

WORKERS' COMPENSATION SYSTEM

Background

Oregon has had some kind of workers' compensation program since 1914. Today's system is designed to do the following:

- Prevent or reduce worker injuries and illnesses
- Ensure that subject employers obtain and provide workers' compensation insurance coverage for their employees
- Provide appropriate medical treatment and benefits to help injured workers recover and return to work as soon as possible
- Resolve disputes quickly and fairly

Workers' compensation is a no-fault system in which both workers and employers are protected. The system pays workers' medical and disability benefits for work-related injuries and illnesses, helps reduce worker injuries, helps return injured workers to work, and protects employers from liability lawsuits.

Oregon is a "three-way" state, meaning that Oregon employers may obtain coverage through private workers' compensation insurance carriers, through the State Accident Insurance Fund Corporation, or by becoming certified for self-insurance. Employers unable to obtain coverage in the voluntary market are guaranteed coverage through a pool referred to as the "assigned risk pool."

The primary goals of the system are to:

- Advance and improve workplace safety and health;
- Ensure balance and fairness to workers and employers; and
- Protect the essential public interest at a minimum cost in regulation, administration, and adjudication.

What we do

The Department of Consumer and Business Services (DCBS) carries out workers' compensation policy for the governor and the legislature, regulating Oregon's workers' compensation system, making certain that employers provide insurance, advancing workplace safety and health, and ensuring that injured or ill workers receive the benefits due them.

System delivery

DCBS carries out its workers' compensation responsibilities primarily through the following program units:

The **Occupational Safety and Health Division (OR-OSHA)** helps keep people out of the workers' compensation system through safety and health programs. OR-OSHA adopts minimum workplace health and safety standards that employers in all industries must meet and specific safety standards for selected industries such as agriculture and logging.

The **Workers' Compensation Division** enforces and regulates Oregon's workers' compensation laws and administers programs designed to benefit employers and workers.

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The **Workers' Compensation Board** is appointed by the governor to resolve workers' compensation claim and health and safety citation disputes. WCB conducts hearings, reviews appeals, and approves claims disposition agreements. The board is an independent agency that shares administrative services with DCBS.

The **Ombudsman for Injured Workers** helps injured or ill workers with all aspects of the workers' compensation system by providing information, investigating complaints, and advising policymakers.

The **Small Business Ombudsman** operates as a resource center for small employers, insurers, trade groups and agents needing workers compensation information and assistance. The primary goal is to ensure that small employers are provided all the information and support necessary to navigate the different facets of the Oregon workers compensation system.

The **Management/Labor Advisory Committee** is appointed by the governor and includes five labor and five management representatives who study issues and make recommendations about workers' compensation to policy makers.

The **Insurance Division** licenses and regulates all insurance companies operating in Oregon, including workers' compensation insurers. The division also reviews premium rates, conducts hearings in ratemaking and disciplinary cases, and hears employer appeals on premium audits.

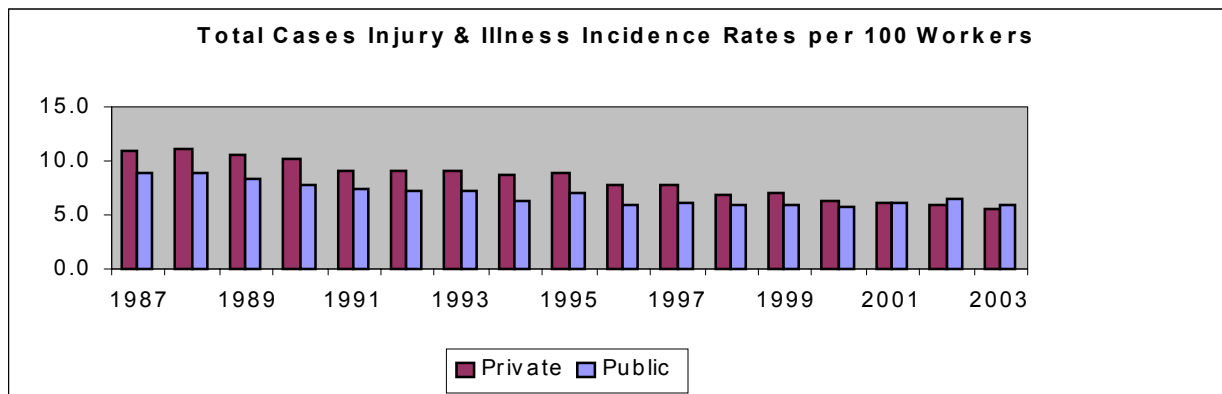
Primary link to Oregon Benchmarks

Oregon Benchmark #9 Oregon's national rank in the cost of doing business.

