

**MINUTES**

**MONTANA HOUSE OF REPRESENTATIVES  
53rd LEGISLATURE - REGULAR SESSION**

**SELECT COMMITTEE ON WORKERS' COMPENSATION**

**Call to Order:** By CHAIRMAN CHASE HIBBARD, on January 29, 1993,  
at 3:00 p.m.

**ROLL CALL**

**Members Present:**

Rep. Chase Hibbard, Chairman (R)  
Rep. Jerry Driscoll, Vice Chairman (D)  
Rep. Steve Benedict (R)  
Rep. Ernest Bergsagel (R)  
Rep. Vicki Cocchiarella (D)  
Rep. David Ewer (D)

**Members Excused:** None

**Members Absent:** None

**Staff Present:** Paul Verdon, Legislative Council  
Evy Hendrickson, Committee Secretary

**Please Note:** These are summary minutes. Testimony and  
discussion are paraphrased and condensed.

**Committee Business Summary:**

Hearing:  
Executive Action: None

**CHAIRMAN HIBBARD** opened the hearing at 3 p.m.

Appearing before the committee were Steven Gluckstern and Stephen Eisenmann, IRISC's Chief Claims Officer; Vernon Southerland, Vice President of Alexsis. Presenting testimony were the CEO and President of Centre Re Insurance; three staff members with IRISC; Gary Uhlemeyer, Uhlemeyer Services, Inc., and representatives from Alexsis.

Jacqueline Lenmark representing Centre Re Insurance Company, Alexsis Inc., and Uhlemeyer Services, Inc. said the proposal could be characterized as a partnership.

Ms. Lenmark gave the following names of the team working on the Montana project.

Mr. Southerland, Sr. Vice President of Alexsis/Alexander  
Owen Peter Voight, Branch Claims Manager, and  
Gary Uhlemeyer, President of Uhlemeyer Services, Inc.  
Keith Ivaman, IRISC  
Robin Hamill, Assistant Underwriter, Centre Re Insurance

**Company**  
**Steven Germaine, Sr. Vice President and General Counsel for**  
**Centre Re**  
**Ilene Sweeny, Sr. Vice President in charge of underwriting**  
**for Centre Re.**  
**Steven Gluckstern, CEO and President of Centre Re Companies.**

**Mr. Gluckstern** distributed copies of the Centre Re reinsurance and claims management proposal and made a presentation. **Exhibit 1**

**Mr. Gluckstern** concentrated on three general areas; the first being a summary of Centre Re's view of the condition of the State Fund and the old fund. The second part of the presentation was a solution offered to the committee. He then spoke about the company itself, Centre Re Insurance and the parent company, Zurich Insurance Group.

He said the state needs to consider whether it wants to be in the insurance business and to make sure they are comfortable with the risks. Private enterprise has a difficult time doing that.

**Mr. Gluckstern** reviewed the liability and debt obligations of the old fund balance from 1984 to 1991 which has resulted in a \$462 million debt.

**Mr. Gluckstern** said Centre Re specializes in large transactions that involve a long term partnership. The old fund liability would run for fifty years; however, the bulk would be paid in the first fifteen years.

The summary of the transaction **Mr. Gluckstern** suggested was a contract term beginning in July 1993, until the agreement was cancelled or until all obligations under the agreement have been met; a limit of liability to be determined by the state for losses paid after July 1, 1993; a premium based on a limit selected by the state that would be payable on or before July 1, 1993; cancellation provisions at the state's sole option; claims administration; profit sharing; and specific guidance from legislation.

**Mr. Gluckstern** recommended the state should not buy any less than \$425 million in coverage for levels of protection. Centre Re is prepared to provide that limit of liability for a premium of \$340 million. This was reduced from \$400 million previously.

