

State Workers' Compensation – Loss Portfolio Transfer Case Review

In 2001, the Department of Administrative Services (DAS) contracted with a private insurance company for approximately \$80 million to assume liability and expedite settlement of about 700 state employee workers' compensation claims. According to DAS, some of these claims dated back many years and all were considered hard to resolve, and the state anticipated some economic benefit to transferring liability for these cases. Prior to issuing a request for proposals (RFP) DAS used Marsh and McLennan, a nationally known insurance broker, as well as other consultants and brokers, to assist the department with analysis and selection of the cases that would make up what is known as a *loss portfolio transfer*, as well as to help procure the best insurance arrangement for the state for that transfer. The state paid Marsh \$100,000 for its brokerage services, which was supposed to be payment in full for its services.

In response to the RFP issued in August 2001, the state received bids from three companies. Ace Financial Solutions was selected and was paid about \$80 million in November 2001 to assume the liability for the transferred cases.

This would not be a full program review, but instead would examine the loss portfolio arrangement the state entered into in 2001 including:

- the process used to determine the number of state workers' compensation cases that would be transferred to a private insurer, and how those cases were selected;
- the process for selection of the brokers and the insurer in the loss portfolio arrangement;
- the performance provisions written in the contract for the portfolio transfer, and whether the state has ensured accountability of those provisions; and
- the trends in the state's financial liabilities (aggregate and per-case) for the non-transferred cases.

To the degree possible, this examination would rely on work conducted and materials collected by the Office of the Attorney General and other agencies involved in either the implementation of the loss portfolio transfer or its review.