System results

Reduced incidence rates for job injuries and illnesses

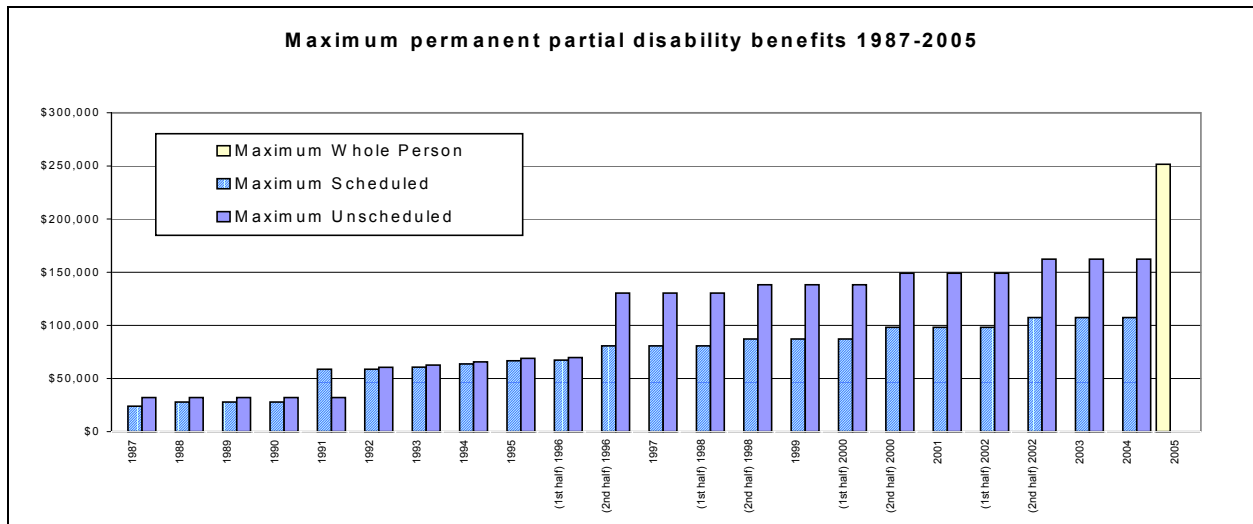
The lost workday cases incidence rate declined 45 percent between 1987 and 2003 in the private sector; the total cases rate dropped 49 percent over the same period. The 2003 total cases incidence rate of 5.6 is a 6.7 percent decrease from the 6.0 rate recorded in 2002.



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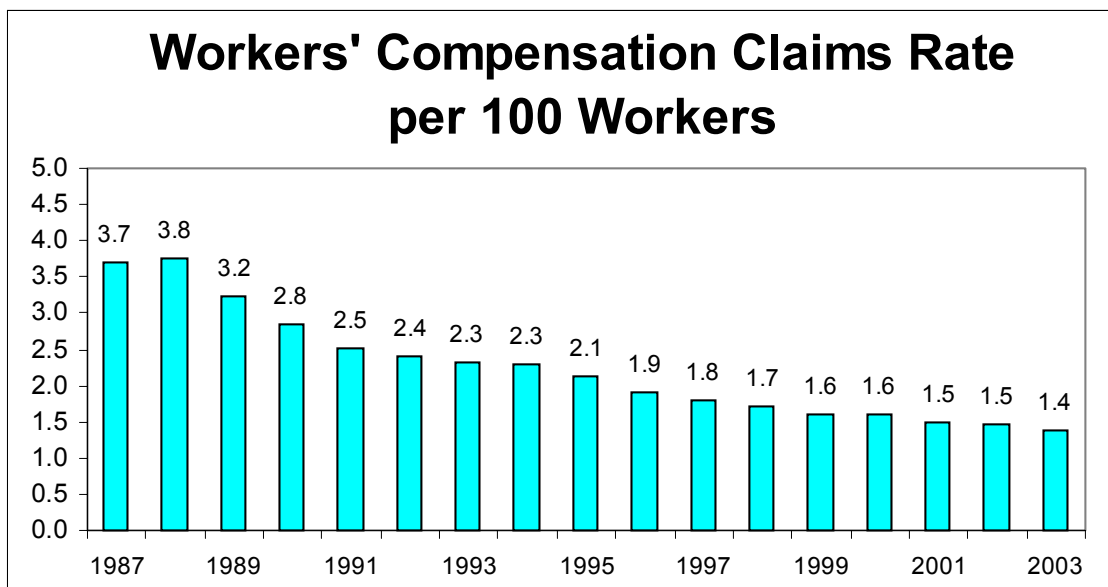
Increased benefit levels

For 2004, benefit levels are now ranked by state at the national level as follows: scheduled Permanent Partial Disability at the 43rd percentile and unscheduled Permanent Partial Disability at the 40th percentile. Senate Bill 757 (2003) revised the Permanent Partial Disability benefit structure effective January 2005. It eliminated the distinction between scheduled and unscheduled Permanent Partial Disability. Disability will be rated on a "whole person" basis. The maximum Permanent Partial Disability award increased to \$251,555 for workers unable to return to regular work, and benefits will adjust annually with wage changes.



