



# MEMORANDUM

September 4, 2018

To: Cameron Smith, Director, DCBS  
 Nancy Boysen, Deputy Director, DCBS  
 Carolina Marquette, Financial Services Manager, DCBS  
 Louis Savage, Administrator, Workers' Compensation Division, DCBS

From: Chris Day, Senior Forecasting Analyst, DCBS  
 Gary Helmer, Senior Economist, DCBS

Subject: Workers' Benefit Fund Assessment Recommendation for CY 2019

## 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 2019 for employers and workers.

### WBF Assessment CY 2019 Rate Recommendation

I recommend that the WBF assessment rate be lowered to a combined 2.4 cents per hour for calendar year 2019. The current rate is 2.8 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 2.4 cents-per-hour rate through the forecast period. Under this rate schedule, the fund balance is projected to decrease slightly from \$137.2 million at the end of FY 2018 to \$126.2 million at the end of FY 2023.

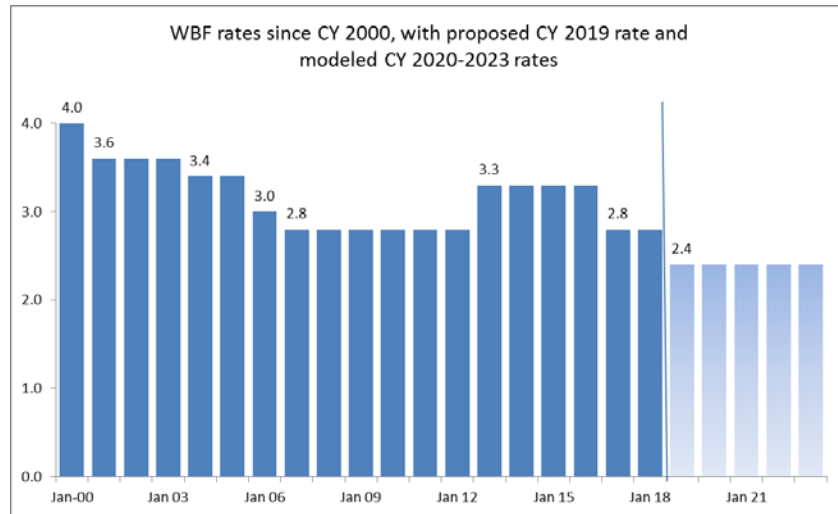
The following table displays the forecast outcomes of maintaining the assessment rate at 2.4 cents per hour through FY 2023.

a. Baseline, 2.4 cents	----- Actual -----				----- Projected -----			
	2015-2017 biennium		2017-2019 biennium		2019-2021 biennium		2021-2023 biennium	
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Ending Fund Balance	\$104,938,341	\$124,691,266	\$137,165,962	\$141,499,457	\$137,326,336	\$133,670,383	\$129,963,978	\$126,195,806
Coverage Ratio	4.54	5.98	7.69	6.97	6.70	6.46	6.24	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 purpose of these changes was to stabilize the WBF fund balance. This was accomplished, and the fund balance has grown by \$47.2 million over the past three fiscal years. The assessment

rate was reduced to 2.8 cents per hour effective January 1, 2017. Recent legislation (HB 2337 and HB 2338) has added additional expenditures to the WBF beginning in the later part of FY 2018. However, even with the increased expenditures, total expenditures are still forecast to be less than total revenue if the assessment rate were kept at 2.8 cents per hour. This is due to the continued attrition of beneficiaries from the Retroactive Program and fairly flat expenditures from the Reemployment Assistance Program. Therefore, a decrease in the assessment rate is warranted.



**Forecast assumptions**

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

**Revenue assumptions:**

1. Includes actual revenue data from the quarterly financial statements through June 2018.
2. Includes the employment forecasts from the September 2018 OEA forecast (baseline and recession forecasts).
3. Includes an updated estimate of the average annual number of hours worked.
4. Includes updated estimates of the recoveries for the Non-Complying Employer Program.
5. Includes estimates of investment income based on the latest information from the State Treasurer’s Office.
6. Includes fines and penalties and other miscellaneous revenue based on recent activity.

