

HB

116

SENATE COMMITTEE REPORT

DATE: 3/6/98

FURTHER: Finance

DATE TURNED
IN TO OFFICE: 4-16-98

Judiciary Committee considered CS FOR HOUSE BILL NO. 116(FIN)

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

and recommends:

- [X] be replaced with SENATE CS SCS CSHB 116 (JUD) FOR CS FOR HB 116 (JUD)
- [] adopt previous CS _____
- [] attached amendment(s)
- [] adopt Letter of Intent by _____ Committee
- [] further referral to the _____ Committee

- Senate Bill:
[X] same title
[] new title
House Bill:
[] same title
[] technical title
[] new: SCR# _____

SIGNING DO PASS	DP	OTHER RECOMMENDATIONS	NR	DNP	AM
<i>Ellis</i>	X	<i>Frank Powell</i>	X	/	
<i>Mike Maltese</i>	X	<i>Deane</i>			
CHAIR: <i>Adrian L. Payne</i>	X	CHAIR:			

NEW FISCAL NOTE(S):

Department Date Zero Fiscal

Department	Date	Zero	Fiscal

PREVIOUS FISCAL NOTE(S):*

Department Date Zero Fiscal

Department	Date	Zero	Fiscal
#3 C&ED- INSURANCE	3-9-98		✓
#4 LABOR - WORKER'S COMP.	2-18-98		✓

[] APPROPRIATION -- no fiscal note

*include fiscal notes accompanying Governor's bill

Alaska State Legislature House of Representatives

Committees

Rules Committee, Chair
Legislative Council
International Trade & Tourism
Military & Veterans Affairs
World Trade & State/Federal Relations



Interim:
10928 Eagle River Rd. Suite 141
Eagle River, AK 99577

Session:
Alaska State Capitol
Juneau, AK 99801

HB 116 SPONSOR STATEMENT

Alaska law permits certain public entities to enter into insurance cooperative arrangements concerning worker compensation, wherein they pool contributions to assume risks from losses or to purchase insurance coverage on a group basis. Currently, this option is available only to municipalities, public corporations, school districts, and regional educational attendance areas. HB 116 would extend this option to "worker compensation self insurance groups."

A "worker compensation self-insurance group" is a not-for-profit association of ten or more employers engaged in the same or similar business. The employers must be members of the same trade or professional association, which, in turn, must have been in existence for at least five years.

HB 116 contains numerous substantive and procedural requirements designed to ensure that worker compensation self-insurance groups remain fiscally sound and able to fulfill Alaska's worker compensation requirements. Among other requirements, self-insurance groups must be certified by the state, and the Director of the Division of Insurance may examine the books of such groups as often as is necessary. In addition, other express statutory provisions impose net worth, bonding, and security standards.

Insurance carriers often assign small employers a higher risk. This results in higher insurance costs. By pooling their numbers, small employers would qualify for lower risk assessments and therefore lower premiums.

I commend HB 116 to you, and urge your support.

Representative Pete Kott

Juneau Office (907) 465-3777 Toll Free 1-800-861-KOTT(5688) Fax (907) 465-2819
Eagle River Office (907) 694-8944 Fax (907) 694-8945 E-Mail: representative_pete_kott@legis.state.ak.us



SCHMATIC OF HB 116

The following is a schematic of HB 116. * indicates the provision requires the approval of the Director of the Division of Insurance, hereinafter referred to as Director.

