



MEMORANDUM

September 8, 2021

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 C. Fuller, Senior Economist, DCBS
 Kelli Borushko, Senior Forecasting Analyst, DCBS

Subject: Workers' Benefit Fund Assessment Recommendation for CY 2022

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 2022 for employers and workers.

WBF Assessment CY 2022 Rate Recommendation

We recommend that the WBF assessment rate be maintained at 2.2 cents per hour for calendar year 2022.

Multiple-Year Rate Schedule for Planning Purposes

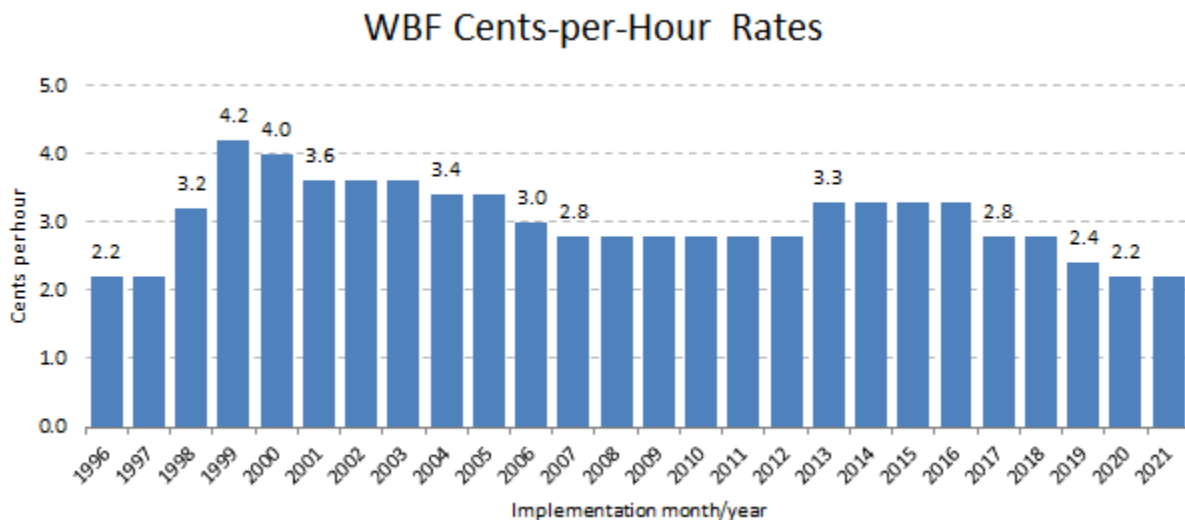
DCBS models rates for future years to estimate the future adequacy of the fund. The multiple-year rate schedule models the continuation of the 2.2 cents-per-hour rate through the forecast period. Under this rate schedule, the fund balance is projected to decrease from \$149.6 million at the end of FY 2021 to \$57.3 million at the end of FY 2027.

The following table displays the forecast outcomes of maintaining the assessment rate at 2.2 cents per hour through FY 2027.

	2019-2021 biennium		2021-2023 biennium		2023-2025 biennium		2025-2027 biennium	
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Ending Fund Balance	\$162,435,562	\$149,617,796	\$136,415,419	\$123,101,841	\$106,921,649	\$90,468,780	\$74,096,817	\$57,341,549
Coverage Ratio	11.14	7.14	7.22	6.20	5.19	4.37	3.48	2.64

WBF Assessment Summary

Legislation in 2019 (HB 2788) stated that the WBF should have a minimum fund balance of 12 months of projected expenditures. In FY 2022, this is anticipated to be \$83.9 million. Because the current fund balance is \$149.6 million, a further drawdown in the balance is warranted. With an assessment rate of 2.2 cents per hour, we anticipate an orderly return to compliance for the fund balance.



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 2021.
2. Includes the employment forecasts from the September 2021 OEA economic forecast.
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.

