656.612, the Department of Consumer and Business Services (DCBS) must establish a calendar year (CY) 2023 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 15, 2022, 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 2023.

NOTE: Self-insured employers and self-insured employer groups are subject to an additional assessment that is discussed in a separate memorandum dated September 1, 2022, with the subject, "Assessment rate recommendations for CY 2023 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 Ombuds Office for Oregon 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 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 2023. For years beyond 2023, 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 2023 Recommendation

For calendar year 2023, 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 2025 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:

1. Assumes maintaining the assessment rate at 9.8 percent effective January 1, 2023.
2. Includes actual revenue data through June 30, 2022.
3. Includes earned premium forecasts based on the September 2022 Office of Economic Analysis baseline forecast.
4. Includes the impact of NCCI's proposed reduction of pure premium rates by 3.2 percent for CY 2023. This is the tenth year of consecutive pure premium rate reductions. We assume, after CY 2023, that CY 2024 and CY 2025 will also have a reduction of 3.2 percent. After 2025, we assume that the change in the pure premium rate will be the recent average of changes.
5. Includes estimates of OR-OSHA federal funds and fines and penalties.
6. Includes estimates of investment income based on the latest information from the State Treasurer's Office.
7. Includes estimates of other revenues based on average actual amounts collected through FY 2022.

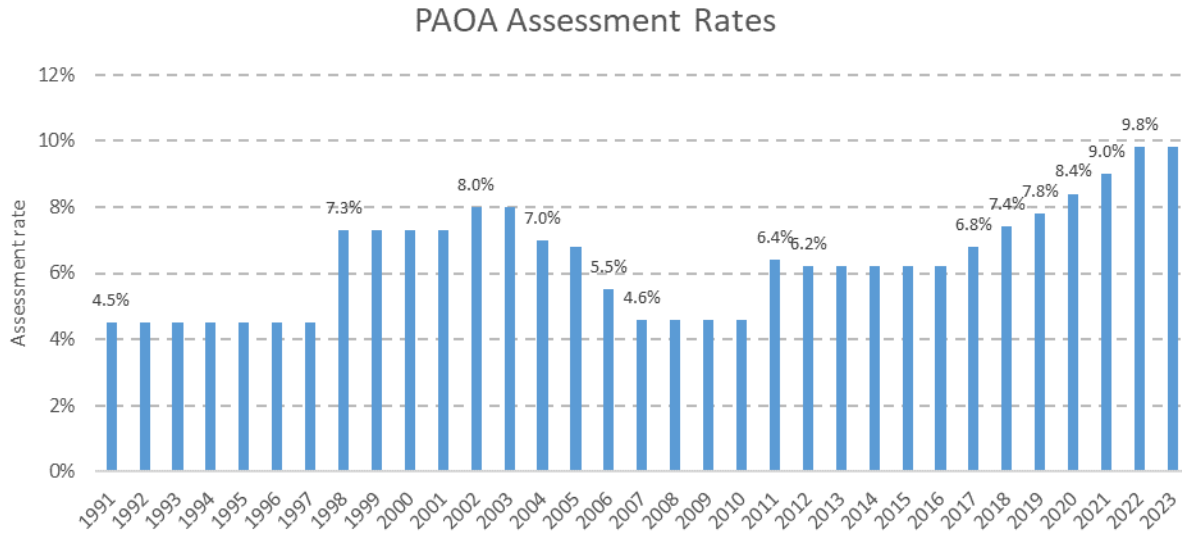
Expenditure and transfer assumptions

1. Includes actual expenditure and transfer data through June 30, 2022.
2. Includes an expenditure forecast of 3 percent per year.
3. Includes projected payments to the Oregon Institute of Occupational Health Sciences (OIOHS) of \$1.97 million in FY 2023.
4. Includes payments to the Bureau of Labor and Industries of \$235,000 per year for prohibiting discrimination against Oregon employees.
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.
7. Includes the latest estimates of chargeback.
8. Includes the full policy package costs for Modernization, OSHA, and PAOA's share of CSD packages.

PAOA Assessment Summary

At the end of FY 2022, PAOA had a fund balance of \$100.1 million and a coverage ratio of 3.98 quarters. We forecast that revenue will be about \$100 million at the recommended assessment rate through FY 2029. We forecast that the fund balance will be \$98.9 million at the end of FY 2027.

