



MEMORANDUM

September 6, 2016

To: Patrick Allen, Director, DCBS
 Jean Straight, Deputy Director, DCBS
 Carolina Marquette, Financial Services Manager, DCBS
 Louis Savage, Administrator, Workers' Compensation Division, DCBS

From: Chris Day, Senior Forecasting Analyst, Central Services Division, DCBS

Subject: Workers' Benefit Fund Assessment Rate Recommendation for CY 2017

Issue

In accordance with the requirements of ORS 656.506, the director must establish the Workers' Benefit Fund (WBF) assessment rate effective for calendar year 2017 for employers and workers.

WBF Assessment CY 2017 Rate Recommendation

I recommend that the WBF assessment rate be reduced to a combined 2.8 cents per hour for calendar year 2017. The current rate is 3.3 cents per hour.

Multiple-Year Rate Schedule for Planning Purposes

DCBS models rates for future years to estimate the future adequacy of the fund. The multiple-year rate schedule models the continuation of the 2.8 cents-per-hour rate through the forecast period. Under this rate schedule, the fund balance is projected to increase from \$104.9 million at the end of FY 2016 to \$131.9 million at the end of FY 2021.

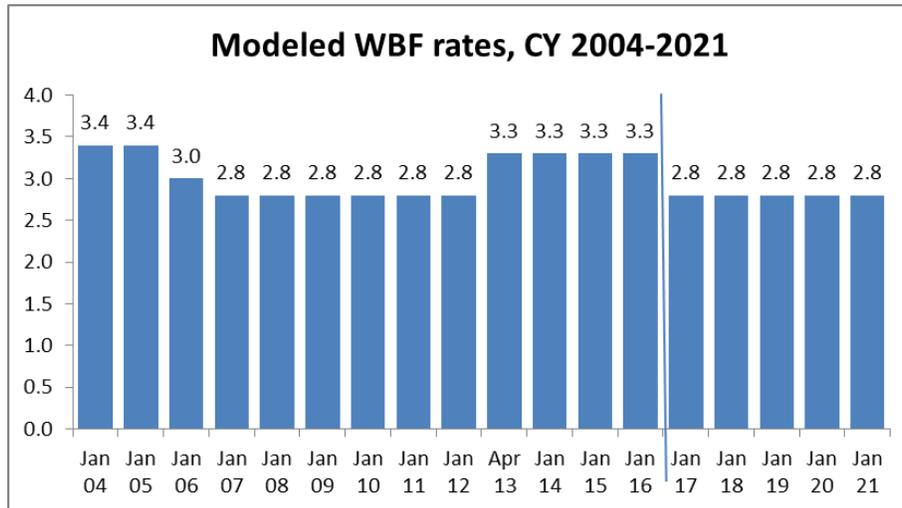
Table 1 displays the forecast outcomes of lowering the assessment rate to 2.8 cents per hour effective January 1, 2017 and retaining that rate.

Table 1 – WBF Financial Outcomes

	----- Actual -----				----- Projected -----			
	2013-2015 biennium		2015-2017 biennium		2017-2019 biennium		2019-2021 biennium	
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Ending Fund Balance	\$81,023,380	\$89,998,419	\$104,938,341	\$115,374,032	\$117,635,286	\$121,592,723	\$126,393,081	\$131,926,540
Coverage Ratio	3.49	3.83	4.54	5.41	5.46	5.60	5.79	6.01

WBF Assessment Summary

Effective April 1, 2013, the department raised the WBF assessment rate from 2.8 cents per hour to 3.3 cents per hour. Also, the Workers' Compensation Division reduced the Employer-at-Injury wage subsidy from 50 percent to 45 percent of wages for programs starting after July 1, 2013. The department's administrative costs were also reduced. The purpose of these changes was to stabilize the WBF fund balance. This was accomplished, and the fund balance has grown by \$23.9 million over the past two fiscal years. We do not expect expenditures to increase significantly in the future, so a rate reduction is reasonable.



