

HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: HB 4087 Repeal of a Workers' Compensation Independent Actuarial Peer Review Requirement

SPONSOR(S): Albritton

TIED BILLS: **IDEN./SIM. BILLS:**

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR or BUDGET/POLICY CHIEF
1) Insurance & Banking Subcommittee	14 Y, 0 N	Reilly	Cooper
2) Economic Affairs Committee	16 Y, 0 N	Reilly	Tinker

SUMMARY ANALYSIS

Section 627.725, F.S., requires the Financial Services Commission (FSC) to contract, at least once every other year, for an independent actuarial review and analysis of the ratemaking processes of any licensed rating organization that makes workers' compensation rate filings in Florida. The contract must provide for submission of a final report to the FSC, the President of the Senate and the Speaker of the House of Representatives. The costs of the independent actuarial review are paid from the Workers' Compensation Administrative Trust Fund. In Florida, the National Council on Compensation Insurance (NCCI) is responsible for making workers' compensation rate filings on behalf of Florida insurers. At a public hearing on the rate filing by the Office of Insurance Regulation (OIR), NCCI presents its analysis, responds to questions by OIR actuaries and other officials about the methodologies used, and stakeholders offer testimony in support of and in opposition to the filing. OIR then undertakes an extensive actuarial review of the filing, taking into consideration the issues discussed at the hearing. Ultimately, the filing is approved or denied by the OIR. Recently, the OIR approved a request for an 8.9% increase in overall workers' compensation rates effective January 1, 2012.

House Bill 4087 repeals s. 627.725, F.S. Since enactment of this section in 2003, four reports have been published. The next report is due on February 1, 2012. These reports generally have identified issues and solutions that had previously been identified and discussed by the Office of Insurance Regulation (OIR) in its actuarial review of NCCI rate filings.

The bill will eliminate the direct cost of the report, and associated administrative costs.

The bill provides an effective date of July 1, 2012.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. EFFECT OF PROPOSED CHANGES:

Background

Unlike other lines of insurance, workers' compensation insurers in Florida do not make rate filings. Instead, a licensed rating organization, currently the National Council on Compensation Insurance (NCCI), collects data from workers' compensation insurers. Based on actuarial analysis, NCCI then submits recommendations (for rate changes or to maintain rates) to the Office of Insurance Regulation (OIR). At a rate hearing, NCCI presents its analysis, responds to questions by OIR officials (including the Insurance Commissioner and staff actuaries) about the methodologies used, and stakeholders offer testimony in support of and in opposition to the filing. OIR then undertakes an extensive review of the filing, taking into consideration the issues discussed at the hearing. In connection with the review, the OIR can ask NCCI to submit additional information or to amend its filing. Ultimately, the OIR can approve or deny the filing. Recently, the OIR approved a request for an 8.9% increase in overall workers' compensation rates effective January 1, 2012.

Section 627.725, F.S., was enacted in 2003 as part of workers' compensation reform legislation (ch. 2003-412, L.O.F.). At that time, Florida's workers' compensation insurance rates consistently ranked as the most expensive or second most expensive in the country. The section requires the Financial Services Commission (FSC) to contract, at least once every other year, for an independent actuarial review and analysis of the ratemaking processes of any licensed rating organization that makes workers' compensation rate filings in Florida. The contract must provide for submission of a final report to the FSC, the President of the Senate and the Speaker of the House of Representatives. The costs of the independent actuarial review are paid from the Workers' Compensation Administrative Trust Fund.

Four actuarial peer review reports have been published to date. In large part, they have identified issues and solutions that had previously been identified and discussed by the OIR in reviewing NCCI's rate filings.

Effect of the Bill

House Bill 4087 repeals s. 627.725, F.S. and is effective July 1, 2012.

B. SECTION DIRECTORY:

Section 1. Repeals s. 627.285, F.S., providing for an independent actuarial peer review of workers' compensation rating organizations.

Section 2. Provides an effective date of July 1, 2012.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

None.

2. Expenditures:

The cost of the independent actuarial report required by s. 627.725, F.S., which is repealed by this bill, was \$104,535 in 2004, \$76,000 in 2006, \$65,000 in 2008, and \$35,000 in 2010. Associated

administrative costs (e.g., time spent by OIR staff preparing requests for proposal and executing contracts) would also be eliminated.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

None.

D. FISCAL COMMENTS:

See above ("Fiscal Impact on State Government: Expenditures")

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

Not applicable. This bill does not appear to: require counties or municipalities to spend funds or take an action requiring the expenditure of funds; reduce the authority that counties or municipalities have to raise revenues in the aggregate; or, reduce the percentage of a state tax shared with counties or municipalities.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

None.

C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

IV. AMENDMENTS/ COMMITTEE SUBSTITUTE CHANGES

None.