DCBS | Consumer and Business Services

MEMORANDUM

November 22, 2017

To: Louis Savage, Administrator, Workers' Compensation Division, DCBS

From: Gary Helmer, Senior Economist
Katie Whitehead, Research Analyst

Subject: Workers' Benefit Fund status as of September 30, 2017

This memorandum summarizes the status of the Workers' Benefit Fund (WBF) as of September 30, 2017. Highlights of this memorandum include:

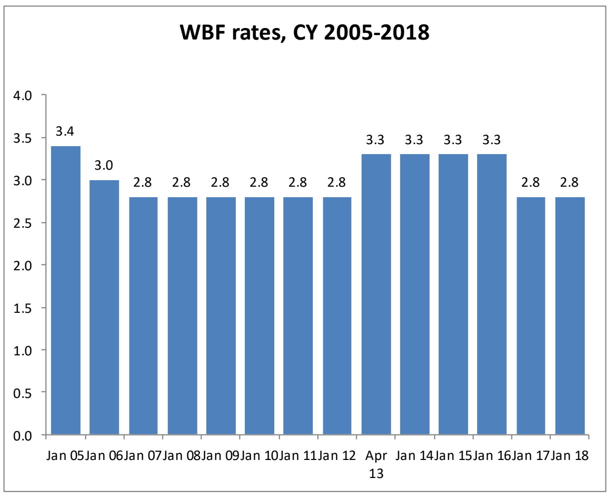
- The current assessment rate is 2.8 cents per hour.
- As of September 30, 2017, the WBF fund balance was $130.1 million.
- If the current assessment rate is maintained and the economy continues to grow, revenue will increase. Expenditures are expected to remain fairly flat after FY 2019. With this combination of factors, the WBF fund balance should continue to increase.
- With the current Office of Economic Analysis (OEA) forecast for continued slow employment growth, we forecast continued growth in the number of accepted disabling claims (ADC). This growth should lead to increased costs for the return-to-work programs.
- The 2017 legislature passed House Bill 2337, which increased permanent total disability benefits, and HB 2338, which increased death benefits. Both bills take effect January 1, 2018. The WBF forecast includes estimates of the added costs of these changes in legislation.
- Until 2014, the WBF was statutorily required to have a fund balance equivalent to at least 12 months of expenditures. Senate Bill 1558 (2014), among other things, lowered the WBF minimum required fund balance to at least six months of expenditures. The fund balance currently contains about 22 months of expenditures.
- SB 1558 also specified that the lower fund balance requirement be reviewed by the Management-Labor Advisory Committee (MLAC) no later than January 1, 2019.

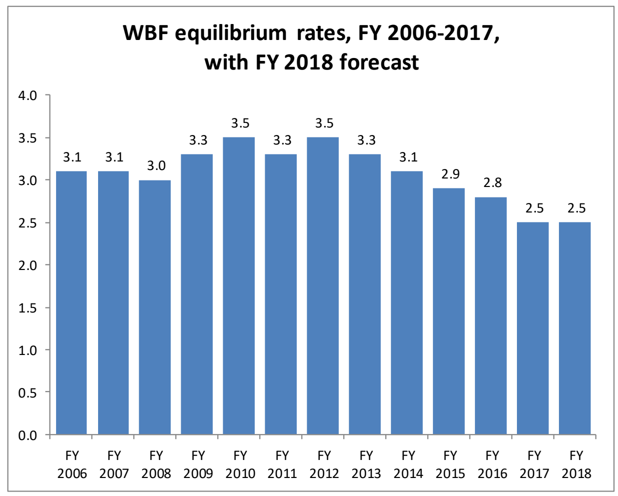
The remainder of this memo provides the details of the status of the WBF as of September 30, 2017.

