

INDUSTRIAL INSURANCE
RCW 51.16.060

Tax Base The majority of employers covered under the state of Washington Industrial Insurance Fund pay premiums (taxes) based on the number of hours worked by their employees. This is in contrast to all other states which use payroll as the premium base for their workers' compensation insurance programs.

Tax Rate For firms covered under the state fund, the Department of Labor and Industries determines premium rates for three separate funds: the accident fund, the medical aid fund, and the supplemental pension fund. For the accident and medical aid funds, the Department determines base rates by fund and by risk class per RCW 51.16.035 and all firms are experience rated. An experience factor is computed for each firm based on a recent three-year experience period that adjusts the base premium rates up or down. The supplemental pension fund rate, per RCW 51.32.073, is not experience rated; all firms pay the same rate per hour into this fund. The sum of these rates per risk classification equals the composite premium rate.

The accident fund premium, paid 100 percent by the employer, supports the compensation portion of the benefits paid to injured workers. The medical aid premium is paid by the employer, but the employer has the option of charging the employee up to one-half of the amount pursuant to RCW 51.16.140. This funds medical and vocational counselor services to injured workers. The supplemental pension fund premium is also paid by the employer, but the employer may charge up to one-half of the amount to the employee. This represents a uniform assessment providing cost-of-living increases for wage replacement benefits to injured workers.

The classification base rates that apply to particular firms vary widely, based on the risk associated with their business activity. To illustrate the range of possible rates, for calendar year 2009 the composite base rate ranged from \$0.0619 per hour for volunteers to \$14.60 per hour for unautomated shake and shingle mills. One of the larger classifications is for clerical activities; their base rate is 13.9 cents per hour. The logging industry has relatively high rates; traditional logging firms currently pay \$10.80 per hour for each employee. The actual premium rates paid by a particular firm may be higher or lower than the base rates.

Levied by State

Administration

The Department of Labor and Industries administers Washington State's Industrial Insurance program. Annually employers obtain a rate notice which identifies both the risk classes assigned to that employer together with the composite rate charged per hour for these classes. Employers file a quarterly report indicating their gross payroll and total worker hours per risk classification per risk class. The composite rates are multiplied by the worker-hours to determine the amount of the firm's industrial insurance premium. The report and the premium payment are due by the end of the month following the close of the calendar quarter.

Distribution of Receipts

All industrial insurance premiums are collected and eventually paid as benefits or administrative expenses by the Washington State Fund, which is managed by the Department. It provides industrial insurance benefits to employees who are injured on the job. Compensation includes medical expenses, time-loss payments for persons who are unable to work because of an industrial accident, vocational rehabilitation and retraining if the injured worker is unable to continue in the same occupation, and pension benefits for persons who are permanently and totally disabled as a result of the accident. Funds not immediately spent are invested by the State Investment Board.

Recent Collections (\$000)

<u>Fiscal Year</u>	<u>Total Premiums Paid*</u>	<u>% Change</u>
2009	\$1,757,797	19.8%
2008	1,466,966	(15.6)
2007	1,738,731	3.0
2006	1,689,147	5.8
2005	1,596,679	13.9
2004	1,401,690	27.4
2003	1,100,504	6.0
2002	1,037,911	(4.1)
2001	1,081,776	(0.8)
2000	1,089,958	3.2

*cash basis

Exemptions

All Washington State employers, with few exceptions, are required to provide industrial insurance coverage. Certain businesses and government entities may qualify for the right to

self-insure, if they have substantial financial resources and effective accident prevention programs. As of November 2009, 369 firms self-insure; these represent about 25 percent of the state's employees.

Coverage is not required for the following occupations or activities:

- domestic service (unless two or more persons are regularly employed for at least 40 hours per week);
- repair, maintenance, landscaping, and similar work at an employer's private home;
- persons working for aid and sustenance only for religious/charitable organizations;
- minors employed by parents to work on a family farm;
- jockeys who work at licensed horse racing meets;
- corporate officers who are directors and shareholders of the firm;
- sole proprietors and partners, except persons in the building construction industry may be required to purchase coverage, unless they request exclusion;
- employees covered by other governmental compensation programs (e.g. federal employees, seamen, longshoremen, and police and firemen);
- Native American tribes;
- certain musicians and entertainers;
- newspaper carriers;
- insurance agents; and
- certain cosmetologists.

History

Worker's compensation insurance in Washington State is known as industrial insurance. The industrial insurance program was originally established in 1911. By statute, the Department of Labor and Industries is the only insuring entity within the state for the coverage under Title 51 RCW; no private insurance companies are allowed to provide insurance coverage under these laws. In 1972, self-insurance was allowed for firms that have substantial financial resources and effective accident prevention programs. The other firms are covered under the State Fund.

Discussion/Major Issues

The industrial insurance system provides exclusive remedy, with some exceptions, from liability to employers for on-the-job injury by their employees. It provides short- and long-term health care to injured workers for sustained injuries and illnesses. It provides wage replacement benefits for short- and long-term disability with a cost-of-living component. It provides a lump-sum disability award for partial permanent disability. This service is a substantial benefit for both employers and employees as it is provided on a "no-fault" basis. The administrative costs of the program in Washington are lower than equivalent insurance coverage found in other states. Further, all employers are guaranteed coverage without the use of an assigned risk pool.

The premium payments can represent a major financial obligation of employers doing business in Washington. In comparison with the principal state business tax, the total premium payments amount to approximately two-thirds of total B&O tax liability. However, industrial insurance premium payments are not considered as one of the general taxes levied by the state, since its receipts are solely dedicated to funding compensation for injured workers. Nonetheless, the premium payments can be significant for certain employers, particularly those in high-risk classifications.

According to a study of 2008 worker's compensation insurance premium rates by the state of Oregon, rates in Washington ranked 36th from the highest among all states and the District of Columbia. A 2009 study done by the National Academy for Social Insurance, which gathered benefit cost, wage, and employer costs (premiums for insured firms and benefits paid plus administrative costs for self-insureds) for each state jurisdiction, determined that Washington ranked third highest in 2007 benefits paid per dollar of covered payroll. This is consistent with the findings of a 1998 Joint Legislative Audit Review Committee study which concluded that Washington State is above the 75th percentile among all states in benefits paid and below the 25th percentile in costs charged.