

These minutes contain materials which paraphrase and/or summarize statements made during this session. Only text enclosed in quotation marks

report a speaker's exact words. For complete contents of the proceedings, please refer to the tapes.

HOUSE COMMITTEE ON LABOR

May 22, 1991Hearing Room D 8:30 a.m.Tapes 143 - 144

MEMBERS PRESENT:Rep. Gene Derfler, Chair Rep. Kevin Mannix, Vice-Chair Rep. Sam Dominy Rep. Jim Edmunson Rep. Bob Repine Rep. John Watt

MEMBER EXCUSED: Rep. Rod Johnson

VISITING MEMBER:Rep. Eldon Johnson

STAFF PRESENT: Victoria Dozler, Committee Administrator Johanna Klarin, Committee Assistant

INFORMATIONAL MEETING - SAIF OVERVIEW

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TAPE 143, SIDE A

006 CHAIR DERFLER: Opens the hearing at 8:30 a.m.

WORK SESSION, LC 4103

DOZLER: Describes the LC draft.

028 MOTION: REP. EDMUNSON: Moves to introduce LC 4103 as a committee bill.

-The committee has no objections to the above motion.

SAIF - OVERVIEW - AUDIT (Exhibits A - F)

HERBERT ASCHKENASY, Chairman, Saif Corporation: Introduces Cecil Tibbetts, Member of the Saif Board of Directors and Stan Long, President, SAIF.

048 STAN LONG, President, SAIF: Feels that a business issue has become a political issue.

-Provides historical background as to the issue of the accounting error.  
>The audit is for a fiscal period ending June 30, 1990. >The audit

documents a \$40 million improvement in SAIF Corporation's operating results. Describes the improvements.

085 REP. WATT: How many sets of books are you working with?

LONG: Two, a fiscal-year set and a statutory accounting system.

-The error that we are talking about is a comment in the audit comment section about our filings with the Department of Insurance and Finance.

REP. WATT: In which account this error occur?

LONG: Statutory accounting system.

-Comments from the audit comments section.

-Discusses SAIF's formal audited financial statements. They are unqualified.

127 REP. EDMUNSON: Refers to page 4 in the SAIF audit report. The auditor said that because the correction for the error was made in 1990, the 1990 statutory financial statements will overstate premium in that income that amount similar to the 1989 understatement. Is that a correct statement?

LONG: Slightly disagrees with the statement. Our formal audit statements have not been presented with reservation.

147 -Discusses the audit comment, which is a comment of the audit and not part of the audit.

-Provides a historical background with regard this issue Exhibit A. Discusses the page outlining the events during 1988.

-In July 1988, State of Oregon policy changes to a cash flow retro plan - error occurs in applying methodology for calculating future premium income. We did not recognize the change in policy.

199 REP. EDMUNSON: Is the state of Oregon the largest policy you have?

LONG: Yes.

-I was not there at the time so I cannot tell what was done or not done.

215 REP. DERFLER: Was there an audit done since the error was made in 1988?

LONG: Yes but the error was not picked up. This kind of error is very subtle.

-There should have been a change in the way that SAIF did its books.

-In December 1988 SAIF adopts a corporate plan for 1989 calling for major reorganization and advocacy for reform.

272 -He discusses the SAIF reported losses of \$49.9 million in February 1989.

REP. EDMUNSON: Are those actual losses?

LONG: Yes those are real numbers.

-All this discussion with regard to the error is not a cash item. This is an estimate of something we are going to do in the future. This does not contribute to our net worth.

298 REP. EDMUNSON: Does reinsurance policies count as assets?

LONG: I cannot answer that the way you are asking it. Loss recoveries would be accounted as an asset.

317 -Discusses the March and May entries in exhibit A.

-Discusses the SAIF reported losses in September 1989.

351 -Discusses minimum premiums in November 1989.

385 -Discusses Governor Goldsmith's suggestion that the Mahonia Hall group could consider worker's compensation reform without considering SAIF corporation.

CHAIR DERFLER: Did the Governor ever asked you to get involved in reducing the number of people you were carrying?

418 LONG: No he did not. His instructions were pretty simple, he wanted us not to go broke and wanted us to be able to keep the promises we had already made--to pay the claims and liabilities of the company. We could have solved our problems with a 25% rate increase, but that option was ruled out. The rates were high enough.

TAPE 144, SIDE A

010 REP. EDMUNSON: Did the Governor also at that time ask the Board of SAIF to complete an early review of the 1989 year to determine if the improvements noted were actually going to continue?

