

WORKERS' COMPENSATION ASSESSMENT – FUNDING

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Subcommittee Discussion Overview

- ERD Funding Problem
 - Comparison of Funding Mechanisms by State
- Potential Solutions
 - Assessment on Paid Claims
 - Assessment on Premium
 - Assessment on Payroll
 - Separate Safety Funding
- Discussion of Subcommittee
- Subcommittee Recommendation and Direction



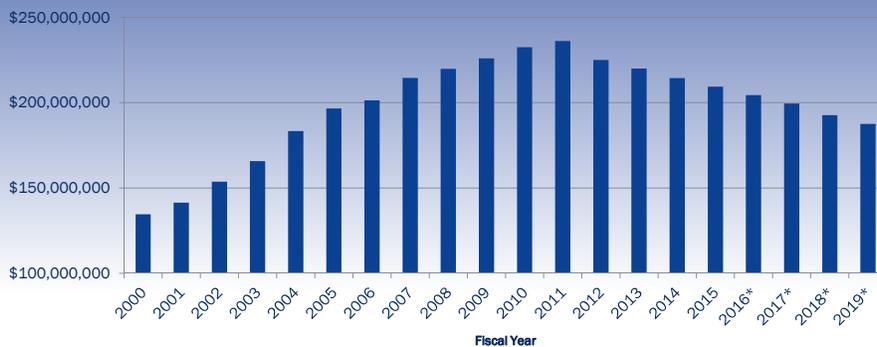
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Subcommittee Recommendation

- Use current funding mechanism with no cap on assessment rate
 - Assessment rate would be determined by budget
 - Assessment would continue to be distributed based on paid benefits
- Increase Medical Over \$200K cap to last five year average (\$400K)
- Have a separate assessment for authorized safety functions currently being paid under the Administrative Assessment
 - Assessment rate for safety functions would be determined by budget
- Affect of excluding Old Fund assessment
 - Old Fund not discussed at Subcommittee meeting
 - LMAC Recommendation for Old Fund

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Amount Available For Assessment

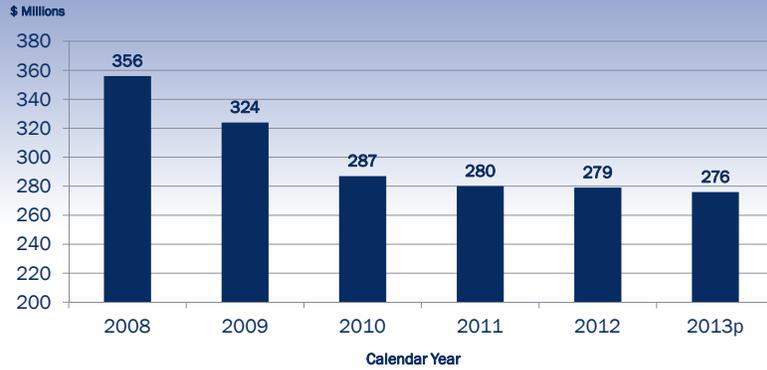


- **Decrease of nearly \$27,000,000 in amount available for assessment in five years since paid benefits at highest level (\$236,000,000) – Decline expected to continue well below \$200,000,000**
- **As paid benefits decline, the tax declines**
- **In order to collect the same amount of funding as collected in 2011, assessment rate would have to be 3.38% in FY 15 and 3.78% in FY 19**

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Montana Workers' Compensation Premium Volume

Direct Written Premium



*Source: NCCI State Advisory Forum

- **\$80 million in premium savings over 5 years**

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Projected Assessment Amount and Expenditures Based on Current Methodology