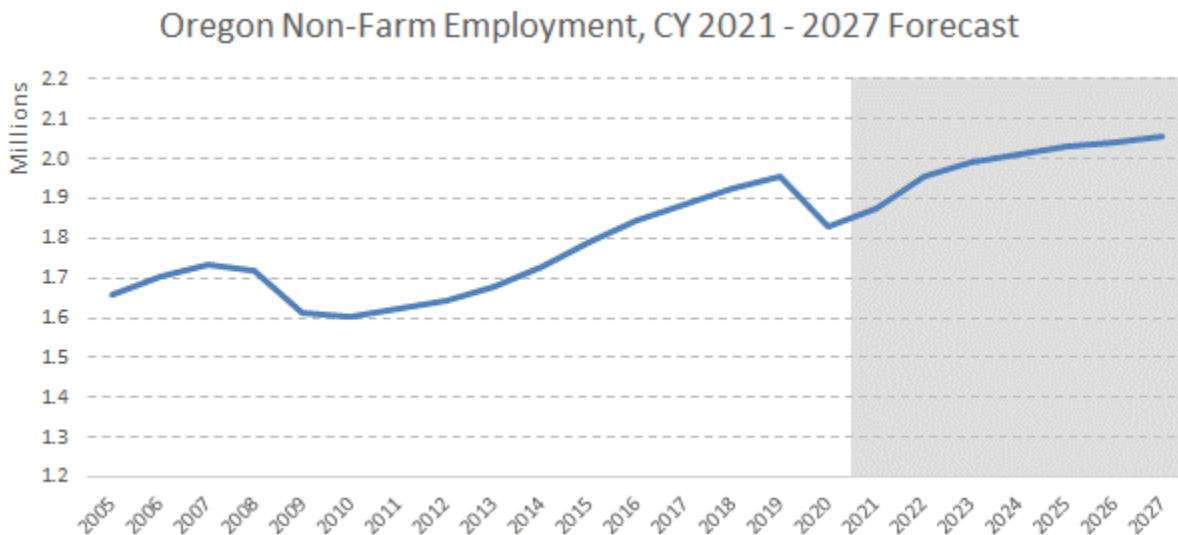
Expenditure and transfer assumptions:

1. Includes actual expenditure and transfer data from the quarterly financial statements through June 2021.
2. Includes updated forecasts of all WBF program expenditures.
3. Costs that WCD, WCB, and OIW incur administering WBF programs are inflated 3 percent per year.
4. Includes projected payments to the Oregon Institute of Occupational Health Sciences of \$1.9 million in FY 2022.

5. Includes payments to the Employment Department and Department of Revenue of about \$585,000 in FY 2022 to cover the costs of collecting the WBF assessment. This amount is expected to be constant in future years.
6. Includes payments to the Bureau of Labor and Industries (BOLI) of about \$560,000 in FY 2022 for enforcement of anti-discrimination laws.
7. Includes updated estimates of the transfers from the Premium Assessment Operating Account 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 in 2017, which increased permanent total disability and beneficiary benefits.

WBF revenue forecast

The graph shows the OEA September 2021 total non-farm employment forecast. This forecast is used to produce the financial outcomes discussed in this recommendation.



We use an average annual hours worked estimate from the Occupational Injury and Illness survey that Research Unit staff conduct for the Bureau of Labor Statistics. The survey provides an average of 1,601 hours worked

The WBF also receives investment income. This totaled \$2.5 million in FY 2021. If the fund balance grows, this annual amount will grow. Under the assumptions discussed in this recommendation, investment income would grow to \$3.3 million in FY 2027.

WBF program expenditures forecast

About 92 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 we forecast increased expenditures because of the increase in the number of claims. (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 between 2.4 and 2.8 cents per hour over the next six years. Therefore, if the assessment rate was maintained at 2.2 cents per hour effective January 2022, we would expect the fund balance to decline slowly. (See Appendix 1 for more details of the financial outcomes.)

After the last recession, SB 1558 (2014) required the Management-Labor Advisory Committee (MLAC) study the proper WBF minimum fund balance.¹ HB 2788 (2019) resulted from this study; it states that the fund balance should be at least the equivalent of 12 months of projected expenditures. If the fund balance is expected to fall below that level, the department must develop a plan to increase the fund balance and provide the plan to MLAC.

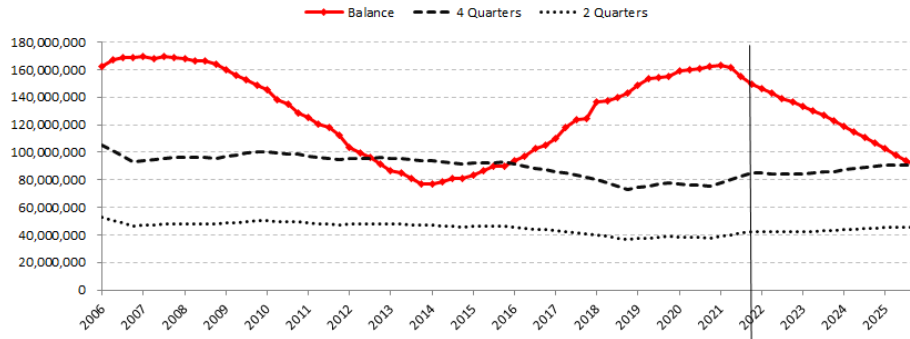
The MLAC study describes the impact of the last recession on the WBF. Prior to the recession, the department had lowered the assessment rate to 2.8 cents per hour to draw down the fund balance. With the recession and the 2.8 cents-per-hour assessment rate, the fund balance dropped by about \$92 million over a seven-year period.

