

CS FOR HOUSE BILL NO. 116(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTIETH LEGISLATURE - FIRST SESSION

BY THE HOUSE FINANCE COMMITTEE

Offered: 5/7/97

Referred: Rules

Sponsor(s): REPRESENTATIVES KOTT, Hudson, Foster, Berkowitz, Hodgins, Kelly, Dyson, Davis, Phillips, Kohring, Ogan, Green, Elton

SENATORS Donley, Ellis

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to workers' compensation self-insurance."

2 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

3 * Section 1. AS 21 is amended by adding a new chapter to read:

4 **Chapter 47. Workers' Compensation Self-insurance Groups.**

5 **Sec. 21.47.010. Scope.** The provisions of this chapter apply to workers'
6 compensation self-insurance groups. This chapter does not apply to public employees
7 or governmental entities. A workers' compensation self-insurance group that is issued
8 a certificate of approval by the director may not be considered to be an insurer or an
9 insurance company and is not subject to the provisions of the insurance laws of this
10 title except as otherwise provided in this chapter.

11 **Sec. 21.47.020. Authority to act as a workers' compensation self-insurance**
12 **group.** A person may not act as a workers' compensation self-insurance group unless
13 the person has been issued a certificate of approval by the director.

14 **Sec. 21.47.030. Required qualifications.** (a) A proposed workers'
15 compensation self-insurance group shall file with the director an application for a

1 certificate of approval accompanied by a nonrefundable filing fee established by the
2 director under AS 21.06.250. The application must include the group's name, location
3 of its principal office, date of organization, name and address of each member, and
4 other information that the director may reasonably require, together with the following:

- 5 (1) proof of compliance with the provisions of (b) of this section;
- 6 (2) a copy of the group's articles of association, if any;
- 7 (3) a copy of agreements with the administrator and with any service
8 company;
- 9 (4) a copy of the bylaws of the proposed group;
- 10 (5) a copy of the agreement between the group and each member
11 securing the payment of workers' compensation benefits; the agreement must include
12 a provision for payment of assessments as provided under AS 21.47.180;
- 13 (6) designation of the initial board of trustees and administrator;
- 14 (7) the address in this state where the books and records of the group
15 shall be maintained at all times;
- 16 (8) a pro forma financial statement on a form acceptable to the director
17 showing the financial ability of the group to pay the workers' compensation obligations
18 of its members;
- 19 (9) proof of the group's qualification under 26 U.S.C. 501(c)(6) and
20 exemption from taxation under 26 U.S.C. 501(a); and
- 21 (10) proof of payment to the group by each member of not less than
22 25 percent of that member's first year estimated annual net premium on a date
23 prescribed by the director; payment shall be considered to be part of the first year
24 premium payment of a member if the proposed group is granted a certificate of
25 approval.

26 (b) To obtain and to maintain its certificate of approval, a workers'
27 compensation self-insurance group shall meet the following requirements, as well as
28 other requirements established by law:

- 29 (1) a combined net worth of all members of the group of at least
30 \$1,000,000;
- 31 (2) security in the amount of \$450,000 that shall be provided by either

1 cash, a surety bond, security deposit, or financial security endorsement or any
2 combination of cash, bond, deposit, or endorsement; if a surety bond is used to meet
3 the security requirement, it shall be issued by a corporate surety company authorized
4 to transact business in this state; if a security deposit is used to meet the security
5 requirement, securities shall be limited to bonds or other evidences of indebtedness
6 issued, assumed, or guaranteed by the United States of America, or by an agency or
7 instrumentality of it; certificates of deposit in a federally insured bank; shares or
8 savings deposits in a federally insured savings and loan association or credit union; or
9 any bond or security issued by a state of the United States of America and backed by
10 the full faith and credit of the state; securities shall be deposited with the director and
11 assigned to and made negotiable by the commissioner of labor under a trust document
12 acceptable to the director; interest accruing on a negotiable security shall be collected
13 and transmitted to the depositor, provided the depositor is not in default; a financial
14 security endorsement, issued as part of an acceptable excess insurance contract, may
15 be used to meet all or part of the security requirement; the cash, bond, security deposit,
16 or financial security endorsement must be

