

WORKERS' COMPENSATION SYSTEM

Background

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

- Prevent and 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 (SAIF) 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 adopted in law, regulating Oregon's workers' compensation system, advancing workplace safety and health, making certain that employers provide insurance, 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 (Oregon OSHA)** helps keep people out of the workers' compensation system through safety and health programs. Oregon 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 within DCBS that receives shared services.

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** is a resource center for small business employers, insurers, trade groups, and agents needing workers' compensation information and assistance. The primary goal is to ensure that small business 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 policymakers.

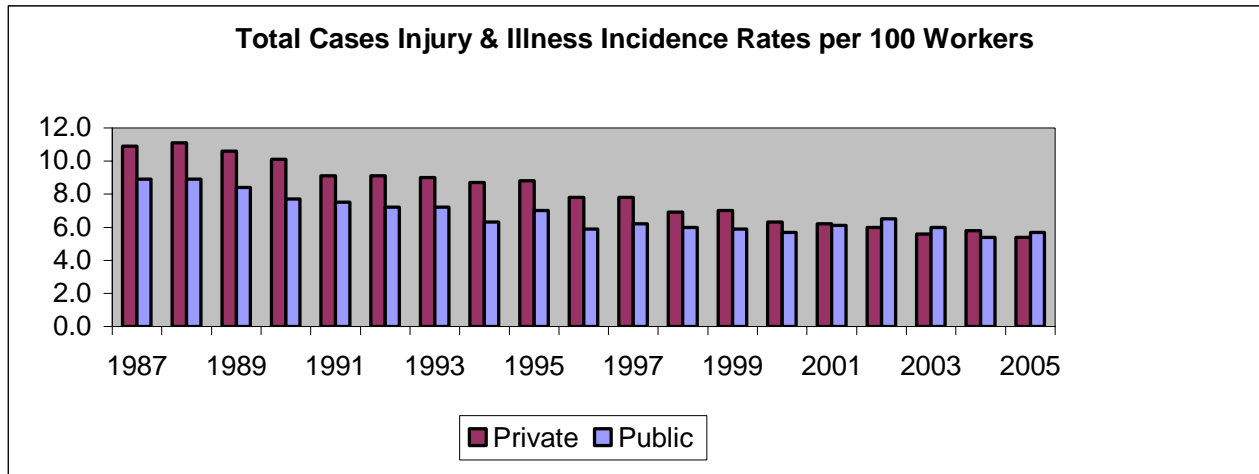
The **Insurance Division** licenses and regulates all insurance companies operating in Oregon, including workers' compensation insurers. As it relates to the Workers' Compensation System, the division also reviews premium rates and hears employer appeals on premium audits.