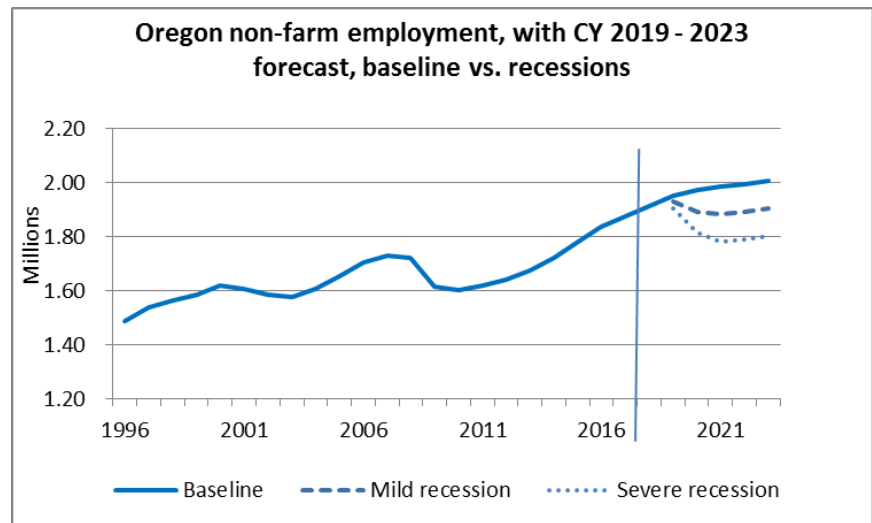
**Expenditure and transfer assumptions:**

1. Includes actual expenditure and transfer data from the quarterly financial statements through June 2018.
2. Includes updated forecasts of all WBF program expenditures based on the September 2018 OEA baseline forecast.
3. 2017-2019 administrative expenditures are from the April 2018 Actual Financial Planning Tool. 2019-2023 expenditures are escalated at 5 percent for FY 2020 personnel services, 3 percent growth for FY 2020 services and supplies, and 3 percent growth per year for all FY 2021 through FY 2023 expenditures.

4. Includes projected payments to the Oregon Institute of Occupational Health Sciences (OIOHS) of \$1.9 million in FY 2019; the amounts are expected to increase about 0.9 percent per year.
5. Includes payments to the Employment Department and Department of Revenue of about \$633,000 in FY 2019 to cover the costs of collecting the WBF assessment. This amount is expected to be about \$585,000 per year in future years.
6. Includes payments to the Bureau of Labor and Industries (BOLI) of \$500,000 in FY 2019 for enforcement of anti-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.
9. Includes estimates of the increased expenditures due to the passage of HB 2337 and HB 2338, which increased permanent total disability and beneficiary benefits.

### WBF revenue forecast

The graph shows three employment forecasts. The main forecast is the OEA's September 2018 employment forecast. The mild recession scenario assumes employment is 1 percent lower than the baseline employment in CY 2019 and 5 percent lower in later years. The severe recession forecast assumes the employment is 2 percent lower than the baseline in CY 2019 and becomes 10 percent lower in later years.



The best estimate of the average annual hours worked comes from the Occupational Injury and Illness survey that Research Unit staff conduct for the Bureau of Labor Statistics. The survey provides an average of 1,624 hours worked, with a 95-percent confidence interval of 1,616 - 1,632 hours. We use the lower-bound estimate of 1,616 hours per employee in our analysis to lessen the likelihood of over-forecasting assessment revenue.

The WBF also receives investment income. This totaled \$3.3 million in FY 2018. The fund also receives monies from fines and penalties and other income. In FY 2018, these monies totaled \$1.2 million.

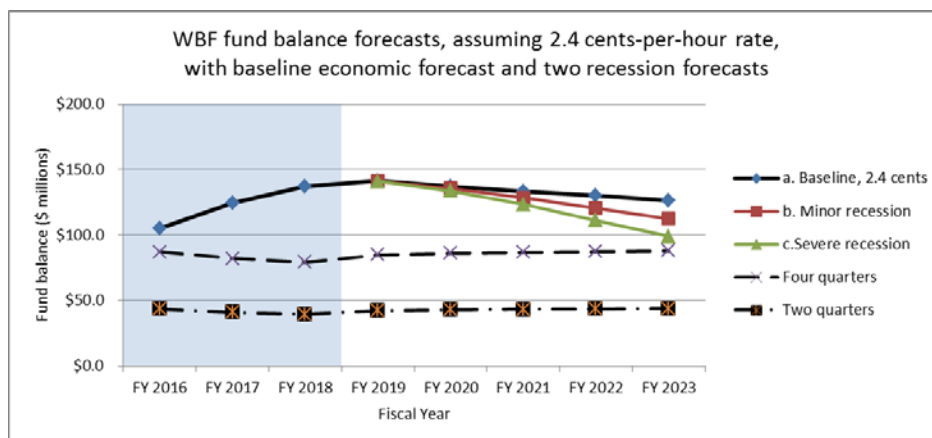
## WBF program expenditures forecast

About 90 percent of the WBF's expenditures pay for the WBF programs. The most costly program, the Retroactive Program, has had declining expenditures. The majority of claims are more than 30 years old, and the number of beneficiaries is declining by more than 100 per year. This trend will continue, even with the newly enacted benefit increases. Reemployment Assistance Program expenditures (primarily the Employer-at-Injury Program and the Preferred Worker Program) had decreased over the past few years, but they grew in FY 2018, and we forecast continued growth. (See Appendix 2 for more details of the program expenditure forecast.)