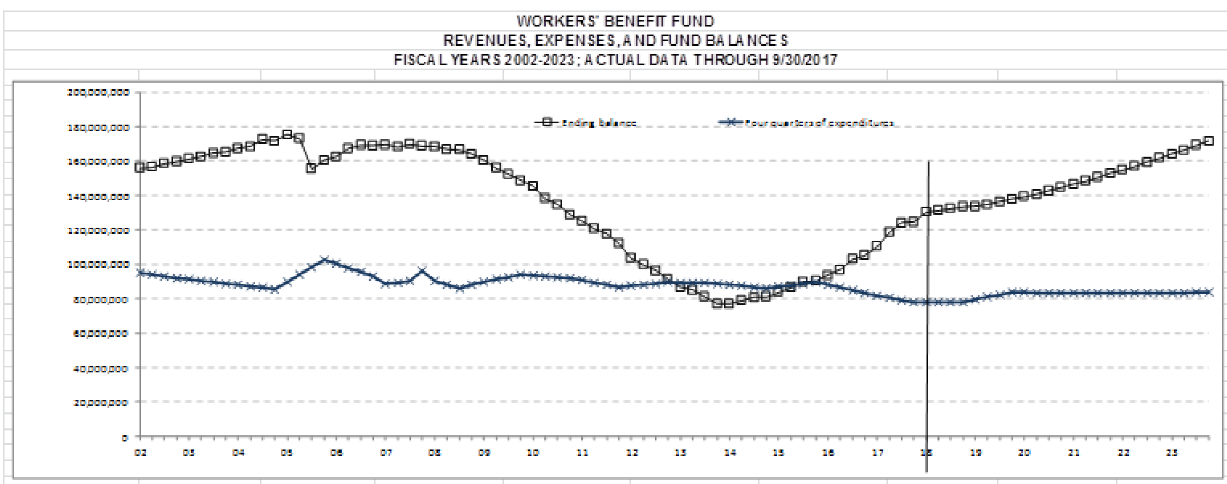
Assessment rate and fund balance history

The left-hand figure below shows the assessment rates since 2005. The right-hand figure shows the equilibrium rates, which are the assessment rates needed for revenue to equal expenditures.

The director lowered the assessment rate for 2006 and 2007 to reduce the fund balance. This lower rate, combined with the recession, resulted in a fund balance decline from $168.9 million on June 30, 2006 to $77.0 million on June 30, 2013. This is illustrated in the line graph below. In April 2013 the director raised the assessment rate to 3.3 cents per hour in order to resume fully funding WBF expenditures. Because of declining expenditures, the rate was lowered to 2.8 cents per hour effective January 1, 2017.







The table below shows the financial outcomes for the past two years and the financial forecast for the next four years (it assumes the 2.8 cent-per-hour rate is retained). At the end of FY 2017, the WBF had a fund balance of $124.7 million. The WBF should see a positive net cash flow each year through the forecast period.

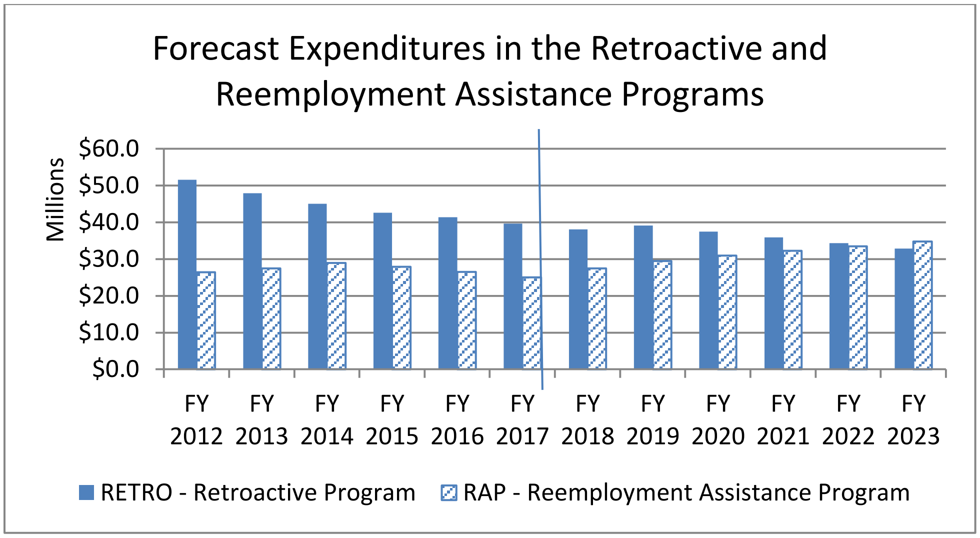
A discussion of the WBF programs and recent trends follows the table.