Reduced claim rates

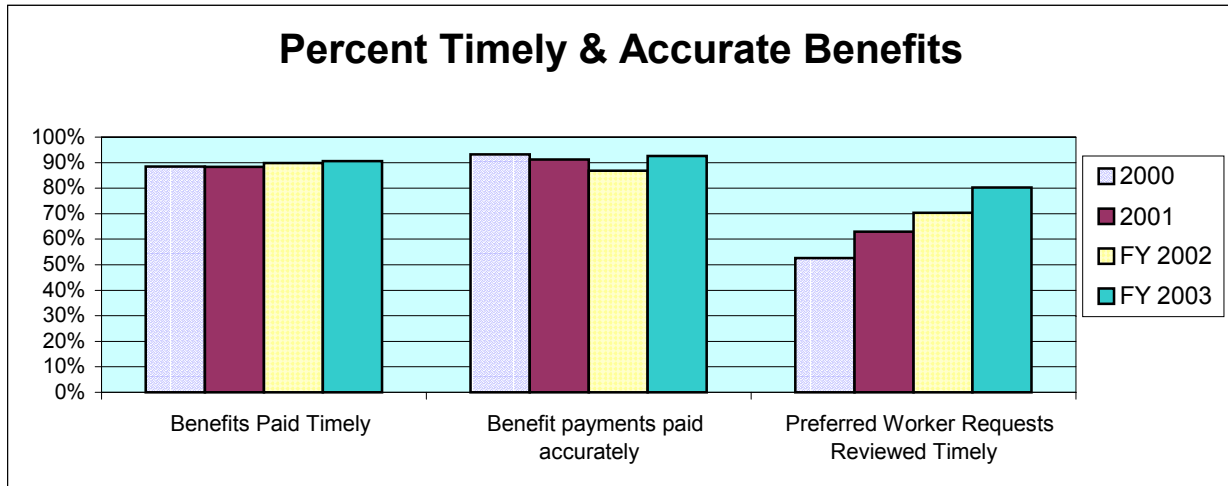
The number of accepted disabling claims decreased by 47 percent between 1987 and 2003; employment grew 43 percent over the same period. The claims rate declined by 63 percent over the period.



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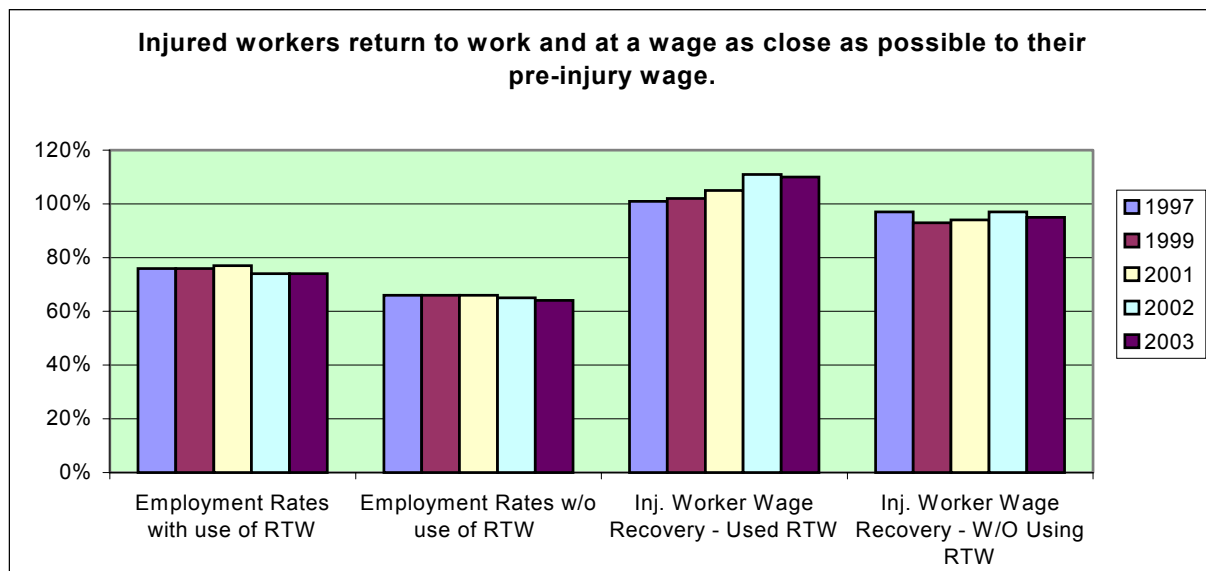
Timely and Accurate Benefits to Workers

Oregon injured workers benefit from a relatively high rate of compliance by insurers, with injured workers receiving timely and accurate benefits more than 90 percent of the time.



