

MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION

SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

1429

2001 HOUSE INDUSTRY, BUSINESS AND LABOR

HB 1429

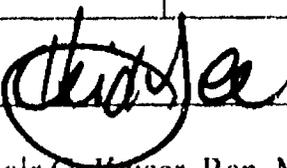
2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB 1429

House Industry, Business and Labor Committee

Conference Committee

Hearing Date Jan 30, 2001

Tape Number	Side A	Side B	Meter #
1		X	1.91-25.68
Committee Clerk Signature 			

Minutes: Chairman R. Berg, Vice-Chair G. Keiser, Rep. M. Ekstrom, Rep. R. Froelich, Rep. G. Froseth, Rep. R. Jensen, Rep. N. Johnson, Rep. J. Kasper, Rep. M. Klein, Rep. Koppang, Rep. D. Lemieux, Rep. B. Pietsch, Rep. D. Ruby, Rep. D. Severson, Rep. E. Thorpe.

Rep Ruby: Sponsor of bill.

Tammy Dolan: **Written testimony in support.** This bill would be revenue neutral over all and with in each of the rate classes.

Mary Skar: Support bill to concentrate safety efforts on a new hire. Should do the cap at FICA levels.

Clyde Wetsch: *Skeels Electric* **Written testimony in opposition**

Gary Nelson: Opposed to bill because it is unfair to employers and the cap should stay on.

Chairman Berg: We'll close the hearing on HB 1429.

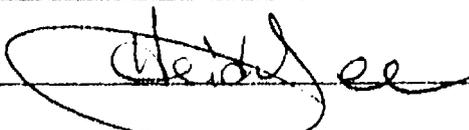
2001 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. HB1429(B)

House Industry, Business and Labor Committee

Conference Committee

Hearing Date Feb. 14, 2001

Tape Number	Side A	Side B	Meter #
1		X	53.9
2	X		-10.13
Committee Clerk Signature 			

Minutes: Chairman R. Berg, Vice-Chair G. Keiser, Rep. M. Ekstrom, Rep. R. Froelich, Rep. G. Froseth, Rep. R. Jensen, Rep. N. Johnson, Rep. J. Kasper, Rep. M. Klein, Rep. Koppang, Rep. D. Lemieux, Rep. B. Pietsch, Rep. D. Ruby, Rep. D. Severson, Rep. E. Thorpe.

Rep Keiser: This is a premium structure for Worker's Comp to remove cap. Chart provided. Privatization shouldn't matter. The money matters, formulas don't.

Rep Ruby: This would make it easier for others coming in. Higher basis for premium is for a reason.

Rep Koppang: If we plan to do a study, why change the rates now?

Rep Keiser: I move a do not pass.

Rep Ekstrom: I second.

13 yea, 2 nay, 0 absent

Carrier Rep Keiser

FISCAL NOTE
 Requested by Legislative Council
 01/23/2001

Bill/Resolution No.: HB 1429

Amendment to:

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	1999-2001 Biennium		2001-2003 Biennium		2003-2005 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

1999-2001 Biennium			2001-2003 Biennium			2003-2005 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2. **Narrative:** *Identify the aspects of the measure which cause fiscal impact and include any comments relevant to your analysis.*

**NORTH DAKOTA WORKERS COMPENSATION
 2001 LEGISLATION
 SUMMARY OF ACTUARIAL INFORMATION**

BILL DESCRIPTION: Premium Calculated on Gross Payroll

BILL NO: HB 1429

SUMMARY OF ACTUARIAL INFORMATION: North Dakota Workers Compensation, together with its actuary, Glenn Evans of Pacific Actuarial Consultants, has reviewed the legislation proposed in this bill in conformance with Section 54-03-25 of the North Dakota Century Code.

The proposed legislation eliminates the payroll cap and requires premium to be calculated on gross payroll. Gross payroll is subject to a maximum of four times the state's average annual wage.

FISCAL IMPACT: NDWC will implement rates for fiscal year 2001-02 that have been derived with the goal of introducing the alternate payroll base on a revenue neutral basis for the state as a whole. However, charged premiums for most individual employers will change.