WORKER'S COMPENSATION SELF INSURANCE GROUPS

1. A group applying for a self-insurance must, before receiving a Certificate of Approval from the Director:
 - a) be properly organized and consist of at least ten (10) members;
 - b) have payment by each member of 25% of that member's annual premium;
 - c) show the Director a combined net worth of at least \$1,000,000;
 - d) show and provide the Director security in the amount of at least \$450,000;
 - e) aggregate excess insurance as required by the Director; and,
 - f) provide the Director premiums of at least \$500,000 the first year and \$750,000 in subsequent years - 50% cash balance paid monthly or quarterly on approval of the Director.
2. Joint and several liability of members approved by Director*
3. Fidelity bond and errors and omissions and performance bond approved by Director*
4. Certificate may be revoked by Director*
5. Director may examine the books at any time*
6. The Board of Trustees ~~may~~ pay all workers' compensation benefit—70% of premiums must be used for payment of claims
7. Annual audited financial statements submitted to Director*
8. Director may require other reports*
9. Director may require additional premium payments from a member*
10. Refunds may be made only by approval of Director*
11. Reserve plan must be approved by the Director*
12. Workers compensation self insurance guaranty fund must be established
13. If there is a deficit, it must be made up immediately from:
 - a. Surplus of fiscal year other than current fiscal year
 - b. Administrative funds
 - c. 25% annual premium
 - d. Self insurance guaranty fund
 - e. Assessment of group members
 - f. Other method ordered by Director*
14. Director may impose penalties for noncompliance*
15. Director may revoke Certificate*
16. Group must comply with other insurance requirements such as examinations, service of process, prudent person investment rule, unfair trade practices.



State of Michigan
John Engler, Governor

Department of Consumer & Industry Services
Kathleen M. Wilbur, Director

Bureau of Workers' Disability Compensation
7150 Harris Drive
P.O. Box 30016
Lansing, Michigan 48909
(517) 322-1106

March 11, 1998

Mr. Richard Austerman
Alaska Workers' Compensation Division
P.O. Box 25512
Juneau, Alaska 99802-5572

Dear Mr. Austerman:

RE: Review of Group Self-Insurance Bill

I have reviewed the proposed language for group self-insurance in your state with several members of my staff involved with the regulation of group self-insurance programs. Based on the way the bill is presently written, I would answer no to all three of the questions posed: Is there adequate protection for injured employees? Is there adequate capital to fund the group? Is there adequate protection in the event that a group becomes insolvent?

In Michigan, we require group self-insurance funds to collect enough money from their members to completely fund the loss fund on any aggregate excess contract that is purchased and pay all administrative expenses of running the program. If you allow a group from day one to start with an actuary predicting the losses, and if the actuary is wrong, you will end up in an assessment mode in the first year of operation of a group fund. Florida allowed that type of operation and had to go to the insurance industry for a \$5 million bail out to pay for claims of several insolvent group funds. Both specific and aggregate excess insurance is a definite requirement of all group fund programs. We would never allow a group fund to substitute designated depository securities in lieu of excess insurance. We've had situations where the reserves on one claim in the group fund exceeded \$8 million. Securities are not a good substitute for specific excess insurance. The provision that binds you to not allowing a group fund to terminate a certificate of approval unless that group is able to insure or reinsure all incurred workers' comp obligations, sets up a situation where an insolvent group will continue to incur liability and will not have the money to go out and reinsure their obligations. It will not allow you to limit the liability because the group will have to continue to operate and you will not be allowed to terminate their authority. This is a no win situation. If a group is declared insolvent, the best thing that can happen is to immediately allow each of their members to obtain fully insured coverage. This mitigates the ongoing liability of the group and you still have the provision of assessments where you go after the individual employer members for the prior liability of the group through the assessment process.

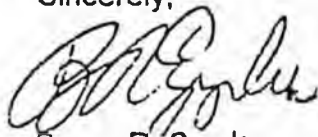
ADDITIONAL
INFORMATION

Allowing a group fund to terminate or cancel an employer's membership and then giving them 10 days beyond that date in which to advise you, automatically sets up a situation where an employer will be uninsured for a minimum of 10 days. We require at least 20 days prior notice before a member can be terminated from the group. This allows the member to either seek coverage in the voluntary market or get coverage through the assigned risk program and does not set up a situation of a member being uninsured.

The language in this bill that allows a member to take their deposit with them when they leave the group if the group at that time does not have a deficiency or insolvency, is also poor language. If you have a group that is on the verge of insolvency, you are going to have the majority of the members leave and grab their deposit from the guarantee fund before they leave. When the group is finally declared insolvent there will be little to no money left in the guarantee fund to help satisfy the outstanding obligation.