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System results

Reduced incidence rates for job injuries and illnesses

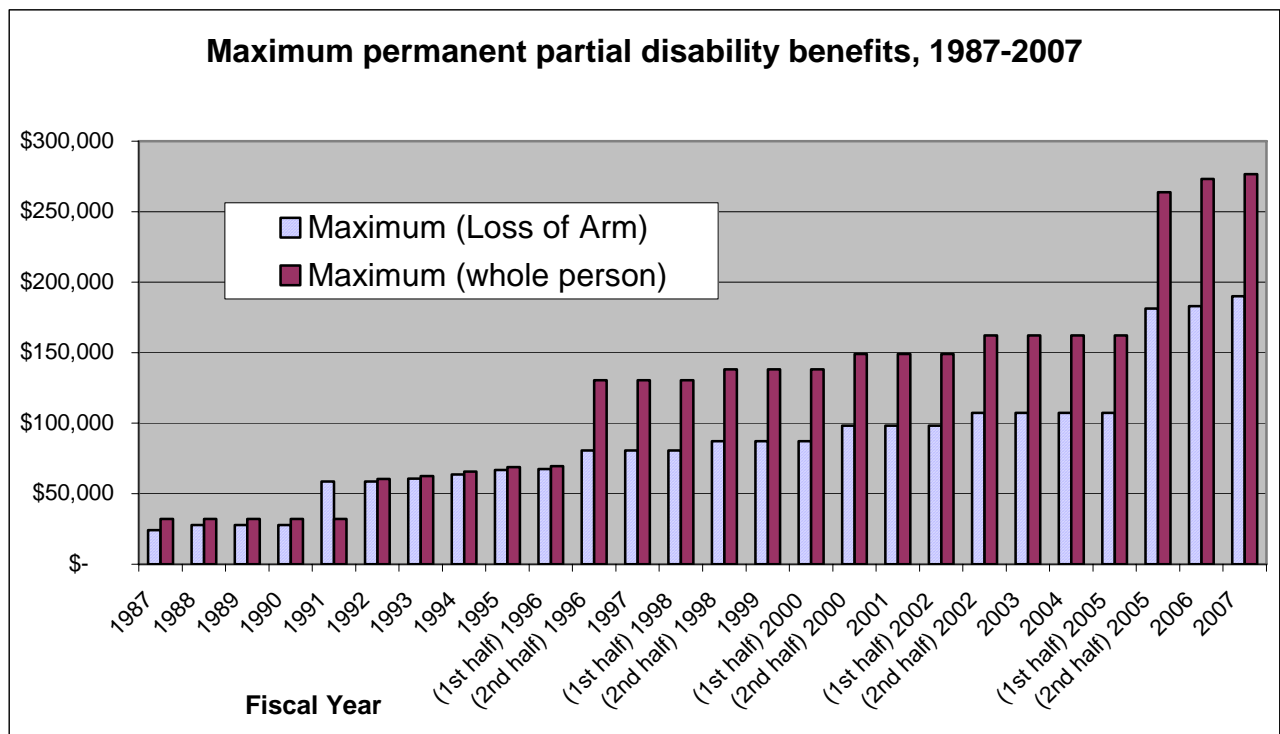
The incidence rate for cases with days away from work declined 50 percent between 1987 and 2005. The 2005 total cases incidence rate of 5.4 per 100 workers is a decrease from the 5.8 rate recorded in 2004.



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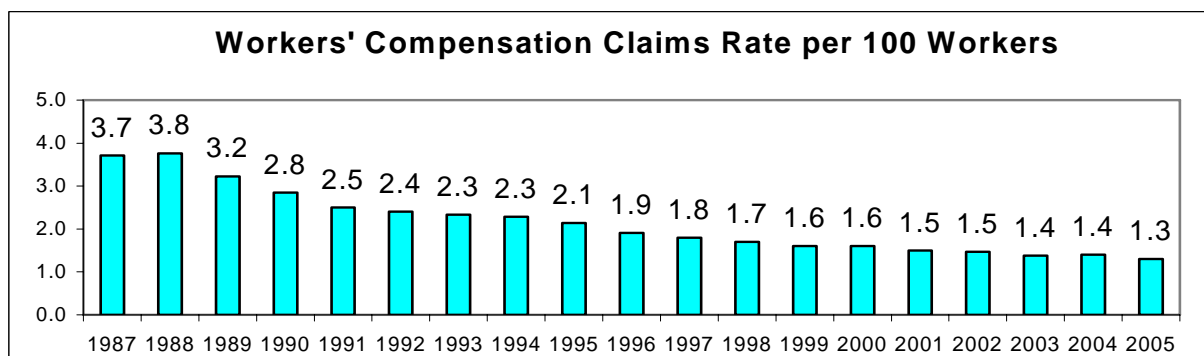
Increased benefit levels

For 2006, Oregon's maximum permanent partial disability benefits were in the 82nd percentile nationally for loss of arm and in the 70th percentile nationally for whole person. Senate Bill 757 in 2003 and House Bill 2408 in 2005 revised the benefit structure, increasing benefits for the most severely injured workers. The bills eliminated the distinction between scheduled and unscheduled permanent partial disability. Disability is now rated on a "whole person" basis. The maximum permanent partial disability award is now \$276,517 for workers unable to return to regular work. Benefits will adjust annually with wage changes.