015 LONG: Reads a letter from Governor Goldsmith.

REP. EDMUNSON: What was the extent of that review. Did it get into the State of Oregon's policy?

LONG: No, because we prize the State's policy separately. It is accounted for separately as if it were a company onto itself. It is reported on a consolidated report.

026 REP. EDMUNSON: Did this early review of the 1989 year result in the discovery of the error?

LONG: No.

REP. EDMUNSON: When was this review conducted?

LONG: The Governor's letter to us is dated February 6th. Discusses his responses and letter to the Governor, John Kitzhaber and Vera Katz, Exhibit B.

REP. EDMUNSON: At that point the improvement was due to the new claims and fraud programs?

LONG: I believe that was the case. We were simply improving

financially.

056 -Discusses his conversations with the Mahonia Hall group concerning the overall fairness of the workers compensation system.

074 -Discusses Exhibit A; March 1990 SAIF actuaries suspect an error exists in earned premium. After an initial review, actuaries conclude there is no error.

-April 1990 SAIF advises Insurance Commissioner of the possible error.

-Discusses the difficulties involved in trying to identify an error; whether it is big or small, how much is cancellations, how much is reporting error, how much is cyclical drop in the economy, etc.

105 REP. EDMUNSON: Were the earned premiums lower than you expected?

YOUNG: Yes, they were lower than they might have been historically. I don't recall how much.

REP. EDMUNSON: The audit suggests an error in the range of \$25 to \$30 million.

LONG: That is an inaccurate conclusion. What the number is in 1990, is a new forecast based on 1990 information as to what the State is going to do. It is not a judgment made by us or anybody else of what it should have been the prior year. This is a future estimate. No one has gone back determining what the figure should have been.

128 REP. WATT: In November 1990, you estimated that error to be \$30 million?

YOUNG: I estimated the correction or adjustment to be a \$30 million item.

130 -We work with large numbers, some of which are real numbers and some are estimates.

-In June 1990 SAIF discusses the potential error with consulting actuary, Milliman & Robertson and identifies it to be in the estimated premium of the state policy. The magnitude of the error is still not clear.

-Consequences for us were estimated at different points in time to be \$0, \$15 million, \$30 million, etc. A lot of people had a lot of different opinions as to the consequences of this series of events.

162 -Rep. Dominy and Mr. Long discuss the Board's involvement in the estimates of this potential error.

205 REP. DOMINY: You knew in November 1989 that there was something wrong?

LONG: No we did not. I first acknowledged that there was a problem of some sort that needed looking into in April 1990.

REP. WATT: Between April and July, when it was finally discovered, you understood and knew that there was a problem.

LONG: I knew that people were investigating a problem that probably involved the state's retro rating plan.

224 REP. WATT: Discusses Mr. Long's letter to Theodore Kulongoski, Exhibit C.

-That letter of November 1990 states everything that we knew in November, not everything we knew in April.

232 REP. MANNIX: Discusses his position as to the workers' compensation reform.

-Why there was no public information provided of those financial difficulties?

LONG: I don't agree with that. We held a press conference.

275 REP. MANNIX: Discusses the dropping of small businesses in February 1990.

LONG: We were under selling the premiums knowingly. I felt it was my duty to either get an adequate rate or not write the coverage.

REP. MANNIX: Discusses the February 15, 1990 letter to Speaker of the House, Vera Katz and President of the Senate, John Kitzhaber, Exhibit D.

-By April 1990 you said that you knew that the financial picture had improved based on the discovery of this error.

320 LONG: No I never said that.

-Rep. Mannix and Mr. Long discuss this issue further.

REP. MANNIX: Discusses the May 5, 1990 letter from the SAIF Board of Directors to the Legislative Leadership as well as the May 5, 1990 letter to the legislative leadership from Mr. Long. (Exhibits E and F).  
In terms of these letters, wouldn't it have been appropriate to say that there is a glimmer of hope there.

LONG: No, a one-time change to make up for an error that goes back to June 1988 does not represent a change in our operating procedures. Our actuary indicated to the Board that the rest of our business, other than the State's one account, was still doing badly. It had improved, but it was doing badly irrespective of this error. Under no circumstances is our arrangement with the State of Oregon to subsidize other business.

382 -Discusses SB 1198 of the special session.

TAPE 143, SIDE B

006 REP. MANNIX: The message was "gloom and doom overall and we need a workers' compensation overhaul because of SAIF's distressed financial situation." Yet in April 1990, suddenly it was not such an overall gloom.

LONG: That is not a fair assessment of the situation. SAIF corporation improved itself by a systemic reform in order to be able to continue its operations.