Forecast assumptions

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

Revenue assumptions:

1. Assumes a lowering of the WBF rate to 2.8 cents per hour effective January 1, 2017.
2. Includes actual revenue data from DCBS quarterly financial statements through June 2016.
3. Includes an updated employment forecast from the June 2016 Office of Economic Analysis (OEA) forecast.
4. Includes an updated estimate of the average annual number of hours worked. This is taken from the 2014 Bureau of Labor Statistics Survey of Occupational Injuries and Illnesses.
5. Includes updated estimates of the recoveries for the Non-Complying Employer Program.
6. Includes estimates of investment income based on the latest information from the State Treasurer's Office.

Expenditure and transfer assumptions:

1. Includes actual expenditure and transfer data from the DCBS quarterly financial statements through June 2016.

2. Includes updated forecasts of all WBF program expenditures based on the June 2016 OEA forecasts. The two largest expenditures for the WBF are briefly described below.

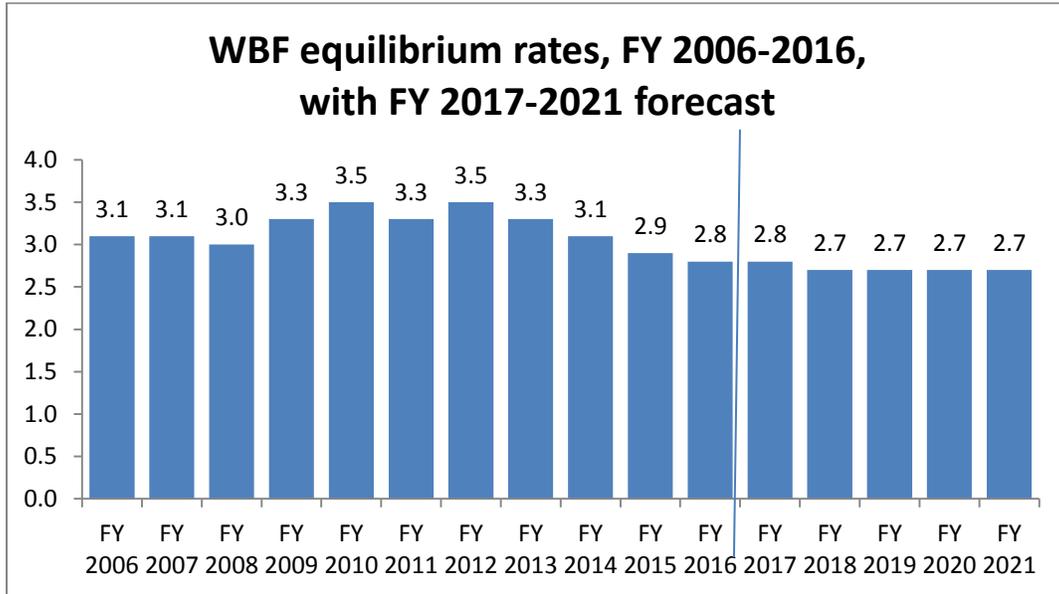
WBF Program Expenditures

	2013-2015		2015-2017		2017-2019		2019-2021	
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Expenditures:								
Workers with Disability Program	347,136	322,935	321,015	232,244	190,914	152,250	116,003	81,952
Reemp. Assistance Prog., exc. OIOHS	28,971,637	27,938,251	26,507,144	28,154,795	30,148,565	31,965,040	33,528,816	35,008,366
Reopened Claims Program	4,061,153	3,777,357	3,808,966	4,452,434	4,554,962	4,779,322	5,055,581	5,330,532
Retroactive Program	45,051,343	42,652,573	41,411,679	40,440,923	38,987,221	37,555,394	36,148,398	34,770,515
SB 485 Multiple Wage Jobs	1,051,587	901,658	869,791	958,826	958,826	958,826	958,826	958,826
SB 1558 Claim Payments	112,193	4,654,977	1,960,201	1,406,000	1,279,892	1,073,828	905,988	769,281
Total WBF Program Expenditures	79,595,049	80,247,751	74,878,796	75,645,222	76,120,380	76,484,659	76,713,612	76,919,473