Injured Workers Returned to Work

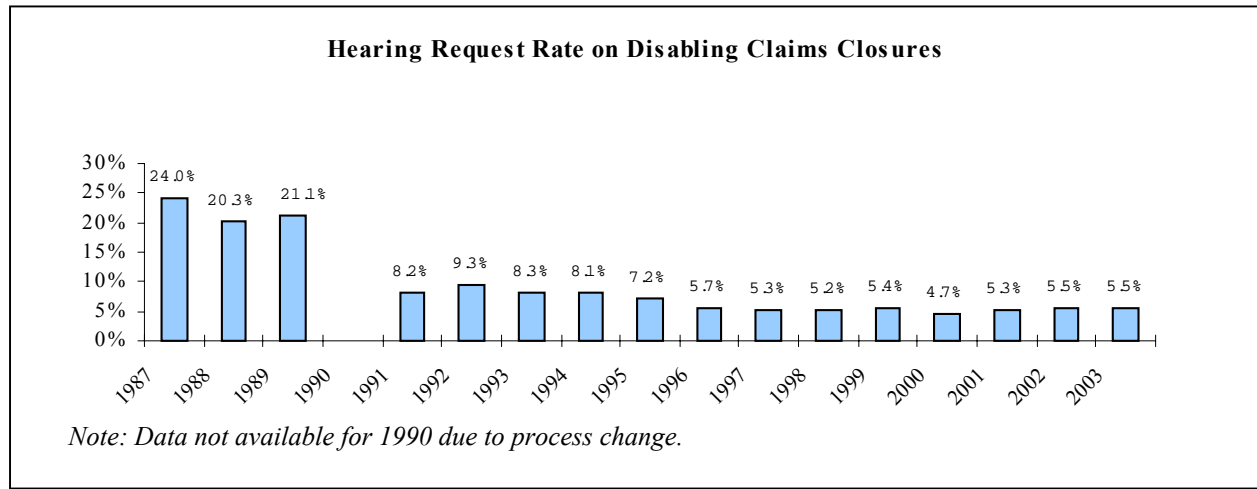
Injured workers who use return-to-work programs achieve higher wage recovery and are employed at a higher rate than workers who do not use the programs.



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Reduced litigation levels

Prior to the mandatory reconsideration process, over 20 percent of closures were appealed to the Hearings Division of the Workers' Compensation Board. Since 1995, the number of requests for reconsideration of claim closures has declined along with the number of claim closures. The rate of requests for reconsideration also declined, though since 2000 the trend has been upward. The percentage of reconsideration orders appealed to hearings has dropped from over 50 percent to 32 percent in 2003. As a result, the percentage of closures that are appealed to hearings has dropped to 5.5 percent.



Improved national ranking in workers' compensation costs

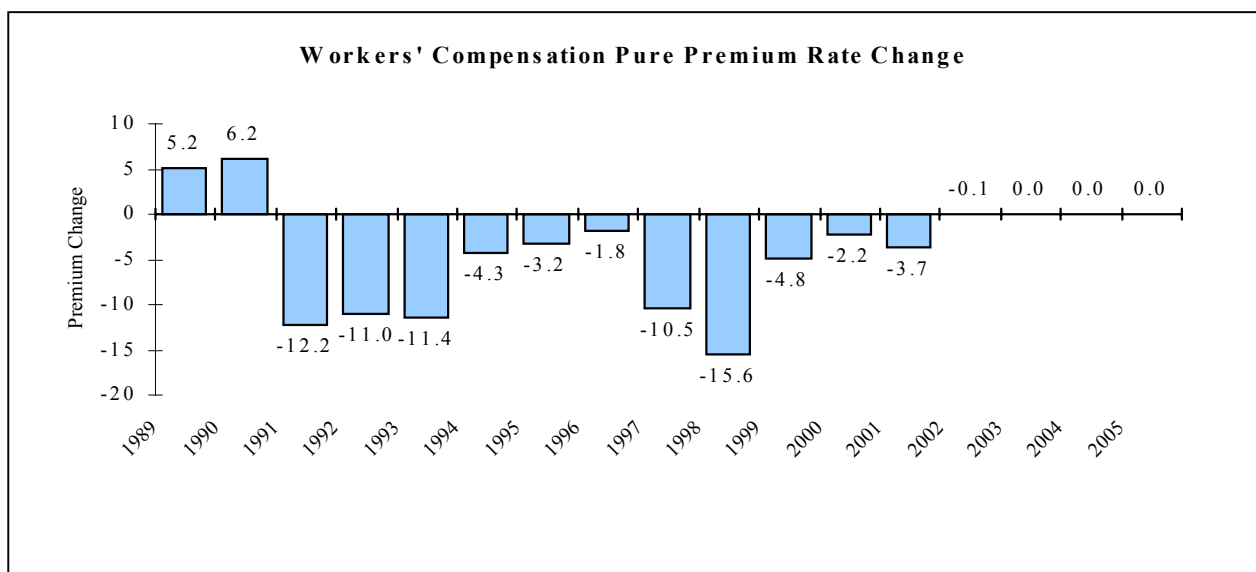
Oregon has improved in its national ranking among the states in workers' compensation costs from sixth most expensive in the nation in 1986 to 42nd most expensive in 2004. The state's ranking has improved by seven since 2002.