## WBF forecast outcomes

In this analysis, the assessment rate needed for revenue to equal expenditures is defined as the equilibrium rate. With our current expenditure forecast and the baseline employment forecast, the equilibrium rate is about 2.6 cents per hour over the next six years. Therefore, if the assessment rate was reduced to 2.4 cents per hour effective January 2019, we would expect the fund balance to decline from the current balance of \$137.2 million to \$126.2 million at the end of FY 2023. (See Appendix 1 for more details of the financial outcomes.)

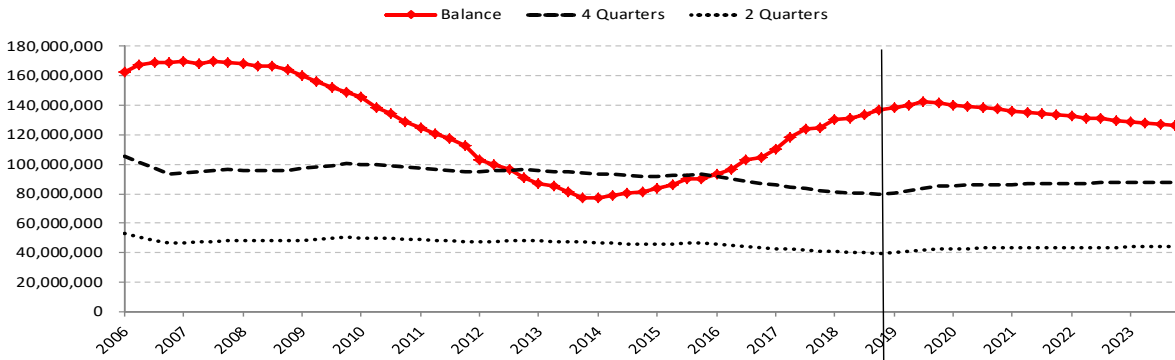
Under a mild recession scenario, the equilibrium rate is forecast to be between 2.6 and 2.7 cents per hour. Therefore, we would expect the fund balance to decline to \$112.6 million at the end of FY 2023. Under a severe recession scenario, we would expect the balance to fall to \$99.1 million at the end of FY 2023. As illustrated in the figure, these three scenarios all forecast that the fund balance will remain above four quarters of planned expenditures through FY 2023.



cc: Michael Wood, David Waki, Sally Coen, Fred Bruyns, Aaron Corvin, Theresa Van Winkle, Brian Light

# Appendix 1

## WORKERS' BENEFIT FUND REVENUES, EXPENSES, FUND BALANCES, AND COVERAGE RATIOS FISCAL YEARS 2006-2023; ACTUAL DATA THROUGH 6/30/2018 REFLECTS 2.4 CENTS-PER-HOUR RATE EFFECTIVE 1/1/2019



