

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0916-02  
Bill No.: Perfected HCS for HB 430  
Subject: Health Care; Workers Compensation; Employees - Employers  
Type: Original  
Date: April 30, 2013

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Bill Summary: This proposal would modify the experience rating process for workers' compensation insurance.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
General Revenue	(Unknown)	(Unknown)	(Unknown)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(Unknown)</b>	<b>(Unknown)</b>	<b>(Unknown)</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 10 pages.

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
Road	(Unknown)	(Unknown)	(Unknown)
Second Injury	(Unknown)	(Unknown)	(Unknown)
Workers' Compensation Administration	(More than \$90,856)	(More than \$95,711)	(More than \$96,687)
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>(More than \$90,856)</b>	<b>(More than \$95,711)</b>	<b>(More than \$96,687)</b>

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
Workers' Compensation Administration	2 FTE	2 FTE	2 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>2 FTE</b>	<b>2 FTE</b>	<b>2 FTE</b>

Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
<b>Local Government</b>	<b>(Unknown)</b>	<b>(Unknown)</b>	<b>(Unknown)</b>

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## FISCAL ANALYSIS

### ASSUMPTION

#### Sections 287.957 and 287.975, RSMo. - Workers Compensation

In response to a previous version of this proposal, officials from the **Office of the Secretary of State (SOS)** assumed many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Joint Committee on Administrative Rules** assume this proposal would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Office of the Attorney General** assume that any potential costs arising from this proposal could be absorbed with existing resources.

Officials from the **Office of Administration, Division of General Services (DGS)** assume this proposal would prohibit an adjustment to the experience rating modification of an employer's workers' compensation program if medical cost does not exceed 20% of the split point of primary and excess losses.

ASSUMPTION (continued)

This change from a fixed dollar amount of \$1,000 would allow the rating agency to increase the split point (currently at \$5,000) between claims considered primary losses and claims factored as excess losses. This would magnify the positive effect of fewer losses for those entities that have a favorable experience modification factor below 1.00 and would further penalizing those entities that have an experience modification factor above 1.00. The state currently has an experience modification factor slightly above 1.00. The experience factor is used to determine the amount the state pays for worker's compensation administrative taxes and Second Injury Fund assessments. The changes in this proposal could increase the worker's compensation taxes and Second Injury Fund assessments paid by the state.

DGS officials assume the state will continue to have a slightly higher than average experience rating modification factor and therefore would pay slightly higher workers' compensation administrative taxes and Second Injury Fund assessments under this legislation.

**Oversight** assumes the state would have unknown net additional costs as a result of these provisions; and also assumes local governments would have similar unknown costs. For fiscal note purposes, Oversight will indicate unknown additional costs for the General Revenue Fund, for Road Funds, and for local governments for the expected additional administrative taxes and Second Injury Fund assessments.

Officials from the **Department of Labor and Industrial Relations (DOLIR)** assume this proposal would change the process used to adjust an employer's experience rating under the workers' compensation program.

DOLIR officials stated the impact on the premium base used to calculate the administrative tax and Second Injury Fund surcharge is unknown.

Due to the additional number of cases which could be affected by this proposal and the complexity of expected annual fluctuations in the experience modification factor, DOLIR officials assume two additional full time employees would be required. The additional employees would be an Insurance Financial Analyst I and an Auditor I to enable the Self-Insurance Unit to monitor, investigate and enforce compliance with statutory reporting requirements for injuries and medical costs by self-insured employers and group-trusts. The annual salary of an Insurance Financial Analyst I is \$29,172.00 and the annual salary of an Auditor I is \$32,904.00.

ASSUMPTION (continued)

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 would allow the contractor to choose which quarter the payroll information is submitted to calculate the premium credit. The contractor would 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 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 would only be affected by the \$200,000 difference.

The proposal would likely increase the overall premium credit and therefore result in a reduction in the overall workers' compensation premium base. Therefore, this proposal would likely reduce the Administrative Tax and Second Injury Fund Surcharge but the amount of the reduction cannot be determined at this time.

DOLIR officials also anticipate an unknown long range impact.

