

WORKERS' COMPENSATION ASSESSMENT MECHANISM

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Montana Department of
LABOR & INDUSTRY

MONTANA WORK COMP ASSESSMENT HISTORY

- From 1973-1999 the assessment was based on gross annual payroll for Plan 1 employers, gross annual direct premium for Plan 2 insurers and sufficient funding for direct costs of regulating Plan 3. There was no cap and the assessment was sufficient to cover legislative funding.
- In 1999 the assessment was changed to 2.6% of benefits paid, less medical benefits in any given claim that exceeded \$200,000.
 - DLI understanding that all Stakeholders agreed that change in methodology was most equitable way to distribute costs across all plans based on usage of services
 - One shortcoming of methodology is that of six primary areas that are funded by assessment, only Claims Assistance Bureau work load is impacted by paid benefits (39% of expenditures)



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MONTANA WORK COMP ASSESSMENT HISTORY

- In 2000 a surcharge rate was implemented for Plan 2 and Plan 3 employers allowing Plan 2 and Plan 3 to pass the assessment to individual policy holders.
- In 2001 the assessment cap was increased to 3% of benefits paid, less medical benefits in excess of \$200,000.
- In 2009 the assessment language was changed to be based on up to 3% of benefits paid.
- In 2015 the Montana Legislature passed SB259. This bill increased the administrative assessment cap up to 4% and created a separate Safety Assessment for safety functions performed by the Department. The Safety Assessment will be effective for FY2017 and is up to 2% of benefits paid.



MONTANA WORK COMP ASSESSMENT

- MCA 39-71-201(1) states that a workers' compensation administration fund is established out of which are to be paid upon lawful appropriation all costs of administering the Workers' Compensation Act.
- MCA 50-73-108 (1)(a) states that an occupational safety and health administration fund is established out of which are to be paid upon lawful appropriation all costs incurred by the department on or after July 1, 2016 in administering Title 50, chapters 71, 72 and 73.
- Prior to passage of SB 259, the % cap on the assessment has prevented the Department from collecting all costs associated with administering the Workers' Compensation Act since FY 2008. If benefits continue to decline this % will once again prevent the Department from collecting funding to administer all statutory services.



FUNCTIONS COVERED BY ADMIN ASSESSMENT

Administration of Workers' Compensation Act	SAW/RTW
Data Management Unit	5-Year Medical Benefit
U&T Guidelines/Medical Fee Schedule	Closure/Reopening Process
Medical Director and IMR Process	Extra Territorial Agreements
Mediation	Plan 1 and Plan 2 Regulation
Attorney Fee Regulation	Professional Employer Organization and Managed Care Regulation
Settlement Approval	Workers' Compensation Court



FUNCTIONS COVERED BY SAFETY ASSESSMENT

- Education and Outreach
- SafetyFest
- Public Employer Compliance
- Public Employer Consultation
- State Match of Private Employer Consultation
- Mine Training and Inspection
- R&A State Match for BLS Annual Survey on work injury and illness



POTENTIAL FUNDING METHODS EXPLORED

- Assessment on Paid Benefits
- Assessment on Premium
- General Fund funding
- Assessment on Payroll
- Supplemental Funding Options



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



LMAC DECISION TO SUPPORT SB259

- Assessment on paid benefits method allows for most equitably distributed assessment amongst all Montana employers
- Paid benefits determine amount that can be collected by Department
- Paid benefits in Montana have been declining since FY 2011 and are expected to continue to decline
 - HB334 provision for 5 year medical benefit closure will be reflected starting in CY 2016 and will have an undetermined effect on paid benefits
- Create a separate Safety Assessment



BUDGET APPROVAL

- Employment Relations Division (ERD) submits requested budget to Department of Labor (DLI) Management
- Approved DLI budget sent to Office of Budget and Program Planning (OBPP) for review/approval
- Approved Executive Budget sent to Legislative Fiscal Division (LFD) for review and analysis
- Budget and LFD analysis presented to Legislature
- Legislatively approved budget sent back to OBPP for implementation within DLI/ERD