- a. The Retroactive Program pays benefit increases to workers and their beneficiaries for benefit levels that are lower than current levels. Few new claims are entering the program. As a result, the number of claimants declines each year. The average payment generally increases over time with changes in the statewide average weekly wage. 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.
 - b. The Reemployment Assistance Program provides incentives for returning injured workers to jobs. The major programs are the Employer-at-Injury Program (EAIP) and the Preferred Worker Program (PWP); there are also several smaller programs. In FY 2016, the program's expenditures were 35 percent of the WBF program expenditures. Although these expenditures have declined the past two years, they are expected to increase by about 6 percent per year through the end of the forecast period.
3. Includes planned WBF administrative expenditure projections for the 2015-17 biennium and beyond.
 4. Includes projected payments to the Oregon Institute of Occupational Health Sciences (OIOHS) of \$1.9 million per year in FY 2017; the amounts are expected to increase about 2.0 percent per year.
 5. Includes payments to the Employment Department and Department of Revenue of about \$579,000 per year to cover the costs of collecting the WBF assessment.
 6. Includes payments to the Bureau of Labor and Industries (BOLI) for enforcement of discrimination laws. The amounts are forecast to increase 6.0 percent each biennium.
 7. Includes updated estimates of the transfers from the Premium Assessment Operating Account (PAOA) for the Non-Complying Employer Program expenditures.
 8. Includes estimates of the payments from the WBF for claims costs of the three self-insurer groups that have dissolved under the provisions of SB 1558, passed during the 2014 legislative session.

In this analysis, the assessment rate needed for revenue to equal expenditures is defined as the equilibrium rate. The following figure shows that this equilibrium rate has been declining. This is due to declining program expenditures and increasing employment. Under the current set of

assumptions, the equilibrium rate is expected to be 2.8 cents per hour in FY 2017 and 2.7 cents per hour through the remainder of the forecast period.

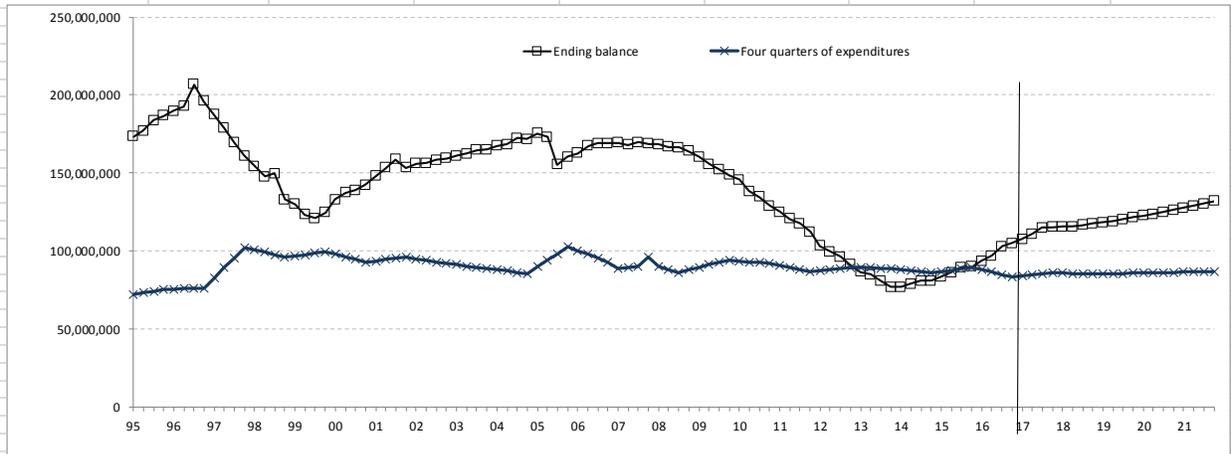


At the end of FY 2016, the WBF had a fund balance of \$104.9 million and a coverage ratio of 4.54 quarters. The fund balance has grown by \$23.9 million over last two fiscal years. Under the current program, the WBF should continue to see a positive net cash flow in FY 2017 and beyond.