DATE: January 26, 2001

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, of the effect on the biennial appropriation for each agency and fund affected and any amounts included in the executive budget. Indicate the relationship between the amounts shown for expenditures and appropriations.*

Name:	Paul R. Kramer	Agency:	ND Workers Compensation
Phone Number:	328-3856	Date Prepared:	01/26/2001

Date: 2-14-01
 Roll Call Vote #: /

2001 HOUSE STANDING COMMITTEE ROLL CALL VOTES
 BILL/RESOLUTION NO. HB1429

House Industry, Business and Labor Committee

Legislative Council Amendment Number _____

Action Taken Do Not Pass

Motion Made By Keiser Seconded By Ekstrom

Representatives	Yes	No	Representatives	Yes	No
Chairman- Rick Berg	✓		Rep. Jim Kasper	✓	
Vice-Chairman George Keiser	✓		Rep. Matthew M. Klein	✓	
Rep. Mary Ekstrom	✓		Rep. Myron Koppang	✓	
Rep. Rod Froelich	✓		Rep. Doug Lemieux		✓
Rep. Glen Froseth	✓		Rep. Bill Pietsch	✓	
Rep. Roxanne Jensen	✓		Rep. Dan Ruby		✓
Rep. Nancy Johnson	✓		Rep. Dale C. Severson	✓	
			Rep. Elwood Thorpe	✓	

Total (Yes) 13 No 2

Absent 0

Floor Assignment Rep Keiser

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE (410)
February 14, 2001 12:59 p.m.

Module No: HR-27-3331
Carrier: Kelsner
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HB 1429: Industry, Business and Labor Committee (Rep. Berg, Chairman) recommends DO NOT PASS (13 YEAS, 2 NAYS, ABSENT AND NOT VOTING). HB 1429 was placed on the Eleventh order on the calendar.

2001 TESTIMONY

HB 1429

House Bill No. 1429

Everything being the same, there would be a 38% rate reduction to be revenue neutral

Old Language

\$8.00 x 2000 hrs = \$16,000 x 25.26% = \$4041.60 in annual premium

\$18.00 x 2000hrs = (\$36,000) \$16,100 x 25.26% = \$4066.86 in annual premium
maximum of \$16,100 in wages

Total of both examples = \$8108.46

Proposed Language

\$8.00 x 2000 hrs = \$16,000 x 25.26% = \$4041.60 in annual premium

\$18.00 x 2000hrs = \$36,000 x 25.26% = \$9093.60 in annual premium

Total of both examples = \$13135.20

For a difference of \$5026.74 between the old and new language

To be revenue neutral you would have to give a 38% reduction in the proposed language premiums.

\$8.00 per hour
\$4041.60 x 38% = \$1535.81 \$4041.60 - \$1535.81 = \$2505.79

\$18.00 per hour
\$9093.60 x 38% = \$3455.57 \$9093.60 - \$3455.57 = \$5638.03

Difference of \$3132.24 for doing the same job.

The \$8.00 per hr employee would see a reduction and the \$18.00 employee would see an increase

Lost Time based on 40 hr work week

\$8.00 per hr gets \$213.12 per wk - 66 2/3 of wages
\$18.00 per hr gets \$479.52 per wk - 66 2/3 of wages

maximum of 110% of state average wage

difference of \$266.40

\$3132.24 divided by \$266.40 = 11.76 wks

Each high wage employee would have to have 12 weeks more of lost time to be the same as the low wage employee.
The medical bills are the same

House Bill No. 1429

**Fifty-Seventh Legislative Assembly
Before the Industry, Business and Labor Committee,
January 30, 2001
Testimony Regarding Workers Compensation Premiums**

Mr. Chairman, Members of the Committee:

My name is Tammy Dolan, and I am the Vice President for Employer and Fiscal Services at North Dakota Workers Compensation (NDWC). I am here today to testify in support of House Bill No. 1429 which eliminates the payroll cap used to determine workers' compensation premiums. The Workers Compensation Board of Directors unanimously supports this bill.