**Mr. Gluckstern** reviewed the profit sharing mechanism. The risk and expense charge is 9.5% of the premium. That would be 9.5% of \$340 million. That is a gross number that describes the maximum gross retention that the reinsurer ever makes. This figure was not what they expect to make in this transaction. They believed that part of this figure would be eroded by the ultimate losses. The expected results of this contract was not a \$33 million profit.

There are some disadvantages in Montana choosing to retain the risk; one would be the ongoing strain on the budget. The benefit is that the risk is transferred to Centre Re.

REP. BENEDICT asked, if this proposal was accepted, what kind of time table would need to be up and running by July 1st.

Mr. Gluckstern said in terms of the commitment of capital, very little time - by mid-summer to fall they would be in a position to take over the operation.

CHAIRMAN HIBBARD asked everyone to assume for a minute that the state entered into this transaction - if the deal was \$425 million coverage for a premium of \$340 million, had the company been able to figure this to the degree that they would know what the cost to the state of Montana might be in one, or two, or three years in terms of cash flow?

Mr. Gluckstern said they had some predictions. That number is predicated on two assumptions, the first being what would the ultimate payments be using actuarial techniques projecting the likely percentage in the first year of the program. The likely number would be between \$50 and \$70 million paid the first year.

REP. BERGSAGEL questioned the rate at which they could pay off claims and pay off the 9.5% fee and generate reserves that would be paid back to the state. If they did not incur greater losses, did that include the termination of employment for employees?

Mr. Gluckstern said the proposal would be to develop a team of employees from the state of Montana knowledgeable in the administration of claims and assumed the people who would apply for such jobs would come from the State Fund. They would have both expertise and knowledge.

REP. EWER asked about the firm's experience - with which states and in what capacity on the issue of workers' compensation. Mr. Gluckstern said to his knowledge there has never been a state that has entered into a transaction like this with a reinsurer so to that extent, they have no experience.

REP. EWER restated the fact that they had never entered into a reinsurance policy regarding workers' compensation with a political subdivision. Mr. Gluckstern said that was correct.

REP. BENEDICT asked if they were proposing to reinsure on the known risks that are in the old fund right now and not to take care of any risks that develop as the result of unknown factors outside of our control in terms of court decisions, etc., that might ultimately impact the old fund.

Mr. Gluckstern said to a certain extent that was correct.

CHAIRMAN HIBBARD informed the committee that 49 bills had been

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introduced and approximately 22 would be referred to the committee. The bill that would allow the Governor to negotiate would be one of those bills. HB 347 by Stella Jean Hanson would be heard Wednesday, February 3 and HB 361, benefits schedule would be heard Monday, February 8. He announced there would be no meeting Monday, February 1.

ADJOURNMENT

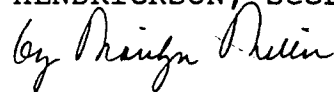
Adjournment: 6:00 p.m.



REP. CHASE HIBBARD, Chairman



EVY HENDRICKSON, Secretary



CH/eh

HOUSE OF REPR.

*Robert W. Camp*

## ROLL CALL

DATE \_\_\_\_\_

1-29-93

[illegible]

CENTRE REINSURANCE

# *Montana State Compensation Mutual Insurance Fund*

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EXHIBIT 1

DATE 1-29-93

## *THE REINSURANCE AND CLAIMS MANAGEMENT PROPOSAL*

This document is stored at the Historical Society at 225 North  
Roberts Street, Helena, MT 59620-1201. The phone number is  
444-2694.

Centre Reinsurance Company Presentation  
January 27 - 29, 1993

HOUSE OF REPRESENTATIVES  
VISITOR'S REGISTER

Select Works Corp COMMITTEE BILL NO. \_\_\_\_\_  
DATE 1-29-93 SPONSOR(S) \_\_\_\_\_

**PLEASE PRINT**

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PLEASE LEAVE PREPARED TESTIMONY WITH SECRETARY. WITNESS STATEMENT FORMS ARE AVAILABLE IF YOU CARE TO SUBMIT WRITTEN TESTIMONY.