cc: Michael Wood David Waki Sally Coen Fred Bruyns
Aaron Corvin Theresa Van Winkle Nancy Boysen Gary Helmer

Appendix 1

WORKERS' BENEFIT FUND REVENUES, EXPENSES, AND FUND BALANCES FISCAL YEARS 1995-2021; ACTUAL DATA THROUGH 6/30/2016



Period	Investment income	Total revenue	Total expenses	Expenses	Chargeback	Excess (deficit)	Ending fund balance	Coverage ratio
FY 2005	\$7,395,935	\$98,262,147	\$109,470,939	\$107,292,057	\$2,178,882	(\$11,208,792)	\$160,379,467	9.08
FY 2006	\$8,744,323	\$101,619,776	\$93,087,288	\$90,898,071	\$2,189,217	\$8,532,488	\$168,911,955	7.65
FY 2007	\$8,904,681	\$95,930,308	\$96,186,812	\$94,168,109	\$2,018,703	(\$256,504)	\$168,655,451	7.78
FY 2008	\$8,748,531	\$91,302,624	\$95,834,829	\$94,768,096	\$1,066,733	(\$4,532,205)	\$164,123,246	7.07
FY 2009	\$6,404,132	\$85,053,542	\$100,525,073	\$99,343,809	\$1,181,264	(\$15,471,531)	\$148,651,715	6.78
FY 2010	\$5,559,124	\$78,667,893	\$98,423,954	\$96,912,512	\$1,511,442	(\$19,756,061)	\$128,895,654	5.62
FY 2011	\$5,059,586	\$78,166,357	\$94,736,371	\$93,476,932	\$1,259,439	(\$16,570,014)	\$112,325,641	4.94
FY 2012	(\$887,612)	\$75,153,191	\$96,263,525	\$94,833,505	\$1,430,020	(\$21,110,334)	\$91,215,308	3.85
FY 2013	\$2,118,589	\$80,006,919	\$94,207,500	\$92,796,103	\$1,411,397	(\$14,200,581)	\$77,014,727	3.33
FY 2014	\$2,321,274	\$95,657,505	\$91,648,852	\$90,221,629	\$1,427,223	\$4,008,653	\$81,023,380	3.49
FY 2015	\$1,980,827	\$101,931,605	\$92,956,565	\$91,666,797	\$1,289,768	\$8,975,040	\$89,998,419	3.83
09/30/15	628,011	25,108,950	21,465,163	21,141,079	324,084	3,643,787	93,642,206	4.48
12/31/15	270,768	25,053,084	21,914,841	21,427,654	487,187	3,138,243	96,780,449	4.50
03/31/16	483,887	26,886,720	20,666,207	20,215,000	451,207	6,220,513	103,000,962	5.15
06/30/16	303,570	25,040,696	23,103,317	22,209,293	894,024	1,937,379	104,938,341	4.54
FY 2016	\$1,686,236	\$102,089,450	\$87,149,528	\$84,993,026	\$2,156,502	\$14,939,922	\$104,938,341	4.54
09/30/16	455,727	25,572,307	23,048,594	22,632,599	415,995	2,523,713	107,462,054	4.62
