

**INFORMATIONAL MEETING: REPORT ON OREGON'S WORKERS'**

**COMPENSATION INSURANCE MARKET**

**PUBLIC HEARING: HB 3400**

**TAPE 175 A/B**

**TAPE 176 A**

**HOUSE SCHOOL FUNDING AND TAX  
FAIRNESS/REVENUE COMMITTEE**

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**MAY 9, 2001 — 1:00 P.M. - HEARING ROOM A - STATE CAPITOL BUILDING**

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Members Present: Representative Lane Shetterly, Chair

Representative Janet Carlson, Vice Chair (2:01 arrived)

Representative Deborah Kafoury, Vice Chair

Representative Alan Bates

Representative Chris Beck

Representative Alan Brown

Representative Mark Hass (1:55 arrived)

Representative Max Williams

Representative Bill Witt (2:47 arrived)

Staff: Paul Warner, Legislative Revenue Officer

Richard Yates, Economist, Legislative Revenue Office

Joan Green, Committee Assistant

Witnesses: Mary Brooks, Center for Community  
Change

Rich Rodgers, Portland City Commissioners

Gary Conkling, Oregon Home

Michael Ileo, Technical Associates, Inc.

Scott Lefkowitz, William M. Mercer, Inc.

**TAPE 175, SIDE A**

004 Chair Shetterly Meeting called to order at 1:53 p.m.

**OPENED PUBLIC HEARING ON HB 3400**

015 Mary Brooks Presented testimony in support of measure.  
(Exhibit 1)

107 Brooks Continued with testimony in support of measure  
and discussion of the impacts, on a national  
level, of a real estate transfer tax, (Pages 3-5,  
Exhibit 1).

Questions and discussion regarding building  
coalitions and how broad-based is a real estate  
transfer tax.

260 Gary Conkling Spoke in support of the measure.

295 Rich Rodgers Spoke in support of the measure and reviewed  
map, which demonstrates how low-income  
housing would have been affected had the region  
not had an Urban Growth Boundary (UGB) and  
the financial implications of unchecked  
expansion.

LRO Staff Distributed testimony submitted by 1000  
Friends of Oregon, Mary McCurdy. (Exhibit 3)

**INFORMATIONAL MEETING/WORKERS' COMPENSATION  
REPORT**

367 Paul Warner Read the Referral for Proposal that was issued  
and referred members to the Final Report of the  
study provided earlier, (Reference 05/02/2001,  
Exhibit 1).

412 Michael Ileo Referenced the summary packet and reported  
findings. (Exhibit 2)

**TAPE 176, SIDE B**

049 Ileo Continued with presentation and reviewed the  
impact of the income tax exemption for the State  
Accident Insurance Fund, (Page 2, Exhibit 2).

075 Rep. Bates Questions to clarify State Accident Insurance

Fund (SAIF) tax liability for capitol gains increases and if there had been a tax liability for capitol gains would that have been a significant factor.

- 083 Ileo "No, SAIF would not pay taxes on capitol gains because they are tax exempt. If SAIF were not tax exempt the findings would still be the same because the underwriting losses were significantly greater than the large capital gains for a net effect of not owing income tax." Spoke to the rates that investment and underwriting are subject to.
- 101 Rep. Bates Questioned if SAIF has had large underwriting losses have their premiums been large enough; cited the reasons, as he perceives them, for that phenomenon and questioned if that is an accurate summation.
- 107 Ileo Concurred.
- 132 Vice Chair "Were you charged with reviewing self-insurers in Oregon or was the study based on an analysis of only Liberty Northwest and SAIF?"  
Carlson
- 137 Ileo Described scope of the report and WCI providers analyzed. Continued with presentation and reviewed Graphic "C" titled "Policyholder Dividends/Direct Premiums Written Ratios of Workers Comp Insurance (WCI) State Funds, 1995-1999, (Page 4, Exhibit 2).
- 180 Vice Chair "Can SAIF sustain the level of dividends paid in 1998-99 into the future?"  
Kafoury
- 185 Ileo "Not at the current premium, but it could out of the reserves."
- 191 Scott Lefkowitz Began his portion of the presentation with the caveat that a reserve study for SAIF was not part of the assignment.
- Reviewed the two sets of data used for the study and discussed the scope of the study done. Discussed Graphic "D" titled WCI Loss Reserves/WCI Losses Paid Ratios, (Page 5, Exhibit 2).
- 195 Chair Shetterly "What do slides "D-I" tell the Committee, (Pages5-10, Exhibit 2)?"
- 220 Lefkowitz "No matter how the data is parsed SAIF carries

almost twice the reserve level as the rest of the insurance industry in the State of Oregon. Whether that is appropriate is a different question, as an actuary I think it would be appropriate to find out why." Reviewed Ileo's findings and how they would factor into determining the appropriateness of SAIF's reserves.