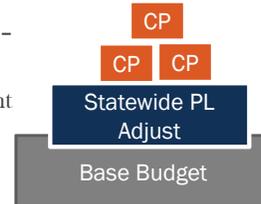


DLI/ERD BUDGET DEVELOPMENT

Base - resources for the operation of state government that are ongoing and non-extraordinary

Statewide PL Adjustment - adjustment for changes in base - usually personal services, fixed costs and inflation/deflation

Change Package (CP) - written narrative requesting a present law (PL) or new proposal (NP) adjustment resulting in an increase or decrease adjustment to base budget



The amount ERD assesses is the Legislatively authorized budget up to the % cap on benefits

- From FY2009 - FY2015 the 3% cap did not allow ERD to collect enough assessment money to cover expenditures
- FY 2016 - SB 259 increased cap to up to 4% which allowed ERD to assess full legislatively authorized budget



WC ASSESSMENT EXPENDITURES VS CPI ANNUAL GROWTH



FY 2016 ASSESSMENT RATE

FY 2016 - 3.5048% (1.9775% Surcharge Rate)

- Based on \$7,319,657 budget and \$208,847,027 paid benefits available for assessment (medical and indemnity, less medical in excess of \$200,000 for any one claim)
- Includes all Work Comp and Safety Functions

FY 2016 Admin Assessment - 2.5233% (1.3906% Surcharge Rate)

FY 2016 Safety Assessment - 0.9815% (0.5869% Surcharge Rate)

- These would have been the assessment rates if there were two separate assessments in FY 2016



ASSESSMENT CALCULATION - FIRST STEPS

Budget

- Legislatively approved budget for Work Comp and Safety Functions

Paid Benefits Available for Assessment

- Medical Benefits paid in preceding Calendar Year
- Indemnity Benefits paid in preceding Calendar Year
- Medical Benefits in excess of \$200,000 on any one claim (excluded from calculation)

Plan 2 and Plan 3 Premium

- Calculated from total earned premium in preceding Calendar Year

Amount of Assessment and Surcharge paid in previous Fiscal Year

- If amount paid is more than amount calculated, this overpayment reduces the next fiscal year's assessment or surcharge percentage
- If amount paid is less than amount calculated, this underpayment increases the next fiscal year's assessment or surcharge percentage



FY 2016 WORK COMP FUND BUDGET

Work Comp Fund

- ERD Functions excl. Safety - \$4,551,193
- Workers' Compensation Court - \$711,889
- Hearings Bureau - \$6,723
- Safety Functions - \$1,936,218
- R&A - \$113,634

- **Total - \$7,319,657**



FY 2017 WORK COMP AND SAFETY FUNDS BUDGET

Work Comp Fund

- ERD Functions - \$4,706,087
- Workers' Compensation Court - \$712,708
- Hearings Bureau - \$6,724

- **Total - \$5,425,519**

Safety Fund

- ERD Safety Functions - \$1,968,815
- R&A - \$113,737

- **Total - \$2,082,552**



FY 2016 SAFETY FUNDING BREAK-OUT

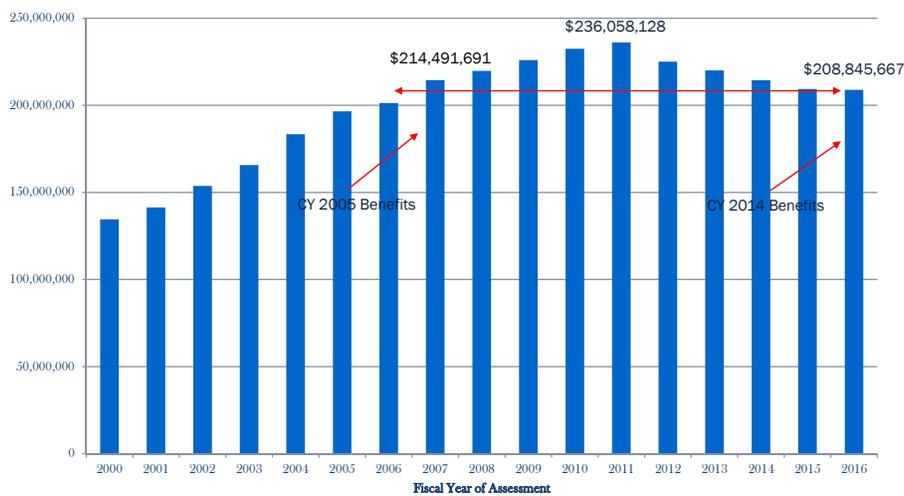
Total State Safety Funding - \$1,936,218