17 (A) for the benefit of the state solely to pay workers'
18 compensation claims and associated expenses; and

19 (B) payable upon the failure of the group to pay workers'
20 compensation benefits that it is legally obligated to pay;

21 (3) specific and aggregate excess insurance in a form, in an amount,
22 and by an insurance company acceptable to the director; the director may establish
23 minimum requirements for the amount of specific and aggregate excess insurance
24 based on size differences among groups, types of employment, years in existence, and
25 other relevant factors, and may permit a group to meet this requirement by placing in
26 a designated depository securities of the type referred to in (2) of this subsection;

27 (4) an estimated annual standard premium of at least \$500,000 during
28 a group's first year of operation; in subsequent years, the annual standard premium
29 must be at least \$750,000;

30 (5) an indemnity agreement jointly and severally binding the group and
31 each member of the group to meet the workers' compensation obligations of each

1 member; the indemnity agreement must be in a form prescribed by the director and
 2 must include minimum uniform substantive provisions prescribed by the director;
 3 subject to the director's approval, a group may add other provisions needed because
 4 of its particular circumstances;

5 (6) a fidelity bond and an errors and omissions insurance policy for the
 6 administrator in a form and amount prescribed by the director; and

7 (7) a fidelity bond and an errors and omissions insurance policy for the
 8 service company in a form and amount prescribed by the director; the director may
 9 also require the service company providing claim services to furnish a performance
 10 bond in a form and amount prescribed by the director.

11 (c) A group shall notify the director of any change in the information required
 12 to be filed under (a) of this section or in the manner of its compliance with (b) of this
 13 section not later than 30 days after the change.

14 (d) The director shall

15 (1) evaluate the information provided by the application required to be
 16 filed under (a) of this section to assure that gaps in funding do not exist and that funds
 17 necessary to pay workers' compensation benefits will be available on a timely basis;

18 (2) act upon a completed application for a certificate of approval within
 19 60 days; if, because of the number of applications, the director is unable to act upon
 20 an application within this period, the director may have an additional 60 days to act
 21 on an application;

22 (3) issue to the group a certificate of approval upon finding that the
 23 proposed group has met all requirements, or the director shall issue an order refusing
 24 the certificate setting out reasons for refusal upon finding that the proposed group does
 25 not meet all requirements of this chapter.

26 (e) A workers' compensation self-insurance group shall be considered to have
 27 appointed the director as its attorney to receive service of legal process issued against
 28 it in this state. The appointment is irrevocable, binds any successor in interest, and
 29 remains in effect as long as there is in this state an obligation or liability of the group
 30 for workers' compensation benefits.

31 **Sec. 21.47.035. Premium tax.** A group is subject to the premium tax imposed

1 on domestic insurers under AS 21.09.210(b)(1).

2 **Sec. 21.47.040. Certificate of approval; termination.** (a) A certificate of
3 approval issued by the director to a workers' compensation self-insurance group
4 authorizes the group to provide workers' compensation benefits as required under
5 AS 23.30. The certificate of approval remains in effect until terminated at the request
6 of the group or revoked by the director under AS 21.47.200.

7 (b) The director may not grant the request of a group to terminate its
8 certificate of approval unless the group has insured or reinsured all incurred workers'
9 compensation obligations with an authorized insurer under an agreement filed with and
10 approved in writing by the director. Workers' compensation obligations must include
11 both known claims and associated expenses and claims incurred but not reported and
12 associated expenses. Subject to the approval of the director, a group may merge with
13 another group engaged in the same or similar type of business only if the resulting
14 group assumes in full all obligations of the merging groups. The director may hold
15 a hearing on the merger and shall hold a hearing if any party, including a member of
16 either group, requests a hearing.

