House BILL NO. 116

INTRODUCED BY Cobb

A BILL FOR AN ACT ENTITLED: "AN ACT APPROPRIATING MONEY TO THE STATE FUND FOR THE PURPOSE OF RATE REDUCTION AND STABILIZATION; REQUIRING THE STATE FUND TO ADJUST RATES TO REWARD PURCHASERS OF INSURANCE WHO HAVE A LOW CLAIM EXPERIENCE AND THEN TO REDUCE OR STABILIZE RATES FOR OTHER PURCHASERS OF INSURANCE; AMENDING SECTIONS 39-71-2316 AND 39-71-2330, MCA; AND PROVIDING AN EFFECTIVE DATE."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 39-71-2316, MCA, is amended to read:

"**39-71-2316. Powers of ~~the~~ state fund.** For the purposes of carrying out its functions, the state fund may:

(1) insure any employer for workers' compensation and occupational disease liability as the coverage is required by the laws of this state. The state fund may charge a minimum yearly premium to cover its administrative costs for coverage of a small employer.

(2) sue and be sued;

(3) ~~except as provided in section 21, Chapter 4, Special Laws of May 1990,~~ enter into contracts relating to the administration of the state fund, including claims management, servicing, and payment;

(4) collect and disburse money received;

(5) adopt classifications and charge premiums for the classifications so that the state fund will be neither more nor less than self-supporting. Premium rates for classifications may only be adopted and changed using a process, a procedure, formulas, and factors set forth in rules adopted under Title 2, chapter 4, parts 2 through 4. After ~~such~~ <u>the rate</u> rules have been adopted, the state fund need not follow the rulemaking provisions of Title 2, chapter 4, when changing classifications and premium rates. The contested case rights and provisions of Title 2, chapter 4, do not apply to an employer's classification or premium rate. The state fund must belong to the national council on compensation insurance and shall use the classifications of employment adopted by the national council and corresponding rates as a basis for setting its own rates. <u>The state fund shall consider appropriations for rate subsidies in setting rates.</u>

(6) pay the amounts determined due under a policy of insurance issued by the state fund;

(7) hire personnel;

(8) declare dividends if there is an excess of assets over liabilities. However, dividends may not be paid until adequate actuarially determined reserves are set aside. If those reserves have been set aside, money that can be declared as a dividend must be transferred to the account created by 39-71-2321 for claims for injuries resulting from accidents that occurred before July 1, 1990, and used for the purposes of that account. After all claims funded by that account have been paid, dividends may be declared and paid to insureds.

(9) perform all functions and exercise all powers of a private insurance carrier that are necessary, appropriate, or convenient for the administration of the state fund."

Section 2. Section 39-71-2330, MCA, is amended to read:

"**39-71-2330. Rate setting.** The board has the authority to establish the rates to be charged by the state fund for insurance. The board shall engage the services of an independent actuary who is a member in good standing with the American academy of actuaries to develop and recommend actuarially sound rates. Rates must be set at amounts sufficient, when invested, to carry the estimated cost of all claims to maturity, to meet the reasonable expenses of conducting the business of the state fund, and to amass and maintain, by July 1, 2003, a surplus of 25% of the annual premium. <u>Rates must take into account appropriations for rate subsidies.</u>"

<u>NEW SECTION.</u> **Section 3. Appropriations -- rate stabilization.** (1) Subject to subsection (2), there is appropriated from the general fund to the state compensation insurance fund $10 million in fiscal year 1996 and $10 million in fiscal year 1997. The appropriations in this subsection must be used to maintain or reduce the rates paid for workers' compensation insurance. Rates may not increase on a statewide basis. The state compensation insurance fund shall adjust rates to reward purchasers of insurance who have a low claim experience and then to reduce or stabilize rates for other purchasers of insurance. The money appropriated in this subsection may be used as additional surplus if the increase in surplus will allow for a decrease in the overall average rate adjustment for the state fund of 5% for each fiscal year.

(2) The state fund may request the appropriation in subsection (1) as a $20 million appropriation for the biennium if the state fund certifies in writing to the governor that using that amount as additional

surplus will result in at least a 9% rate reduction in the first fiscal year and that the reduction will continue for the biennium.

NEW SECTION. **Section 4. Effective date.** [This act] is effective July 1, 1995.

-END-

STATE OF MONTANA - FISCAL NOTE

Fiscal Note for HB0116, as introduced

DESCRIPTION OF PROPOSED LEGISLATION:
A bill to appropriate $20 million general fund to the State Fund for the purpose of rate reduction and stabilization; requiring the State Fund to adjust rates to reward purchasers of insurance who have low claim experience and to reduce or stabilize rates for other purchasers of insurance.