The following table shows the PAOA assessment rate history and the 2023 recommendation.



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

Maintain 9.8 in CY 2023 - OEA Baseline Forecast - All Policy Packages

	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	\$100,922,477	\$99,217,942	\$98,632,701	\$99,196,545	\$99,474,251	\$99,218,222	\$98,948,071
Expenditures & Transfers	\$75,545,738	\$68,675,795	\$75,100,255	\$83,266,331	\$91,304,435	\$103,311,851	\$111,814,359	\$109,000,965	\$106,856,378	\$107,321,110
Excess/(Deficit)	\$4,915,403	\$11,618,542	\$20,926,081	\$17,656,146	\$7,913,507	(\$4,679,150)	(\$12,617,813)	(\$9,526,715)	(\$7,638,156)	(\$8,373,039)
Ending Fund Balance	\$67,587,963	\$79,206,504	\$100,132,585	\$117,788,731	\$125,702,239	\$121,023,089	\$108,405,275	\$98,878,561	\$91,240,405	\$82,867,366
Coverage Ratio	3.61	5.53	3.98	5.49	5.50	4.59	3.97	3.66	3.43	3.09

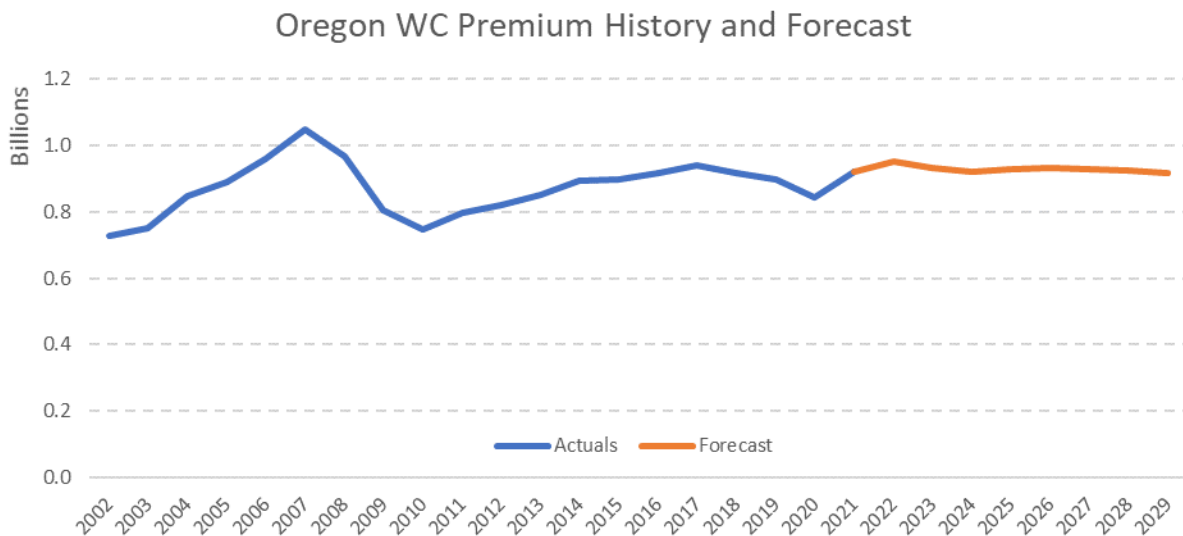
Appendix 1 – Workers’ Compensation Premium Forecast

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 2022 Oregon Economic and Revenue Forecast.

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 3.2 percent for policy year 2023. This is the tenth 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.