Period Ending	Total Revenue	Total Expenses	Excess (Deficit)	Ending Fund Balance	Coverage Ratio
FY 2006	\$101,619,776	\$93,087,288	\$8,532,488	\$168,911,955	
FY 2007	\$95,930,308	\$96,186,812	(\$256,504)	\$168,655,451	
FY 2008	\$91,302,624	\$95,834,829	(\$4,532,205)	\$164,123,246	
FY 2009	\$85,053,542	\$100,525,073	(\$15,471,531)	\$148,651,715	
FY 2010	\$78,667,893	\$98,423,954	(\$19,756,061)	\$128,895,654	
FY 2011	\$78,166,357	\$94,736,371	(\$16,570,014)	\$112,325,641	
FY 2012	\$75,153,191	\$96,263,525	(\$21,110,334)	\$91,215,308	
FY 2013	\$80,006,919	\$94,207,500	(\$14,200,581)	\$77,014,727	
FY 2014	\$95,657,505	\$91,648,852	\$4,008,653	\$81,023,380	
FY 2015	\$101,931,605	\$92,956,565	\$8,975,040	\$89,998,419	
9/30/2015	25,108,950	21,465,163	3,643,787	93,642,206	4.48
12/31/2015	25,053,084	21,914,841	3,138,243	96,780,449	4.50
3/31/2016	26,886,720	20,666,207	6,220,513	103,000,962	5.15
6/30/2016	25,040,696	23,103,317	1,937,379	104,938,341	4.54
FY 2016	\$102,089,450	\$87,149,528	\$14,939,922	\$104,938,341	
9/30/2016	26,647,137	21,299,183	5,347,954	110,286,295	5.36
12/31/2016	27,323,660	19,318,876	8,004,784	118,291,078	6.46
3/31/2017	25,942,169	20,237,967	5,704,202	123,995,280	6.32
6/30/2017	21,997,044	21,301,058	695,986	124,691,266	5.98
FY 2017	\$101,910,010	\$82,157,085	\$19,752,925	\$124,691,266	
9/30/2017	23,678,303	18,227,402	5,450,901	130,142,168	7.41
12/31/2017	22,237,846	21,051,538	1,186,308	131,328,476	6.54
3/31/2018	23,183,999	21,054,045	2,129,954	133,458,430	6.84
6/30/2018	22,764,567	19,057,035	3,707,532	137,165,962	7.69
FY 2018	\$91,864,715	\$79,390,020	\$12,474,695	\$137,165,962	
9/30/2018	22,918,450	21,440,891	1,477,559	138,643,521	6.72
12/31/2018	22,989,003	21,186,220	1,802,783	140,446,304	6.92
3/31/2019	23,312,756	21,246,987	2,065,769	142,512,074	7.00
6/30/2019	20,166,451	21,179,068	(1,012,617)	141,499,457	6.97
FY 2019	\$89,386,661	\$85,053,165	\$4,333,495	\$141,499,457	
9/30/2019	20,478,448	21,786,175	(1,307,728)	140,191,729	6.70
12/31/2019	20,392,074	21,640,759	(1,248,685)	138,943,044	6.69
3/31/2020	20,701,081	21,470,605	(769,524)	138,173,520	6.71
6/30/2020	20,521,759	21,368,943	(847,184)	137,326,336	6.70
FY 2020	\$82,093,362	\$86,266,482	(\$4,173,121)	\$137,326,336	
9/30/2020	20,919,915	21,905,434	(985,519)	136,340,817	6.47
12/31/2020	20,638,927	21,753,195	(1,114,267)	135,226,550	6.47
3/31/2021	20,946,889	21,652,305	(705,416)	134,521,134	6.47
6/30/2021	20,683,955	21,534,705	(850,751)	133,670,383	6.46
FY 2021	\$83,189,686	\$86,845,639	(\$3,655,953)	\$133,670,383	
9/30/2021	21,064,353	22,069,784	(1,005,432)	132,664,951	6.25
12/31/2021	20,729,632	21,905,985	(1,176,353)	131,488,599	6.24
3/31/2022	21,136,159	21,795,498	(659,338)	130,829,260	6.24
6/30/2022	20,800,614	21,665,896	(865,282)	129,963,978	6.24
FY 2022	\$83,730,758	\$87,437,163	(\$3,706,405)	\$129,963,978	
9/30/2022	21,201,459	22,213,863	(1,012,404)	128,951,574	6.03
12/31/2022	20,841,829	22,041,095	(1,199,266)	127,752,308	6.02
3/31/2023	21,324,486	21,963,537	(639,050)	127,113,258	6.01
6/30/2023	20,902,626	21,820,078	(917,452)	126,195,806	6.01
FY 2023	\$84,270,400	\$88,038,572	(\$3,768,172)	\$126,195,806	

## Appendix 2

### WBF revenue, expenditures and transfers FY 2016 - 2023; actual data through 6/30/2018 Assume 2.4 cents-per-hour rate effective 1/1/2019