Workers' Benefit Fund Revenues with actual financial data through September 2017

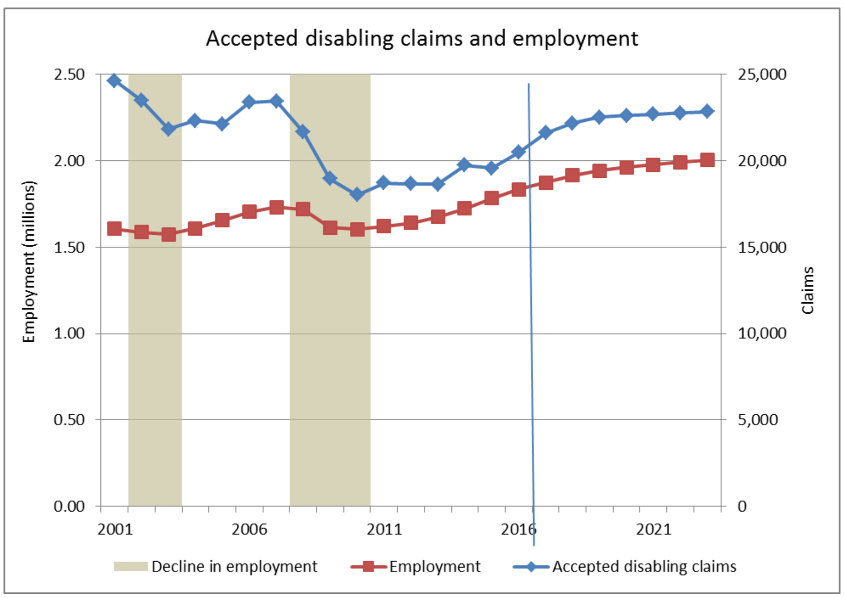
Effective Date	1/2016	1/2017	2018	2019	2020	2021
Cents-Per-Hour Rate	0.033	0.028	0.028	0.028	0.028	0.028
	2015-2017		2017-2019		2019-2021	
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenue:						
Assessments	94,692,136	94,230,176	83,560,874	84,371,973	85,527,245	86,350,962
Other income	2,955,751	3,960,569	4,289,060	4,214,162	4,962,899	5,623,297
Rev. sub-total, exc. NCE revenue	**97,647,887**	**98,190,745**	**87,849,934**	**88,586,134**	**90,490,144**	**91,974,259**
WBF Program Expenditures:						
Workers with Disability Program	321,015	221,697	183,989	148,292	111,868	77,651
Reemp. Assistance Prog., exc. OIOHS	26,507,144	24,992,426	27,494,895	29,439,673	30,922,540	32,260,558
Reopened Claims Program	3,808,966	3,634,754	4,039,721	4,635,784	4,865,510	5,185,544
Retroactive Program	41,411,679	39,627,647	38,096,535	39,149,229	37,478,689	35,881,906
SB 485 Multiple Wage Jobs	869,791	888,180	988,126	946,106	946,106	946,106
SB 1558 Claim Payments	1,960,201	744,350	1,117,494	1,073,828	905,988	769,281
Exp. Subtotal: WBF Program Exp.	**74,878,796**	**70,109,055**	**71,920,759**	**75,392,914**	**75,230,702**	**75,121,046**
WBF Administrative Expenditures						
DCBS Administrative Expenditures	5,213,237	5,177,077	4,429,785	5,260,575	5,516,611	5,681,433
Collection Costs (Employment & Revenue)	632,993	658,579	665,329	632,744	632,744	632,744
OIOHS (formerly CROET)	1,781,772	1,917,717	1,875,385	1,941,339	1,967,126	1,985,513
BOLI transfer out	382,471	382,472	304,322	405,763	430,474	430,474
Miscellaneious Transfers	3,576	5,123	204	0	0	0
Other State Agency Expenditures	2,800,812	2,963,891	2,845,240	2,979,845	3,030,343	3,048,730
Exp subtotal: WBF Administrative Exp.	**8,014,049**	**8,140,968**	**7,275,025**	**8,240,420**	**8,546,954**	**8,730,163**
Exp subtotal: WBF exp., exc. NCE	**82,892,845**	**78,250,023**	**79,195,784**	**83,633,334**	**83,777,656**	**83,851,210**
Net cash flow	14,751,466	19,935,599	8,653,946	4,952,801	6,712,488	8,123,049
NCE net cash flow	**184,880**	**(187,797)**	**15,596**	**(397,246)**	**(2,008)**	**(2,007)**
Total Revenue	102,089,450	101,910,010	91,438,124	92,660,260	94,560,544	96,040,937
Total Expenditures	86,965,713	82,408,410	83,346,734	88,026,039	88,166,344	88,235,885
Net Cash Flow	14,939,922	19,752,925	8,669,746	4,555,554	6,710,480	8,121,043
Ending Fund Balance	104,938,341	124,691,266	133,361,013	137,916,567	144,627,047	152,748,089