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Funding of the workers' compensation system

Workers' compensation insurance premium

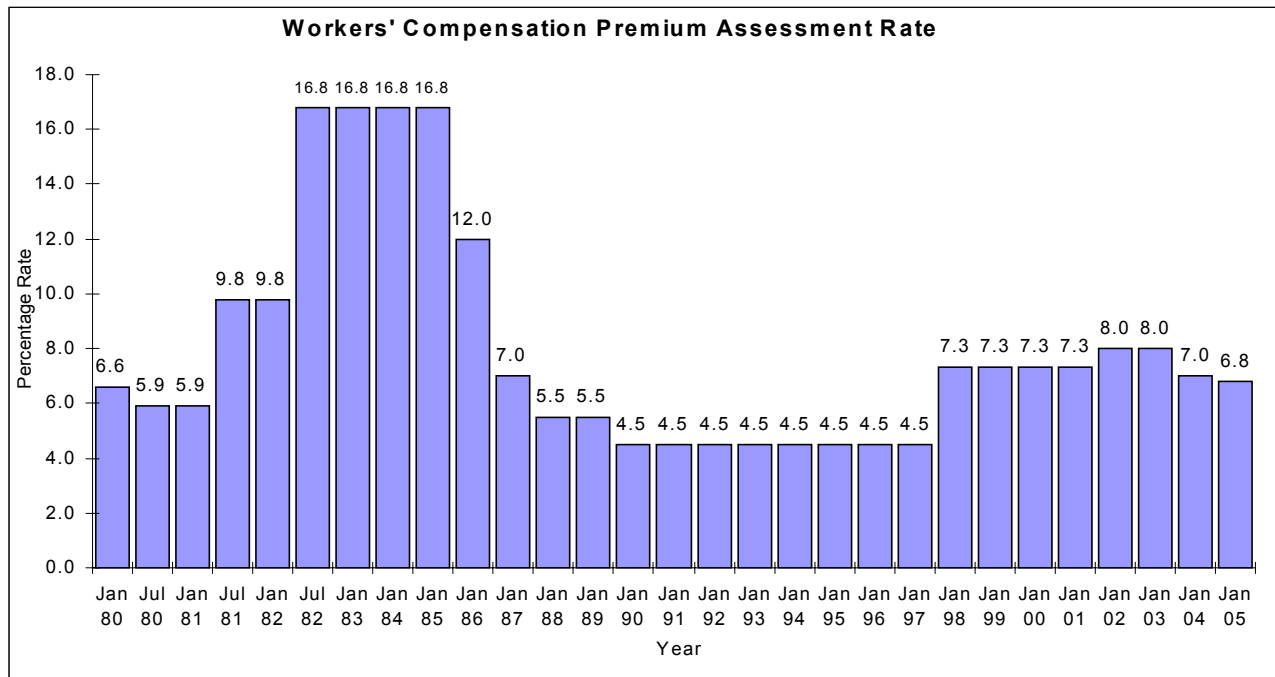
Paid by employers to their insurer in return for workers' compensation coverage. These funds are not remitted to the state, although the DCBS director annually sets the pure premium rate on which insurers base charges to the employers they cover. Average workers' compensation pure premium rates paid by Oregon employers have been unchanged for three years (2003, 2004, and 2005) and have fallen or remained the same for 15 consecutive years. Since 1990, there has been a 57.4 percent reduction in pure premium rates resulting in savings of \$10.1 billion to Oregon employers.



Workers' compensation premium assessments

Collected from employers and forwarded to the state by insurers, including the State Accident Insurance Fund Corporation, and self-insured employers. The current workers' compensation premium assessment rate is 6.8 percent of earned premiums for calendar year 2005, the lowest rate since 1997. The highest rate of 16.8 percent was reached in the mid-1980s. DCBS sets the rate each fall for the following calendar year. The rate was reduced in 2004 and again in 2005. The assessment supports the operating costs of the Workers' Compensation Division, Workers' Compensation Board, Oregon OSHA, Ombudsman for Injured Workers, Small Business Ombudsman, and administrative support in DCBS.

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Workers' compensation cents-per-hour assessment

Paid by employers and workers through the Combined Tax Reporting Program. The current rate is 3.4 cents-per-hour for calendar year 2005. This rate has dropped 19 percent since 1999. The rate anticipates the transfer of revenues to the Premium Assessment Operating Account to pay administrative costs of the WBF. The 1999 Legislature permanently set the fund balance for the Workers' Benefit Fund at 12 months of projected expenditures. The funds are dedicated to the support of the Workers' Benefit Fund programs.