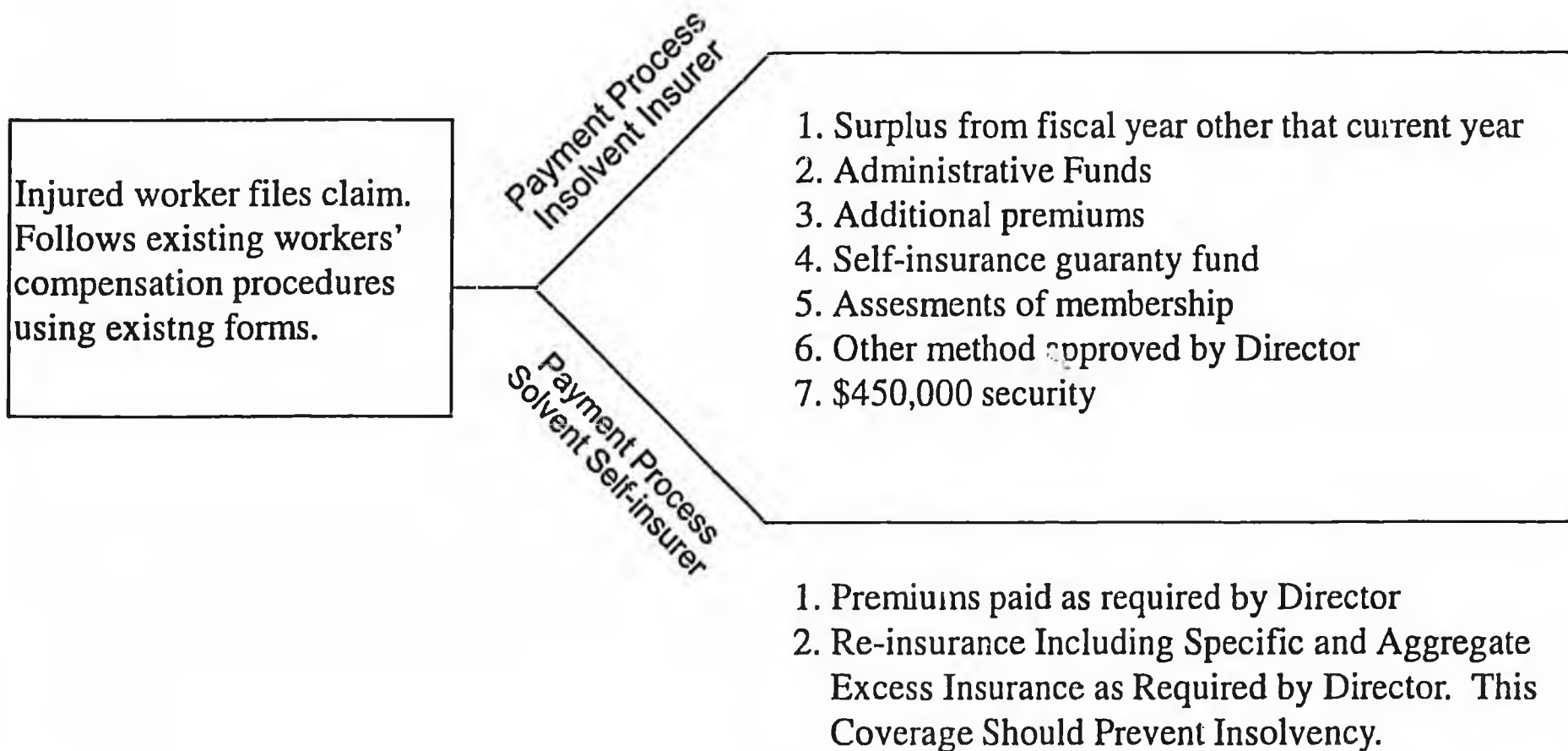
These are the major problems I see with this language that lead to our answer of no the three questions you asked. If you can get an audience with the individuals dealing with this legislation, we would be happy to share with you some additional suggestions we have on less major items that would make this much better legislation.