WBF Programs

About 90 percent of the WBF's expenditures pay for WBF programs. The WBF program expenditures have been declining due to the decreasing number of people participating in the Retroactive Program. Retroactive Program expenditures are expected to continue to decline while Reemployment Assistance Program expenditures are expected to continue to increase. This shift should result in a slight increase in WBF program expenditures.



Many of the WBF forecasts are dependent on our ADC forecast. The following figure shows that over the past 16 years, the number of ADCs has generally increased when employment has increased and declined sharply when employment has decreased. The employment forecast is provided by the Office of Economic Analysis; it is updated quarterly. Because the current OEA forecast is for continued slow employment growth, we forecast continued growth in the number of claims. There were about 18,600 ADCs in 2013; we expect at least 21,100 ADCs in 2017.



Following are descriptions and forecasts for the WBF programs.

Workers with Disabilities Program

The Workers with Disabilities Program was created by the Legislature in 1981. Senate Bill (SB) 1197 (1990) restricted the program to claims for which the application for reimbursement had been made prior to 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. About $222,000 was paid for the program in FY 2017, and the program expenditures are forecast to continue to decline.

Reemployment Assistance Program (RAP)

The Reemployment Assistance Program (RAP) provides incentives for returning injured workers to jobs. The major programs within RAP are the Employer-at-Injury Program (EAIP) and the Preferred Worker Program (PWP); there are also other smaller programs in RAP.[1] In FY 2017, the program's expenditures were around 35.6 percent of WBF program expenditures.

Reemployment Assistance Program expenditures
excluding OIOHS payments

	2015-2017		2017-2019		2019-2021	
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
EAIP	19,824,192	18,039,546	19,361,915	21,024,411	22,236,493	23,349,290
PWP claims costs	2,338,802	2,513,120	2,628,238	2,514,331	2,533,080	2,541,347
PWP wage subsidy	1,886,335	1,673,167	2,135,648	2,397,330	2,531,763	2,651,410
PWP worksite modifications and purchases	2,455,750	2,762,866	3,367,168	3,501,034	3,618,636	3,715,942
Other programs	$2,066	$3,727	$1,926	$2,568	$2,568	$2,568
Total	$26,507,144	$24,992,426	$27,494,895	$29,439,673	$30,922,540	$32,260,558
		-5.7%	10.0%	7.1%	5.0%	4.3%

The Employer-at-Injury Program (EAIP) provides incentives to return workers to work prior to claim closure. Benefits available to employers and their injured workers utilizing the EAIP include wage subsidy, worksite modifications, and work-related purchases. Since 2008, more than 25 percent of claimants with an accepted disabling claim have participated in the EAIP. The program has gotten these workers back to work more quickly than they might have otherwise, and it has lowered the amount of temporary disability paid by insurers.

