



EMPLOYERS' REINSURANCE FUND

BUSINESS, ECONOMIC DEVELOPMENT & LABOR APPROPRIATIONS SUBCOMMITTEE
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BUDGET BRIEF

SUMMARY

The Employers Reinsurance fund (ERF) is a private purpose trust fund administered by the Labor Commission, working closely with the Workers Compensation Advisory Council. It pays certain workers' compensation benefits to eligible workers and their dependents, and reimbursements to insurance carriers as a result of work accidents that occurred prior to July 1994. When legislation was passed in 1994 creating the current ERF structure, the fund had a significant unfunded liability and it has been working since that time to generate sufficient money to fund the liability.

A unique characteristic of this fund is the uncertainty of its future liabilities. The Labor Commission engages an actuary in projecting future financial results for the fund. Revenues to the fund come from (1) a surcharge on workers' compensation insurance premiums in Utah (2) an assessment to self-insured employers, and (3) interest earned on investments from the previously listed collections. Expenditure items for the fund include (1) permanent disability claims (2) survivor benefit claims (3) medical reimbursements, and (4) administrative expenses.

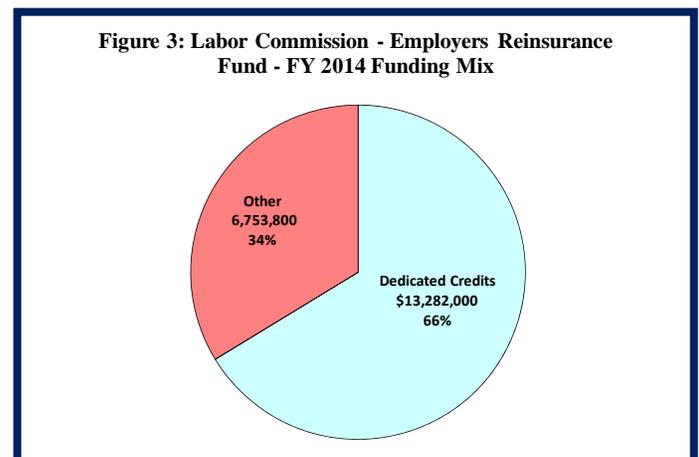
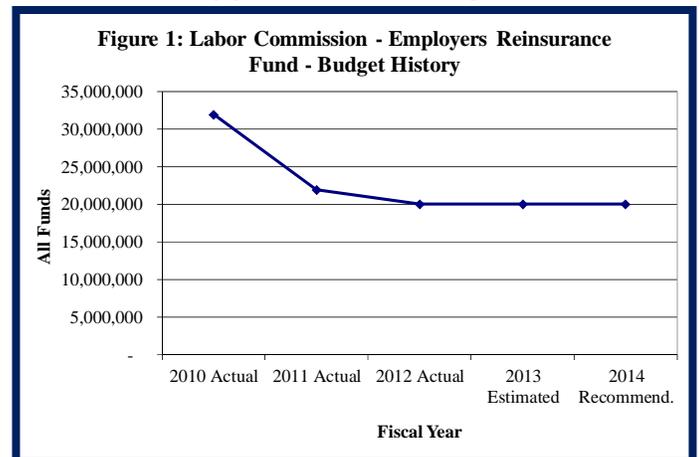
ISSUES AND RECOMMENDATIONS

Reflection of UEF in the State Budget

Up through the 2012 General Session, the ERF has been reflected in the state's budget as part of the Labor Commission's operational budget. Previously, all revenue activities have been rolled up into the dedicated credits line and have acted as a placeholder to balance with actual expenditures. Henceforth, revenues will be broken down into their individual activities in the "Sources of Finance" section of the budget table to more accurately reflect all fund activities. Some of these include premium tax collections, actuarial adjustments impacting fund balances (accrual or release of claim liabilities), and interest earned from investment activities.

Moving forward, it has been decided to reflect ERF budget activities similar to an internal service fund; actual revenues and expenditures will be reflected in the state budget, actuarial adjustments are also included in revenues and expenditures for their respective category.

In addition to the changes above, the beginning fund balance and the ending fund balance will be included on the revenue side of the ledger. These entries show the outstanding liability of the ERF at the beginning and end of the fiscal year. The difference between the beginning and ending fund balances equals the change in fund balances.



Where a private purpose trust fund does not require legislative action to expend funds, it is not incumbent upon the Legislature to appropriate funds to or from the ERF. The ERF is included in the appropriations act for informational purposes and to exhibit the state’s role, through the administration of the Labor Commission, as a special trust fund administrator. Additionally, the chance exists that if the ERF becomes insolvent, the state could potentially be accountable to fund its liabilities.

BUDGET DETAIL

In FY 2012, the ERF received approximately \$27 million in net revenues, it expended and realized accrued liabilities totaling approximately \$20 million. These activities reduced the total fund balance in the ERF by about \$7 million to an approximate negative \$ 66 million. Total assets in the fund are about \$155 million. Total liabilities in the fund are about \$221 million.

BUDGET DETAIL TABLE

Labor Commission - Employers Reinsurance Fund						
	FY 2012	FY 2013		FY 2013		FY 2014*
Sources of Finance	Actual	Appropriated	Changes	Revised	Changes	Recommended
Dedicated Credits Revenue	0	21,842,500	(21,842,500)	0	0	0
Interest Income	1,063,400	0	1,070,000	1,070,000	0	1,070,000
Dedicated Credits - Investments	(62,800)	0	(63,000)	(63,000)	0	(63,000)
Premium Tax Collections	12,698,300	0	12,700,000	12,700,000	0	12,700,000
Premium Tax Payments	(414,000)	0	(425,000)	(425,000)	0	(425,000)
Change in Claim Reserves	14,034,300	0	14,000,000	14,000,000	0	14,000,000
Beginning Fund Balance	(73,526,000)	0	(66,243,100)	(66,243,100)	7,246,200	(58,996,900)
Ending Fund Balance	66,243,100	0	58,996,900	58,996,900	(7,246,200)	51,750,700
Total	\$20,036,300	\$21,842,500	(\$1,806,700)	\$20,035,800	\$0	\$20,035,800
Programs						
Employers Reinsurance Fund	20,036,300	21,842,500	(1,806,700)	20,035,800	0	20,035,800
Total	\$20,036,300	\$21,842,500	(\$1,806,700)	\$20,035,800	\$0	\$20,035,800
Categories of Expenditure						
Current Expense	334,100	0	333,900	333,900	0	333,900
DP Current Expense	300	0	300	300	0	300
Other Charges/Pass Thru	19,628,300	21,842,500	(2,214,500)	19,628,000	0	19,628,000
Transfers	73,600	0	73,600	73,600	0	73,600
Total	\$20,036,300	\$21,842,500	(\$1,806,700)	\$20,035,800	\$0	\$20,035,800
Other Data						
Change in Fund Balance	(7,282,900)	0	(7,246,200)	(7,246,200)	14,492,400	7,246,200

*Does not include amounts in excess of subcommittee's state fund allocation that may be recommended by the Fiscal Analyst.