Reduced claim rates

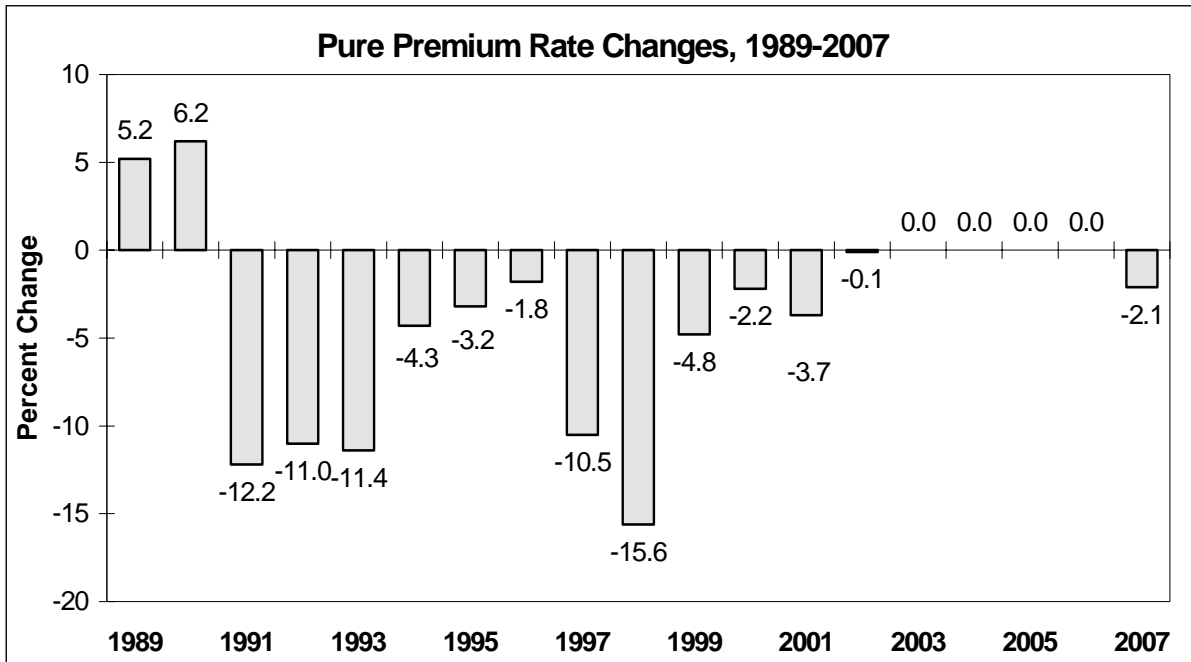
While employment grew 52 percent between 1987 and 2005, the number of accepted disabling claims decreased 46 percent and the overall claims rate declined 65 percent.



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Reduced workers' compensation premium rates

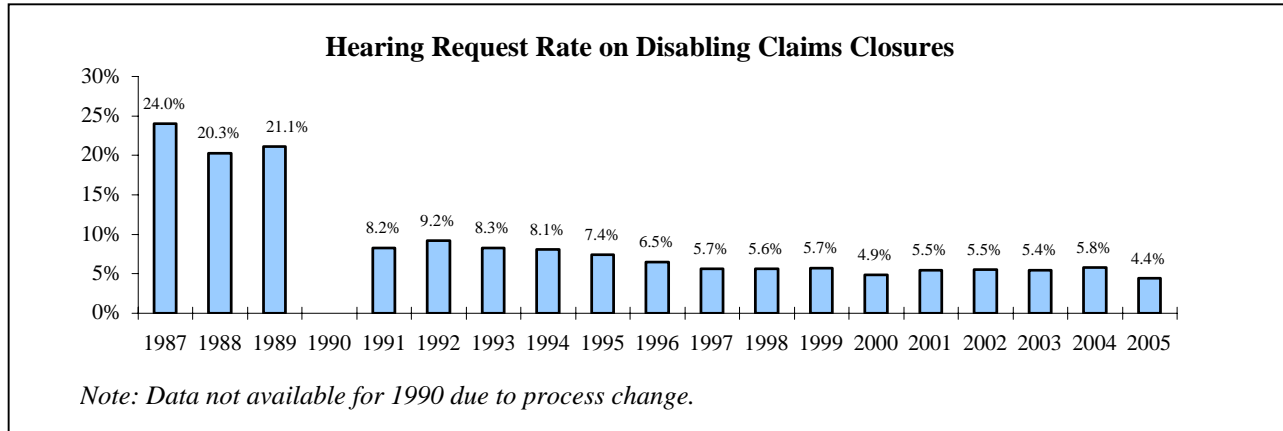
Workers' compensation premium rates paid by Oregon employers declined for 12 straight years, stayed unchanged for four consecutive years, and decreased again in 2007. Since 1990, there has been a 58.3 percent reduction in pure premium rates, resulting in an estimated \$12.8 billion savings to Oregon employers. Insurers base their premium charges on the pure premium rates set by the DCBS director.