ASSUMPTIONS:

1. **The fiscal impact regarding State Fund revenues discussed in this fiscal note is not intended to reflect projections of State Fund premiums, changes in rates, or surplus. State Fund premium levels are determined by the State Fund's board of directors based on information provided to the board from the State Fund's consulting actuary. The fiscal note reflects specific premium revenue estimates for the purpose of informing the legislature of the approximate, potential changes caused by a $20 million general fund subsidy to the State Fund, given the best information available at this time.**
2. The State Fund's consulting actuary will complete an analysis of the impact of this bill by January 19, 1995, and report the findings to the State Fund Board of Directors.
3. The parameters of interest are potential rate changes (annual change in total premium income), premiums (total premium income), surplus (monetary assets in excess of reserve requirements), and ratio of surplus to total premium revenue. These parameters were developed by OBPP staff based on State Fund staff estimates of premium income, claims and operating expenses, rates of investment return, insured payroll growth, and annual reserve requirements.
4. The projection period encompasses FY96-FY99 in order to demonstrate the maximum potential rate reductions without causing undue rate volatility (i.e. rate reductions followed by rate increases).
5. "Baseline" and "Option" rate reductions are modelled to achieve a target ratio of surplus to premium revenue of 25% without causing subsequent year ratios within the projection period to fall below that level. This assumption does not imply that a 25% surplus would be determined by the State Fund board to be an adequate level of surplus. This assumption is made in order to make an "apples to apples" comparison in evaluating the potential impact of a $20 million general fund subsidy.
6. "Option 1" reflects the maximum rate reduction possible in FY96 with the same rate reduction made again in FY97 (with a minimum rate reduction of 5% per year) if $10 million general fund subsidy is provided in each year of the biennium.
7. "Option 2" reflects the maximum rate reduction possible in FY96 (with a minimum rate reduction of 9%) if $20 million general fund subsidy is provided in FY96.
8. Model assumptions: policyholder base remains constant; estimated FY95 premium income $157 million; estimated FY95 surplus $24.758 million; medical inflation 5.5%; indemnity inflation 2.5%; investment returns based on blended long and short term interest rates of 6.00% in FY96, 6.15% in FY97, 6.50% in FY98 and 7.00% in FY99; insured payroll growth 4.0%; general fund subsidy made on July 1.

(continued)

Dave Lewis 1-16-95
DAVE LEWIS, BUDGET DIRECTOR DATE
Office of Budget and Program Planning

J h Cobb
JOHN COBB, PRIMARY SPONSOR DATE

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FISCAL IMPACT:

Expenditures:

	FY96 Difference	FY97 Difference
General Fund (01)		
Option 1	$10,000,000	$10,000,000
Option 2	$20,000,000	$0

State Fund Revenues:
Staff estimates suggest that premiums could potentially be reduced in the 1997 biennium. The $20 million general fund subsidy under HB0116 would permit greater rate reductions equivalent to approximately $22-24 million from FY96 through FY99.

	FY 1996	FY 1997	FY 1998	FY 1999	Total/Average FY96-FY99
Baseline w/out Rate Reduction					
Rate Change	0.00%	0.00%	0.00%	0.00%	0.00%
Premiums	$163,280,000	$169,811,200	$176,603,648	$183,667,794	$693,362,642
Surplus	$43,741,609	$61,154,946	$80,513,552	$104,599,276	
Ratio	26.79%	36.01%	45.59%	56.95%	
Baseline w/ Rate Reduction					
Rate Change	-2.25%	-7.75%	0.00%	0.00%	-8.04%
Premiums	$159,606,200	$153,126,188	$159,251,236	$165,621,285	$637,604,909
Surplus	$39,957,595	$39,940,139	$40,003,417	$42,575,296	
Ratio	25.04%	26.08%	25.12%	25.71%	
Option 1 ($10m GF per FY)					
Rate Change	-6.50%	-6.50%	-0.75%	0.00%	-11.49%
Premiums	$152,666,800	$148,453,196	$153,233,389	$159,362,725	$613,716,110
Surplus	$46,021,539	$43,883,891	$41,606,261	$41,582,656	
Ratio	31.76%	29.12%	26.55%	25.51%	
Option 2 ($20m GF in FY96)					
Rate Change	-11.25%	0.00%	0.00%	0.00%	-11.25%
Premiums	$144,911,000	$150,707,440	$156,735,738	$163,005,167	$615,359,345
Surplus	$49,805,553	$46,264,064	$42,436,236	$40,693,330	
Ratio	33.52%	31.02%	27.36%	25.23%	

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
No impact. The State Fund does not insure counties.

LONG-RANGE EFFECTS OF PROPOSED LEGISLATION:
Unless infeasible under the requirements of HB0116, rate reductions would be structured so as not to cause subsequent rate increases.

(continued)

TECHNICAL NOTES:

1. There is potentially conflicting language in section 2 and 3 with existing statute. The State Fund Board of Directors has the authority to establish rates under 39-71-2330, MCA. The language in section 3 states "Rates may not increase on a statewide basis."
2. There has been no contingency established for catastrophic loss experience which may require a rate increase after receiving the general fund subsidy.