



MEMORANDUM

March 13, 2023

To: Sally Coen, Administrator, Workers' Compensation Division, DCBS

From: Kelli Borushko, Senior Economist, CSD, DCBS

Subject: Workers' Benefit Fund – MLAC presentation follow-up

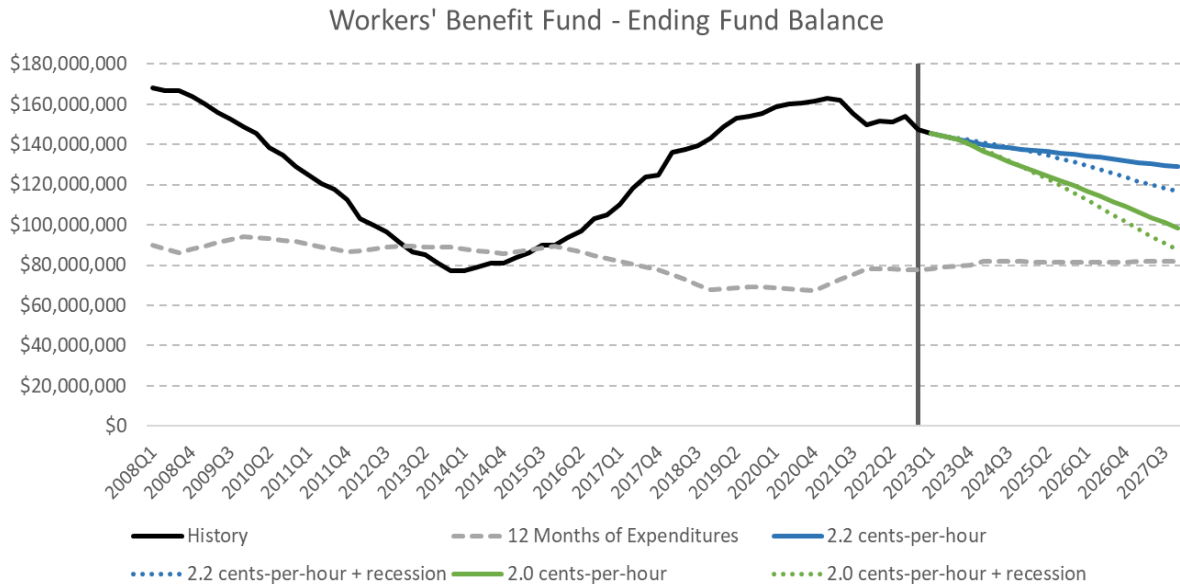
Purpose:

This memo provides the Workers' Compensation Management-Labor Advisory Committee (MLAC) with further context on the factors surrounding the decision to maintain the Workers' Benefit Fund (WBF) assessment rate at 2.2 cents-per-hour effective Jan. 1, 2023. The WBF assessment is the amount of money collected by the Department of Consumer and Business Services (DCBS) from employers and workers on a cents-per-hour worked basis to cover the expenses and maintain the viability of the WBF. To provide context on the decided rate, we discuss the statutory requirements of this fund, the program and economic factors used in the rate analysis, and the investment strategy used for the funds.

Rate Analysis:

Under the requirements of [ORS 656.506](#), the director must establish the Workers' Benefit Fund (WBF) assessment rate for employers and workers each year. The law requires the rate be determined in a manner that minimizes the volatility of the rates assessed. The law also requires the fund have a minimum of 12 months of expenditures in the fund. To determine the most appropriate rate, the director analyzes multiple scenarios for the fund during the assessment setting process at the end of each fiscal year. Factors include the current fund balance, projected expenditures, long term fund liabilities, and anticipated economic and employment conditions.

The graph below shows several possible outcomes for the fund balance through FY 2027. The vertical line shows the current balance in the fund, with the black line to the left showing historical balances, and the lines to the right showing the projections considered during the rate setting process.



