

SENATE COMMITTEE ON
TRANSPORTATION AND ECONOMIC DEVELOPMENT

-

March 17, 2003
8:00 AM

Hearing Room C
Tapes 56-58

MEMBERS PRESENT: **Sen. Rick Metsger, Chair**
 Sen. Bruce Starr, Vice-Chair
 Sen. Ryan Deckert
 Sen. David Nelson

STAFF PRESENT: **Amy Joyce, Committee Administrator**
 Annastasia Suess, Committee Assistant

MEASURE/ISSUES HEARD: Informational Meeting – SAIF

These minutes are in compliance with Senate and House Rules. Only text enclosed in quotation marks reports a speaker's exact words. For complete contents, please refer to the tapes.

TAPE/#	Speaker	Comments
TAPE 56, A		
002	Chair Metsger	Calls the committee to order at 8:04 a.m. and opens an informational hearing.
INFORMATIONAL HEARING		
010	Bob Shiprack	Secretary Oregon State Building and Construction Trades. Begins discussion on the State Accident Insurance Fund corporation (SAIF).
050	Shiprack	Continues discussion: <ul style="list-style-type: none">• Provides suggestions• Voices current concerns with SAIF• Concludes discussion
099	Chair Metsger	Inquires about the concerns regarding possible premium increases.
105	Shiprack	Responds and elaborates. States additional concerns regarding the closure of the SAIF.
145	Chair Metsger	Asks what has had the largest impact on lower rates, and increased benefits to workers since the workers compensation reform.
160	Shiprack	Responds and elaborates.
200	Sen. Nelson	Inquires about the changes in SAIF over the last fifteen years, and wonders if taking reserves from SAIF would be detrimental.
230	Shiprack	Responds that the legislature needs to examine the actuaries extremely closely to insure that the employer premiums will not take a huge jump at a later date.
258	Greg Chaimov	Legislative Counsel. Asks how life would be different if SAIF were a state agency under the control of the Department of Administrative Services (DAS).

265	Shiprack	Responds that the oversight would be through the legislature.
272	Chaimov	Asks what legislative oversight would achieve.
275	Shiprack	Responds that the legislature could insure that the reserves were adequate.
300	Charlie Cheek	Legislative Counsel. Inquires about what is driving the Washington and California increases.
305	Shiprack	States that the investment income has been way down while medical costs are higher.
315	Vice Chair B. Starr	Asks what would change is SAIF became a privately held company.
325	Shiprack	Comments.
370	Jessica Harris	Testifies on behalf of the Associated General Contractors.
385	Kevin Spellman	President of Emerick Construction Company. Begins discussion on worker's compensation issues.
TAPE 57, A		
010	Spellman	Continues discussion: <ul style="list-style-type: none"> • Contractor's insurance rates • SAIF reserves • Concludes presentation
045	Harris	States the General contractors are very concerned with any changes to SAIF's funds. States that if reserves are used, premium rates will likely increase to replenish the funds.
090	Chair Metsger	Inquires whether the earlier testimony on premiums from Bob Shiprack is a common concern with Emerick Construction.
105	Spellman	States that the concern is why there is a need to look at changing SAIF.
115	Vice Chair B. Starr	Asks if there is any concern with SAIF becoming a private or mutual fund company.
125	Harris	Responds and urges the legislature to closely examine the benefits of SAIF converting to a private agency.
130	Vice Chair B. Starr	Asks for comment on SAIF's current political activities.
140	Harris	Responds.
145	Sen. Nelson	Comments on the testimony of SAIF being a success story.
155	Steve Telfer	Alliance of American Insurers. Begins discussion on SAIF corporation and provides written testimony (EXHIBIT A).
300	Shawn Miller	National Association of Independent Insurers. Begins testimony on SAIF corporation.
350	Katherine Keene	President and CEO, SAIF Corporation. Begins testimony on SAIF corporation and provides written testimony (EXHIBITS B, C, D).
TAPE 56, B		
010	Keene	Continues discussion: <ul style="list-style-type: none"> • Overview of the Conerly Report • Overview of the Michigan State Fund privatization • Concentration of markets • Concludes discussion
120	Chair Metsger	Inquires about the Michigan privatization and how it compares to Oregon's current situation.