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Reduced litigation levels

Prior to the mandatory reconsideration process, more than 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. The percentage of reconsideration orders appealed to hearings has dropped from more than 50 percent to 27 percent in 2005. The percentage of closures that are appealed to hearings has dropped to 4.4 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 2006. The state's ranking has improved by seven since 2002.

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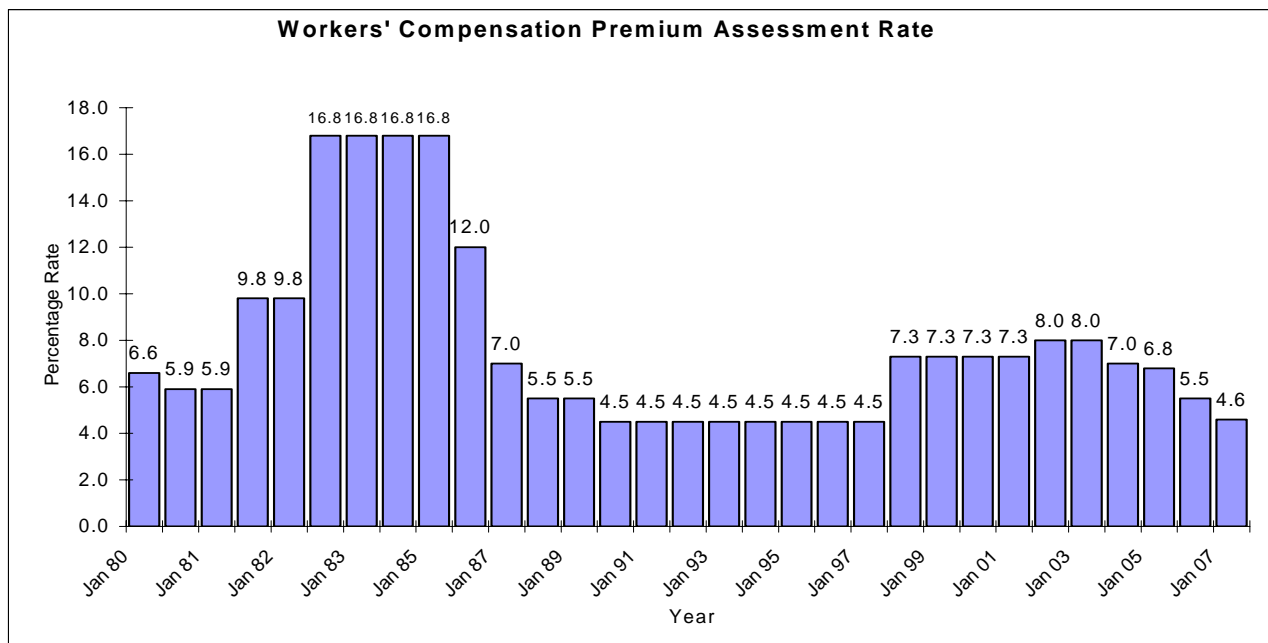
Funding of the workers' compensation system

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.