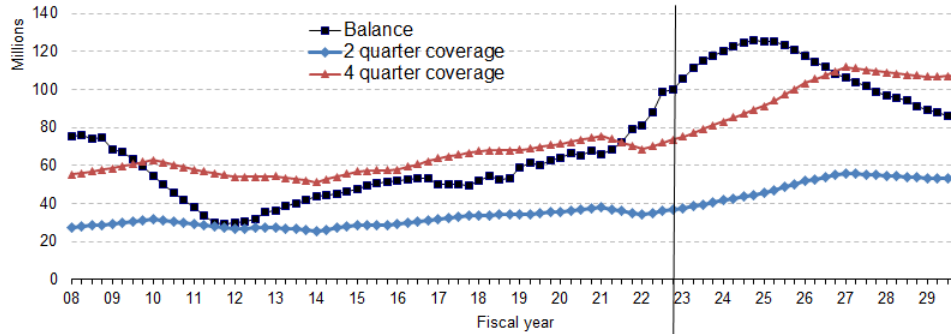
We assume that the 3.2 percent reduction in pure premium repeats for the 2024 and 2025 policy years as well. However, the actual pure premium rate changes by NCCI will produce different premium in those years.

The following graph shows actual workers' compensation premium from 2002 through 2021 and forecast premium through 2029.



Appendix 2

**WORKERS' COMPENSATION PREMIUM ASSESSMENT OPERATING ACCOUNT
REVENUES, EXPENSES, FUND BALANCES, AND COVERAGE RATIOS
FISCAL YEARS 2008-2029; ACTUAL DATA THROUGH 6/30/2022
9.8% ASSESSMENT RATE EFFECTIVE 1/1/2023**



Period Ending	Total Revenue	Total Expenses	Excess (Deficit)	Ending Fund Balance	Coverage Ratio
FY 2017	\$63,747,278	\$67,732,257	(\$3,984,979)	\$49,512,976	2.97
FY 2018	\$72,029,115	\$68,103,401	\$3,925,714	\$53,438,690	2.98
FY 2019	\$80,700,710	\$71,466,841	\$9,233,869	\$62,672,559	3.37
FY 2020	\$80,461,141	\$75,545,738	\$4,915,403	\$67,587,963	3.61
FY 2021	\$80,294,337	\$68,675,795	\$11,618,542	\$79,206,504	5.53
09/30/21	21,206,525	19,154,243	2,052,282	81,258,786	4.24
12/31/21	22,581,390	15,546,547	7,034,843	88,293,629	5.68
03/31/22	25,579,947	15,235,329	10,344,618	98,638,247	6.47
06/30/22	26,658,473	25,164,136	1,494,338	100,132,585	3.98
FY 2022	\$96,026,335	\$75,100,255	\$20,926,081	\$100,132,585	3.98
09/30/22	25,341,672	19,953,686	5,387,986	105,520,571	5.29
12/31/22	26,283,426	20,426,732	5,856,693	111,377,265	5.45
03/31/23	25,357,346	21,416,789	3,940,557	115,317,822	5.38
06/30/23	23,940,033	21,469,124	2,470,909	117,788,731	5.49
FY 2023	\$100,922,477	\$83,266,331	\$17,656,146	\$117,788,731	5.49
09/30/23	24,859,745	22,518,739	2,341,006	120,129,738	5.33
12/31/23	25,777,175	23,033,551	2,743,624	122,873,361	5.33
03/31/24	24,865,082	22,892,828	1,972,254	124,845,615	5.45
06/30/24	23,715,940	22,859,317	856,624	125,702,239	5.50
FY 2024	\$99,217,942	\$91,304,435	\$7,913,507	\$125,702,239	5.50
09/30/24	24,621,532	25,247,523	(625,990)	125,076,248	4.95
12/31/24	25,525,540	25,272,144	253,396	125,329,644	4.96
03/31/25	24,619,675	26,424,793	(1,805,118)	123,524,526	4.67
06/30/25	23,865,954	26,367,392	(2,501,438)	121,023,089	4.59
FY 2025	\$98,632,701	\$103,311,851	(\$4,679,150)	\$121,023,089	4.59
09/30/25	24,775,819	28,297,694	(3,521,876)	117,501,213	4.15
12/31/25	25,681,883	28,324,021	(2,642,139)	114,859,074	4.06
03/31/26	24,764,995	27,878,009	(3,113,014)	111,746,060	4.01
06/30/26	23,973,849	27,314,634	(3,340,785)	108,405,275	3.97
FY 2026	\$99,196,545	\$111,814,359	(\$12,617,813)	\$108,405,275	3.97
09/30/26	24,887,411	26,969,180	(2,081,769)	106,323,506	3.94
12/31/26	25,802,178	27,995,114	(2,192,936)	104,130,571	3.72
03/31/27	24,879,195	27,050,023	(2,170,828)	101,959,742	3.77
06/30/27	23,905,466	26,986,648	(3,081,181)	98,878,561	3.66
FY 2027	\$99,474,251	\$109,000,965	(\$9,526,715)	\$98,878,561	3.66
09/30/27	24,815,838	26,768,147	(1,952,308)	96,926,252	3.62
12/31/27	25,732,596	26,793,693	(1,061,097)	95,865,155	3.58
03/31/28	24,844,761	26,678,957	(1,834,196)	94,030,960	3.52
06/30/28	23,825,027	26,615,581	(2,790,555)	91,240,405	3.43
FY 2028	\$99,218,222	\$106,856,378	(\$7,638,156)	\$91,240,405	3.43
09/30/28	24,743,982	26,800,249	(2,056,267)	89,184,137	3.33
12/31/28	25,664,960	26,825,413	(1,160,454)	88,023,683	3.28
03/31/29	24,791,155	26,880,420	(2,089,265)	85,934,418	3.20
06/30/29	23,747,975	26,815,027	(3,067,052)	82,867,366	3.09
FY 2029	\$98,948,071	\$107,321,110	(\$8,373,039)	\$82,867,366	3.09