¹ The report can be accessed at <https://www.oregon.gov/dcbs/mlac/Documents/wbf-study-bal-rpt-121418.pdf>. The 2019 legislation can be accessed at <https://olis.leg.state.or.us/liz/2019R1/Measures/Overview/HB2788>.

Appendix 1

WBF

REVENUES, EXPENSES, FUND BALANCES, AND COVERAGE RATIOS FISCAL YEARS 2012-2027; ACTUAL DATA THROUGH 06/30/2021 REFLECTS 2.2 CENTS-PER-HOUR RATE EFFECTIVE 1/1/2022



Period Ending	Total Revenue	Total Expenses	Excess (Deficit)	Ending Fund Balance	Coverage Ratio
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	
FY 2016	\$102,089,450	\$87,149,528	\$14,939,922	\$104,938,341	
FY 2017	\$101,910,010	\$82,157,085	\$19,752,925	\$124,691,266	
9/30/2017	23,678,303	12,150,421	11,527,882	136,219,149	12.01
12/31/2017	22,237,846	21,051,538	1,186,308	137,405,457	6.85
3/31/2018	23,183,999	21,054,045	2,129,954	139,535,411	7.16
6/30/2018	22,764,567	19,057,034	3,707,533	143,242,944	8.03
FY 2018	\$91,864,715	\$73,313,037	\$18,551,678	\$143,242,944	
9/30/2018	23,580,371	18,157,483	5,422,888	148,665,832	8.69
12/31/2018	23,975,736	19,366,633	4,609,103	153,274,935	8.47
3/31/2019	22,007,060	21,323,288	683,772	153,958,707	8.39
6/30/2019	20,178,215	18,876,390	1,301,825	155,260,532	9.31
FY 2019	\$89,741,382	\$77,723,794	\$12,017,588	\$155,260,532	
9/30/2019	21,725,879	18,125,783	3,600,096	158,860,628	9.77
12/31/2019	20,603,965	19,522,766	1,081,199	159,941,827	9.20
3/31/2020	21,639,579	21,018,930	620,649	160,562,476	8.31
6/30/2020	18,522,504	16,649,418	1,873,086	162,435,562	11.14
FY 2020	\$82,491,927	\$75,316,897	\$7,175,030	\$162,435,562	
9/30/2020	17,863,608	17,339,461	524,147	162,959,709	10.05
12/31/2020	18,980,998	20,077,266	(1,096,268)	161,863,441	8.68
3/31/2021	18,751,514	25,405,565	(6,654,051)	155,209,390	6.29
6/30/2021	16,453,134	22,044,728	(5,591,594)	149,617,796	7.14
FY 2021	\$72,049,254	\$84,867,020	(\$12,817,766)	\$149,617,796	
9/30/2021	17,359,169	20,952,215	(3,593,046)	146,024,750	7.77
12/31/2021	17,619,605	20,898,609	(3,279,003)	142,745,746	7.58
3/31/2022	17,820,941	21,182,232	(3,361,292)	139,384,455	7.28
6/30/2022	17,940,146	20,909,181	(2,969,035)	136,415,419	7.22
FY 2022	\$70,739,860	\$83,942,237	(\$13,202,377)	\$136,415,419	
9/30/2022	18,095,261	21,388,599	(3,293,339)	133,122,081	6.86
12/31/2022	18,166,129	21,203,700	(3,037,571)	130,084,510	6.77
3/31/2023	18,293,615	21,828,180	(3,534,566)	126,549,944	6.37
6/30/2023	18,352,245	21,800,348	(3,448,103)	123,101,840	6.20
FY 2023	\$72,907,249	\$86,220,827	(\$13,313,579)	\$123,101,840	
9/30/2023	18,436,845	22,698,644	(4,261,799)	118,840,041	5.71
12/31/2023	18,486,079	22,513,602	(4,027,523)	114,812,518	5.56
3/31/2024	18,514,122	22,572,212	(4,058,091)	110,754,427	5.34
6/30/2024	18,595,652	22,428,430	(3,832,779)	106,921,649	5.19
FY 2024	\$74,032,697	\$90,212,889	(\$16,180,192)	\$106,921,649	
9/30/2024	18,615,027	23,174,942	(4,559,914)	102,361,734	4.78
12/31/2024	18,692,713	23,083,593	(4,390,880)	97,970,854	4.59
3/31/2025	18,701,650	22,563,146	(3,861,495)	94,109,359	4.51
6/30/2025	18,770,846	22,411,426	(3,640,580)	90,468,780	4.37
FY 2025	\$74,780,237	\$91,233,106	(\$16,452,869)	\$90,468,780	
9/30/2025	18,776,293	23,061,593	(4,285,300)	86,183,480	4.02
12/31/2025	18,847,244	22,975,098	(4,127,854)	82,055,626	3.84
3/31/2026	18,849,275	22,945,141	(4,095,866)	77,959,760	3.64
6/30/2026	18,918,014	22,780,957	(3,862,943)	74,096,817	3.48
FY 2026	\$75,390,826	\$91,762,789	(\$16,371,963)	\$74,096,817	
9/30/2026	18,925,323	23,393,237	(4,467,914)	69,628,903	3.17
12/31/2026	19,005,410	23,292,821	(4,287,411)	65,341,492	2.98
3/31/2027	19,017,978	23,135,919	(4,117,941)	61,223,551	2.80
6/30/2027	19,097,416	22,979,419	(3,882,002)	57,341,549	2.64
FY 2027	\$76,046,128	\$92,801,395	(\$16,755,268)	\$57,341,549	