Workers' compensation premium assessment

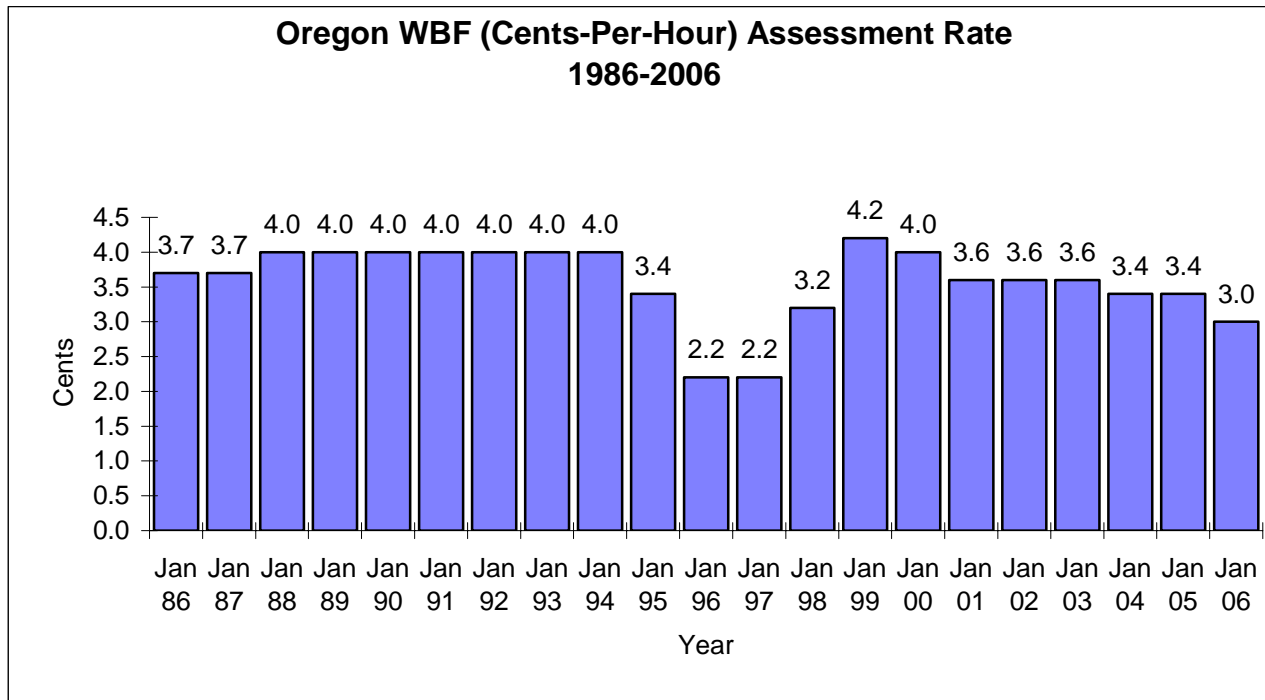
This assessment is collected from employers and forwarded to the state by insurers, including the State Accident Insurance Fund Corporation (SAIF), and self-insured employers. The current workers' compensation premium assessment rate is 4.6 percent of earned premiums for calendar year 2007, the lowest 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 has been reduced each year since 2003. The assessment supports the operating costs of the Workers' Compensation Division, Workers' Compensation Board, Oregon OSHA, Ombudsman for Injured Workers, Small Business Ombudsman, costs incurred by the Insurance Division as it relates to Workers' Compensation, and Shared Services within DCBS that support system programs.



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Workers' compensation cents-per-hour assessment

This assessment is paid by employers and workers through the Combined Tax Reporting Program. The current rate is 2.8 cents per hour worked for calendar year 2007. This rate has dropped 33 percent since 1999. The rate anticipates the transfer of revenues to the Premium Assessment Operating Account to pay administrative costs of the Workers' Benefits Fund (WBF). The 1999 Legislature permanently set the fund balance for the WBF at 12 months of projected expenditures. The funds are dedicated to the support of the WBF programs.