- Public Employer Compliance - \$493,530
- Private and Public Consultation - \$427,225 (plus \$452,700 federal grant)
- Mine Inspection & Training- \$445,139 (plus variable federal grant \$\$)
- Outreach (Employer, Employee and Student Education & Training) - \$384,215
- SafetyFest - \$186,109

* In FY 2017 we will add the R&A portion of the budget to the safety assessment - \$113,737



PAID BENEFITS AVAILABLE FOR ASSESSMENT



ASSESSMENT RATE IS AFFECTED BY PAID BENEFITS

FY 2016 Assessment Rate – 3.5048% (1.9775% Surcharge Rate)

- Based on \$7,319,657 budget and \$208,847,027 paid benefits available for assessment

FY 2016 Assessment Rate – 3.6598% (2.0703% Surcharge Rate)

- Based on \$7,319,657 budget and \$200,000,000 paid benefits available for assessment

FY 2016 Assessment Rate – 3.3271% (1.8713% Surcharge Rate)

- Based on \$7,319,657 budget and \$220,000,000 paid benefits available for assessment



PAID BENEFITS AFFECTS INDIVIDUAL EMPLOYER PAYMENTS

Plan 1 Employer with \$1,000,000 in Paid Benefits Available for Assessment

- Pay \$35,048 (at 3.5048%)
- Pay \$36,598 (at 3.6598%)
- Pay \$33,271 (at 3.3271%)