Appendix 3

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

Revenues	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Assessments	\$87,345,441	\$91,983,862	\$90,140,863	\$89,480,045	\$90,023,972	\$90,292,457	\$89,932,103	\$89,349,152
Fines and Penalties	1,268,756	1,281,444	1,294,258	\$1,307,201	\$1,320,273	\$1,333,475	\$1,346,810	\$1,360,278
Investment Income	316,766	1,272,453	1,397,406	\$1,459,336	\$1,465,470	\$1,460,769	\$1,551,034	\$1,849,633
Federal Funds	7,026,344	6,315,000	6,315,000	\$6,315,000	\$6,315,000	\$6,315,000	\$6,315,000	\$6,315,000
Other	69,028	69,718	70,415	\$71,120	\$71,831	\$72,549	\$73,275	\$74,007
Total Revenue	\$96,026,335	\$100,922,477	\$99,217,942	\$98,632,701	\$99,196,545	\$99,474,251	\$99,218,222	\$98,948,071
Expenditures	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Administration	\$62,435,682	\$68,410,580	\$70,462,897	\$72,576,784	\$74,754,088	\$76,996,710	\$79,572,056	\$81,959,217
Chargeback	11,619,267	14,620,870	15,059,496	15,511,281	15,976,619	16,455,918	16,949,595	17,458,083
Oregon Health Sciences University	1,913,207	1,968,331	2,002,042	2,020,647	2,035,449	2,051,608	2,069,876	2,087,574
Policy Option Packages	0	0	4,746,615	14,195,997	20,086,351	14,586,351	9,405,178	7,006,508
Total Expenditures	\$75,968,156	\$84,999,781	\$92,271,049	\$104,304,709	\$112,852,507	\$110,090,587	\$107,996,705	\$108,511,383
Transfers	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Non-Complying Employer	\$1,156,230	\$1,997,749	\$1,231,221	\$1,284,269	\$1,336,524	\$1,387,998	\$1,438,702	\$1,488,649
DFR for workers' comp. regulation	(52,969)	(29,299)	(29,607)	(63,375)	(63,375)	(63,375)	(63,375)	(63,375)
BOLI Transfer	(232,000)	(235,000)	(235,000)	(235,000)	(235,000)	(235,000)	(235,000)	(235,000)
Misc Transfers/Adjustments	(3,359)	0	0	6,965	0	0	0	0
Total Transfers	867,902	1,733,450	966,615	992,858	1,038,148	1,089,622	1,140,327	1,190,273
Net Cash Flow	\$20,926,081	\$17,656,146	\$7,913,507	(\$4,679,150)	(\$12,617,813)	(\$9,526,715)	(\$7,638,156)	(\$8,373,039)
Ending Fund Balance	\$100,132,586	\$117,788,732	\$125,702,239	\$121,023,089	\$108,405,276	\$98,878,561	\$91,240,405	\$82,867,366