The payroll cap is presently set at 70% of the state's average annual wage. This equates to \$16,100 for fiscal year 2000 - 2001. Most other states use gross payroll as the exposure base for premium calculation, with the exception of a few narrowly defined caps. House Bill No. 1429 would align North Dakota with these other states by eliminating the current payroll cap.

Premiums would be calculated on gross payroll. Even with gross payroll there would be a limit of 400 percent of the state's average annual wage (\$92,000 for fiscal year 2000 - 2001.) The bill also establishes a minimum, which would consist of the state's average annual wage (\$23,000 for fiscal year 2000-2001), as the base for self-employed or optional coverage.

The change would be implemented on a revenue-neutral basis to NDWC. This means that total premiums charged for the system as a whole would not increase or decrease as a result of the change; nor would the amount of premium generated by each rate class. Similar employers with similar salary levels should see similar adjustments. However, premium fluctuations may exist at the individual employer level. Employers who deviate from average wages, either higher or lower, could experience fluctuations in manual premiums. NDWC's experience rating plan will offset some of the dislocations. Additionally, if the bill is passed, NDWC will work on a short-term plan to mitigate the impact on situations that could result from this change.

NDWC is required by NDCC 65-02-30 to conduct an independent performance evaluation every biennium. The most recent evaluation was completed in September 2000 by The Hays Group of Minneapolis, Minnesota, which specializes in workers compensation consulting. One of their recommendations was that "the payroll cap be eliminated over time" because you could "obtain a more accurate picture of payroll by class of business and gain efficiency in processing."

In addition, some employers have indicated inequities or problems with the current method would be eliminated or greatly reduced by changing to gross payroll. Some of these are explained below:

1. Eliminating the payroll cap would also help to reduce the level of confusion that often accompanies rate adjustments. Proposed rates could be expressed as a percentage of payroll without the need to split the rate change between a manual rate change and the annual increase in the payroll cap. This greater understanding would help employers to budget more accurately for their workers compensation costs.

2. Significant differences now exist among similar employers in the amount of employee turnover experienced. Employers with higher than average turnover often end up paying significantly more per full-time equivalent (FTE) than other employers that pay comparable wages. As shown in the chart below, the "turnover gap" is eliminated because premiums would be charged on the total wages paid without considering the number of employees in the position. NOTE: The premium rate per \$100 in payroll is reduced proportionately under Gross Payroll to charge the equivalent in annual premium as is currently charged.

**Comparison of Premium per Full-Time Equivalent
Current Method v. Gross Payroll**

This is for illustrative purposes only and does not reflect the actual premium for any particular rate class

	Current Payroll Cap		Proposed Gross Payroll	
	<i>Employer A</i>	<i>Employer B</i>	<i>Employer A</i>	<i>Employer B</i>
Premium Rate per \$100 Payroll	\$12.00	\$12.00	\$6.44	\$6.44
Average Salary	\$30,000	\$30,000	\$30,000	\$30,000
Payroll Cap	\$16,100	\$16,100	\$92,000	\$92,000
Average Employee Tenure	1 Year	3 Months	1 Year	3 Months
Capped Wages per Employee	\$16,100	\$7,500	\$30,000	\$30,000
Premium per Employee	\$1,932	\$900	\$1,932	\$483
Premium per FTE	\$1,932	\$3,600	\$1,932	\$1,932

3. Since gross payroll is the methodology used in most other states, these changes would provide for a much more straightforward evaluation of rate levels. Companies considering locating in North Dakota would be able to more easily compare our workers compensation rates with those in other states. This would also serve to simplify the annual actuarial evaluation process used to determine premium rates.
4. An inequity currently exists in that indemnity benefits increase in direct proportion to an employee's salary. The higher the salary, the higher the benefit. However, premiums charged are limited to the payroll cap; therefore, employees with higher wages receive greater benefit, while their employers pay the same premium as lower wage earners.