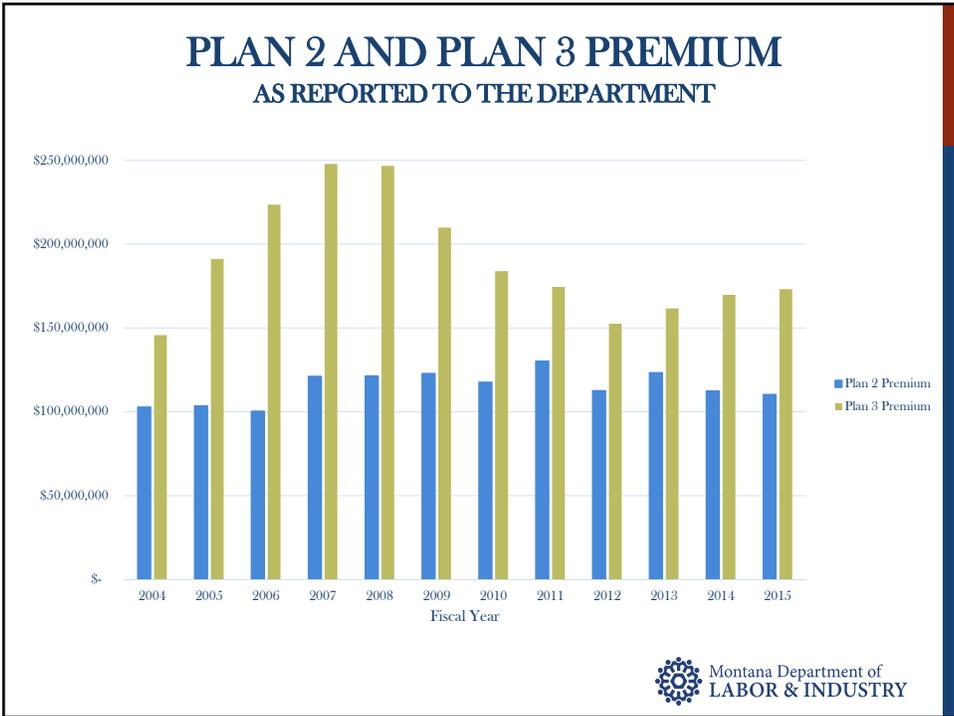
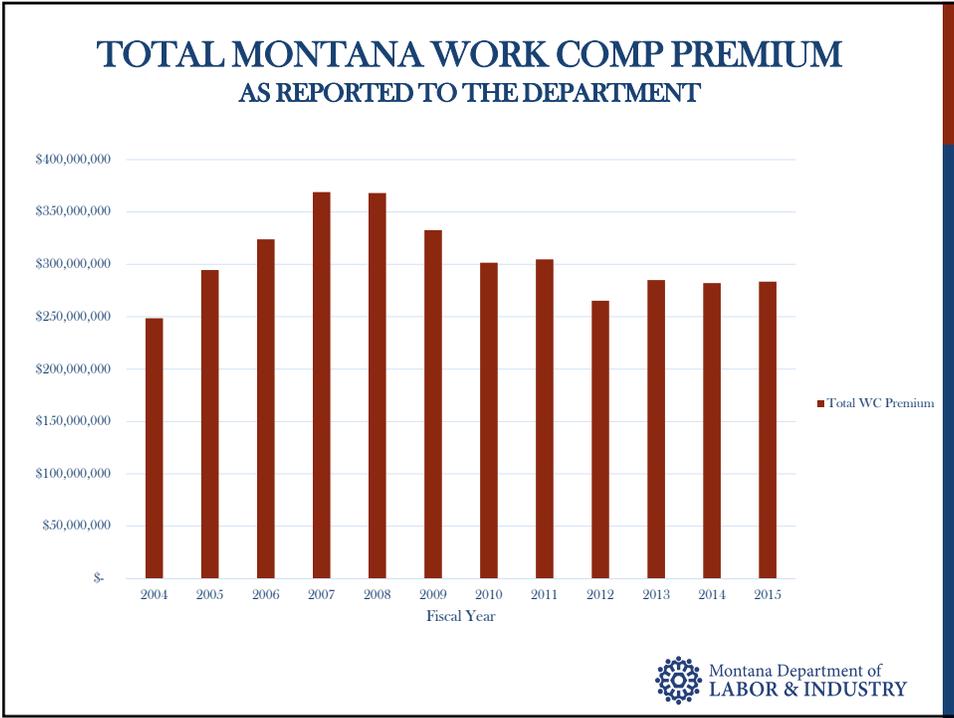
Plan 2 or 3 Employer with \$1,000 in Premium

- Pay \$19.78 (at 3.5048% assessment/1.9775% surcharge)
- Pay \$20.70 (at 3.6598% assessment/2.0703% surcharge)
- Pay \$18.71 (at 3.3271% assessment/1.8713 surcharge)

Plan 2 or 3 Employer with \$10,000 in Premium

- Pay \$197.75 (at 3.5048% assessment/1.9775% surcharge)
- Pay \$207.03 (at 3.6598% assessment/2.0703% surcharge)
- Pay \$187.13 (at 3.3271% assessment/1.8713 surcharge)





PREMIUM AFFECTS SURCHARGE RATES

FY 2016 Surcharge Rate - 1.9775%

- Based on \$7,319,657 budget and \$282,465,274 total premium (on CY basis from Insurance Commissioner)

FY 2016 Surcharge Rate - 1.6429%

- Based on \$7,319,657 budget and \$340,000,000 total premium (on CY basis from Insurance Commissioner)

FY 2016 Surcharge Rate - 2.2343%

- Based on \$7,319,657 budget and \$250,000,000 total premium (on CY basis from Insurance Commissioner)