17 **Sec. 21.47.050. Examinations.** The director may examine the affairs,
18 transactions, accounts, records, and assets and liabilities of a group as often as the
19 director requires. The expense of an examination shall be assessed against the group
20 in the same manner that an insurer is assessed for an examination.

21 **Sec. 21.47.060. Board of trustees: membership, powers, duties, and**
22 **prohibitions; accounts.** (a) A group shall be operated by a board of trustees of not
23 less than five persons whom the members of a group elect for stated terms of office.
24 At least two-thirds of the trustees shall be employees, officers, or directors of members
25 of the group. The group's administrator, service company, or an owner, officer,
26 employee of, or another person affiliated with the administrator or service company
27 may not serve on the board of trustees of the group. A trustee shall be a resident of
28 this state or an officer of a corporation authorized to do business in this state. The
29 board of trustees of a group shall ensure that all claims are paid promptly and take all
30 necessary precautions to safeguard the assets of the group. A trustee shall observe the
31 standards in dealing with the assets of the group that would be observed by a prudent

1 person dealing with the property of another, and, if the trustee has special skills or is
2 named trustee on the basis of representations of special skills or expertise, the trustee
3 is under a duty to use those skills.

4 (b) The board of trustees shall

5 (1) be responsible for all money collected or disbursed from the group
6 and segregate all money into a claims fund account and an administrative fund
7 account; at least 70 percent of the net premium shall be placed into a designated
8 depository for the sole purpose of paying claims, allocated claims expenses,
9 reinsurance or excess insurance, and special fund contributions, including second injury
10 and other loss related funds; this shall be called the "claims fund account"; the
11 remaining net premium shall be placed into a designated depository for the payment
12 of taxes, general regulatory fees and assessments, and administrative costs; this shall
13 be called the "administrative fund account"; the director may approve an administrative
14 fund account of more than 30 percent and a claims fund account of less than 70
15 percent only if the group shows to the director's satisfaction that

16 (A) more than 30 percent is needed for an effective safety and
17 loss control program; or

18 (B) the group's aggregate excess insurance attaches at less than
19 70 percent;

20 (2) maintain minutes of its meetings and make the minutes available
21 to the director;

22 (3) designate an administrator to carry out the policies established by
23 the board of trustees and delineate in the written minutes of its meetings the areas of
24 authority the board of trustees delegates to the administrator;

25 (4) retain an independent certified public accountant to prepare the
26 statement of financial condition required under AS 21.47.100.

27 (c) The board of trustees may not

28 (1) extend credit to individual members for payment of a premium
29 except under a payment plan approved by the director; or

30 (2) borrow money from the group or in the name of the group, except
31 in the ordinary course of business, without first advising the director of the nature and

1 purpose of the loan and obtaining prior approval from the director.

2 **Sec. 21.47.070. Group membership; termination; liability.** (a) An
3 employer joining a workers' compensation self-insurance group after the group has
4 been issued a certificate of approval shall (1) submit an application for membership
5 to the board of trustees or its administrator; and (2) enter into the indemnity agreement
6 required under AS 21.47.030(b)(5); membership may not take effect earlier than each
7 member's date of approval. An application for membership and approval of the
8 application shall be maintained as a permanent record by the board of trustees.

9 (b) Individual membership in a group is subject to cancellation by the group
10 under the bylaws of the group. In addition, individual members may elect to terminate
11 their participation in the group. The group shall notify the director and the division
12 of workers' compensation regarding the termination or cancellation of a membership.
13 Notice shall be given within 10 days after the termination or cancellation.

14 (c) The group shall pay all workers' compensation benefits for which a
15 member incurs liability during its period of membership. A member who elects to
16 terminate its membership or is cancelled by a group remains liable for any workers'
17 compensation obligations of the group and its members that were incurred during the
18 cancelled or terminated member's period of membership.