Sincerely,



Bruno R. Czyrka
Deputy Director

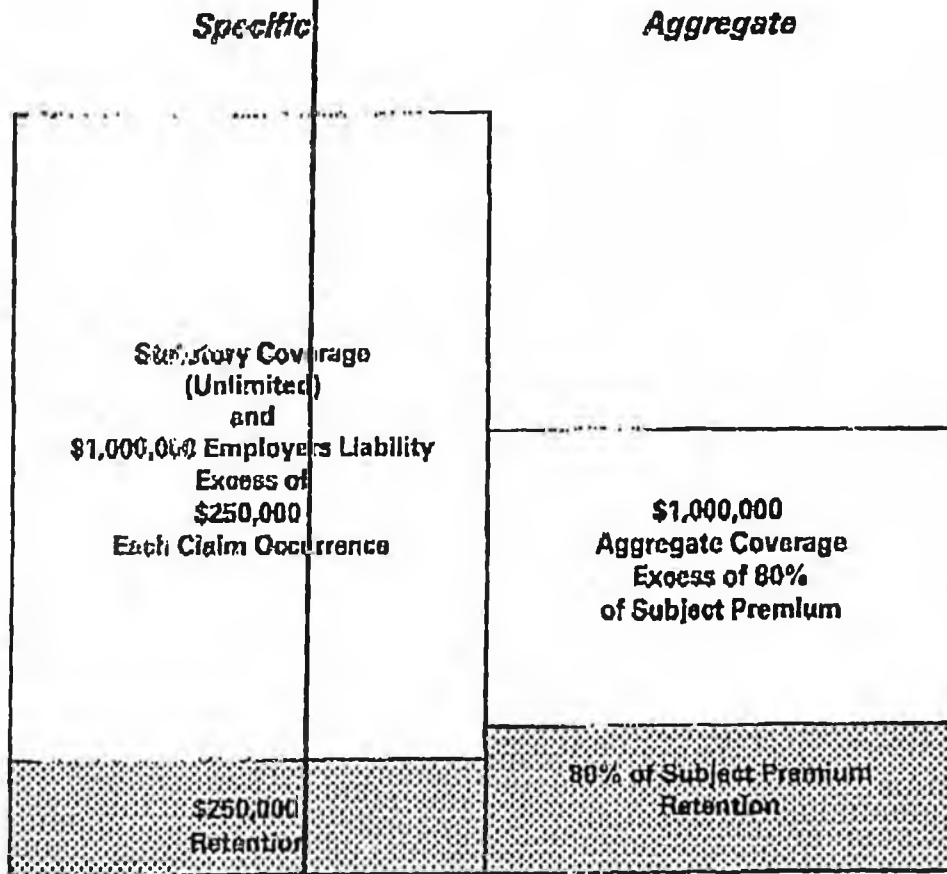
HB 116 Workers' Compensation Self-insurance Group Process



Alaska State Home Builders Association

	1992	1993	1994	1995	1996
Ace General Contracting					
Medical Payments	18,679.75	1,476.12	18,064.54	564.00	0.00
Indemnity Payments	14,217.97	220.00	12,920.10	7,649.00	17,653.00
Other Payments	11,003.83	0.00	785.58	12,949.00	4,105.00
total	43,901.55	1,696.12	31,770.22	21,162.00	21,758.00
Alaska Best Plumbing & Heating					
Medical Payments	1,697.00	615.00	1,768.00		
Indemnity Payments	1,941.00	0.00	0.00		
Other Payments	118.00	2.00	0.00		
total	3,756.00	617.00	1,768.00		
Alaska Construction & Erectors					
Medical Payments	1,153.00	1,794.55	5,078.38	0.00	
Indemnity Payments	0.00	0.00	2,902.26	0.00	
Other Payments	0.00	4,748.29	21,530.93	8,256.33	
total	1,153.00	6,542.84	29,511.57	8,256.33	
Alaska Homes Inc.					
Medical Payments				206.00	
Indemnity Payments				0.00	
Other Payments				0.00	
total				206.00	
Alcan Builders					
Medical Payments	551.11	818.86	498.42	607.00	1,779.00
Indemnity Payments	0.00	0.00	0.00	0.00	227.00
Other Payments	0.00	0.00	0.00	7.00	25.00
total	651.11	818.86	498.42	614.00	2,031.00
Ben Inc					
Medical Payments			2,904.96		
Indemnity Payments			212.70		
Other Payments			3.90		
total			3,121.56		
Aurora Builders					
Medical Payments				6,559.00	80.00
Indemnity Payments				3,138.00	0.00
Other Payments				196.00	0.00
total				9,893.00	80.00
Batir Creative Builders					
Medical Payments	434.00	131.00	481.00	257.00	
Indemnity Payments	0.00	0.00	0.00	0.00	
Other Payments	0.00	0.00	0.00	0.00	
total	434.00	131.00	481.00	257.00	
Beachy Construction					
Medical Payments				588.00	939.00
Indemnity Payments				0.00	0.00
Other Payments				7.00	3.00
total				595.00	942.00
Bee-Plus Builders					
Medical Payments	14,346.68	3,592.00	2,486.00	2,432.00	236.00
Indemnity Payments	2,042.00	8,100.00	0.00	7,400.00	0.00
Other Payments	513.00	537.00	1,200.00	2,492.00	398.00
total	16,901.68	12,229.00	3,686.00	12,324.00	634.00
	\$66,797.34	\$22,034.82	\$70,836.77	\$53,317.33	\$25,445

