ADVISORY NO. 109

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TOPIC: INTEREST RATES: THE FINAL (THE LATEST) WORD

This advisory supersedes prior interest rate Advisory Nos. 84, 84.COR, and 100.

The Commission has announced a new effective interest and/or discount rate. Beginning October 1, 1993 - December 31, 1993, the new rate is 3.27%.

With respect to income benefits, remember that interest is only owed on benefits that are **ordered by the Commission**. Otherwise, we do not owe interest on accrued income benefits.

The applicable interest rate is determined by the rate that is in effect on the date the Commission's order is entered. Use that rate to calculate past due benefits, regardless of the date that the income benefits accrued.

When calculating interest on a periodic payment obligation, an annuity table is necessary in order to determine the period of time that interest is owed on each of the weeks during the payment period. For example, where we are ordered to pay 30 weeks of benefits that have accrued and are continuing, we owe interest on the first week for the full 30 weeks, on the second week for 29 weeks, on the third week for 28 weeks, and so forth.

At the time income benefits are fully matured and periodic payments are no longer due, the total sum, including interest, may thereafter be calculated on a simple interest basis. For example, when the Commission orders 30 weeks of benefits ending three months before the date of the order, use an annuity table to calculate principal and interest due through the ending date of benefits (see previous paragraph for this "Step One"), and thereafter calculate the interest due on an annual interest basis ("Step Two").

If you do not have an annuity table available for the exact rate in effect on the date of the Commission order, you may "guesstimate" benefits due and owing under the old law annuity table published in the 1990 Flahive, Ogden & Latson **Texas Workers' Compensation Manual** (Old Law - Yellow Manual). The Interest Table is located on page 336. The Interest Table is compounded based upon 4% per annum. That roughly approximates the interest rate that has been in effect in the last 12 months.

This will not be exact, and it will result in a very slight overpayment on interest ordered for periodic payments of less than one year. For the example stated below, using the 4% annuity table to calculate Step 1, interest owed on 30 weeks of benefits at $456 per week is $140.48. Under the actual 327% annuity table, if you can locate one, interest would be due in the amount of $127.68. Thus, as long as the overall interest rate remains in the range of 4$, use the Interest Table in the Yellow Compensation Manual.

To illustrate Step 1 and Step 2, first assume an order to pay 30 weeks of income benefits through the date of payment. This is a simple Step 1 problem. Refer to page 336 of the Flahive, Ogden & Latson - 1992 Yellow Manual. Thirty weeks converts to 30.3346. Drop the last two digits and multiply 30.33 times the compensation rate per week to obtain the accrued income benefits, together with interest.

For Step 2, assume that the Commission orders 30 weeks of benefits beginning on January 1st and ending on July 29th. To calculate interest due as of payment on November 18th, repeat Step 1 above to determine the accrued payments plus interest as of July 29th. From July 30th to November 18th is 16 weeks. Multiply the sum obtained in Step 1 x 3.27% (interest at current rate) x 16 (weeks accrued) divided by 52 (weeks in a year). The result obtained is the accrued interest owed. Add the interest back to the income benefits and interest owing on July 30th (Step 1 calculated), and the resulting sum will reflect the total accrued benefits, together with interest through the date of the payment.

These calculations are illustrated below.

STEP 1

30.33 x $456 = $13,830.48

STEP 2

$13,830.48 x 3.27% x 16
_ 52 = $139.15
$ 13,830.48 + 139.15 = $13,969.64