Calendar Year	Rate
1995	3.4 cents-per-hour
1996	2.2 cents-per-hour
1997	2.2 cents-per-hour
1998	3.2 cents-per-hour
1999	4.2 cents-per-hour
2000	4.0 cents-per-hour
2001	3.6 cents-per-hour
2002	3.6 cents-per-hour
2003	3.6 cents-per-hour
2004	3.4 cents-per-hour
2005	3.4 cents-per-hour

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Federal funding

Received from the U.S. Department of Labor for occupational safety and health activities.

Investment income and ending balance

Received from the investment of fund balances by the Oregon Investment Council, Office of Oregon State Treasury.

Fines and recovered claim costs

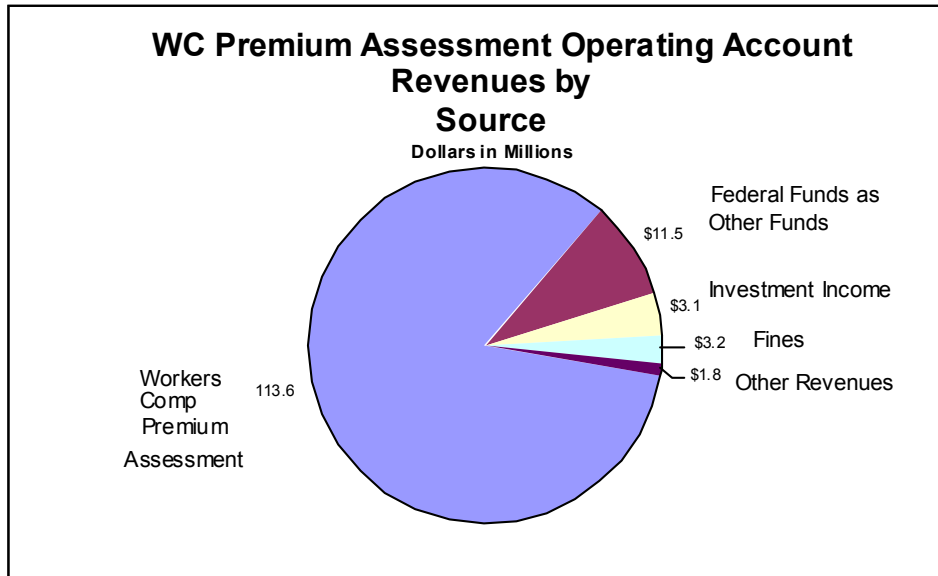
Fines are assessed against insurers, employers, and others for noncompliance with the Oregon Workers' Compensation Law and Oregon Safe Employment Act. Claim costs are recovered from employers without required workers' compensation insurance coverage for their employees.

WORKERS' COMPENSATION SYSTEM

Workers' Compensation Premium Assessment Operating Account

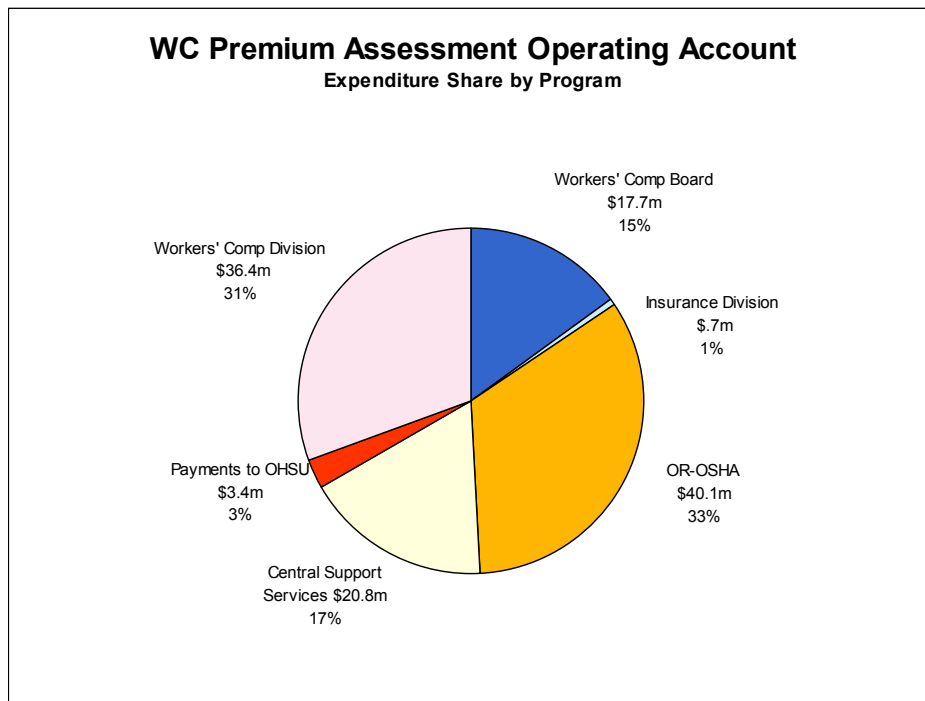
Revenues (\$133.2 Million)

The largest source of revenue for this account is the workers' compensation premium assessment, which subject employers pay as a percentage of the total premiums charged to them by their insurer. Insurers collect the assessment from the employers they cover and then transfer it to the state. The account also includes federal funds, fines, penalties, and investment income.