19 (d) A group member is not relieved of its workers' compensation liabilities
20 incurred during its period of membership except through payment by the group or the
21 member of workers' compensation benefits required under AS 23.30.

22 (e) The insolvency or bankruptcy of a member does not relieve the group or
23 another member of liability for the payment of any workers' compensation benefits
24 incurred during the insolvent or bankrupt member's period of membership.

25 **Sec. 21.47.080. Service companies.** (a) A service company or its employees,
26 officers, or directors may not be an employee, officer, or director of, or have either a
27 direct or indirect financial interest in, an administrator. An administrator or its
28 employees, officers, or directors may not be an employee, officer, or director of, or
29 have either a direct or indirect financial interest in, a service company.

30 (b) A service contract must state that unless the director permits otherwise, the
31 service company shall handle, to conclusion, all workers' compensation claims and

1 other obligations incurred during the contract period.

2 **Sec. 21.47.090. Licensing of agent.** Except for a salaried employee of a
3 group, its administrator, or its service company, a person soliciting membership for a
4 workers' compensation self-insurance group must be licensed as provided under
5 AS 21.27.

6 **Sec. 21.47.100. Financial statements and other reports.** (a) A group shall
7 submit to the director a statement of the financial condition of the group that is
8 annually audited by an independent certified public accountant on or before the last
9 day of the sixth month following the end of the group's fiscal year. Upon request, the
10 director shall allow a 60 day extension of the deadline described in this subsection.
11 The financial statement must be on a form prescribed by the director and must include
12 actuarially appropriate reserves, known as liabilities, for

- 13 (1) known claims and associated expenses;
- 14 (2) claims incurred but not reported and associated expenses;
- 15 (3) unearned premiums; and
- 16 (4) bad debts.

17 (b) The actuarial opinion required under (a) of this section shall be given by
18 a member of the American Academy of Actuaries or other qualified loss reserve
19 specialist as defined in the annual statement adopted by the National Association of
20 Insurance Commissioners.

21 (c) A person may not make an untrue statement of a material fact, or omit to
22 state a material fact necessary in order to make the statement made, in light of the
23 circumstances under which it is made, not misleading, in connection with the
24 solicitation of membership in a group.

25 (d) The director may prescribe the format and frequency of other required
26 reports including payroll audit reports, summary loss reports, and quarterly financial
27 statements.

28 **Sec. 21.47.110. Required second injury contribution.** A group is subject to
29 the required contribution provisions of the second injury fund under AS 23.30.040.
30 If an employee of a member of a group suffers a compensable injury, the member
31 shall contribute to the second injury fund as required under AS 23.30.040.

1 **Sec. 21.47.120. Misrepresentation prohibited.** A person may not make a
2 material misrepresentation or omission of a material fact in connection with the
3 solicitation of membership of a group.

4 **Sec. 21.47.130. Investments.** Funds not needed by a group for current
5 obligations may be invested by the board of trustees as provided under AS 21.21.

6 **Sec. 21.47.140. Rates and reporting of rates.** (a) A workers' compensation
7 self-insurance group shall adhere to the uniform classification system, uniform
8 experience rating plan, and manual rules designated by the director.

9 (b) Premium contributions to the group shall be determined by applying the
10 manual rates and rules to the appropriate classification of a member. Premium
11 contributions shall be adjusted by a member's experience credit or debit. Subject to
12 approval by the director, the premium contributions may also be reduced by an
13 advance premium discount reflecting the group's expense levels and loss experience.

14 (c) Notwithstanding (b) of this section, a group may apply to the director for
15 permission to make its own rates. Rates established under this subsection shall be
16 based on at least five years of the group's experience.

17 (d) A group shall use the premium rates designated by the director plus an
18 additional amount representing the member's portion of estimated expenses. A group
19 may contract with an advisory organization approved by the director for assistance in
20 developing appropriate rates.