12/31/16	341,575	25,645,199	22,234,784	21,818,790	415,995	3,410,415	110,872,469	5.11
03/31/17	500,191	25,994,674	21,852,169	21,436,175	415,995	4,142,504	115,014,973	5.40
06/30/17	385,807	22,269,263	21,910,204	21,494,209	415,995	359,059	115,374,032	5.41
FY 2017	\$1,683,299	\$99,481,443	\$89,045,752	\$87,381,772	\$1,663,979	\$10,435,691	\$115,374,032	5.41
09/30/17	573,813	22,624,422	22,422,682	21,996,561	426,121	201,740	115,575,772	5.29
12/31/17	459,032	22,654,207	22,451,240	22,025,119	426,121	202,967	115,778,739	5.28
03/31/18	723,250	23,055,747	22,074,441	21,648,320	426,121	981,307	116,760,045	5.43
06/30/18	552,585	22,996,483	22,121,243	21,695,122	426,121	875,241	117,635,286	5.46
FY 2018	\$2,308,680	\$91,330,859	\$89,069,605	\$87,365,122	\$1,704,483	\$2,261,254	\$117,635,286	5.46
09/30/18	814,997	23,348,295	22,559,006	22,120,785	438,222	789,289	118,424,574	5.39
12/31/18	666,814	23,272,475	22,588,635	22,150,414	438,222	683,839	119,108,414	5.41
03/31/19	889,244	23,548,612	22,268,275	21,830,054	438,222	1,280,337	120,388,751	5.55
06/30/19	812,896	23,520,393	22,316,421	21,878,200	438,222	1,203,972	121,592,723	5.60
FY 2019	\$3,183,951	\$93,689,775	\$89,732,338	\$87,979,452	\$1,752,886	\$3,957,437	\$121,592,723	5.60
09/30/19	935,789	23,709,719	22,718,973	22,259,671	459,301	990,746	122,583,469	5.54
12/31/19	892,999	23,728,878	22,750,474	22,291,173	459,301	978,404	123,561,873	5.57
03/31/20	961,833	23,859,242	22,406,038	21,946,737	459,301	1,453,204	125,015,077	5.74
06/30/20	907,915	23,833,882	22,455,879	21,996,578	459,301	1,378,003	126,393,080	5.79
FY 2020	\$3,698,537	\$95,131,721	\$90,331,364	\$88,494,159	\$1,837,205	\$4,800,358	\$126,393,080	5.79
09/30/20	1,061,930	24,079,348	22,813,528	22,340,554	472,974	1,265,820	127,658,900	5.75
12/31/20	990,666	24,045,878	22,846,188	22,373,214	472,974	1,199,689	128,858,589	5.79
03/31/21	995,556	24,074,685	22,540,762	22,067,787	472,974	1,533,923	130,392,513	5.95
06/30/21	1,017,800	24,126,437	22,592,410	22,119,436	472,974	1,534,028	131,926,540	6.01
FY 2021	\$4,065,953	\$96,326,347	\$90,792,887	\$88,900,991	\$1,891,896	\$5,533,460	\$131,926,540	6.01

