

FISCAL IMPACT FOR INITIATIVE 1082

Industrial insurance premium paid into state Trust Funds is estimated to decrease \$1.1 billion–\$1.43 billion by calendar year 2014 as employers shift to private insurers. State claim costs correspondingly decrease as claims shift from the state to private insurers. State revenue is estimated to increase \$61 million–\$75 million over five fiscal years. Costs are estimated to increase up to \$179 million for the state and \$47.25 million for local governments over five fiscal years. Assuming no legislative action to conform statutes to the initiative, industrial insurance premium paid into state Trust Funds and associated costs may increase.

GENERAL ASSUMPTIONS

- Some estimates are based on the state’s fiscal year (FY) of July 1 through June 30. Some estimates are based on a calendar year (CY).
- Existing benefits levels to injured employees are maintained.
- Private insurers can provide industrial insurance coverage beginning July 1, 2012.
- The state will remain insured by the state’s industrial insurance program (State Fund). Local governments that are not self-insured will also remain covered by the State Fund.
- Self-insured employers remain self-insured. No assumption is made that self-insured employers will seek industrial insurance from private insurers or the State Fund.
- Private insurers will acquire 38.3 percent of the industrial insurance market in CY 2013, growing to 53.3 percent in CY 2014. This assumption is based on the average percentage of State Fund premium in other states with competitive State Fund programs using information from the National Council on Compensation Insurance. Growth in private industrial insurance is based on the assumption that large employers and participants in retrospective rating programs, which represent more than half of the State Fund, are more likely to change to private insurers.
- Of the industrial insurance market, 6.2 percent will be referred to the assigned risk plan. This assumption is based on the average percentage of market assigned to risk plans in all states that use information from the National Council on Compensation Insurance.

STATE AND LOCAL REVENUE ASSUMPTIONS

Industrial Insurance Premiums

The state’s Industrial Insurance Trust Funds (state Trust Funds) are self-contained funds into which employers pay premiums for no-fault industrial insurance coverage for their employees with the State Fund. The amount of premium deposited into state Trust Funds will decrease as some employers obtain private industrial insurance coverage. However, the amount of premium that will shift to private insurers cannot be precisely estimated because the future competitive market is unknown. Therefore, the fiscal impact statement uses the following range of assumptions for the estimate:

- A low range is calculated using State Fund 2010 premium rates. At this rate, premiums paid to private insurers and the assigned risk plan combined is estimated to be \$821 million in CY 2013 and \$1.1 billion in CY 2014. Therefore, premium paid into state Trust Funds is estimated at \$619 million in CY 2013 and \$828 million in CY 2014.
- A higher range is calculated using State Fund premium at the 2010 actuarially estimated rate, which is increased for wage inflation at 2.5 percent and medical inflation at 3.5 percent. At this rate, premium paid to private insurers and the assigned risk plan combined is estimated to be \$1 billion in CY 2013 and \$1.43 billion in CY 2014. Therefore, premium deposited into state Trust Funds is estimated at \$805 million in CY 2013 and \$1.37 billion in CY 2014.

- These estimates assume private insurers will collect sufficient premium to cover future cost of living adjustments to benefit levels.

Industrial Insurer License Fees

The private insurers who offer industrial insurance must be licensed by the Office of Insurance Commissioner (OIC). Using the following assumptions, OIC estimates state license fees will be less than \$11,000 in FY 2013 and \$8,250 each fiscal year thereafter, assuming a total of 320 insurers and 500 agents and brokers (producers) ultimately will be licensed to sell industrial insurance in Washington. Total state revenue from fees is estimated at \$27,500 over the next five fiscal years.

Industrial Insurer Assessments

The OIC must collect an assessment from private insurers sufficient to cover OIC’s costs to administer its duties. The OIC estimates state assessments of \$3.3 million in FY 2013, \$3.6 million in FY 2014 and \$3.7 million in FY 2015 and each fiscal year thereafter to cover its costs. Funds must be deposited into a new industrial insurance administrative account. Because assessment increases are assumed to require legislative approval, revenue from assessments is assumed to be \$3.3 million each fiscal year for a total of \$9.9 million for three fiscal years.

Taxes on Insurers

Private industrial insurance premiums will be subject to the insurance premium tax. Insurance agent commissions will be subject to the business and occupation (B&O) tax. Both taxes are deposited into the State General Fund and can be used for any governmental purpose. Using the “Industrial Insurance Premiums” assumptions above and a 7.2 percent commission rate to brokers and agents (from Best’s Aggregates & Averages 2007 nationwide average commission rate for industrial insurance), an estimated \$51 million to \$65 million will be deposited into the State General Fund from taxes on private insurers. The following table shows the range of revenue generated by tax type for each fiscal year:

Revenue Ranges by Tax Type

Fiscal Year	2011	2012	2013	2014	2015
Insurance Premium Tax	\$0	\$0	\$8,211,000 – \$10,700,000	\$19,430,000 – \$24,370,000	\$22,440,000 – \$28,600,000
Business and Occupation Tax	\$0	\$0	\$262,000 – \$322,000	\$327,000 – \$410,000	\$391,000 – \$498,000
Total State General Fund Revenue	\$0	\$0	\$8,473,000 – \$11,022,000	\$19,757,000 – \$24,780,000	\$22,831,000 – \$29,098,000

Approximately 38 cities and towns impose a local B&O tax. Because it is not known where private insurers will locate, the amount of revenue generated from local B&O tax is indeterminate.

