

FISCAL NOTE
Requested by Legislative Council
01/16/2017

Bill/Resolution No.: HB 1223

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2015-2017 Biennium		2017-2019 Biennium		2019-2021 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures				\$351,230		\$368,780
Appropriations				\$351,230		\$368,780

- 1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2015-2017 Biennium	2017-2019 Biennium	2019-2021 Biennium
Counties			
Cities			
School Districts			
Townships			

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

The bill aims to privatize worker's compensation coverage and would require the Insurance Department to regulate such coverage.

Please also see the attachment provided by WSI.

- B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

To carry out the functions of the bill, the Insurance Department would need two additional FTEs, one in the Examinations Division and the other in the Product Filing Division, along with operating expenditures to support those positions.

Please also see the attachment provided by WSI.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

- A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

This bill has no fiscal impact to revenue.

- B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

Salaries and benefits for the new positions are estimated at \$334,040 and \$350,740 for the 2017-2019 and 2019-2021 bienniums, respectively. The operating expenditures to support and train these new positions is estimated at \$17,190 for 2017-2019 and \$18,040 for 2019-2021.

- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

All expenditures highlighted above would need to be appropriated.

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Date Prepared: 01/18/2017

WORKFORCE SAFETY & INSURANCE
2017 LEGISLATION
SUMMARY OF ACTUARIAL INFORMATION

BILL NO: HB 1223

BILL DESCRIPTION: Private Insurance/Self Insurance for Workers' Compensation

SUMMARY OF ACTUARIAL INFORMATION: Workforce Safety & Insurance, together with its actuarial firm, Bickerstaff, Whatley, Ryan & Burkhalter Consulting Actuaries, has reviewed the legislation proposed in this bill in conformance with Section 54-03-25 of the North Dakota Century Code.

The proposed legislation provides employers the ability to obtain private insurance or self insure for workers' compensation coverage

FISCAL IMPACT:

Entities entering into self insurance would have no specific funding requirements subsequent to the initial escrow, i.e. annual certification of unpaid claim liabilities by the self-insured. Considering that workers' compensation is long-tailed insurance coverage this creates a dangerous situation for injured workers. In North Dakota, 50% of the total ultimate claim liabilities arising from a given policy year are not paid until the 12th year subsequent to the beginning of the policy year. Over time, as an entity continues to be self-insured, the unpaid claim liabilities for all self-insured years combined accumulate and often dwarf the amount of the "expected annual claim liabilities". Currently New York, which allows self insurance, has over \$500 million of unfunded liability from terminated or defaulted self insureds.

The current North Dakota system affords all of the benefits of self insurance and none of the dangers. An employer has available programs such as large deductibles, retrospective rating plans and the experience rating program all of which emulate self insurance.

This bill assigns a number of duties / obligations to the Insurance Commissioner including:

- Establishing rules and regulations for those employers opting for private insurance. Monitoring compliance.
- Establishing rules and regulations regarding the qualifications and initial escrow amounts for self-insured entities.
- Establishing rules and regulations and governing the self-insurers insolvency trust fund.
- Requirement to take "Corrective Action" against self-insured entities including determining if the employer is not following proper workers' compensation claims procedures and /or if the accident prevention program is inadequate. Both of these determinations require specialized personnel such as WC claim adjusters and WC safety engineers.

While the administrative cost of this program is substantial, there is no funding mechanism, such as premium tax, to pay for these additional duties assigned to the Insurance Department.

DATE: January 13, 2017