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# WORKER'S COMPENSATION ASSESSMENTS

**Senate Bill 718 (Substitute H-1)**
**First Analysis (12-13-01)**

**Sponsor: Sen. Bill Bullard, Jr.**
**House Committee: Insurance and Financial Services**
**Senate Committee: Financial Services**



## *THE APPARENT PROBLEM:*

Under the Worker's Disability Compensation Act, the director of the Bureau of Worker's Disability Compensation annually collects from insurance carriers 175 percent of the total disbursements made from the Second Injury Fund and the Silicosis, Dust Disease, and Logging Industry Compensation Fund during the preceding calendar year, less the amount of net assets in excess of $200,000. The reporting requirements for insurance companies include the use of a new general accounting standard that requires insurance companies to post on their financial statements the lifetime potential liability for paying weekly compensation payments to the state fund assessment. This requirement has a negative impact on an insurance company's ability to write new business, as it forces a company to set aside resources to cover the liability amount reported. Insurers could, however, satisfy this requirement by changing the basis on which the assessments are determined from weekly compensation payments to premiums written in the last policy year.

## *THE CONTENT OF THE BILL:*

The bill would amend the Worker's Disability Compensation Act to revise the formula for determining the allocation of assessments against insurance carriers for the Second Injury Fund and the Silicosis, Dust Disease, and Logging Industry Compensation Fund. Currently, each carrier's assessment is based on its proportionate share of total benefits paid by all carriers. The bill would retain the assessment based on 175 percent of disbursements in the preceding year, but would establish the following formulas for the calculation of each carrier's liability:

<u>Self-insurers</u>. The portion of the total assessment amounts allocated to self-insurers would be equal to a percentage determined by the total paid losses of all self-insurers for the preceding calendar year <u>divided</u> by the total paid losses of all carriers during the preceding calendar year.

The portion of the total assessment amounts allocated to self-insurers that would have to be collected from each self-insurer would be equal to a percentage of the total paid losses of each self-insurer <u>divided</u> by the total paid losses of all self-insurers during the preceding calendar year. (This does not represent a change from the current way that assessment amounts are allocated to and collected from self-insurers.)

<u>Insurance companies</u>. The portion of the total assessment amounts allocated to insurers would be equal to a percentage of the total paid losses of all insurers for the preceding calendar year <u>divided</u> by the total paid losses of all carriers during the preceding calendar year.

The portion of the total assessment amounts allocated to insurers that would have to be collected from each insurer would have to equal the percentage determined by the amount of total direct premiums written as reported by each insurer <u>divided</u> by the amount of total direct premiums written as reported by all insurers during the preceding calendar year. ("Direct premiums written" would mean a standard written Michigan worker's compensation premium prior to the application of deductible credits, as reported to the designated advisory organization, through policy declarations and unit statistical reports compiled under the authority in Section 2407 of the Insurance Code. For the purposes of determining assessments under the bill, the reported data for the most recent full calendar year on file with the designated advisory organization would have to be used.)

Currently, an insurance company that ceases to write worker's compensation insurance in Michigan continues to be liable for the Second Injury Fund and the Silicosis, Dust Disease, and Logging Industry Compensation Fund. The bill would remove this liability. (An employer that ceases to be a self-insurer would still be liable for the above two funds plus the Self-Insurers' Security Fund assessment.)

## *HOUSE COMMITTEE ACTION:*

The committee adopted an amendment that changed the definition of the term "direct premiums written".

## *FISCAL IMPLICATIONS:*

The House Fiscal Agency reports that since the bill does not affect the aggregate amount assessed on worker's compensation insurers and self-insured employers, it would have no overall fiscal impact on the state or on local units of government. The bill, however, would affect the manner in which the assessment is allocated to individual worker's compensation insurers, increasing the assessment on some while reducing the assessment to others. It would not affect the allocation of the assessment on individual self-insured employers. (12-12-01)

## *ARGUMENTS:*

### *For:*

The bill would revise the formula for determining the allocation of assessments against insurance companies. (The formula would remain the same for self-insured carriers as it is now.) Currently, insurance companies must post the lifetime liability on their financial statements. The result is that money that could be used to write new business is tied up instead. The problem could be solved by changing the formula used from a basis of total paid losses to one based on total direct premiums written for the preceding calendar year. The actual dollar amount of assessments levied on and collected from the insurance industry as a whole would remain the same; it is only the formula used to derive the amount of assessment to be levied and collected from each insurer that would be changed. The bill would therefore impact insurance companies in a positive way by freeing up revenue that could be used to write additional business.

## *POSITIONS:*

The Department of Consumer and Industry Services supports the bill. (12-12-01)

A representative of the Michigan Insurance Federation indicated support for the bill. (12-12-01)

A representative from the American Insurance Association indicated support for the bill. (12-12-01)

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■This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.