HOME BUILDERS OF ALASKA SELF-INSURED FUND PROPOSED REINSURANCE PROGRAM STRUCTURE



Proposed Cost based on Subject Premium of \$500,000: \$50,000 - \$75,000
(being a 10% to 15% rate)

PAT VINCENT, EXECUTIVE OFFICER
KENAI PENINSULA BUILDERS ASSOC.
P.O. BOX 1753
KENAI, ALASKA 99611
PHONE 907-283-8071
FAX 907-283-8072

RECEIVED
MAR 26 1998
Ans'd.....

March 23, 1998

Dear Senator Taylor.

Our association has been notified by our ASHBA lobbyist, Mitch Drews, that you're undecided about your support of HB 116 which would allow trade organizations to self-pool for Worker's Compensation Insurance.

The Kenai Peninsula Builders Association strongly urges a "yes" vote on HB 116. This legislation would reduce the costs of new homes and is supported by those of us involved in the building industry across the state. Your support is needed and will be greatly appreciated.

Sincerely,
Pat Vincent

FISCAL NOTE

STATE OF ALASKA
1998 LEGISLATIVE SESSION

No. 4
Bill Version: SCS CSHB 116 (L&C)
(S) Publish Date: 3-18-98

Revision Date (Note if correction): _____
Title: Workers' Compensation Self Insurance Group
Sponsor: Representative Kott
Requestor: Senate JUD

Department Affected: Labor
BRU: Workers' Compensation
Component: Workers' Compensation

COMPONENT SERIAL NO. 344

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
PERSONAL SERVICES	37.5	37.5	37.5	37.5	37.5	37.5
TRAVEL						
CONTRACTUAL	7.0	1.1	1.1	1.1	1.1	1.1
SUPPLIES						
EQUIPMENT	5.0					
LAND & STRUCTURES						
GRANTS & CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	49.5	38.6	38.6	38.6	38.6	38.6

CAPITAL						
---------	--	--	--	--	--	--

CHANGE IN REVENUE FUND SOURCE #						
---------------------------------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	49.5	38.6	38.6	38.6	38.6	38.6
1005 GF/Program Receipt						
1006 GF/MHTIA						
Other (Specify Type)						
TOTAL	49.5	38.6	38.6	38.6	38.6	38.6

POSITIONS:

FULL-TIME	1	1	1	1	1	1
PART-TIME						
TEMPORARY						

Estimate of current year (FY98) impact: \$ 0.0

ANALYSIS: (Attach a separate page if necessary)

This bill proposes amending AS 21 by adding chapter 47, "Workers' Compensation Self Insurance Groups". See attached for the impact to Workers' Compensation.

Prepared by: Paul Grossi, Director *Paul Grossi* Phone: 465-2790
Division: Workers' Compensation Date: 3/11/98
Approved by Commissioner: Tom Cashen, Commissioner *Tom Cashen*
Agency: Department of Labor Date: 3/11/98

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SCS CSHB 116(L&C) Analysis:

The provisions of this bill applies to workers' compensation self insured groups. Under this bill the Division of Insurance would issue a certificate of approval to those persons who qualify for self-insurance coverage. Security from the self insurers would be deposited with the Division of Insurance and assigned to the Workers' Compensation Division to hold in trust, collect and transmit accruing interest to the depositor, and keep the Division of Insurance apprised of individual or group status changes within the self insured group.

A new position would be required to track all securities assigned; establish individual trust, monitor interest accrued and disbursed to the depositor, prepare form letters of status change and keep the Division of Insurance apprised of any status changes within the self insured groups.