- 280 Chair Shetterly Noted that last year the Department of Consumer and Business Affairs required SAIF to add \$52 million to the reserve based on an actuarial review and questioned if that factors into this report.
- 285 Lefkowitz No.
- 289 Rep. Williams Referenced statement made in the Executive Summary and questioned what are the "unusual reserving practices of SAIF related to other Oregon WCI insurers", (Reference 05/02/2001, Exhibit 1)?
- 292 Lefkowitz Referenced graphics "D-I", which show almost twice the reserves of the rest of the industry in the State; that in itself is unusual, (Pages 5-10, Exhibit 2). Posed the question as to which is the appropriate level of reserves and "hazards a guess" that the answer is someplace in the middle, but to which end is it closer?
- 300 Rep. Williams "Aren't the private WCI companies reserves mandated to some degree by national insurance regulatory requirements?"
- 320 Lefkowitz "It is not a clear-cut yes or no, the reserves carried by an individual insurer are mandated by the state of domicile."  
  
Provided a technical explanation of how the Executive Summary's conclusion regarding the "unusual reserving practices of SAIF related to other Oregon WCI insurers" was drawn, (Reference 05/02/2001, Exhibit 1)?
- 402 Rep. Williams "What would be an appropriate percentage for a reserve, based on your experience?"
- 407 Lefkowitz "It will vary, based on a number of factors; but I have never seen a reserve so high."
- 409 Rep. Williams "Prior to this reserve what is the highest you have ever seen?"

- 410 Lefkowitz Speculated 5% total losses.
- 414 Vice Chair Carlson Questioned if a true comparison can be done since SAIF is a quasi-governmental body without shareholders whereas the private market is structured differently.
- 445 Lefkowitz Commented only on the portion of the question relating to reserves and noted that no matter the structure of an organization the set of actuarial techniques applied is the same.

**TAPE 175, SIDE B**

- 028 Ileo "Only if a distinction between a government corporation and a private corporation was created by statute would there be a difference. Capital, irrespective of how it is employed, should be entitled to earn the same rates of returns. The question becomes what do you do with the earnings once you get them? That is where the difference is between SAIF and the private insurer. However, SAIF has a statutory mission to fulfill whereas private insurers answer to shareholders."
- 040 Vice Chair Carlson Referenced a dividend payment in the 1980's that resulted from litigation and questioned if that was factored into the analysis.
- 042 Ileo "The study did not segregate the source of the funds."
- 046 Rep. Brown Questioned if it is not prudent to have large reserves considering rising medical costs.
- 055 Lefkowitz "No, that addresses the real issue with the regulatory process and reserves. Reserves are not the same as contingency funds."
- Explained how actuaries calculate ranges of reasonable estimates and how that factors into determining reserves.
- 076 Rep. Bates "Are SAIF's reserves out of line for the rest of the WCI market, based on the fact that SAIF is a competitor in the WCI market and not an insurer of last resort?"

092 Ileo "That is a concern."

095 Lefkowitz Concurred with Ileo, but again expressed the "caveat that a detailed actuarial study has not been done on SAIF's reserves" and noted that study should be made.

110 Rep. Witt "Do SAIF's current reserve levels create an impediment to a competitive market because of the way SAIF utilizes the reserves?"

117 Ileo "That possibility exists although I cannot speak to the extent to which it actually occurs."

127 Rep. Witt "Would it be correct to conclude that SAIF's reserves being used in a manner that would impede a truly competitive market, based on the facts that it appears Oregon has a duopolistic system and net premiums paid by many SAIF policyholders seem to be excessively low?"

131 Ileo "I cannot point to any historic evidence that the rates are too low or high, all the characteristics suggest that the market has worked well in the last five years. However I do not believe that will carry forward into the future."

140 Rep. Brown Clarified that to truly evaluate whether the reserves are the right amount a further study would need to be done to determine what SAIF needs to cover and the potential for loss.

167 Lefkowitz Concurred.

160 Ileo Continued with presentation, beginning with a review of graphic "N" titled "WCI Four-Firm Concentration Ratio 1995-1999 Insurer Group Basis", (Page 14, Exhibit 2).

276 Ileo Continued with presentation, and review of graphics "V and W" and the analysis for six Oregon WCI companies based on modeling of the actual financial characteristics, (Pages 23-24, Exhibit 2).

315 Chair Shetterly Noted a meeting will be scheduled to allow stakeholders to respond to the report.

Meeting adjourned at 3:08 p.m.

Submitted by, Reviewed by,

Joan Green Kim Taylor James

Committee Assistant Revenue Office Manager

Exhibit Summary:

1. HB 3400, Testimony, Brooks, 6 pages
2. Informational/Workers' Compensation Insurance Market, Summary of Report, Ileo/Lefkowitz, 24 pages
3. HB 3400, Submitted testimony, McCurdy, 2 pages