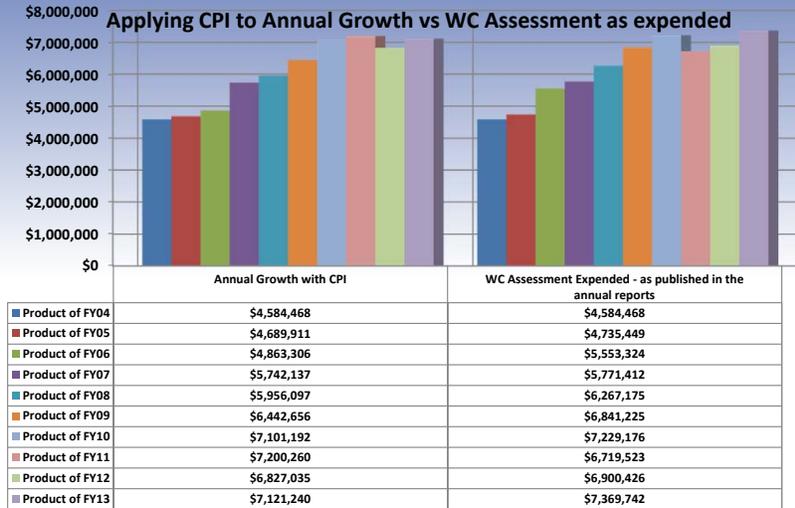
(in \$ millions)

	FY2015	FY2016	FY2017	FY2018	FY2019
Projected Amount Available for Assessment	209.4	204.4	199.4	192.6	187.5
Projected Revenue with 3% cap	6.28	6.13	5.98	5.78	5.63
Projected Expenditures	8.34	8.43	8.68	8.94	9.21
Projected Shortfall	(2.06)	(2.30)	(2.70)	(3.16)	(3.58)

*Amount Available for Assessment is projected on current trend of decreasing paid benefits. With the five year hard closure starting in CY 2016, the paid benefits could decrease even faster resulting in a much larger shortfall in FY 2018 and beyond.

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COMPARING CPI to ASSESSMENT as EXPENDED



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State by State Funding Mechanisms

Funding Group #	Type	States	Count
General Fund	Funded through General Fund appropriations	HI, IN, IA, MI, NC, SC, SD	7
% Assessed On Paid Benefits	Assessment on paid benefits, capped at some %	AL, CT, KS, MT	4
% Assessed On Premium	Assessment on Premiums collected, capped at some %	AZ, AR, CO, FL, ID, KY, MO, TN, UT, VA	10
Budgeted by Paid Benefits	Budget determines assessment amount; assessment on paid benefits	DC, LA, MA, MN, MS, NV, NH, NJ, NY, PA	10
Budgeted by Premium	Budget determines assessment amount; assessment on premiums collected	GA, OR, RI	3
Other/Mix	Some mix of these or other method	AK, CA, DE, IL, ME, MD, NE, NM, ND, OH, OK, TX, VT, WA, WI, WV, WY	17

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Market Share by Plan

Plan Type	Premium *	Payroll **	Loss Cost	% of Current Funding
1	19%	26%	18%	18%
2	32%	39%	35%	35%
3	49%	35%	47%	47%

Current funding mechanism parallels loss costs for each plan where a funding mechanism on premium or payroll would not

- Funding on premium would increase Plan 1 assessments by varied percentage (32% - 2,661%) and Plan 2 and 3 assessments by 32%
- Funding on payroll would increase Plan 1 assessments by varied percentage (-4% - 3,607%) and Plan 2 and 3 assessments by 22%

* Plan 1 premium estimated on weighted average rate per \$100 in payroll for two largest self-insured sectors and Plan 3 average premium rate

** Plan 2 payroll estimated based on NCCI data 2006-2010

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Assessment on Paid Benefits

Budget Determines Assessment %

Louisiana
 Massachusetts
 Minnesota
 Mississippi
 Nevada
 New Hampshire
 New Jersey
 New York
 Pennsylvania
 Washington, D.C.

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Claim Distribution by Plan Type

Plan Type	Claim Distribution *
Plan 1	18%
Plan 2	35%
Plan 3	45%
Plan 3 Old Fund	2%

