

Department of Legislative Services  
 Maryland General Assembly  
 2006 Session

FISCAL AND POLICY NOTE

House Bill 1673 (Delegate Kach, *et al.*)  
 Economic Matters

Workers' Compensation - Benefits - Cost of Living Adjustment

This bill provides that the annual cost-of-living adjustment (COLA) for permanent total disability payments may not exceed 3% for claims arising from events occurring before January 1, 1988.

The bill is prospective only and applies to compensation paid on or after the effective date of the bill.

Fiscal Summary

**State Effect:** State workers' compensation costs would increase by \$13,000 in FY 2007 from COLA payments on outstanding claims resulting from accidents prior to January 1, 1988. Out-year expenditures reflect annualization and increases in benefit payments. Revenues would not be affected.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
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:** Self-insured local government's workers' compensation expenditures could increase significantly over the life of outstanding claims resulting from accidents prior to January 1, 1988. **This bill may impose a mandate on a unit of local government.**

**Small Business Effect:** None, assuming that no small businesses are self-insured.

## 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:** The rates effective each January 1 since 1988 is shown in **Exhibit 1**.

---

### Exhibit 1 COLA Increase 1998 - 2006

<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		

---

The National Council on Compensation Insurance, Inc. estimates that the bill will result in an overall increase in workers' compensation payments in the range of \$10 million to \$20 million. COLA payments were not part of the Maryland statutory benefit provisions prior to 1988 and, as a result, they were not contemplated in the original premiums charged to pre-1988 policyholders for claims occurring prior to 1988. Therefore, the increase in benefits from the bill would result in a significant unfunded liability for insurers. Insurance rates for employers would not be affected because future rates are never increased to pick up unfunded liabilities from the past. Rates for January 1, 2006, for example, are only for injuries that occur during calendar 2006. The impact will vary by insurer, since some insurers may have very few remaining open claims prior to 1988 and other insurers may have many open claims.

**State Expenditures:** The Injured Workers' Insurance Fund (IWIF) advises that State workers' compensation expenditures would increase by \$3 million by providing COLA increases to claimants for injuries sustained prior to January 1, 1988. Currently, only claims payable for an accidental injury or occupational disease sustained on or after January 1, 1988 are eligible for COLA increases. This bill allows claims prior to January 1, 1988 to receive annual COLAs not to exceed 3%. There are 48 open State employee cases that pre-date January 1, 1988. The \$3 million increase will be spread over the life of the payments to the injured employees. IWIF advises that expenditures would increase by \$13,000 in fiscal 2007 and \$64,900 by fiscal 2011. This estimate assumes a 3% annual COLA and a constant number of claimants.

---

### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

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

**Fiscal Note History:** First Reader - March 21, 2006  
nas/jr

---

Analysis by: Karen S. Benton

Direct Inquiries to:  
(410) 946-5510  
(301) 970-5510