028 REP. DOMINY: If the error had not occurred, you would not have had

the momentum or the ability to cancel those small employers. If you had been in a profit mode at that time, would you have had the momentum or the ability to cancel those employers?

LONG: Yes, we would have canceled anyway because we believed that they were under prized. Today I have a different legal statute under which I can operate.

062 REP. EDMUNSON: Is it true that on April 12, 1990 you reported to the legislature a net income loss of \$10,374,000?

LONG: It sounds right. Explains further.

067 REP. EDMUNSON: In April of 1990 you were aware of an error of some proportion between \$0 - \$44 million and you were actively investigating that error at that time. Is that true?

LONG: I knew that our people were working on the resolution of why there was a drop in earned premium. On possible explanation of part of that drop could be an error in retros, and more likely, in state's account because it is the biggest.

REP. EDMUNSON: Refers to item in the financial report to the Governor and the legislative leadership.

-Why did you not report of a possible error that would influence your financial status?

082 HERB ASCHKENASY, Chair, SAIF Board: Elaborates on the concept of profits. This kind of retrospective analysis gives these things more weight than they deserve.

110 REP. MANNIX: Discusses the April 1990 financial statement. Don't you think that we ought to have had a signal that there might be a problem?

133 LONG: Responses to Rep. Mannix's inquiry by reading SAIF's actuary's affidavit.

-We accurately reported what we knew at the time.

155 -Rep. Dominy and Mr. Long discuss why this possible error was not reported.

LONG: I am going to defend my employees because they were doing what they thought was appropriate and correct at the time.

REP. MANNIX: I have a problem that there was not signal about this.

LONG: I did not expect this to become a political issue. I handled this as a business issue.

-I believe we handled the matter correctly prospectively.

213 CECIL TIBBETTS, Member, SAIF Board of Directors: To suggest that anybody in early April knew that there was an adjustment needed is not an inaccurate assessment. In May the board was informed that there was a dip in the premium and that it was investigated.

-If this error would have been discovered in May 1989 the adjustment

would have been much smaller.

264 -Rep. Mannix and Mr. Long discuss the dollar amounts reported.

-Mr. Long describes the accounting system of the state account.

318 REP. EDMUNSON: Addresses Mr. Tibbett's testimony. I assume that what was alarming was the problem in estimating the state's earned premium?

TIBBETTS: No, we were aware that there was an alarming dip. I thought that it was significant in a sense that it was a problem. At that point SAIF was not involved in public debate, we were just trying to do business.

REP. EDMUNSON: Why did you not notify the interim committee of this alarming fact when you testifies for SB 1197?

TIBBETTS: When I participated in the Mahonia Hall group, our debates did not address SAIF's financial situation.

-Rep. Edmunson and Mr. Tibbetts discuss this issue further.

370 REP. MANNIX: SAIF was quick to announce premium reductions after the special session. The message was that it was in anticipation of savings that SAIF would get as a result of the reforms to the system. I don't recall any information saying that this is also because SAIF found that they did not do as badly in the past as was thought.

LONG: We would not be announcing rate decreases based on what the State's account was doing under any circumstances.

-Under no circumstances would we take money from the state of Oregon and subsidize the private insurance policies.

-We went through formal, public rate hearings.

TAPE 144, SIDE B

001 LONG: Discusses the changes in the premium rates. Provides an example of the compensability of the carpal tunnel syndrome.

018 -Rep. Repine and Mr. Long discuss the rate reductions and dividends declared in September 199 0.

REP. REPINE: Were those dividends also derived from prospective savings due to the changes in the legislation?

LONG: We prized out the one-time savings that came from SB 1197. We also relied on our improved performance.

060 CHAIR DERFLER: When did you notify the Department of Insurance and Finance?

LONG: I talked to the Commissioner when we had the dip in the earned premium.

-Provides an example of a reversal situation with regard to reporting practices.

-We have only one year of experience under this formula.

CHAIR DERFLER: We will continue this hearing next week.

116 -Adjourns the meeting at 10:00 a.m.

Submitted by:      Reviewed by:

Johanna Klarin    Victoria Dozler Assistant                      Administrator

EXHIBIT LOG:

A            -            SAIF Overview - Stan Long - 4 pages. B -            April 12, 1990  
letter from Mr. Long - 1 page. C-            November 8, 1990 letter from  
Mr. Long - 1 page. D            -            February 15, 1990 letter from Mr. Long - 2  
pages. E-            May 5, 1990 letter from SAIF Board of Directors - 2  
pages. F-            May 5, 1990 letter from Mr. Long - 1 page.