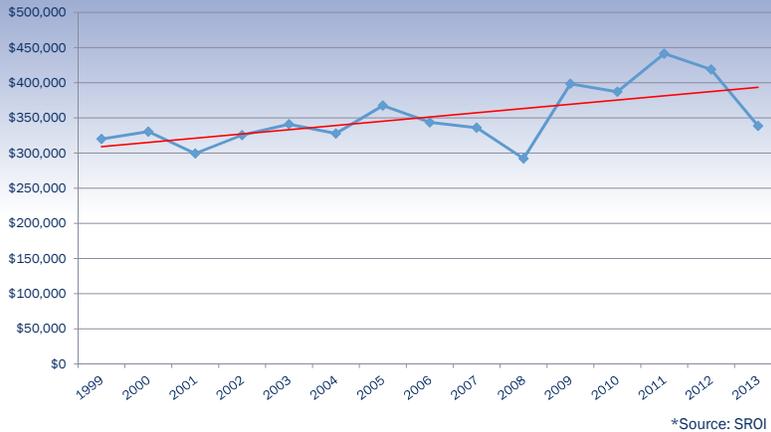
- *Distribution is based on 16 year average of paid claims in Montana

Claim Distribution by Plan Type without Plan 3 Old Claims

Plan Type	Claim Distribution *
Plan 1	17.4%
Plan 2	37.4%
Plan 3	45.2%

- *Distribution is based on CY2013 Reported Claims

Average Medical for Wage Loss Claims with Medical Payments > \$200,000 by Fiscal Year of Injury Excluding Outliers



2009-2013 Average = \$396,813

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Estimated Expenditures

FY 2014 Projected Expenditures

Estimated FY14 Expenditures	
Statutory Program/Admin Expenses	\$5,274,136
Legal, WC Court, Hearings, WC Database, Claims Mediation, Medical Regs Self-Insurance, Carrier Compliance Mine Inspections Computer applications and Websites Financial Management and Accounting	
Authorized Program/Admin. Expenses	\$2,091,557
Public Facility Inspections OSHA On-Site Grant Match MT Safety Culture Act SafetyFests, Outreach and Training	
Less Current Federal Funding	<u>(\$590,160)</u>
TOTAL EXPENDITURES	\$6,775,533

FY 2015 Projected Expenditures

Estimated FY15 Expenditures	
Statutory Program/Admin Expenses	\$5,970,483
Legal, WC Court, Hearings, WC Database, Claims Mediation, Medical Regs Self-Insurance, Carrier Compliance Mine Inspections Computer applications and Websites Financial Management and Accounting	
Authorized Program/Admin. Expenses	\$2,368,180
Public Facility Inspections OSHA On-Site Grant Match MT Safety Culture Act SafetyFests, Outreach and Training	
Less Current Federal Funding	<u>(\$452,700)</u>
TOTAL EXPENDITURES	\$7,885,963

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FY2014 Admin and Safety Assessments

- Admin Assessment Rate = 2.25% (compared to 3%)
 - Admin Surcharge Rate = 1.5690%
(compared to 1.9328%)
 - Safety Assessment Rate = 0.67%
 - Safety Surcharge Rate = 0.4672%
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- *These rates calculated using Medical in Excess of \$400K cap and including Plan 3 Old Fund paid benefits
 - **Safety Assessment and Surcharge rates exclude Plan 3 (Old Fund) paid benefits

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FY2014 Admin and Safety Assessments – without Old Fund Claims

- Admin Assessment Rate = 2.33% (compared to 3%)
 - Admin Surcharge Rate = 1.6248%
(compared to 1.9328%)
 - Safety Assessment Rate = 0.67%
 - Safety Surcharge Rate = 0.4672%
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- *These rates calculated using Medical in Excess of \$400K cap and excluding Plan 3 Old Fund paid benefits

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Assessment on Budget – FY2014

Effect on Self-Insureds (Plan 1)

Self Insured	FY2014 Actual Assessment	FY2014 Projected Admin Assessment (w/Old Fund)	FY2014 Projected Admin Assessment (w/out Old Fund)	FY2014 Projected Safety Assessment	Difference between actual assessment and combination of Admin (w/out Old Fund) and Safety
Self Insured 1	\$148,924	\$111,693	\$115,664	\$33,260	\$0
Self Insured 2	\$169,075	\$144,307	\$149,438	\$42,972	\$23,335
Self Insured 3	\$8,783	\$6,587	\$6,821	\$1,962	\$0
Self Insured 4	\$0	\$0	\$0	\$0	\$0
Self Insured 5	\$6,003	\$4,868	\$5,041	\$1,449	\$487