**Comparison of Benefits Received to Premium Paid
Current Method v. Gross Payroll**

This is for illustrative purposes only and does not reflect the actual premium for any particular rate class.

	Current Payroll Cap		Proposed Gross Payroll	
	<i>Employee A</i>	<i>Employee B</i>	<i>Employee A</i>	<i>Employee B</i>
Premium Rate per \$100 Payroll	\$12.00	\$12.00	\$6.44	\$6.44
Annual Salary	\$20,000	\$35,000	\$20,000	\$35,000
Payroll Cap	\$16,100	\$16,100	\$92,000	\$92,000
Premium per Employee	\$1,932	\$1,932	\$1,288	\$2,254
Weekly Indemnity Benefit	\$256	\$449	\$256	\$449
Benefits Received as a Percent of Premium Paid	13%	23%	20%	20%

5. Using gross payroll would simplify the accounting and reporting process for employers by minimizing the need for employee specific information. Rather than reporting each employee's wages separately up to the payroll cap, employers would only need to report total payroll paid by rate class. The only exception to this would be for those relatively few employees that are paid more than the maximum level.

Eliminating the payroll cap and utilizing gross payroll for premium calculations would greatly simplify the workers' compensation reporting process for North Dakota's business community. It would also allow workers' compensation rates to be used more readily in economic development evaluations. And, more importantly, it would eliminate several of the inequities in the current system. Therefore, NDWC requests your favorable consideration of House Bill No. 1429.

That concludes my presentation. Thank you for your time and consideration. If there are any questions, I would be more than happy to try to answer them at this time.

House Bill Numbers 1260, 1412, 1429, & 1436

Fifty-Seventh Legislative Assembly Before the House Industry, Business, & Labor Committee January 30, 2001 Testimony Regarding Workers Compensation Legislation

Good morning Chairman Berg, members of the House Industry, Business, and Labor Committee:

I'm Dick Johnsen and I am a member of the North Dakota Workers Compensation Board of Directors. I am here this morning to testify regarding the Board's position on several pieces of legislation that will affect the state's workers' compensation system.

In the interest of time, I will provide you with a brief description of four of the bills you will be hearing this morning and tell you about the recommendations the Board made regarding each of the bills.

The first is House Bill No. 1260, which the Board unanimously supports. House Bill No. 1260 would allow an employer with a deductible policy to keep 100% of the recovery in a third-party action if an injured worker or the Bureau chooses not to pursue the third-party for recovery of damages. This bill relates to a small number of employers, and it will not have an impact on rates or reserve levels.

The second bill is House Bill No. 1412. It would allow payment of preventive treatment for communicable diseases resulting from performing emergency medical procedures that an employer requires. The Board is opposed to this bill the way it is written because it is too broad. The Board agrees that amendments better defining the group covered and the type of diseases covered would enhance the bill and may make it easier to support.

House Bill No. 1429 is the third bill. This bill would eliminate the payroll cap and require NDWC to calculate premium based on gross payroll. This bill would include a payroll cap of four-times the state's average annual wage. The cap based on this year's figures would be approximately \$92,000. The Board unanimously supports this bill. The decision to move towards a gross payroll calculation is a recommendation from our most recent performance evaluation. Calculating premium on gross payroll is an industry standard and would allow North Dakota to more easily compare rates with other states. Any change to the system would be revenue neutral to the Bureau.

The final bill is House Bill No. 1436. The Board unanimously opposes this bill because it would repeal the \$250 medical assessment the Bureau collects from employers on each claim. The \$250 medical assessment accounts for approximately \$3 million in annual income for the Bureau. If NDWC were to do away with this assessment, premiums would have to be increased by about three percent. The Board also feels the assessment is a good way to remind employers of the importance of providing a safe workplace.

I thank you for your time and consideration this morning. On behalf of the Board of Directors, I ask for your favorable consideration on House Bills numbered 1260 and 1429. I ask that you do not give favorable consideration to House Bills numbered 1412 and 1436.