21 (e) A group shall be audited at least annually by an auditor acceptable to the
22 director to verify proper classifications, experience rating, payroll, and rates. A report
23 of the audit shall be filed with the director in a form acceptable to the director. A
24 group or a member of a group may request a hearing on objections to the
25 classifications. If the director determines that as a result of an improper classification
26 a member's premium contribution is insufficient, the director shall order the group to
27 assess that member an amount equal to the deficiency. If the director determines that
28 as a result of an improper classification a member's premium is excessive, the director
29 shall order the group to refund to the member the excess premium collected. The
30 audit required under this subsection shall be at the expense of the group.

31 **Sec. 21.47.150. Refunds.** (a) If approved by the director, money for a fiscal

1 year in excess of the amount necessary to fund all obligations for that fiscal year may
2 be declared to be refundable by the board of trustees not less than 12 months after the
3 end of the fiscal year.

4 (b) A member shall be given a written description of the refund plan at the
5 time of application for membership. A refund for any fiscal year shall be paid only
6 to those employers who remain participants in the group for the entire fiscal year.

7 **Sec. 21.47.160. Premium payment; reserves.** (a) A group shall establish to
8 the satisfaction of the director a premium payment plan; the plan must include payment
9 of the balance of each member's annual premium in monthly or quarterly installments.

10 (b) A group shall establish and maintain actuarially appropriate loss reserves
11 that must include reserves

12 (1) for known claims and associated expenses;

13 (2) for claims incurred but not reported and associated expenses; and

14 (3) consisting of a deposit by each member of at least 25 percent of
15 that member's estimated annual premium before the start of the group's fiscal year;
16 a deposit made under this paragraph is in addition to the payment required under
17 AS 21.47.030(a)(10) and shall be refunded to a member who leaves the group if the
18 group does not have a deficiency and is not insolvent.

19 (c) A group shall establish and maintain bad debt reserves based on the
20 historical experience of the group or other groups.

21 **Sec. 21.47.170. Workers' compensation self-insurance guaranty fund.** A
22 group shall establish a workers' compensation self-insurance guaranty fund. The
23 purpose of the fund is to prevent insolvency and to allow a group to discharge its legal
24 liabilities and other obligations. In addition to any other deposit requirement under
25 this chapter, each member of the group shall make a one time only deposit of five
26 percent of that member's estimated annual premium before the start of the member's
27 first fiscal year with the group. A deposit made under this section shall be refunded
28 to a member who leaves the group if the group does not have a deficiency and is not
29 insolvent.

30 **Sec. 21.47.180. Deficits and insolvencies.** (a) If the assets of a group are at
31 any time insufficient to enable the group to discharge its legal liabilities and other

1 obligations and to maintain the reserves required of it under this chapter, it shall
 2 immediately make up the deficiency or levy an assessment upon the group members
 3 for the amount needed to make up the deficiency.

4 (b) In the event of a deficiency in any fiscal year, the deficiency shall be made
 5 up immediately, either from

6 (1) surplus from a fiscal year other than the current fiscal year;

7 (2) administrative funds;

8 (3) funds collected under AS 21.47.160(b)(3);

9 (4) funds collected under AS 21.47.170;

10 (5) assessment of the membership, if ordered by the group and funds
 11 described under (3) and (4) of this subsection are exhausted; or

12 (6) an alternate method that the director may approve or direct.

13 (c) The director shall be notified before a transfer of surplus funds from one
 14 fiscal year to another. If a group fails to assess its members or to otherwise make up
 15 a deficit within 30 days, the director shall order the group to make up the deficit.

16 (d) If a group fails to make the required assessment of its members within 30
 17 days after the director orders it to do so, or if the deficiency is not fully made up
 18 within 60 days after the date on which the assessment is made, or within a longer
 19 period of time that is specified by the director, the group shall be considered to be
 20 insolvent.

21 (e) The director shall proceed against an insolvent group in the same manner
 22 as the director would proceed against an insolvent domestic insurer in this state as
 23 provided under AS 21.78.

