

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1261-01
Bill No.: SB 385
Subject: Taxation and Revenue – General; Workers’ Compensation
Type: Original
Date: February 10, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Workers’ Compensation Administrative Fund	(\$1,343,133)	(\$2,820,579)	(\$2,820,579)
Second Injury	(\$2,014,699)	(\$4,230,869)	(\$4,230,869)
Total Estimated Net Effect on Other State Funds	(\$3,357,832)	(\$7,051,448)	(\$7,051,448)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Insurance (INS)** assume the proposal would have no fiscal impact on their department. INS states the proposal would reduce the amount of workers' compensation premium tax collected and deposited into the Workers' Compensation fund. INS notes they provided data to the Division of Workers' Compensation to calculate the reduction in revenue to the Workers' Compensation fund.

Officials from the **Department of Labor and Industrial Relations – Division of Workers' Compensation (DWC)** assumes the proposal eliminates the deductible portion of a Workers' Compensation policy from the total employer premium base for determining obligated premium taxes pursuant to §287.310.9, RSMo, and Second Injury Fund surcharge assessed pursuant to §287.715, RSMo. DWC states the premium tax funds the Workers' Compensation Administrative Fund and the Second Injury Fund surcharge pays benefit payments to injured workers under certain conditions.

DWC estimates that for employers who do not self-insure their workers' compensation liability, the deductible portion of aggregate employer premium equals at least 20 percent of the total premium. For calendar year 2002, aggregate premium for insurance company policies equaled \$639,587,075. This is the amount used to determine calendar year 2003 tax obligations. Since this proposal will not be effective until FY 2004, there is no fiscal impact in FY 2003.

KLR:LR:OD (12/02)

ASSUMPTION (continued)

DWC estimates a 5 percent increase in total premium for calendar year 2003. This equates to a total expected premium of \$671,566,429 in calendar year 2003. Premium tax amounts based on calendar year 2003 premium will be due in quarterly installments beginning in calendar year 2004. Since the first six months fall within FY 2004, one-half of the total premium tax will be received in FY 2004.

Twenty percent of \$671,566,429 (total premium) equals \$134,313,286 in deductible premium. This number divided by two (2) (based on six calendar months in FY 2004) equals \$67,156,643. Assuming a 2 percent premium tax rate for CY 2004, the anticipated fiscal impact to the Workers' Compensation Administrative Fund for FY 2004 would be a decrease in revenue of \$1,343,133.

For FY 2005, the first full fiscal year of the provisions of this proposal, the fiscal impact will be even greater. Since the premium base is projected to increase another 5 percent for calendar years 2004 and 2005, the fiscal impact equals 20 percent of \$705,144,750 (total premium) equaling \$141,028,950 in deductible premium. This number divided by two (2) (based on six calendar months in FY 2005) equals \$70,514,475. Assuming a 2 percent premium tax rate for CY 2004, the anticipated fiscal impact to the Workers' Compensation fund for the first six months of FY 2005 (last six months of CY 2004) would be \$1,410,290 and an additional \$1,410,290 for the last six months of FY 2005 (first six months of CY 2005). Therefore, the fiscal impact to the Workers' Compensation Administrative Fund in FY 2005 is expected to be \$2,820,579.

For FY 2006 the premium base is projected to be the same as in FY 2005. Therefore, the fiscal impact to the Workers' Compensation Administrative Fund in FY 2006 is expected to be \$2,820,579.

Using the same methodology, but applying a 3 percent Second Injury Fund surcharge assessment in calendar years 2004 and 2005, DWC anticipates no fiscal impact in FY 2003, a fiscal impact, or decrease in revenue of \$2,014,699 in FY 2004, and \$4,230,869 in FY 2005.

Based on this proposal, DWC assumes that this statutory change would provide insufficient funds for the operating and administrative costs of the Division. In addition, it will also result in the inability to pay Second Injury Fund benefits and will likely result in a rate increase in FY 2004 and FY 2005.

Pursuant to §287.715.2, RSMo, if the Second Injury Fund becomes insolvent, the fund may

receive a loan from the Workers' Compensation fund. If enough funds are not available in the ASSUMPTION (continued)

Workers' Compensation Administrative Fund, this will further reduce the ability of the Division to operate and still may not provide enough revenue to pay all qualifying Second Injury Fund benefits. DWC also notes this may create an equal protection violation between self-insured employer and employer with large deductible Workers' Compensation insurance policies.

This proposal would reduce total state revenue.

<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
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**WORKERS' COMPENSATION
ADMINISTRATIVE FUND**

<u>Loss</u> – Division of Workers' Compensation Reduction in Revenue	<u>(\$1,343,133)</u>	<u>(\$2,820,579)</u>	<u>(\$2,820,579)</u>
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SECOND INJURY FUND

<u>Loss</u> – Division of Workers' Compensation Reduction in Revenue	<u>(\$2,014,699)</u>	<u>(\$4,230,869)</u>	<u>(\$4,230,869)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - Small Business

KLR:LR:OD (12/02)

This proposal could result in small businesses noticing an increase in premium tax rates and an increase in surcharge rates.

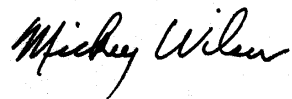
DESCRIPTION

This proposal establishes that when calculating taxes for workers compensation policies with deductible options, the premiums the taxes are based on shall be the premiums that would have been paid in the absence of the deductible option.

This proposal is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Insurance
Department of Labor and Industrial Relations



Mickey Wilson, CPA
Director

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