135	Keene	Comments, and offers to perform research on Michigan State to provide that data to the committee at a later date.
165	Chair Metsger	Asks if SAIF selects less risky businesses, and asks if the 64% of risk businesses that SAIF insures are businesses that have been initially rejected by SAIF and then reassigned as risk carries.
169	Keene	Answers the amounts quoted are voluntary market statistics, and do not include the assigned risk pools.
175	Chair Metsger	Asks what the negative impacts would be if SAIF were a full State agency.
185	Keene	States that history of the change in SAIF status shows that in the late 1970's there was a hiring freeze for state agencies. SAIF was impacted by this freeze and SAIF was unable to fund the positions the employers needed. Since the late 1980's SAIF has been able to add staff as needed.
192	Chair Metsger	Asks again what are the disadvantages if SAIF is pulled into a full state agency.
200	Keene	States there would be less operating flexibility around staffing, contracting, training and incentives.
215	Chair Metsger	Cites the 2002 Year end report and asks if the overall salaries increased 35% in 2002.
220	Keene	Defers to the Vice President of Human Resources.
230	Cecil Tibetts	Vice president of SAIF Human Resources. States the total compensation costs have substantially increased on the health care benefits not salaries.
238	Chair Metsger	Asks what SAIF's response to the Governor's comment which suggested that SAIF's corporation could be helpful to the public purpose by utilizing it's structure to help with Tort reform.
242	Keene	Responds. States that SAIF is going to offer some suggestions that might be helpful to the problems facing that line of insurance.
250	Chair Metsger	Asks when those suggestions will be available.
255	Keene	States they will available as soon as possible.
270	Chair Metsger	Asks if SAIF were to be a full independent insurer what would be the advantages and disadvantages to the corporation.
280	Keene	States that mission alter to maximize profitably of the new enterprise. Says that if this were the mission, to increase profitably SAIF would eliminate the riskiest customers to decrease the risk of who is insured.
285	Chair Metsger	Asks about the denial rates of SAIF at 35% higher than private companies.
300	Keene	States that SAIF's denial rates have been consistent for over 10 years and further elaborates on SAIF's denial policy.
365	Sen. Deckert	Inquires about why SAIF does not re-adjust it's loss reserves and surplus to meet the reserve adequate levels.
385	Keene	States that SAIF's reserves are adequate, however there are not monies in surplus to replenish the reserves.
395	Sen. Deckert	Asks for clarification that there are no surplus dollars to re-adjust the reserves to ensure the reserves are adequate.
420	Mr. Steffler	Comments on Mr. Conley's report.
<i>TAPE 57, B</i>		
015	Keene	Comments on the level of reserves.
025	Sen. Deckert	Asks if the rates exhibit submitted by Mr. Telfer earlier today are accurate.
030	Sherman	Responds and elaborates.
040	Keene	Clarifies the terminology "pure premium rate".
055	Sen. Deckert	Asks what other public agencies employ a team of private sector