**Oversight** will include unknown revenue reductions for the Workers' Compensation Fund and the Second Injury Fund in this fiscal note.

IT impact

DOLIR officials also assume additional computer programming would be needed to capture and consolidate compliance data but the cost is unknown at this time.

**Oversight** assumes OA - ITSD (DOLIR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA - ITSD (DOLIR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA - ITSD (DOLIR) could request funding through the appropriation process.

The DOLIR response included two additional employees and related benefits, equipment, and expense. Total employee - related cost was \$91,394 for FY 2014, \$94,513 for FY 2015, and \$95,458 for FY 2016.

ASSUMPTION (continued)

**Oversight** assumes the DOLIR estimate of expense and equipment cost for the new FTE could be overstated. If DOLIR is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment could be reduced by roughly \$6,000 per new employee.

**Oversight** has adjusted the DOLIR estimate of equipment and expense in accordance with OA budget guidelines.

Officials from the **Department of Insurance, Financial Institutions, and Professional Registration** assume this proposal would have no fiscal impact on their organization.

<u>FISCAL IMPACT - State Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
<b>GENERAL REVENUE FUND</b>			
<u>Cost - OA</u>			
Workers' compensation program assessments			
Section 287.957	<u>(Unknown)</u>	<u>Unknown</u>	<u>(Unknown)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>	<b><u>(Unknown)</u></b>	<b><u>Unknown</u></b>	<b><u>(Unknown)</u></b>
<b>ROAD FUND</b>			
<u>Cost - OA</u>			
Workers' compensation program assessments			
Section 287.957	<u>(Unknown)</u>	<u>Unknown</u>	<u>(Unknown)</u>
<b>ESTIMATED NET EFFECT ON ROAD FUND</b>	<b><u>(Unknown)</u></b>	<b><u>Unknown</u></b>	<b><u>(Unknown)</u></b>

<u>FISCAL IMPACT - State Government</u>	FY 2014	FY 2015	FY 2016
<u>(Continued)</u>	(10 Mo.)		

**WORKERS' COMPENSATION  
 ADMINISTRATION FUND**

Cost - DOLIR

Experience rating changes

Section 287.957 and 287.975

Salaries	(\$51,730)	(\$62,697)	(\$63,324)
Benefits	(\$26,250)	(\$31,815)	(\$32,134)
Equipment and expense	<u>(\$12,876)</u>	<u>(\$1,199)</u>	<u>(\$1,229)</u>
Total	(\$90,856)	(\$95,711)	(\$96,687)

<u>FTE change - DOLIR</u>	2 FTE	2 FTE	2 FTE
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Revenue reduction - DOLIR

Experience rating procedure changes

Section 287.957 and 287.975

<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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**ESTIMATED NET EFFECT ON  
 WORKERS' COMPENSATION  
 ADMINISTRATION FUND**

<b><u>(More than \$90,856)</u></b>	<b><u>(More than \$95,711)</u></b>	<b><u>(More than \$96,687)</u></b>
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Estimated Net FTE effect on Workers'  
 Compensation Administration Fund

2 FTE	2 FTE	2 FTE
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**SECOND INJURY FUND**

Revenue reduction - DOLIR

Experience rating procedure changes

Section 287.957 and 287.975

<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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**ESTIMATED NET EFFECT ON  
 SECOND INJURY FUND**

<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>
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<u>FISCAL IMPACT - Local Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
<b>LOCAL GOVERNMENTS</b>			
<u>Cost</u> - Local governments Workers' compensation program assessments Section 287.957	<u>(Unknown)</u>	<u>Unknown)</u>	<u>(Unknown)</u>
<b>ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS</b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>

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

This proposal would prohibit an adjustment to the experience rating modification of an employer's workers' compensation insurance if medical cost does not exceed 20% of the split point of primary and excess losses.

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

Office of the Secretary of State  
Office of the Attorney General  
Joint Committee on Administrative Rules  
Office of Administration - Division of General Services  
Department of Insurance, Financial Institutions, and Professional Registration  
Department of Labor and Industrial Relations



Ross Strope

Acting Director  
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