

Connecticut Business & Industry Association

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H.B. 5308 AAC Establishing a Non Profit Workers' Compensation Insurance Company

Good afternoon Chairs and members of the Committee, I am Kia Murrell, assistant counsel at the Connecticut Business and Industry Association (CBIA). CBIA represents approximately 10,000 companies across the state of Connecticut, ranging from large corporations to small businesses, but the vast majority of our members have fewer than 50 employees.

CBIA generally does not support legislation that increases employers' administrative burdens or makes it more costly or difficult to do business in Connecticut. Consequently, we are **strongly opposed** to H.B. 5308 because in creating a nonprofit fund for workers' compensation insurance, the legislation could create a monopoly and make it extremely difficult to maintain a competitive market for workers' compensation insurance in the state.

Simply put, there is no need for a state government-created workers' compensation fund because:

1. Connecticut has a healthy and stable insurance market
2. A competitive market provides many insurance options that help to control costs for businesses.

For these reasons, we object to H.B. 5308 and strongly urge the Committee to reject it.

A state fund is not necessary because our workers' compensation insurance market is stable and competitive. The legislature enacted a sweeping package of reforms to the Connecticut workers' compensation system in the 1990s in order to bring our costs in line with those of other states. The reforms made numerous administrative changes to the workers' compensation system and many of those changes continue to be effective today. The reforms have been very successful: costs for employers have decreased and remain relatively steady, while benefits to claimants remain generous and among the highest levels of any state in the nation. Although Connecticut is an expensive state in which to operate a business and underwrite workers' comp insurance, our market has approximately 100 companies competing for business here and coverage in the voluntary market is readily available. Moreover, insurance rates and premiums declined and then stabilized after the 1990s reforms. Because of that, there is simply no need for a government-created fund for workers' comp insurance and CBIA encourages the Committee to focus instead on continuing the successful reforms that have allowed Connecticut's competitive marketplace to survive and thrive.

Government-created workers' compensation funds are only justified as last-resort, short-term solutions during times of crisis--and Connecticut doesn't have a workers' compensation crisis. As a general proposition, government should not establish insurance funds or any other commercial enterprise to compete with private-sector companies, because doing so

restricts competition and leaves consumers with fewer choices for insurance coverage. A state workers' compensation fund should be used only as a tactic of last resort and as a short-term solution to address problems of a dysfunctional insurance market with no foreseeable expectation of improvement. That has been the situation in the few states where state funds were created, such as Rhode Island. There, a state fund was created in the 1990s due to a crisis in the lack of available policies in the voluntary market. At the time, chronically high system costs combined with suppressed rates led to a collapse of the voluntary market. This resulted in 85% of all insurance policies being issued through the assigned risk pool, and both insurers and employers left the state in droves due to the high cost of workers' comp insurance. There is no comparison between the current Connecticut market and the Rhode Island market that was in crisis. Both the voluntary and assigned risk markets in Connecticut are stable and healthy. Therefore, there is no reason to create a state fund.

Since its creation, the Rhode Island state fund has created a government-run monopoly with numerous unfair advantages for Beacon Mutual, the exclusive underwriter of workers' comp policies in the state fund. At a 2006 legislative hearing on a similar bill before the Insurance Committee, a representative of Beacon Mutual testified as follows:

MICHAEL LYNCH: Absolutely. Back in the, in May 18, 1992 when the law was passed making Beacon essentially the only carrier in the state [Rhode Island], we assumed within the period of one year every insured employer in the state, because every other carrier pulled out of the state. So we had no choice. We went from having zero policies to having 15, 13, 14 thousand policies in a period of one year.... And our market share at that point went from virtually 100% of the insured market down to, in the late 1980s, about 45% of the market. So we had a virtual monopoly, not by choice, but by a result of the carriers pulling out of the state because our system was such a mess. (Insurance Committee Public Hearing on S.B. 553, 2006)

The introduction of a state fund into a healthy market like that in Connecticut will negatively impact the cost of workers' compensation insurance for employers because it will:

- Eventually force competition out of the voluntary market.
- Create an unlevel playing field by providing the state fund with tax exemptions and other advantages not available to voluntary market insurers.

Ultimately, the result of this unlevel playing field is that it will become cost-prohibitive for other insurers to issue policies in Connecticut, destroying the competitive market all together. **The best way to ensure that consumers receive the best insurance products and the lowest prices is to support the existing competitive market system, and not create a state fund.**

For all of these reasons, CBIA urges the Committee to reject H.B. 5308.