STATE AND LOCAL EXPENDITURE ASSUMPTIONS

The amount of state expenditures for claims costs will correspondingly decrease along with premiums paid into the Trust Fund. (See “Industrial Insurance Premiums” section in State and Local Revenue Assumptions above for estimate.) The initiative is assumed to have no impact on local government expenditures.

STATE AND LOCAL COST ASSUMPTIONS

Industrial Insurance Premiums

The initiative requires employers to pay the full cost of the Medical Aid premium. Under current law, the state deducts one-half of Medical Aid premium from state employee pay. This estimate assumes the same for all local governments covered by the State Fund. Assuming the number of full-time equivalent employees in CY 2009 and current 2010 Medical Aid premium rates, the estimated cost to the state is \$22 million and the estimated cost to the local governments is \$10.5 million in CY 2011 and each calendar year thereafter. Over five fiscal years, this estimate totals \$99 million in state costs and \$47.25 million in local government costs. This estimate assumes employers will continue to collect half of the Supplemental Pension Fund premium from employees.

Office of Insurance Commissioner (OIC) Administration

The OIC will assume costs for regulation of private insurers who offer industrial insurance, which will include licensing activities, financial examinations and oversight, analysis of rate filings, responding to consumer complaints, rule making, and legal and public affairs. State costs are estimated at \$186,200 for FY 2011, \$1.9 million for FY 2012, \$3.3 million for FY 2013, \$3.6 million for FY 2014 and \$3.7 million for FY 2015. Total estimated state costs are \$12,686,200 over the next five fiscal years. These state costs assume the following:

- Private insurers will be subject to the regulatory requirements of Title 48 RCW involving admission, financial, solvency and market analysis oversight.
- Private insurers will be subject to the unfair claims practices rules and statutes.
- The initiative gives no authority to OIC to approve or deny manual rates adopted by a private rating organization. Variations from the manual rates will require OIC approval.
- Private insurers will pay all costs and fees associated with the licensed rating organization selected to prepare rate-making documents.
- Employers who purchase industrial insurance coverage from the assigned risk plan will pay all costs associated with that plan.
- Consumers who disagree with claims decisions made by private insurers will be able to file complaints with OIC.
- The OIC cannot assess private insurers for Board of Industrial Insurance Appeals (BIIA) expenses.
- No resources will be devoted to private industrial insurance fraud prevention, detection or prosecution.
- No guaranty fund coverage will exist for insolvent private insurers. No costs are assumed for the state. Losses will be absorbed by employers, injured employees and medical providers.

Department of Labor and Industries (L&I) Administration

The initiative will generate state costs related to L&I activities that can be estimated as follows:

- Costs estimated up to \$1.1 million for information technology changes, rule making and actuarial analysis to change the State Fund premium basis to total payroll by January 1, 2011.
- Costs estimated up to \$16.5 million in FY 2012 for additional information technology changes for fraud detection, policy issuance and accounting systems.
- Costs estimated to average \$317,000 annually over the next five fiscal years for staff to pursue fraud and employers who are not insured.

- Costs estimated at \$5.94 million each fiscal year for the Employment Standards Program and Apprenticeship Program that can no longer be funded from the Trust Fund beginning FY 2013.
- Because L&I has existing statutory authority to assess fees for the state's occupational safety and health program and the University of Washington's environmental research facility, no change in state revenue or state expenditures is assumed for maintaining the programs at current levels. However, state costs include \$412,000 in FY 2013, \$398,000 in FY 2014 and \$398,000 in FY 2015 for L&I to collect these fees. Total state costs are estimated at \$1,208,000 for three fiscal years.

Assuming no further legislative action to conform current statutes to the initiative, State Fund premiums and costs (State Fund and L&I) may increase, but the amount is indeterminate for the following reasons:

- Current law requires the State Fund to provide coverage to all employers. If the State Fund is unable to deny coverage to certain employers who should be insured by the assigned risk plan, premiums and costs will increase.
- Current law requires the State Fund to cover claims of employees whose employers did not obtain industrial insurance through the State Fund, self-insurance or a private industrial insurer. As employers shift to private insurers, this cost may change.
- Although employers insured through the State Fund will decrease, additional administrative costs may be necessary for the State Fund to compete with private insurers.
- L&I may have costs or savings related to changes in rate development, premium collection practices and policy issuance activities.

Board of Industrial Insurance Appeals Administration

Employers and employees covered by private industrial insurers have appeal rights to the BIIA. BIIA estimates a 34 percent increase in appeals based on the ratio of appeals to claims for private insurers as compared to the same ratio for the Oregon SAIF state-chartered workers compensation company over a three-year period. Additionally, appeals of private insurers' decisions are assumed to be a state cost because OIC cannot assess private insurers for BIIA expenses. State costs estimated for appeals and case management changes are estimated at \$705,000 in FY 2012, \$7.7 million in FY 2013, and \$10 million in FY 2014 and \$10 million in FY 2015. Total state costs are estimated at \$28,422,000 for four fiscal years.

The Department of Revenue Administration

Assuming most agents and brokers (producers) who will be licensed to sell industrial insurance are currently reporting taxpayers, state costs of up to \$50,000 are estimated for the Department of Revenue to administer the B&O taxes. Total state costs are estimated at \$150,000 over the next five fiscal years.

Joint Legislative Task Force

The initiative creates a joint legislative task force on private competition for industrial insurance for the purpose of developing proposed legislation to conform current statutes to the provisions of the initiative. The task force expires on December 31, 2012. The Legislature assumes no additional costs for the task force. Assuming that L&I is tasked to provide actuarial, policy and technical assistance to the task force, state costs are estimated at \$345,000 for FY 2011, \$571,000 for FY 2012 and \$289,000 for FY 2013, for a total of \$1,205,000.