Appendix 2
FY 2020 - 2027; actual data through 06/30/2021
2.2 cents-per-hour rate effective 1/1/2022

Biennium FY	2019-2021		2021-2023		2023-2025		2025-2027	
	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Revenue:								
Assessments ¹	74,267,480	64,378,131	64,175,482	66,327,727	67,372,438	68,068,944	68,585,836	69,069,654
Investment Income	4,152,752	2,464,302	2,858,084	2,873,228	2,953,966	3,004,999	3,098,697	3,270,180
Fines and Penalties ²	776,153	339,204	778,146	778,146	778,146	778,146	778,146	778,146
Other Income ²	260,005	171,093	462,699	462,699	462,699	462,699	462,699	462,699
Non-Complying Employer Program ³	3,035,537	4,696,524	2,465,449	2,465,449	2,465,449	2,465,449	2,465,449	2,465,449
Total	\$82,491,927	\$72,049,254	\$70,739,860	\$72,907,249	\$74,032,697	\$74,780,237	\$75,390,826	\$76,046,128
Expenditures:								
Workers with Disability Program	198,433	153,905	203,885	182,374	162,058	142,840	124,634	107,361
Non-Complying Employer Program	5,857,531	4,557,323	6,144,657	6,104,175	6,063,959	6,024,008	5,984,320	5,944,894
Reemployment Assistance Program ⁴	27,585,510	31,637,816	30,830,645	32,791,313	35,577,909	38,240,880	40,403,837	42,328,573
Reopened Claims Program	2,441,377	2,399,286	4,003,869	4,177,668	4,273,513	4,531,154	4,748,208	4,782,062
Retroactive Program	36,727,167	38,707,671	37,382,964	36,665,100	35,951,334	35,245,778	34,547,166	33,854,221
SB 485 Multiple Wage Jobs	874,522	1,330,618	876,982	876,982	876,982	876,982	876,982	876,982
SB 1558 Claim Payments	104,751	(77,781)	11,184	9,643	8,387	7,364	6,531	5,852
Shared Services Chargeback ¹⁰	1,454,919	1,673,082	1,606,424	1,654,617	1,704,255	1,755,383	1,808,044	1,862,286
Collection Cost Expenditures ¹¹	67,157	0	585,379	585,379	585,379	585,379	585,379	585,379
WCD-WBF Administrative Cost ¹²	1,737,563	4,147,995	4,903,335	4,564,889	4,249,804	3,956,468	3,683,378	3,429,138
IWO-WBF Administrative Cost ¹⁴	62,709	57,344	52,897	49,246	45,847	42,682	39,736	36,993
WCB-WBF Administrative Cost ¹⁵	351,320	294,297	295,179	274,805	255,837	238,178	221,738	206,433
Total	\$77,462,959	\$84,881,556	\$87,154,585	\$89,276,557	\$93,202,832	\$94,174,663	\$94,637,521	\$95,627,742
Transfers:								
NCE/Rehab ⁵	2,606,062	1,130,951	3,775,103	3,618,484	3,578,402	3,538,583	3,499,027	3,459,732
Bureau of Labor and Industries ⁷	(460,000)	(238,000)	(562,754)	(562,754)	(588,458)	(597,026)	(624,295)	(633,385)
Transfer Out - Other ⁸	0	(1,103,986)	0	0	0	0	0	0
Total	\$2,146,062	\$14,536	\$3,212,348	\$3,055,730	\$2,989,944	\$2,941,557	\$2,874,732	\$2,826,347
Net Cash Flow	7,175,030	(12,817,766)	(13,202,377)	(13,313,579)	(16,180,192)	(16,452,869)	(16,371,963)	(16,755,268)
Ending Fund Balance	162,435,562	149,617,796	136,415,419	123,101,841	106,921,649	90,468,780	74,096,817	57,341,549
Balance Coverage Ratio	11.14	7.14	7.22	6.20	5.19	4.37	3.48	2.64

1. Assessment forecasts are based on a WBF assessment rate of 2.2 cents effective January 1, 2022.
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.
6. Quarterly transfer from the WBF to the PAOA to cover direct costs associated with WBF programs.
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.

09/08/21