The blue line is our current projection with the 2.2 cents-per-hour assessment rate effective Jan. 1, 2023. The green line shows the projected fund balance had the director elected to drop the rate to 2.0 cents-per-hour. These two outcomes assume stable employment. However, additional factors in determining the 2023 rate were the possibility of a recession due to the effects of high domestic inflation, Russia’s invasion of Ukraine resulting in oil price uncertainty, and lingering global supply-chain concerns from pandemic-related shutdowns in China. Recessions generally reduce employment and, therefore, reduce the revenue of the WBF. Recession scenarios for each rate are shown using the dotted lines and indicate a more rapidly declining fund balance.

Projected expenditures also factor into the Director’s decision of which rate to choose. The calculations to determine future expenditures for the two largest programs in the WBF – the Retroactive Program and the Reemployment Assistance Program –depend on the number of accepted disabling claims (ADCs) and the state average weekly wage (SAWW), among other factors. We forecast a gradual decline in Retroactive Program expenditures due to continued decreases in accepted fatal and permanent total disability claims. However, we anticipate a sharp increase in Reemployment Assistance Program expenditures due to significant increases in the SAWW along with a slightly increasing number of ADCs over time.

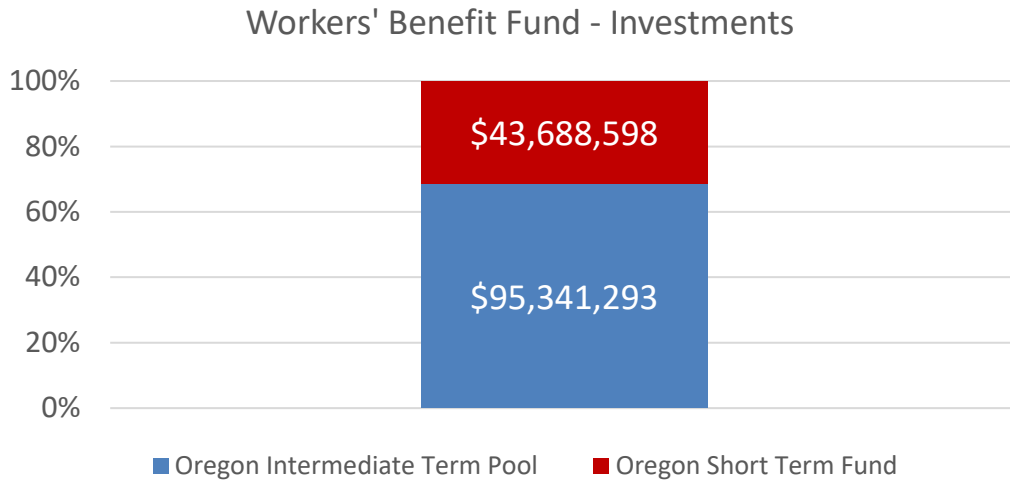
The law also allows the Director to consider setting the rate at a higher level if that higher rate will avoid unintentional program or benefit reductions in the short-term. By keeping the rate at a level that avoids dropping below the statutory minimum fund balance, employers and employees will have a lower likelihood of having to pay a higher assessment in less favorable economic times. This helps minimize volatility, as required by statute.

Investment Strategy:

The Oregon Department of Treasury manages the funds within the WBF and invests them in two pools. The larger portion is in the Oregon Intermediate Term Pool (OITP), which is invested over a longer-term investment horizon. The remainder is in the Oregon Short Term Fund (OSTF)

that maintains funds for a shorter horizon . Since much of the WBF is future liability, this is a sound investment strategy. Funds invested in the OITP can withstand greater price volatility and achieve greater returns in the long-term and those in the OSTF provide liquidity in the case of unanticipated expenditures.

Below is a chart of the most recent investment breakdown of the WBF. Note that the total fund balance differs slightly from the balance reported above due to timing differences in the reports.



Based on the statutory requirements of this fund, various program and economic factors, and the investment strategy used for the funds, the Director decided to maintain the WBF assessment at 2.2 cents-per-hour effective Jan. 1, 2023.

Let us know if you have any questions.