ASSESSMENT LOOK-BACK

The amount of the preceding Fiscal Year assessment is compared to what was actually collected in preceding Fiscal Year

- Plan 1 and Plan 3 (Old Fund) very rarely have discrepancy due to direct billing
- Plan 2 and Plan 3 (New Fund) surcharge rates are calculated based on preceding Calendar Year premium. With premium collection in constant flux the amount of surcharge collected in a Fiscal Year is rarely what was calculated
 - If more surcharge was collected than what was calculated (i.e. more premium was earned), the over-collection amount reduces the current surcharge rate
 - If less surcharge was collected than what was calculated (i.e. less premium was earned), the under-collection amount increases the current surcharge rate
- Determine if other payment or refund occurred in previous Fiscal Year that would affect current surcharge rate (i.e. settlement, refund of overpayment, etc.)



THE ASSESSMENT CALCULATION

General - From CY 2014		Admin. Assessment / Surcharge	
Plan 1 (Self-Insured) QER		Proj. Assess before adjustments	7,319,657
Compensation	13,585,591	Assessment Rate	3.5048%
Medical	27,543,911	Adj. Plan Assess (lookbacks etc)	6,951,227
Medical > 200K	4,937,658		
Plan 2 (Private Insured) QER		Projected FY2016 WCA Spent	7,319,657
Compensation	30,776,651		
Medical	51,201,426	Prior Year Lookback	
Medical > 200K	5,152,629	Plan 1 (Self-Insured)	0
Plan 3 (State - Old Fund) QER		Plan 2 and Plan 3 (New)	34,113
Compensation	1,544,660	Plan 3 (State - Old Fund)	0
Medical	5,639,269	Over-collected Surcharge	(368,430)
Medical > 200K	3,445,307		
Plan 3 (State - New) QER			
Compensation	35,867,597		
Medical	70,137,879		
Medical > 200K	13,914,363		
Premiums for Plan 2	111,583,813		
Premiums for Plan 3	170,881,461		



THE ASSESSMENT CALCULATION (CONT.)

Calculated Assessment By Plan			
	Paid Benefits Available for Assessment	% Share	Plan Assessment @ 3.5048%
Plan 1	36,191,844	17%	1,268,449
Plan 2	76,825,448	37%	2,692,573
Plan 3 - Old	3,738,622	2%	131,031
Plan 3 - New	92,091,113	44%	3,227,604
Totals	208,847,027	100%	7,319,658



THE ASSESSMENT CALCULATION (CONT.)

	Plan Assessment	Adjustments	Adj. Plan Assessment	Assessment Rate
Plan 1	1,268,449	0	1,268,449	3.5048%
Plan 3 - Old	131,031	0	131,031	3.5048%
Totals	1,399,480	0	1,399,480	
The rate for Plan 1 is		3.5048%		
The rate for Plan 3-Old is		3.5048%		



THE ASSESSMENT CALCULATION (CONT.)

	Plan Assessment	Prior Year Adjustment	Adj. Plan Assessment	Surcharge Rate
Plan 2	2,692,573			
Plan 3 - New	3,227,604			
Totals	5,920,177	(334,317)	5,585,860	1.9975%
The Surcharge Rate for Plan 2 & Plan 3-New is				1.9975%
The Plan Assessment is				3.5048%
The Adj. Plan Assessment Rate is				3.3069%



ASSESSMENT MECHANISM SUMMARY

- ERD conducts assessment each year based on methodology supported by Workers' Compensation stakeholders and implemented in 1999
- Current assessment on paid benefits most equitably distributes assessment across all Montana employers
- ERD budget must be authorized every two years by the Montana Legislature
- Assessment and Surcharge rates are affected by total benefits paid, premium earned by insurance carriers, amount of assessment collected in prior year and ERD budget
- Due to the effect paid benefits have on the assessment rate, if total benefits continue to decline the current % cap will not be sufficient to cover expenditures, even if those expenditures remain static