

Department of Legislative Services
 Maryland General Assembly
 2007 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1006
 Economic Matters

(Delegate Kach)

Finance

Workers' Compensation - Benefits - Cost of Living Adjustment

This bill requires the Injured Workers' Insurance Fund (IWIF) to provide a cost-of-living adjustment (COLA) for permanent total disability payments arising from events occurring before January 1, 1988. Nongovernmental units, counties, and municipal corporations are authorized to provide a COLA for pre-1988 events at their discretion.

The bill applies retroactively to affect compensation paid by IWIF on or after October 1, 2006. The bill takes effect October 1, 2007.

Fiscal Summary

State Effect: State workers' compensation costs would increase by \$13,000 in FY 2008 from COLA payments on outstanding claims resulting from accidents that predate January 1, 1988. Out-year expenditures reflect annualization and increases in benefit payments. Revenues would not be affected.

(in dollars)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Revenues	\$0	\$0	\$0	\$0	\$0
GF/SF/FF Exp.	13,000	25,900	38,900	51,900	64,900
Net Effect	(\$13,000)	(\$25,900)	(\$38,900)	(\$51,900)	(\$64,900)

Note: () = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law: Payments for an accidental injury or occupational disease resulting in a permanent total disability occurring on or after January 1, 1988 receive an annual COLA. The annual COLA is the lower of: (1) the Consumer Price Index published for the Washington, DC/Baltimore Consolidated Metropolitan Statistical Area; or (2) the United States city average consumer price index. The COLA may not exceed 5%.

Background: COLA increases in the years since 1988 are detailed in **Exhibit 1**.

Exhibit 1 COLA Increase 1998-2007

<u>Year</u>	<u>Percentage Increase</u>	<u>Year</u>	<u>Percentage Increase</u>
1988	1.9	1998	2.5
1989	3.3	1999	1.8
1990	4.1	2000	1.3
1991	4.8	2001	2.1
1992	5.0	2002	3.3
1993	4.2	2003	2.6
1994	2.6	2004	1.6
1995	2.7	2005	2.3
1996	2.3	2006	2.7
1997	2.3	2007	3.4

COLA payments were not part of the Maryland statutory benefit provisions prior to 1988 and were not included in the premiums charged to policyholders. The retroactive adjustment would not affect insurance rates for employers because rates would not increase to compensate for past unfunded liabilities; however, the bill would create a significant unfunded liability for insurers. The impact of the bill would vary by insurer, depending on the number of open claims that predate 1988.

The National Council on Compensation Insurance estimates that the bill could result in an overall increase in workers' compensation payments of up to \$35 million; however, the council projects that costs would more likely range from \$10 to \$20 million, based on annual adjustments between 2% and 3.5%. The actual fiscal impact of the bill would

depend on the rate of growth in the annual adjustment and the number of nongovernmental units that elect to provide the additional benefit. The estimated cost to IWIF alone for private claims that predate 1988 is \$10 million.

State Expenditures: IWIF advises that there are as many as 43 open State claims that predate January 1, 1988. Over the life of payments on these claims, IWIF estimates that the cumulative cost to the State could total \$3 million. Based on an estimated 3% annual COLA and a constant number of claimants, IWIF estimates that State expenditures could increase by \$13,072 in fiscal 2008, with expenditures reaching \$64,872 by fiscal 2012.

Additional Information

Prior Introductions: A similar bill, HB 1673 of 2006, received an unfavorable report from the House Economic Matters Committee.

Cross File: None.

Information Source(s): National Council on Compensation Insurance, Uninsured Employers' Fund, Workers' Compensation Commission, Injured Workers' Insurance Fund, Department of Legislative Services

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