HOUSE BILL NO. 1429

Current premium basis

Current ND average income	23000.00
70% of above average	0.7
Current cap on premium basis	16100.00
Current Maximum premium basis	16100.00
Our current rate per \$100.00 wages	4.71
Current maximum premium per worker	758.31
Current maximum premium per worker	758.31
Number of workers	50
Total premium paid by employer	37915.50

2. Proposed premium basis

Current ND average income	23000.00
Maximum 4 times average	4
Proposed cap on premium basis	92000.00
Proposed maximum premium basis	92000.00
Our current rate per \$100.00 wages	4.71
Proposed maximum premium per worker	4333.20
Proposed maximum premium per worker	4333.20
Number of workers	50
Total premium paid by employer	216666.00

Increase of 571%

3. Effect on Skeels Electric Company based on current rate and proposed premium basis

Current yearly Journeyman wireman wages	38500.00
Our current rate per \$100.00 wages	4.71
Proposed premium for each wireman	1813.35
Proposed maximum per wireman	1813.35
Number of wireman	50
Total premium paid by employer	90667.50

239% Increase

We are opposed to House Bill NO. 1429 because of the excessive financial burden this bill will impose on all North Dakota businesses. This bill will also stop businesses with good paying jobs from locating in North Dakota because under this proposal higher wages mean higher Workers Compensation premiums paid by all new employers.

We strongly urge this committee to endorse a "do not pass" recommendation for this bill.

Sincerely,



Clyde S. Welsch
President
Skeels Electric Company

NDWC Comparison of Gross Payroll to Payroll Cap Premiums

Number of Accounts	Rate Class Name	Rate Class	# Emps	Net Payroll	Premium Based on Net Payroll	Gross Payroll	Premium Based on Gross Payroll	Premium Difference	Largest Favorable Variance	Largest Unfavorable Variance	Actual Variance
632	Medical Clinics, Physicians, Dentists	9042	13,912	\$ 151,583,713	\$ 1,546,154	\$ 425,288,554	\$ 2,083,914	\$ 537,760	\$ (13,408)	\$ 208,847	\$ 851
91	Nursing Homes	9041	16,454	\$ 134,220,420	\$ 5,006,422	\$ 172,770,874	\$ 4,975,801	\$ (30,620)	\$ (12,559)	\$ 34,084	\$ (336)
110	Hospitals	9040	19,469	\$ 232,050,258	\$ 5,685,231	\$ 425,575,548	\$ 5,915,500	\$ 230,269	\$ (21,427)	\$ 67,933	\$ 2,093
865	Trucking	7215	7,697	\$ 81,316,815	\$ 10,148,339	\$ 159,042,967	\$ 10,973,965	\$ 825,626	\$ (79,406)	\$ 313,759	\$ 862
37	Electric, Light & Power Companies	7531	1,914	\$ 23,233,983	\$ 875,921	\$ 77,972,706	\$ 998,051	\$ 122,129	\$ (4,557)	\$ 53,585	\$ 3,301
8	Oil Refining/Synthetic Fuels Mfg	4740	796	\$ 11,423,954	\$ 316,444	\$ 43,384,581	\$ 342,738	\$ 26,295	\$ (2,535)	\$ 20,472	\$ 3,287
1,188	Stores - Retail	8000	28,848	\$ 132,274,208	\$ 1,679,882	\$ 165,804,556	\$ 1,641,465	\$ (38,417)	\$ (2,750)	\$ 9,355	\$ (32)
2,931	Totals		89,090	\$ 766,103,352	\$ 25,258,393	\$ 1,469,839,785	\$ 26,931,434	\$ 1,673,041			

This is a representation of the impact of changing to gross payroll to calculate premium versus the current payroll cap method. It reflects only the estimated changes to 7 of the 145 existing rate classes. Changes to the overall system would be revenue neutral. Limitations on the variances could be implemented to ensure neutrality by rate class as well.

* Gross Payroll figures do not take into account those employees who earned over \$92,000 annually. Therefore, actual premium based on gross payroll may be lower than shown above.

Amounts shown do not reflect experience rates of individual employers or anticipated rate changes, both of which may serve to offset some of the variances shown above.