Appendix 2

WBF revenue, expenditures and transfers FY 2014 - 2021; actual data through 6/30/2016 With 2.8 cents-per-hour rate effective 1/1/2017

Biennium FY	2013-2015		2015-2017		2017-2019		2019-2021	
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenue:								
Assessments ¹	87,336,237	90,498,133	94,692,136	92,625,138	83,789,030	85,211,727	86,077,325	86,841,946
Investment Income	2,321,274	1,980,827	1,686,236	1,683,299	2,308,680	3,183,951	3,698,537	4,065,953
Fines and Penalties ²	775,463	603,347	758,979	451,713	451,713	451,713	451,713	451,713
Other Income ²	305,120	4,347,518	510,536	222,476	222,476	222,476	222,476	222,476
Non-Complying Employer Program ³	4,919,411	4,501,780	4,441,563	4,498,817	4,558,961	4,619,909	4,681,672	4,744,261
Total	\$95,657,505	\$101,931,605	\$102,089,450	\$99,481,443	\$91,330,859	\$93,689,775	\$95,131,721	\$96,326,347
Expenditures:								
Workers with Disability Program	347,136	322,935	321,015	232,244	190,914	152,250	116,003	81,952
Non-Complying Employer Program	5,165,812	4,225,665	4,072,868	4,125,369	4,180,521	4,236,409	4,293,045	4,350,439
Reemployment Assistance Program ⁴	30,617,582	29,639,214	28,288,916	30,030,136	32,076,892	33,925,123	35,508,220	37,004,838
Reopened Claims Program	4,061,153	3,777,357	3,808,966	4,452,434	4,554,962	4,779,322	5,055,581	5,330,532
Retroactive Program	45,051,343	42,652,573	41,411,679	40,440,923	38,987,221	37,555,394	36,148,398	34,770,515
SB 485 Multiple Wage Jobs	1,051,587	901,658	869,791	958,826	958,826	958,826	958,826	958,826
SB 1558 Claim Payments	112,193	4,654,977	1,960,201	1,406,000	1,279,892	1,073,828	905,988	769,281
Shared Services Chargeback ⁹	1,427,223	1,289,768	2,156,502	1,663,979	1,704,483	1,752,886	1,837,205	1,891,896
Collection Cost Expenditures ¹⁰	655,671	585,179	632,993	579,126	579,126	579,126	579,126	579,126
WCD-WBF Administrative Cost ¹¹	2,225,828	2,414,002	2,630,679	2,337,673	2,402,449	2,502,155	2,616,162	2,693,097
Workers Comp Assessment Unit Cost ¹²	838,301	822,542	20,308	961,758	988,407	1,029,428	1,076,333	1,107,985
IWO-WBF Administrative Cost ¹³	52,724	54,080	56,688	54,422	55,929	58,251	60,905	62,696
WCB-WBF Administrative Cost ¹⁴	323,402	329,935	349,060	343,829	353,356	368,021	384,790	396,105
Total	\$91,929,955	\$91,669,885	\$86,579,666	\$87,586,718	\$88,312,978	\$88,971,020	\$89,540,581	\$89,997,288
Transfers:								
NCE/Rehab ⁵	664,047	(903,765)	(183,815)	(1,076,563)	(350,864)	(355,555)	(360,309)	(365,125)
Bureau of Labor and Industries ⁶	(382,471)	(382,472)	(382,471)	(382,471)	(405,763)	(405,763)	(430,474)	(430,474)
Transfer Out - Other ⁷	(473)	(443)	(3,576)	0	0	0	0	0
Total	\$281,103	(\$1,286,680)	(\$569,862)	(\$1,459,034)	(\$756,627)	(\$761,318)	(\$790,782)	(\$795,599)
Net Cash Flow	4,008,653	8,975,040	14,939,922	10,435,691	2,261,254	3,957,437	4,800,358	5,533,460
Ending Fund Balance	81,023,380	89,998,419	104,938,341	115,374,032	117,635,286	121,592,723	126,393,081	131,926,540
Balance Coverage Ratio ⁸	3.49	3.83	4.54	5.41	5.46	5.60	5.79	6.01
All figures are actual through quarter ending 6/30/2016.								
<ol style="list-style-type: none"> 1. Assessment forecasts are based on a WBF assessment rate of 3.3 cents effective April 1, 2013 and 2.8 cents effective January 1, 2017. 2. Estimates are based on an average of the past several years of actual collections. The large amount of 'Other Income' in 2015 was due to large reimbursements by some decertified Self-Insured Groups under the provisions of SB 1558. 3. Non-Complying Employer Program revenues includes NCE recoveries, NCE fines and penalties, and NCE interest. 4. Planned OHSU expenditures are equal to 1/16 cent per worker per hour and are included with total Reemployment expenditures. 5. Net NCE/Rehab expenditures are transferred from the Premium Assessment Operating Account. 6. The 2015-17 transfer to BOLI is from the 2015-17 Legislatively Adopted Budget and is for enforcement of Oregon discrimination laws. In subsequent years, the transfer amounts are increased by the estimated average annual increase in overall DCBS expenditures. 7. Actual adjustments from DCBS quarterly financial statements. 8. Balance Coverage Ratio excludes expenditures and transfers associated with the NCE/Rehab programs. 9. Chargeback reflects Shared service chargeback expenses. 10. Payments to Department of Revenue and Employment Department for costs related to WBF revenue collections by these agencies. 11. Expenditure for WCD administrative costs related to the WBF. 12. Expenditure for the Workers' Compensation Assessment Unit. 13. Expenditure for Injured Worker Ombudsman administrative costs related to the WBF. 14. Expenditure for Workers' Compensation Board administrative costs related to the WBF. 								
Column detail may not add to totals due to rounding.								
Source: Central Services Division, Department of Consumer and Business Services.								

09/06/16