In order to slow the growth in EAIP expenditures, the Workers' Compensation Division implemented a rule change for wage subsidy reimbursements, effective July 1, 2013. WCD reduced the EAIP wage subsidy from 50 percent to 45 percent of wages for programs starting after July 1, 2013. The full effect of this wage subsidy reduction appeared in the financial statements in early FY 2015.

EAIP usage has declined over the past several years. Anecdotal evidence suggests that some employers are seeing the value of returning their injured workers to light-duty work, utilizing their own programs or policies, without the additional incentives of the EAIP.

The EAIP forecast is created from the claims forecast and the forecast for an increase in the average cost per placement. The combination of these forecasts results in a forecast for an increase in EAIP expenditures of 5.2 percent per year.

[1] The accounting system includes payments to the Oregon Institute for Occupational Health Sciences (OIOHS) in the RAP expenditures. These are removed from this table and discussed below.

The Preferred Worker Program (PWP) 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 Worker and has a new injury during the first three years of their reemployment, then the RAP pays the claims costs, including administrative costs. The PWP claims costs are expected to remain essentially unchanged through the forecast horizon.

The PWP program also pays for wage subsidies, for direct employment purchases, and for worksite modifications. Wage subsidy forecasts are calculated as a function of the claims forecast and the forecast change in the statewide average weekly wage (SAWW). Worksite modifications and obtained employment purchases are forecast as a function of the changes in the number of claims and changes in inflation. Because of the forecast for increasing claims, these costs are projected to grow by 3.3 percent per year. The forecast also includes the estimated impact of the January 2017 rule changes.

Reopened Claims Program (ROCP)

The Reopened Claims Program (ROCP) 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 circumstances:

- 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, the worsening of a compensable injury requires inpatient surgery, outpatient surgery, or any treatment requiring hospitalization.
- SB 485 (2001) authorized the Workers' Compensation Board (WCB) to grant permanent partial disability benefits for any new or omitted medical conditions.

ROCP expenditures were about $3.6 million in FY 2017. The table below shows the claim costs paid for these three types of benefits by calendar year.

Because medical benefits are limited to injuries prior to January 1966, medical payments were made for just 24 claims in 2016; individual medical payments can be large and volatile. Future medical costs are forecast based on the trend of declining numbers of eligible claims and increasing medical inflation. Temporary disability and permanent partial disability (PPD) benefit expenditures are forecast as a function of claims and the change in the average weekly wage. These costs are expected to increase. The total program costs are forecast to increase 6.1 percent per year.

Reopened Claim Reimbursements by Benefit Type, CY 2010-2016

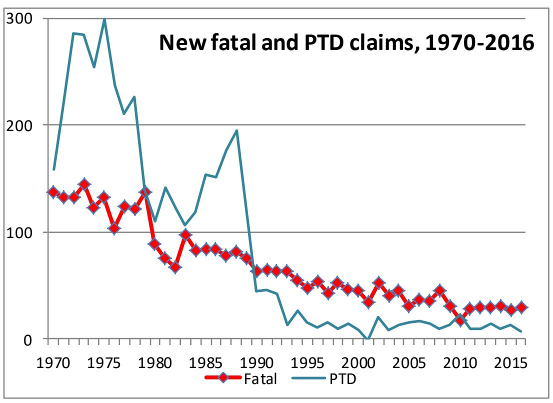
CY	Medical benefits	Timeloss benefits	PPD benefits	Total
2010	1,046,823	3,558,355	903,287	5,508,465
2011	459,738	3,823,229	837,695	5,120,662
2012	442,985	3,616,032	954,926	5,013,943
2013	347,305	3,019,242	694,535	4,061,081
2014	199,710	2,791,237	779,455	3,770,402
2015	214,027	3,023,554	816,136	4,053,717
2016	439,786	2,457,891	749,305	3,646,982