Biennium FY	2015-2017		2017-2019		2019-2021		2021-2023	
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
<b>Revenue:</b>								
Assessments <sup>1</sup>	94,692,136	94,230,176	84,880,070	81,170,301	73,196,655	73,934,249	74,308,835	74,740,859
Investment Income	1,686,236	2,258,539	3,313,829	3,639,021	4,338,183	4,715,623	4,900,714	5,026,832
Fines and Penalties <sup>2</sup>	758,979	848,132	781,494	753,483	753,483	753,483	753,483	753,483
Other Income <sup>2</sup>	510,536	853,898	419,016	459,010	459,010	459,010	459,010	459,010
Non-Complying Employer Program <sup>3</sup>	4,441,563	3,719,265	2,470,306	3,364,845	3,346,031	3,327,321	3,308,716	3,290,215
<b>Total</b>	<b>\$102,089,450</b>	<b>\$101,910,010</b>	<b>\$91,864,715</b>	<b>\$89,386,661</b>	<b>\$82,093,362</b>	<b>\$83,189,686</b>	<b>\$83,730,758</b>	<b>\$84,270,400</b>
<b>Expenditures:</b>								
Workers with Disability Program	321,015	221,697	214,607	151,434	115,154	81,073	48,997	18,753
Non-Complying Employer Program	4,072,868	4,158,387	4,243,987	4,031,279	4,008,738	3,986,323	3,964,034	3,941,869
Reemployment Assistance Program <sup>4</sup>	28,288,916	26,910,143	28,973,454	30,746,935	32,489,255	33,930,051	35,247,965	36,592,691
Reopened Claims Program	3,808,966	3,634,754	3,328,361	4,495,129	4,858,452	5,178,584	5,566,652	5,933,447
Retroactive Program	41,411,679	39,627,647	38,819,616	39,639,007	38,702,036	37,475,795	36,270,886	35,091,187
SB 485 Multiple Wage Jobs	869,791	888,180	943,677	930,979	930,979	930,979	930,979	930,979
SB 1558 Claim Payments	1,960,201	744,350	254,460	279,228	235,585	200,037	171,083	147,500
Shared Services Chargeback <sup>10</sup>	2,156,502	2,203,078	1,152,118	2,246,446	2,384,520	2,455,071	2,528,723	2,604,585
Collection Cost Expenditures <sup>11</sup>	632,993	658,579	681,804	632,744	585,379	585,379	585,379	585,379
WCD-WBF Administrative Cost <sup>12</sup>	2,630,679	2,562,820	1,437,475	1,583,004	1,657,407	1,707,129	1,758,343	1,811,093
Workers Comp Assessment Unit Cost <sup>13</sup>	20,308	0	0	0	0	0	0	0
IWO-WBF Administrative Cost <sup>14</sup>	56,688	57,741	59,644	61,896	64,805	66,749	68,752	70,814
WCB-WBF Administrative Cost <sup>15</sup>	349,060	353,438	312,618	339,216	355,160	365,814	376,789	388,093
<b>Total</b>	<b>\$86,579,666</b>	<b>\$82,020,815</b>	<b>\$80,421,821</b>	<b>\$85,137,296</b>	<b>\$86,387,470</b>	<b>\$86,962,984</b>	<b>\$87,518,581</b>	<b>\$88,116,388</b>
<b>Transfers:</b>								
NCE/Rehab <sup>5</sup>	(183,815)	251,325	1,293,621	584,131	651,437	647,795	644,172	640,571
Bureau of Labor and Industries <sup>7</sup>	(382,471)	(382,472)	(250,000)	(500,000)	(530,450)	(530,450)	(562,754)	(562,754)
Transfer Out - Other <sup>8</sup>	(3,576)	(5,123)	(11,820)	0	0	0	0	0
<b>Total</b>	<b>(\$569,862)</b>	<b>(\$136,270)</b>	<b>\$1,031,801</b>	<b>\$84,131</b>	<b>\$120,987</b>	<b>\$117,345</b>	<b>\$81,418</b>	<b>\$77,816</b>
Net Cash Flow	14,939,922	19,752,925	12,474,695	4,333,495	(4,173,121)	(3,655,953)	(3,706,405)	(3,768,172)
Ending Fund Balance	104,938,341	124,691,266	137,165,962	141,499,457	137,326,336	133,670,383	129,963,978	126,195,806
Balance Coverage Ratio	4.54	5.98	7.69	6.97	6.70	6.46	6.24	6.01

All figures are actual through quarter ending 6/30/2018.

1. Assessment forecasts are based on a WBF assessment rate of 2.4 cents effective January 1, 2019.
2. Estimates are based on an average of the past several years of actual collections.
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.
7. The transfer to BOLI is for enforcement of Oregon discrimination laws and is based on a contract with BOLI.
8. Actual adjustments from DCBS quarterly financial statements.
9. Balance Coverage Ratio excludes expenditures and transfers associated with the NCE/Rehab programs.
10. This represents the indirect portion of the WBF Administrative Cost.
11. Payments to Department of Revenue and Employment Department for costs related to WBF revenue collections by these agencies.
12. Expenditure for WCD administrative costs related to the WBF.
13. Expenditure for the Workers' Compensation Assessment Unit. As of October 2015, this is no longer a direct WBF expenditure. It is now reflected in chargeback.
14. Expenditure for Injured Worker Ombudsman administrative costs related to the WBF.
15. 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.

08/27/18