Federal funding

In 1993, the department began spending its Federal Funds expenditure limitation as Other Funds, a policy authorized by the Legislature to ensure that the department's OSHA operations were not cut back during federal budget negotiations, and to simplify the department's accounting structure. Over time, the policy was extended to all DCBS programs receiving federal funds.

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

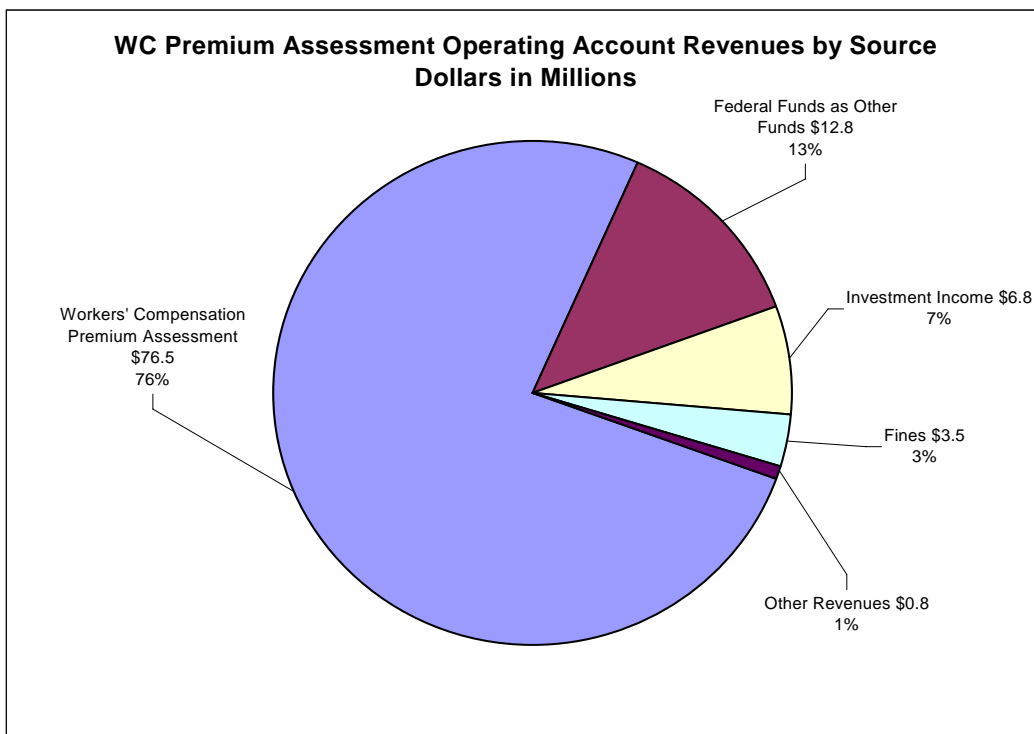
Fines are assessed against insurers, employers, and others for noncompliance with the Oregon Workers' Compensation Law and Oregon Safe Employment Act. Claim costs are recovered from employers that did not provide workers' compensation insurance coverage and that incurred an injury or illness.

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Workers' Compensation Premium Assessment Operating Account

Revenues (\$100.4 Million)

