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Statement

Insurance Association of Connecticut

Insurance and Real Estate Committee

March 3, 2009

SB 1024, An Act Establishing A State Workers' Compensation Insurance Program

The Insurance Association of Connecticut opposes SB 1024, An Act Establishing A State Workers' Compensation Insurance Program. There is simply no need for such a program.

The trend nationally over the past ten to fifteen years has been to move away from government-sponsored mechanisms in workers' compensation. State funds do nothing to add capacity to the marketplace, nor do they improve competition in that marketplace, nor do they do anything to get benefits to injured workers quicker.

The few states that created state workers' compensation funds in the early 1990's did so because there was no voluntary market to speak of in the state and little likelihood of one returning. That is certainly not the case in Connecticut.

Connecticut currently has a highly competitive workers' compensation insurance market, with over one hundred companies actively competing for market share. Insurers are competing aggressively with each other on price (loss cost filings have decreased by 49 percent since 1993) and products. Connecticut businesses and employees benefit from that environment. Coverage is available in the standard market, as evidenced by the fact that 95 percent of employers in the state are written in the voluntary market. The number of policies in the state's residual market plan has decreased each year since 2004. Assigned risk premiums have decreased by

33.6 percent since 1993. A market assistance plan is helping to further depopulate the assigned risk pool.

There is no need for the state to get into the insurance business. In fact, several years ago the Program Review and Investigations Committee conducted a year-long comprehensive study on workers' compensation. The Committee's report specifically rejected the creation of a state fund, stating "it would seem poor policy and poor timing to recommend such a proposal". That remains true today.

In addition, SB 1024 would create an unlevel playing field for the fund by creating special rules for its operation.

State workers' compensation insurance funds have a history of serious financial problems, imposing added costs to state taxpayers and often providing inferior service to injured workers. In 2005 the governor of West Virginia called a special session to privatize the state's chronically bankrupt monopolistic state fund. The fund was over three billion dollars in the red. The billions of fund debt was covered by assessing substantial surcharges on West Virginia employers. A private market has opened for workers' compensation insurance for the first time in 2009.

In 1995, Nevada passed legislation to terminate its state fund, which was over two billion dollars in debt. Oklahoma has regularly run up huge unfunded liabilities. Missouri's fund needed five million dollars of state money to get started (see section 2 of SB 1024—transfer of \$5 million to the workers' compensation insurance account; see section 3 of SB 1024, calling for an appreciation of ____ dollars). In less than one year of operation, Missouri's fund was technically insolvent. The only reason Missouri's fund could continue to operate is the fact that it was given a waiver from standard insurance solvency laws so it did not have to maintain normal reserves to cover losses. Surely this is not a risk Connecticut's businesses and taxpayers need to take.

Connecticut employers are currently well-served by a highly competitive workers' compensation insurance marketplace. SB 1024 will do nothing to improve that marketplace. Similar bills have been consistently rejected by the General Assembly in past years. IAC urges rejection of SB 1024.