Assessment on Budget – FY2014

Effect on Plan 2 and Plan 3 Customers

Premium Amount	FY2014 Admin Surcharge Payment 1.9328%	FY2014 Projected Admin Surcharge Payment (w/ Old Fund) 1.5690%	FY2014 Projected Admin Surcharge Payment (w/out Old Fund) 1.6248%	FY2014 Projected Safety Assessment 0.4672%	Difference between actual surcharge and combination of Admin (w/out Old Fund) and Safety
\$1,000	\$19	\$16	\$16	\$5	\$3
\$2,500	\$48	\$39	\$41	\$12	\$5
\$5,000	\$97	\$78	\$81	\$23	\$7
\$10,000	\$193	\$157	\$162	\$47	\$16
\$25,000	\$483	\$392	\$406	\$117	\$40
\$50,000	\$966	\$784	\$812	\$234	\$80
\$100,000	\$1,933	\$1,569	\$1,625	\$467	\$159
\$500,000	\$9,664	\$7,845	\$8,124	\$2,336	\$796

FY2015 Admin and Safety Assessments

- Admin Assessment Rate = 2.59% (compared to 3%)
- Admin Surcharge Rate = 1.7371%
(compared to 1.7603%)
- Safety Assessment Rate = 0.86%
- Safety Surcharge Rate = 0.5768%

- *These rates calculated using Medical in Excess of \$400K cap and including Plan 3 Old Fund paid benefits
- **Safety Assessment and Surcharge rates exclude Plan 3 (Old Fund) paid benefits

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FY2015 Admin and Safety Assessments – without Old Fund Claims

- Admin Assessment Rate = 2.68% (compared to 3%)
- Admin Surcharge Rate = 1.7975%
(compared to 1.7603%)
- Safety Assessment Rate = 0.86%
- Safety Surcharge Rate = 0.5768%

- *These rates calculated using Medical in Excess of \$400K cap and excluding Plan 3 Old Fund paid benefits

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Assessment on Budget – FY2015

Effect on Self-Insureds (Plan 1)

Self Insured	FY2015 Actual Assessment	FY2015 Projected Admin Assessment (w/Old Fund)	FY2015 Projected Admin Assessment (w/out Old Fund)	FY2015 Projected Safety Assessment	Difference between actual assessment and combination of Admin (w/out Old Fund) and Safety
Self Insured 1	\$144,093	\$124,400	\$128,723	\$41,307	\$25,937
Self Insured 2	\$160,117	\$160,709	\$166,293	\$53,363	\$59,939
Self Insured 3	\$2,203	\$1,902	\$1,968	\$632	\$397
Self Insured 4	\$0	\$0	\$0	\$0	\$0
Self Insured 5	\$3,557	\$3,186	\$3,297	\$1,058	\$798

Assessment on Budget – FY2015

Effect on Plan 2 and Plan 3 Customers

Premium Amount	FY2015 Admin Surcharge Payment 1.7603%	FY2015 Projected Admin Surcharge Payment (w/ Old Fund) 1.7371%	FY2015 Projected Admin Surcharge Payment (w/out Old Fund) 1.7975%	FY2015 Projected Safety Assessment 0.5768%	Difference between actual surcharge and combination of Admin (w/out Old Fund) and Safety
\$1,000	\$18	\$17	\$18	\$6	\$6
\$2,500	\$44	\$43	\$45	\$14	\$15
\$5,000	\$88	\$87	\$90	\$29	\$31
\$10,000	\$176	\$174	\$180	\$58	\$62
\$25,000	\$440	\$434	\$449	\$144	\$153
\$50,000	\$880	\$869	\$899	\$288	\$307
\$100,000	\$1,760	\$1,737	\$1,798	\$577	\$615
\$500,000	\$8,802	\$8,686	\$8,988	\$2,884	\$3,070

Summary

- ERD presented several options to the LMAC Funding Subcommittee
- LMAC Funding Subcommittee asked ERD to present data and calculations to the entire LMAC using:
 - The current funding mechanism where the budget determines the assessment rate
 - Increase the medical cap from \$200K to \$400K
 - Fund the authorized safety functions with a second assessment where the rate is determined by a budget
- ERD has included information outlining the affect of excluding Plan 3 (Old Fund) Claims from the Assessment

Questions?