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## **Workers' compensation - Overview**

- Employers must purchase industrial insurance through L&I (or be self-insured through L&I)
- No-fault system – meaning L&I will cover an allowable claim for a workplace injury regardless of who is at fault
- Includes wage replacement and medical benefits to workers injured on the job
- Title 51 RCW directs L&I to classify all occupations or industries by their degree of hazard, in accordance with standard insurance principles.

### **State fund**

- All employers participate in the state fund unless they are self-insured.
- Employer premiums are the only source of revenue for the State – no other general tax revenues.
- Worker claim benefits are paid out of state fund.
- The state fund also covers administrative costs.

### **Risk Classifications**

- When an employer applies for a workers compensation account, they are assigned one or more risk classifications based on the nature of their business.
- Risk classification is a method for combining like occupations or industries by the degree of hazard.
- Each risk classification has separate base premium rates that apply to the employers and workers in that classification.
- As a result, employers and workers in more hazardous industries (more frequent and severe injuries, higher claims costs) generally have higher premium rates than employers and workers in less hazardous industries.

### **Premium Rates**

- Base rates are set for businesses within a risk classification.
- Employer premiums are distributed into four (4) different funds:
  - Accident Fund: Pays for injured workers' wage replacement, permanent disability or death benefits, and some vocational retraining.
  - Medical Aid Fund: Pays for health care and private vocational counselors for covered services provided to injured workers.
  - Stay at Work: Pays employers partial reimbursement for wages, training, and equipment costs provided under light duty or transitional work for injured workers.

- Supplemental Pension Fund: Pays cost of living adjustments on extended wage replacement benefits.

### **Payroll deduction**

- Under state law, a portion of the premium due, equal to one-half of the Medical Aid Fund rate, Stay at Work rate, and Supplemental Pension Fund assessment, may be paid by employee contribution.
- L&I does not collect each worker's share directly. Instead, employers have the option to collect their employees' portion through payroll deductions.
- Some businesses choose not to make employee payroll deductions. These businesses are still responsible for paying the total premium due.

### **Setting base rates**

- Each year, L&I actuaries calculate base rates for each risk classification based on the previous five (5) years of claim costs by claim type and hours worked.

### **Experience rating**

- L&I individually adjusts the base rates for premiums using an *experience factor*, which L&I calculates annually for each business.
- The experience factor of an employer is based on workers' hours (exposure) and claims (losses) occurring during the preceding three years.
- The experience factor is a prediction of how a business's future claim costs will compare to their risk classifications.
- For example, if a business's claim cost costs are likely to be higher than other businesses in their risk classifications, L&I will assign an experience factor greater than one (1).

### **Reporting and Paying Premiums**

- Employers apply for an L&I workers' compensation account along with their state business license.
- Employers keep track of the number of hours employees work.
- Employers report the combined hours for all employees in each assigned risk class quarterly [every three (3) months] to L&I and pay the premiums for each risk class.
- L&I rules require reporting every quarter your account's activity, even if no hours are worked.
- Employers must keep records and make the records available to L&I for examination in case of an audit.

### **Worker Benefits – Health care services**

- For accepted claims, L&I pays the cost of health care services until the covered worker's injury or illness has stabilized and reached a point where no further recovery is expected.

### **Worker Benefits – Wage replacement**

- If a covered worker is unable to work due to their work-related injury or disease, L&I will pay a portion of their regular wages. A health care provider must certify that the worker is unable to work due to the work-related injury or illness.
- The wage replacement or “time-loss compensation” is not full wage replacement. It is approximately 60-75% of total wages and is calculated based on a covered worker's total earnings at the time of injury plus marital status and dependents.
- Covered workers receive time-loss payments approximately twice a month as long as the health care provider verifies that the condition prevents the return to any work.

### **Worker Benefits – Establishing income**

- In order to determine a covered workers time-loss benefits, L&I establishes the gross income at the time of a covered worker's injury based on:
  - The worker's wages earned before taxes, from all jobs worked.
  - Any employer provided medical, dental and vision benefits.
  - The reasonable value of room and board, housing, heating fuel or similar considerations received from the employer.
  - Any bonus received in the last twelve (12) months from the employer the worker was working for when injured.
  - Tips the worker reported to their employer for federal income tax purposes.

### **Getting back to work**

- Depending on the severity of the injury, a worker may have difficulty returning to work.
- In some cases, vocational services may be used to help with return-to-work options, including retraining for new work.