One staff month of programming time will be required to develop computerized programs to interface with the Division of Insurance and to track self insurer and individual changes within each self insurance group.

The figures representing office furniture and equipment assume that some items may be available through Surplus Property at reduced costs.

Line 100 Personal Services

1 Administrative Clerk III	
Salary & Benefits	\$37.5

Line 300 Contractual Services

DP Programming (FY99 one time)	5.9
Postage	0.5
DP Operations	0.4
Printing form letters	<u>0.2</u>
	7.0

Line 500 Equipment

(One time set up costs)	
Computer	3.5
Office Furniture/Equipment	<u>1.5</u>
	5.0

Total	\$49.5
-------	--------

#4
WB116

01/30/98	Position Information Inquiry/Update	Prior	10:43:21
		Yr Actual	Budgeted
Position: 07-07#020	Project: 0	Salary: 0	26,268.00
Comp: 07-06-07-10-01-00	Region:	Benefits: 0	11,188.73
Scenario: 7	FY: 99	COLA %: 0.000	Total: 0
			37,456.73

 Actuals not available (Status: UNKNOWN) FLSA: | Retirement Code: A

00/00/00	Step: B for 12.0 months & Step: C for 0.0 months (total: 12.00)
G	Merit Date; use merit defaults? N (0.0 @ & 0.0 @)
	Class/Sched Prefix: 2 Schedule: 2A (actual:)
	Bargaining Unit: GG Range: 10 (actual:)
	Lccation Code: AWA Place: JUNEAU
	Jcb Class Code: P1135 Title: ADMINISTRATIVE CLERK III
	Seasonal Indic.: F Type: -

 Optional Override Salary Rates:

Monthly Rate: 0.00 for 0.0 months & rate of 0.00 for 0.0 months
 Hourly Rate: 0.00 for 0.0 months Frozen at this rate? (Y/N): N

Press ENTER to update record; enter # or use PF key to go to another screen:
 1=Premium pay info 2=Funding info 4=Code Translations 6=Calculations
 7=MISC NEW POS DATA 8=Detail Report 12=Exit w/o update Selection: 0_

FISCAL NOTE

STATE OF ALASKA
1998 LEGISLATIVE SESSION

No. 3

B Bill Version: SCB CSHB 116 (LEC)

(S) Publish Date: 3-9-98

Revision Date (3/5/98) _____ Dept. Affected Commerce & Economic Development
 Title An Act relating to workers' compensation BRU Insurance
 self-insurance _____ Component Insurance
 Sponsor Representative Kott _____
 Requester Senate Labor and Commerce Component Serial No. 354

Expenditures/Revenues (Thousands of Dollars)

OPERATING EXPENDITURES	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
Personal Services	72.0	72.0	73.0	73.0	74.0	74.0
Travel	1.5	1.5	1.6	1.6	1.7	1.7
Contractual	2.0	2.0	2.1	2.1	2.2	2.2
Supplies	1.5	1.5	1.6	1.6	1.7	1.7
Equipment	5.0					
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	82.0	77.0	78.3	78.3	79.6	79.6

CAPITAL EXPENDITURES	FY 99	FY 00	FY 01	FY 02	FY 03	FY 04
CHANGE IN REVENUES ()	0.0	(47.0)	(47.0)	(47.0)	(47.0)	(47.0)

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	66.2	56.7	58.0	58.0	59.3	59.3
1005 GF/Program Receipts	15.8	20.3	20.3	20.3	20.3	20.3
1037 GF/Mental Health						
Other (Specify Type)						
TOTAL	82.0	77.0	78.3	78.3	79.6	79.6

Estimate of any current year (FY98) cost: 0.0

POSITIONS

Full-time	1	1	1	1	1	1
Part-time						
Temporary						

ANALYSIS: (Attach a separate page if necessary)

The division estimates that 20 groups will be formed and pay application fees of \$2,500 in FY 99 . No annual continuation fees would be paid. Expenditures are based on the addition of one full time Financial Examiner II, with normal associated costs for equipment, supplies etc.

Prepared by Marianna K. Burke, Director *Marianna K. Burke* Phone 465-2515
 Division Insurance Date 3/5/98
 Approved by Commissioner Deborah B. Sedwick *Deborah B. Sedwick* Date 3/5/98
 Agency Commerce and Economic Development

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