

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1553-01
Bill No.: SB 288
Subject: Workers' Compensation
Type: Original
Date: April 9, 2015

Bill Summary: This proposal modifies the laws relating to workers compensation premium rates.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Workers Compensation	(\$243,558)	(\$224,848)	(\$226,155)
Second Injury Fund	(\$620,137)	(\$620,137)	(\$620,137)
Total Estimated Net Effect on <u>Other</u> State Funds	(\$863,695)	(\$844,985)	(\$846,292)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Workers' Compensation Administration	2 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	2 FTE	2 FTE	2 FTE

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Local Government	(Unknown)	(Unknown)	(Unknown)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Insurance, Financial Institutions and Professional Registration**, the **Office of Administration - General Services Division**, the **Missouri Department of Conservation** and **St. Louis County** each assume the proposal will have no fiscal impact on their respective organizations.

In response to a similar proposal (HB 615) from this year, officials from the **Department of Transportation** assumed the proposal will have no fiscal impact on their organization.

§287.957

Officials from the **Department of Labor and Industrial Relations (DOLIR)** assume the dollar amount of the effect on the premium base used to calculate the administrative tax and Second Injury Fund surcharge is unknown.

Experience Modification Factor

DOLIR officials state the Division's Self-Insurance Unit regulates 289 Individual Self-Insured Employers and 20 Group Trusts, consisting of 2,614 employers, as of 12/31/2014. Self-Insurance is 28.53% of the Missouri Workers' Compensation premium base. The Individual Self-Insurers and Group Trusts are required to submit reports on an annual and/or quarterly basis, which includes detailed losses. This proposal has the potential to increase the workload in that staff will now be required to review and track the losses based on the applicable split-point for a given year. Two Insurance Financial Analyst I/II would be required to assist with the examination, review, follow-up and other duties associated with enforcing compliance with statutory reporting requirements for injuries and medical costs by self-insured employers and group-trusts.

Contractors' Premium Adjustment Program

DOLIR officials also state the Contractors Credit Premium Adjustment Program (CCPAP) currently mandates the use of the 3rd quarter payroll for calculating the credit (new contractors use the 1st quarter of the policy period). The proposal allows the contractor to choose the quarter the payroll information is being submitted in order to calculate the premium credit.

ASSUMPTION (continued)

The contractor will most likely choose to report the quarter with the highest payroll which would give him the higher premium credit. However, the increase in the premium credit is limited to the amount that the contractor's payroll in the selected "reporting" quarter is greater than the 3rd quarter. For example, if the contractor's 3rd quarter payroll is \$800,000 and the 2nd quarter is \$1,000,000 the amount of the premium credit is only affected by the \$200,000 difference.

The proposed legislation will likely increase the overall premium credit and therefore result in a reduction in the overall workers' compensation premium base. The highest quarter's total wages in the construction industry for 2013 was \$101,728,559 more than the third quarter's wages in 2013. Using the 2014 self-insurance rate for the construction class codes of \$10.16 per \$100 in wages, the net effect to the premium base is calculated at \$10,335,622. The Workers' Compensation Admin tax is 1% of the premium base ($\$10,335,622 \times .01$) \$103,356. The Second Injury Fund tax rate is 6% of the premium base ($\$10,335,622 \times .06$) \$620,137.

IT Impact

DOLIR officials assumed additional computer programming to enhance the current production system to assist staff in analyzing medical cost incurred by self-insured employers and group trust to meet the requirements of the proposal. These enhancements would include several screen revisions, database changes and related work to accommodate anticipated requirement at a total cost of \$26,244.

Oversight will use the DOLIR's estimate of revenue reductions to the Workers' Compensation Fund and the Second Injury Fund in this fiscal note. Oversight will also include a cost to the Workers's Compensation Fund for the estimated additional employees and the ITSD Cost. Oversight will estimate an unknown cost to local governments.

<u>FISCAL IMPACT - State Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
WORKERS' COMPENSATION ADMINISTRATION FUND			
<u>Cost - DOLIR</u>			
Experience rating changes			
Salaries	(\$62,580)	(\$75,847)	(\$76,605)
Benefits	(\$32,545)	(\$39,444)	(\$39,838)
Equipment and expense	<u>(\$45,077)</u>	<u>(\$6,201)</u>	<u>(\$6,356)</u>
Total	(\$140,202)	(\$121,492)	(\$122,799)
 <u>FTE change - DOLIR</u>	 2 FTE	 2 FTE	 2 FTE
 <u>Revenue reduction - DOLIR</u>			
Experience rating procedure change Section 287.957 & 287.975	<u>(\$103,356)</u>	<u>(\$103,356)</u>	<u>(\$103,356)</u>
 ESTIMATED NET EFFECT ON WORKERS' COMPENSATION ADMINISTRATION FUND	 <u>(\$243,558)</u>	 <u>(\$224,848)</u>	 <u>(\$226,155)</u>
 Estimated Net FTE effect on Workers' Compensation Administration Fund	 2 FTE	 2 FTE	 2 FTE
 SECOND INJURY FUND			
<u>Revenue reduction - DOLIR</u>			
Experience rating procedure changes Section 287.957 & 287.975	<u>(\$620,137)</u>	<u>(\$620,137)</u>	<u>(\$620,137)</u>
 ESTIMATED NET EFFECT ON SECOND INJURY FUND	 <u>(\$620,137)</u>	 <u>(\$620,137)</u>	 <u>(\$620,137)</u>

<u>FISCAL IMPACT - Local Government</u>	<u>FY 2016</u> <u>(10 Mo.)</u>	<u>FY 2017</u>	<u>FY 2018</u>
LOCAL GOVERNMENTS			
<u>Cost - Local governments</u> Workers' compensation program assessments	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to small businesses which are subject to workers' compensation insurance requirements.

FISCAL DESCRIPTION

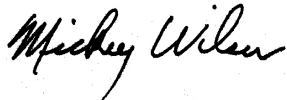
Currently, the uniform experience rating plan of workers' compensation insurance must prohibit an adjustment to the experience modification of an employer if the total medical cost does not exceed \$1,000, the employer pays all of the medical costs, there is no lost time from the employment (subject to exceptions), and no claim is filed. This act changes the medical cost amount limit to 20% of the current split point of primary and excess losses under the uniform experience rating plan.

The act further provides that, for purposes of calculating the premium credit under the Missouri contracting classification premium adjustment program, an employer within the construction group of code classifications may submit to the advisory organization the required payroll record information for the first, second, third, or fourth calendar quarter of the year prior to the workers' compensation policy beginning or renewal date, provided the employer clearly indicates for which quarter the payroll information is being submitted.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Labor and Industrial Relations
Attorney General's Office
Department of Economic Development
Department of Insurance, Financial Institutions and Professional Registration
Office of Administration
Missouri Department of Conservation
Department of Transportation
Department of Public Safety
Missouri Veterans Commission



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