24 (f) In the event of the liquidation of a group, the director shall levy an
 25 assessment upon its members in an amount the director determines to be necessary to
 26 discharge all liabilities of the group, including the reasonable cost of liquidation.

27 **Sec. 21.47.190. Penalties.** (a) After notice and opportunity for a hearing, the
 28 director may impose a civil penalty on a person or group found to be in violation of
 29 any provision of this chapter. The civil penalty may not exceed \$500 for each act or
 30 violation and may not exceed \$5,000 in the aggregate.

31 (b) After notice and opportunity for a hearing, the director may issue an order

1 requiring a person or group to cease and desist from engaging in an act or practice
2 found to be in violation of any provision of this chapter.

3 (c) Upon a finding, after notice and opportunity for a hearing, that a person
4 or group has knowingly violated a cease and desist order, the director may

5 (1) impose a civil penalty of not more than \$5,000 for each act or
6 violation of the order not to exceed an aggregate amount of \$25,000; or

7 (2) revoke the group's certificate of approval or any insurance license
8 held by the person.

9 (d) In this section, "knowingly" has the meaning given in AS 11.81.900.

10 **Sec. 21.47.200. Revocation of certificate of approval.** (a) After notice and
11 opportunity for a hearing, the director may revoke a group's certificate of approval if
12 the group

13 (1) is found to be insolvent;

14 (2) fails to pay any premium tax, regulatory fee or assessment, or
15 special fund contribution imposed upon the group; or

16 (3) fails to comply with any of the provisions of this chapter or with
17 any lawful order of the director within the time prescribed.

18 (b) In addition to (a) of this section, the director may revoke a group's
19 certificate of approval if, after notice and opportunity for hearing, the director finds
20 that

21 (1) a certificate of approval that was issued to the group was obtained
22 by fraud;

23 (2) there was a material misrepresentation in the application for the
24 certificate of approval; or

25 (3) the group or its administrator has misappropriated, converted,
26 illegally withheld, or refused to pay over upon proper demand any money that belongs
27 to a member, an employee of a member, or a person otherwise entitled to it, and that
28 has been entrusted to the group or its administrator in its fiduciary capacities.

29 **Sec. 21.47.500. Definitions.** In this chapter,

30 (1) "administrator" means an individual, partnership, or corporation
31 engaged by a workers' compensation self-insurance group's board of trustees to carry

1 out the policies established by the group's board of trustees and to provide day-to-day
2 management of the group;

3 (2) "insolvent" or "insolvency" means the inability of a workers'
4 compensation self-insurance group to pay its outstanding lawful obligations as the
5 obligations mature in the regular course of business, as may be shown either by an
6 excess of its required reserves and other liabilities over its assets or by its not having
7 sufficient assets to reinsure all of its outstanding liabilities after paying all accrued
8 claims owed by the group;

9 (3) "net premium" means premium derived from standard premium
10 adjusted by an advance premium discount;

11 (4) "service company" means a person that provides services not
12 provided by the administrator, including

13 (A) claims adjustment;

14 (B) safety engineering;

15 (C) compilation of statistics and the preparation of premium,
16 loss, and tax reports;

17 (D) preparation of required self-insurance reports;

18 (E) development of members' assessments and fees; and

19 (F) administration of a claim fund;

20 (5) "standard premium" means the premium derived from the manual
21 rates adjusted by experience modification factors but before advance premium
22 discounts;

23 (6) "workers' compensation self-insurance group" or "group" means a
24 not-for-profit association that has qualified as a trade organization under 26 U.S.C.
25 501(c)(6) (Internal Revenue Code) and is exempt from taxation under 26 U.S.C. 501(a)
26 (Internal Revenue Code), and consists of 10 or more employers who are engaged in
27 the same or similar type of business, who are members of the same bona fide trade or
28 professional association that has been in existence for not less than five years, and who
29 enter into agreements to pool their liabilities for workers' compensation benefits in this
30 state.