Expenditures (\$119.1 Million)

The account is used primarily to finance the operating budgets for the DCBS divisions assigned workers' compensation related functions.



WORKERS' COMPENSATION SYSTEM

Activities Funded by the Workers' Compensation Premium Assessment Operating Account

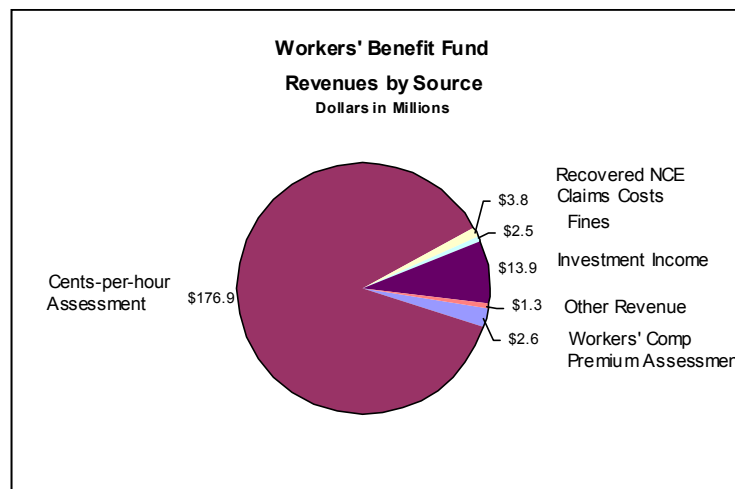
<i>Description</i>	<i>Purpose</i>
Workers' Compensation Division	<ul style="list-style-type: none"> Enforces workers' compensation law. Regulates workers' compensation insurance carriers and self-insured employers processing of workers' compensation claims. Provides dispute resolution for medical, vocational, and other matters. Provides consultation/technical assistance to workers, employers, insurers, claim examiners, attorneys, medical providers, and others. Certifies managed care organizations and nurse practitioners. Regulates self-insurance and licenses worker leasing companies.
Management-Labor Advisory Committee	<ul style="list-style-type: none"> Reviews issues relating to the workers' compensation system. Advises the DCBS director and the Legislature on workers' compensation policy issues.
Ombudsman for Injured Workers	<ul style="list-style-type: none"> Receives, investigates, and resolves workers' compensation complaints. Provides information so injured workers can protect their rights and carry out their responsibilities.
Small Business Ombudsman	<ul style="list-style-type: none"> Assists employers who encounter problems in obtaining workers' compensation insurance coverage. Intervenes in problems involving premium determination and auditing, assuring small employers receive equitable treatment. Provides education and workshops to explain workers' compensation coverage, pricing, auditing, and claims processing.
Workers' Compensation Board	<ul style="list-style-type: none"> Adjudicates compensability, responsibility, and disability entitlement disputes, and employer appeals of OR-OSHA citations. Provides mediation services in workers' compensation disputes. Exercises own motion jurisdiction. Approves claims disposition agreements.
Oregon-OSHA	<ul style="list-style-type: none"> Administers Oregon Safe Employment Act to protect workers and assist employers through safety and health enforcement, consultation, technical, and education programs.
Insurance Division	<ul style="list-style-type: none"> Regulates workers' compensation insurance carriers. Provides alternative dispute resolution for premium audit disputes.
Shared Services	<ul style="list-style-type: none"> Creates, stores, processes, analyzes, and reports information. Provides business and personnel support to program divisions.