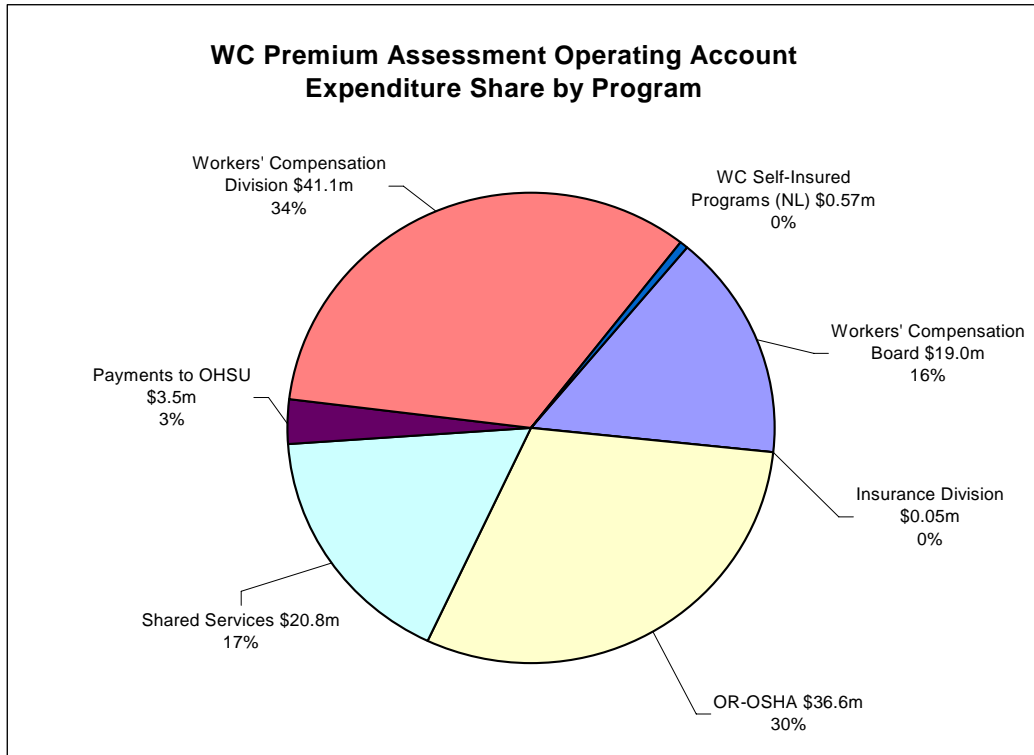
The largest source of revenue for this account is the workers' compensation premium assessment, which subject employers pay as a percentage of the total premiums charged to them by their insurer. Insurers collect the assessment from the employers they cover and then transfer it to the department. The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



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Expenditures (\$121.2 Million)

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



Activities Funded by the Workers' Compensation Premium Assessment Operating Account

Description	Purpose
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.

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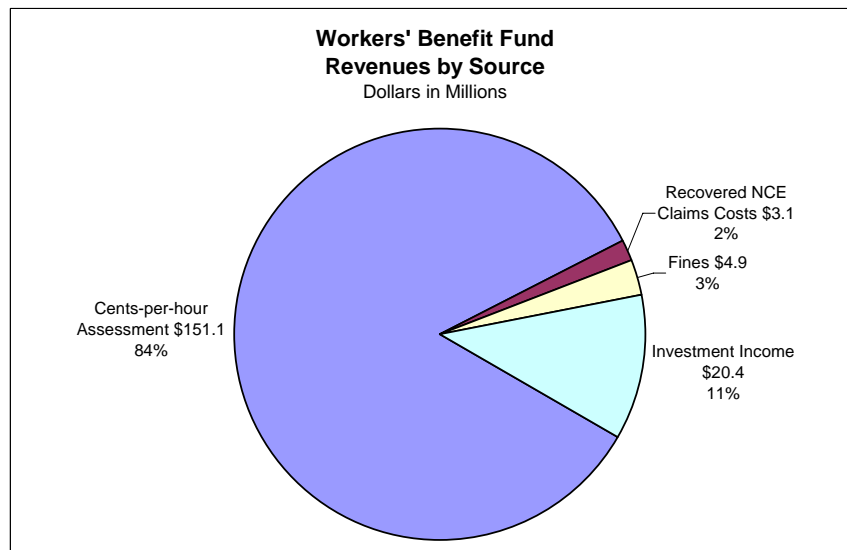
<i>Description</i>	<i>Purpose</i>
Ombudsman for Injured Workers	<ul style="list-style-type: none"> • Receives, investigates, and resolves workers' compensation complaints. • Provides information so injured workers can protect their rights and carry out their responsibilities.
Small Business Ombudsman	<ul style="list-style-type: none"> • Assists employers that encounter problems in obtaining workers' compensation insurance coverage. • Intervenes in problems involving premium determination and auditing, ensuring 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 Oregon 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.