		lobbyists.
060	Keene	Comments.
070	Sen. Deckert	Asks why SAIF feels the need to employ lobbyists.
075	Keene	States that SAIF is directed to be competitive, and that SAIF's competitors choose to meet with SAIF in the capitol rather than in meeting. States that SAIF has been able to get more quality time with legislatures employing lobbyists.
	Sen. Deckert	Asks if Ms. Keene plays a role in appointing new members to the board.
080	Keene	Comments that the statutes require three of the board members be current policy holders and when the governor's office is considering a new member, SAIF will inform them of the potential candidate is within requirement levels. States SAIF will occasionally suggest a candidate who is a policy holder that have a pretty good grasp of the essential elements of the business.
083	Sen. Deckert	Asks if Ms. Keene goes to the governor to identify candidates that would be strong representatives for the board.
087	Keene	Responds that it has not been necessary in the past, as SAIF has always been comfortable with the Governor's choices.
095	Sen. Nelson	Asks for clarification of SAIF's percentage of the market share.
106	Keene	States that SAIF's market share has increased in the last two years, due to 19% of the premium volume represented by other carriers left the state under duress and SAIF had the ability to pick up the coverage.
135	Chaimov	Asks for the relationship between SAIF and AOI.
140	Keene	Refers to exhibit B which provides a list of twenty five different trade associations and business organizations that SAIF has had group safety incentive programs with. AOI has been on the list since a change in stature in 1990. States that there have been two group programs with AOI, a small business focus program and another program focused on larger businesses.
225	Chaimov	Asks for comments on the allegations that an employer that optioned insurance through SAIF somehow became a member of AOI.
230	Keene	Responds and elaborates.
250	Chaimov	Asks for information on the records on which SAIF basis it's decision to maintain reserve and surplus amounts.
265	Keene	States that SAIF will provide that information, and that essentially the information is provided in the exhibit provided.
270	Cheek	Asks what is SAIF's denial rate compared to Liberty's denial rate.
275	Keene	Answers and elaborates.
299	Cheek	Asks for a percentage of denials are sustained through litigation as opposed to settlement.
310	Keene	Responds.
315	Cheek	Asks if a negotiated settlement is considered a satisfactory resolution.
320	Keene	Confirms.
322	Tibitts	Elaborates on the denial rate practices.
325	Vice Chair B. Starr	Asks for comment on the proposal for SAIF to become a private industry and how it will impact the companies ability to provide low cost rates.
330	Keene	Responds.
375	Vice Chair B. Starr	Asks what would the effects to SAIF operations would be if SAIF were to become the issuer of last resorts.
380	Keene	Comments.
400	Vice Chair B. Starr	Asks if SAIF is a public agency, why there were very in-depth political activities by SAIF.

410	Keene	States the intent of the investigation by SAIF was to see where their competitors made their contributions.
TAPE 58, A		
020	Vice Chair B. Starr	Asks for clarification on the appropriateness of a Public agency funding a political activity.
040	Keene	Confirms, states that the records SAIF researched were available to the public.
045	Chair Metsger	Asks why, if SAIF was researching it's major competitors, why they felt the need to research the Oregon Restaurant Association and the Oregon Grocers Association as they are not SAIF competitors.
052	Tibetts	Responds that SAIF's major competitor often uses surrogates to bring up many issues, and there are relationships with other businesses where they come in together.
075	Chair Metsger	Inquires about the private insurance issue that was mentioned in earlier testimony from SAIF.
080	Telfer	Comments and states that it is difficult to surmise what might happen if SAIF were to privatize.
090	Vice Chair B. Starr	Asks for comments on the advantages and disadvantages of privatization or mutualization of SAIF.
095	Telfer	Comments and states this would create an opportunity for better competition.
105	Sen. Nelson	Asks for clarification of testimony that Liberty Northwest has 15% of the market and SAIF has 35%.
110	Telfer	Confirms.
125	Chaimov	Asks how the committee can figure out if whether overall rates in Oregon are or are not lower as a result of SAIF's presence in the market.
135	Telfer	States that an extensive study would be needed to access what would happen with or without SAIF presence.
142	Cheek	Asks for clarification of how many states have no accident funds.
150	Telfer	States there are twenty states without State Accident funds.
185	Chair Metsger	Closes the informational hearing and adjourns the committee at 10:05 a.m.

EXHIBIT SUMMARY

A – Informational, written testimony, Steve Telfer, 4 pp

B – Informational, written testimony, Kathleen Keene, 4 pp

C – Informational, written testimony, Kathleen Keene, 37 pp

D – Informational, written testimony, Kathleen Keene, 7 pp