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Workers' Benefit Fund (WBF)

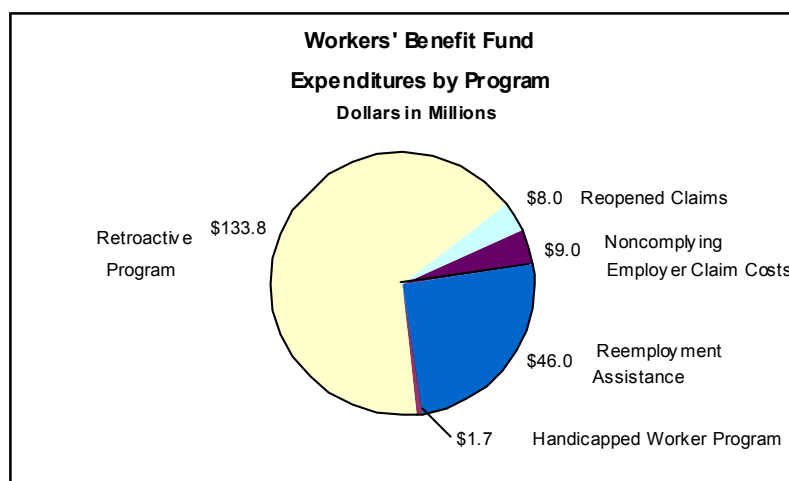
Revenues (\$201.1 Million)

The largest revenue source for the WBF is the workers' compensation cents-per-hour assessment, paid by employers and employees based on hours worked. The assessment is collected as a part of the Oregon Combined Tax Reporting Program. The fund also includes investment income, fines and penalties, claims costs recovered from employers without workers' compensation insurance, and workers' compensation premium assessment.



Expenditures (\$199.1 Million Nonlimited)

The Workers' Benefit Fund is used to finance the workers' compensation reserve programs. In addition, it pays claim costs not recovered from employers who lack workers' compensation insurance coverage, and vocational assistance costs for pre-1986 claims.



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Activities Funded by the Workers Benefit Fund

<i>Description</i>	<i>Purpose</i>
Assessment Collection	<ul style="list-style-type: none"> Collect, audit, and reconcile cents-per-hour assessments.
Handicapped Workers' Program	<ul style="list-style-type: none"> Insurer reimbursements for claims costs over \$1,000 when preexisting conditions are a contributing factor. No new claims accepted after May 1990.
Reopened Claims Program	<ul style="list-style-type: none"> Insurer reimbursements for payments to workers as a result of claims reopened after workers' aggravation rights expire.
Retroactive Program	<ul style="list-style-type: none"> Insurer reimbursements for increased benefits to claimants injured when benefits were lower.
Reemployment Assistance Program	<ul style="list-style-type: none"> Encourages employers to hire injured workers. Provides wage subsidies. Reimburses claim costs of injuries to preferred workers during first three years of hire. Provides worksite modification funds/consultation.
Supplemental Disability Benefit Program	<ul style="list-style-type: none"> Provides temporary disability benefits to injured workers who are injured while employed by multiple employers.
Oregon Health Sciences University (CROET)	<ul style="list-style-type: none"> Special payments for research on occupational illness and disease. (Paid from Reemployment Assistance Reserve. Equal payments made from workers' compensation premium assessments.)
Noncomplying Employer Program	<ul style="list-style-type: none"> Claims costs for injured workers whose employers failed to provide workers compensation insurance. Recovers costs from noncomplying employers.
Rehabilitation Payments	<ul style="list-style-type: none"> Vocational assistance costs for claims occurring before January 1986. Subsequent claims are borne by insurers or self-insured employers.

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Revenues and Disbursements

Workers' Compensation Premium Assessment Account

2005-07 Beginning Balance		\$ 61,093,876
Other Funds Revenues		
Workers' Compensation Taxes	\$ 113,569,440	
Business License & Fees	\$ 140,000	
Federal Funds as Other Funds	\$ 11,540,000	
Fines & Forfeitures	\$ 3,250,000	
Interest Income	\$ 2,955,446	
Other Revenues	\$ 1,771,344	
Subtotal Revenues		\$ 133,226,230
Transfers		
Transfer In - Intrafund	\$ 9,648,557	
Transfer to Bureau of Labor & Industries	\$ (186,400)	
Transfer to Central Support/NL CROET	\$ (20,626,330)	
Subtotal Transfers		\$ (11,164,173)
Available Funds		\$ 183,155,933
WCB Budget	17,745,256	
WCD Budget	36,384,531	
WCD nonlimited expenditure for CROET	3,357,709	
OR-OSHA Budget	40,093,957	
Total Expenditures		\$ 97,581,453
2005-07 Ending Balance		\$ 85,574,480

Workers' Benefit Fund

2005-07 Beginning Balance		\$ 162,554,547
Other Funds Revenues		
Workers' Compensation Taxes	\$ 2,646,349	
WC Assessments (cents per hour)	\$ 176,859,380	
Admin & Service Charges	\$ 3,850,000	
Fines & Forfeitures	\$ 2,450,000	
Interest Income	\$ 13,888,107	
Other Revenues	\$ 1,394,142	
Subtotal Revenues		\$ 201,087,978
Transfers		
Transfer Out - Intrafund	\$ (9,266,468)	
Transfer Out - Bureau of Labor & Industries	\$ (620,000)	
Subtotal Transfers		\$ (9,886,468)
Available Funds		\$ 353,756,057
Special Payments		\$ 199,108,232
2005-07 Ending Balance		\$ 154,647,825