



ANALYSIS OF OREGON SENATE BILL 607

As Introduced on January 9, 2017

NCCI estimates that Oregon Senate Bill (SB) 607, if enacted, would result in a decrease in collected premiums on workers compensation (WC) policies, prior to any NCCI loss cost filing recommendation for such a change. To offset the expected reduction in premium, NCCI estimates that loss costs would need to be increased between +4.1% and +6.3% in order to provide for expected benefit costs in the system and achieve loss cost adequacy.

Background and Summary of SB 607

Currently under the Oregon Revised Statutes (ORS) § 656.005, payroll is defined as the wages payable to workers for their services excluding overtime pay, vacation pay, bonus pay, tips, amounts payable under profit-sharing agreements or bonus payments to reward workers for safe working practices.

Proposed SB 607 would amend the definition of payroll to exclude sick leave pay. There is no explicit effective date included in the bill language. Per ORS § 171.022, NCCI has assumed an effective date of January 1, 2018 and that the proposed bill would apply to policies effective on or after that date.

Actuarial Analysis of SB 607

In Oregon, payroll is the basis for calculating premiums charged for workers compensation policies. All else equal, excluding sick leave pay from the definition of payroll would result in a decrease in premium collected by insurers in Oregon. Additionally, although vacation pay is currently excluded under the definition of payroll, employers with a consolidated sick leave and vacation plan who cannot differentiate between the two for reporting purposes are unable to exclude vacation pay when reporting payroll for premium calculations. Under proposed SB 607, employers with consolidated leave plans would be able to reduce their payroll reported for premium calculation by both sick leave and vacation pay, further decreasing collected premium.

Benefit costs are a function of average weekly wages (AWW) of injured workers, and are not expected to be directly impacted by the change in definition of payroll under proposed SB 607. With no adjustment to the current approved loss costs, a decrease in payroll used for premium calculations with no corresponding decrease in anticipated benefit costs would be expected to result in premium inadequacy. However, if SB 607 were enacted, such a change would necessitate the need to increase Oregon loss costs in order to offset the shortfall in premium.

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According to the Bureau of Labor Statistics (BLS), sick leave and vacation days are estimated to account for 3.7% and 6.2% of countrywide annual work days, respectively, for the average worker¹. In the figures above, all sick leave and vacation days for workers subject to a consolidated leave plan are treated as vacation days. The BLS estimates that 32% of civilian workers are subject to a consolidated leave plan²; however for the purposes of reporting payroll for WC premium calculations, it is unknown how often employers using a consolidated leave plan are able to differentiate between sick leave and vacation pay. Assuming a range between 0% and 32% of vacation days are currently included when reporting payroll for premium calculations in Oregon due to the employer's inability to split out vacation pay (i.e., use of a consolidated leave plan), we estimate 4.2% (=6.2% x [1.0 – 32%]) to 6.2% of work days are currently excluded in reported payroll. If sick leave were to also be excluded in addition to vacation days, 9.9% (=3.7% + 6.2%) of work days would be excluded from reported payroll. Based on these assumptions, NCCI estimates that, if SB 607 were enacted, Oregon loss costs would need to increase between +4.1% (= [1.0 – 6.2%] / [1.0 – 9.9%]) and +6.3% (= [1.0 – 4.2%] / [1.0 – 9.9%]) to offset the estimated decrease in payroll being reported for purposes of calculating WC premium.

NCCI expects that, if enacted in its current form, Oregon SB 607 would result in a decrease in the premium collected by insurers. However, if SB 607 were enacted, loss costs in Oregon would need to increase between +4.1% and +6.3% in order to provide for expected benefit costs in the system and achieve loss cost adequacy.

Additional Considerations

- If SB 607 becomes enacted, employers who are unaware of the change in the definition of payroll may incorrectly include sick pay when reporting payroll for WC premium calculations.
- In other states, the definition of payroll typically includes both vacation pay and sick leave pay. Oregon is unique in that vacation pay is excluded from the definition of payroll. SB 607 would continue to differentiate Oregon's payroll definition with the exclusion of sick leave pay.

¹Bureau of Labor Statistics, Employee Benefits Survey, Table 35a, Table 38a, Economic News Release, Table B-2
<http://www.bls.gov/ncs/ebs/benefits/2016/ownership/civilian/table35a.htm>,
<http://www.bls.gov/ncs/ebs/benefits/2016/ownership/civilian/table38a.htm>,
<http://www.bls.gov/news.release/empsit.t18.htm>, January 19, 2017

² Bureau of Labor Statistics, Consolidated Leave Plans: Access,
<http://www.bls.gov/ncs/ebs/benefits/2016/ownership/civilian/table39a.htm>, January 23, 2017.

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