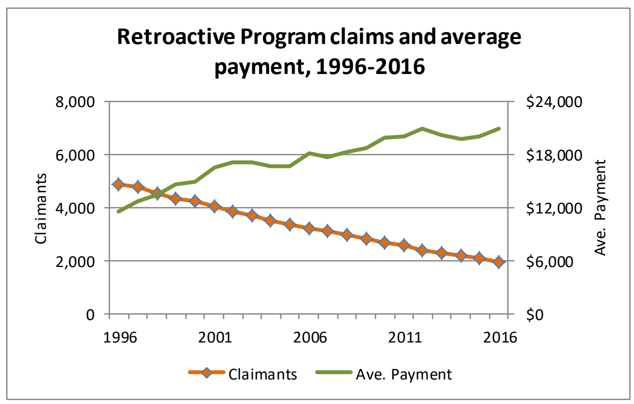
Retroactive Program

The Retroactive Program is currently the costliest WBF program. The program pays benefit increases to workers and their beneficiaries for benefits with levels that are lower than current levels. Insurers and self-insured employers pay the benefits and then request reimbursement from the WCD. In FY 2017, the program had $39.6 million in expenditures, which accounted for 57 percent of the WBF program expenditures.

The two figures below illustrate the Retroactive Program's trends. Few new claims are entering the program. During the 1970s, there was, on average, one new fatal or permanent total disability (PTD) claim each day; over the last decade, there were fewer than one new fatal or PTD claim each week. About 91 percent of the program's expenditures in CY 2016 were for injuries that occurred prior to 1994.

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. These forecasts also include the estimated impact of the recently enacted increase in PTD and death benefits (HB 2337 and HB 2338).





Senate Bill (SB) 485 - Wages for Multiple Jobs

In 2001, Senate Bill 485 added a new component to the WBF. SB 485 allowed wages from multiple jobs to be considered in temporary disability computations. Previously, only the wages from the job at injury could be used in these calculations. This provision was effective for claims on injuries that occurred on or after January 1, 2002. The insurers' payments for these jobs are reimbursed from the WBF. About $0.89 million was paid for these claims in FY 2017. The reimbursement amount is expected to be about $0.95 million in FY 2018.

Senate Bill (SB) 1558 - Claims Payments

Senate Bill (SB) 1558 (2014) permitted the orderly dissolution of self-insured groups that wished to disband. Of the seven existing self-insured groups, three disbanded. The statute provided that the WBF would pay claims costs for the employees of members of the disbanded groups once the groups' reserves were exhausted. The reserves for all three groups were exhausted by the end of FY 2015. All claims payments are now being paid directly from the WBF.

About $0.74 million was paid from the WBF for these claims in FY 2017, down from $2.0 million paid from the WBF in FY 2016. The amounts paid by the WBF will decline as claims close. At this time, our forecast may be somewhat high, while we wait to see if the FY 2017 payments from the WBF were an anomaly.

WBF Administrative Expenditures

In FY 2017, state agency administrative expenditures were $8.1 million (10.4 percent) of WBF expenditures. Of this amount, about $5.2 million were DCBS expenditures, and about $3.0 million were paid to other state agencies.

By statute, the WBF makes payments to the Oregon Institute of Occupational Health Sciences (OIOHS) of 1/16th of a cent per hour worked. These amounts are matched by equal payments from the Premium Assessment Operating Account (PAOA). These monies fund OIOHS's operations. The amount WBF paid to OIOHS was $1.9 million in FY 2017. The Employment Department and the Department of Revenue receive funds to cover the costs of collecting the WBF assessment. These agencies received about $659,000 for these services in FY 2017. The Bureau of Labor and Industries (BOLI) receives payments for the enforcement of anti-discrimination laws. The BOLI received about $382,000 from the WBF in FY 2017.

Noncomplying Employers (NCE) 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. The NCE expenditures totaled $4.2 million in FY 2017, about 5 percent of the WBF expenditures for the year. In the event that expenditures exceed revenue, there is a transfer from PAOA to cover the difference; when revenues exceed expenditures, the excess is a transferred to PAOA. Although the NCE monies are housed in the WBF, the program is not funded by the WBF assessment.