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Workers' Benefit Fund (WBF)

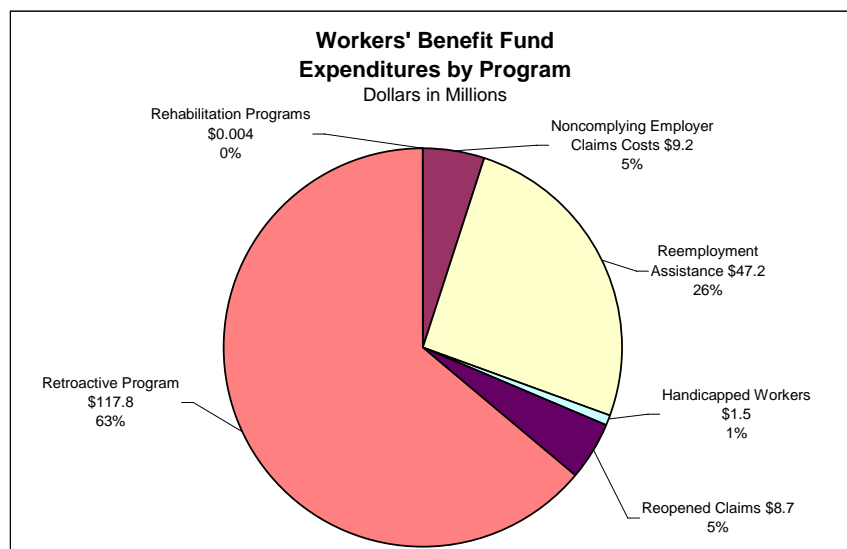
Revenues (\$180.9 Million)

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 (\$184.3 Million Nonlimited)

The Workers' Benefit Fund is used to finance the workers' compensation benefit programs. In addition, it pays claim costs not recovered from employers that failed to obtain 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>
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"> • Claim 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.
Administrative Costs	<ul style="list-style-type: none"> • Collect, audit, and reconcile cents-per-hour assessments. • Administrative costs of the programs administered.

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Revenues and Disbursements

Workers' Compensation Premium Assessment Account

2007-09 Beginning Balance		\$ 67,305,199
Other Funds Revenues		
Workers' Compensation Taxes	\$ 76,518,057	
Business License & Fees	\$ 229,600	
Federal Funds as Other Funds	\$ 12,780,000	
Fines & Forfeitures	\$ 3,470,000	
Interest Income	\$ 6,817,807	
Other Revenues	\$ 823,700	
Subtotal Revenues		\$ 100,639,164
Transfers		
Transfer In - Intrafund	\$ 7,540,340	
Transfer Out - Bureau of Labor & Industries	\$ (320,000)	
Transfer Out - Shared Services/NL CROET	\$ (20,753,525)	
Subtotal Transfers		\$ (13,533,185)
Available Funds		\$ 154,411,178
WCB Operating Budget	18,993,433	
WCD Operating Budget	41,123,955	
WCD nonlimited expenditure for CROET	3,506,903	
OR-OSHA Operating Budget	43,273,266	
Total Expenditures		\$ 106,897,557
2007-09 Ending Balance		\$ 47,513,621

Workers' Benefit Fund

2007-09 Beginning Balance		\$ 177,507,237
Other Funds Revenues		
WC Assessments (cents per hour)	\$ 151,121,954	
Admin & Service Charges	\$ 3,121,610	
Fines & Forfeitures	\$ 4,875,000	
Interest Income	\$ 20,395,756	
Other Revenues	\$ 1,394,142	
Subtotal Revenues		\$ 180,908,462
Transfers		
Transfer Out - Intrafund	\$ (9,011,431)	
Transfer Out - Bureau of Labor & Industries	\$ (620,000)	
Subtotal Transfers		\$ (9,631,431)
Available Funds		\$ 348,784,268
Special Payments		\$ 184,327,050
2007-09 Ending Balance		\$ 164,457,218