

## **APPENDIX VIII**

December 10, 2008

## **SB 679 Study**

### **Statement of IWIF**

Senate Bill 679 requires the MIA to study IWIF ratemaking procedures and to: (1) determine whether IWIF's ratemaking practices produce actuarially sound rates; (2) analyze the cost implications to IWIF if NCCI affiliation were required; and (3) to compare IWIF's experience rating plan to the NCCI rating plan for small employers. In addition, the Bill directs the MIA to identify other provisions of law relating to consumer protection and financial soundness that apply to the industry generally but not to IWIF. We address each of these matters below.

#### IWIF's Rates are Actuarially Sound.

IWIF rates are clearly actuarially sound. IWIF rates are determined by a highly qualified outside actuary (Deloitte Consulting, LLP) who determines the rates based on sound actuarial principles and detailed loss cost data. The rates are then reviewed by IWIF's Chief Actuary, who also is a highly qualified (Fellow of the Casualty Actuarial Society and a member of the American Academy of Actuaries) and approved by the IWIF Board. (See IWIF Exhibit 1). The report of Merlinos and Associates Inc. confirms the basic soundness of our rates. Whether or not Merlinos, or another actuary, would select different expense factors and the like is wholly immaterial. The Legislature's only question was whether IWIF rates are sound from an actuarial standpoint. The answer is plainly yes.

#### NCCI Affiliation is Unnecessary and Unwise

IWIF affiliation with NCCI would require IWIF to file its data with NCCI, file its rates from NCCI loss costs and follow all of the NCCI rules and procedures. This would be a dramatic departure from existing law and policy, would retard competition and would be quite detrimental to small business in Maryland, municipal governments and counties. It would also create an unnecessary expense to IWIF, a cost that would ultimately be passed on to our policyholders. Moreover there is no significant benefit flowing from a requirement that IWIF be affiliated with NCCI. The Maryland system is remarkably stable and IWIF rates have been excellent. A significant change in the system is therefore unnecessary and unwise.

**The IWIF Exemption Enhances Competition.** Workers' compensation insurers in Maryland are generally required by statute to be affiliated with NCCI. Insurers report their claims data to NCCI and, from the aggregate of these reports, NCCI determines loss costs. Insurers are required to adhere to NCCI's classification system, experience rating plan and rating rules. NCCI makes an annual pure premium filing with the Maryland

Insurance Administration and this filing forms the base line for ratemaking by member companies.

Currently, IWIF is exempt from NCCI affiliation and from filing its data with NCCI. This is a long-standing statutory exemption and IWIF has never filed with NCCI. Instead, IWIF has, over the decades, developed its own loss costs data system, based on IWIF loss experience. Rates are formulated based on this data, in consultation with IWIF's outside actuary (Deloitte Consulting LLP) and approved by IWIF's Board. Because IWIF uses its own loss and in some cases IWIF specific Class Codes, IWIF rates offer an alternative to NCCI rates and fosters competition. This would be lost if IWIF is required to join NCCI. This point has been made in a number of letters and testimony from independent producers who place business with both IWIF and our competitors.

**NCCI Affiliation Would Be Detrimental To Small Business.** If IWIF were required to be part of the NCCI system, IWIF would have to abandon experience rating for very small employers. This would be very detrimental to small business in Maryland. Based on 2008 numbers, if IWIF is required to adhere to the NCCI experience rating plan, 3,863 policies covering very small business (three year premium between \$800 and \$3000) would lose the 5% discount now provided. In addition 9,231 small business policies between the IWIF threshold and the NCCI threshold would lose their experience rating and have their rates increased (684 would have rates decreased). The end result would be that 13,000 small businesses would see a rate increase and would lose the safety related incentive.

**NCCI affiliation would be costly to IWIF.** If IWIF were required to be part of the NCCI system, the cost would be substantial including fees to NCCI, major system changes, daily reporting of data and responding to special data calls. IWIF estimates this annual cost to be in excess of \$1 million. This is based on the cost cited by NCCI (almost \$700,000 per year upon Full Affiliation) plus our internal costs in terms of personnel, and programming. The cost could be much higher. Whatever the costs, the costs will be passed on to Policyholders.

**NCCI affiliation would not "level the playing field"** Periodically, IWIF's competitors complain that IWIF has unfair competitive advantages and that the "playing field should be leveled." Not being affiliated with NCCI is one of those asserted unfair advantages.

To be sure, IWIF does have some competitive advantages but these are totally outweighed by our competitive disadvantages. A true level playing field would entail, at a minimum:

- Allowing IWIF to reject business based on underwriting criteria such as poor credit, level of hazard or safety history. IWIF is obviously the only company that is required to take all comers. A level playing field would entail prohibiting the rest of the market from rejecting any policyholder.

- Allowing IWIF to write other lines of insurance which would allow IWIF to spread the risk and allow IWIF to package workers' compensation with other types of commercial insurance. Being a mono-line carrier is a significant competitive disadvantage.
- Allowing IWIF to write workers compensation insurance in other states so that IWIF could compete on a level playing field in the Washington area where many employers have multi-jurisdiction operations.
- Removing IWIF from various laws that apply to IWIF as a quasi-public entity including the State Public Information Act; the State Tort Claims Act and the State Ethics Law but do not apply to IWIF competitors.

These are all significant competitive disadvantages that IWIF operates under and plainly off-set any advantages we may have based on our unique status. The only way to truly level the playing field would be to convert IWIF into a mutual insurance company, a result no one would welcome. The current balance is appropriate and has worked. In fact, with all the supposed competitive advantages, IWIF's written premium has over the last decade, gone from \$107 million to \$326 million and back down to \$189 million. (IWIF Exhibit 2) At the same time IWIF's market share has fluctuated between 18.9% and 33.9%. (IWIF Exhibit 3). Surely significant competition exists in the Maryland marketplace.

#### Applicable Laws

SB 679 also directs the MIA to "identify other provisions of law relating to consumer protections and financial soundness that are enforced by the Administration and are applicable to other property and casualty insurers, but are not applicable to the Fund." As set forth below, it is IWIF's position that IWIF is, to the same extent as all property and casualty insurers, subject to: (a) the provisions of the Workers' Compensation law (Title 9 of the Labor and Employment Article) including all the provisions regarding claims and benefits; (b) the statutes regarding the Uninsured Employers' Fund (Title 10, Subtitle 2, of the Labor and Employment Article) and the Subsequent Injury Fund (Title 10, Subtitle 3, of the Labor and Employment Article). These are the main sources of law that protect injured workers and ensure that claims are properly handled. We regard these laws as the principle consumer protection laws in the workers' compensation system.

In addition, IWIF is subject to those portions of the Insurance Article that either (a) specifically reference IWIF or (b) were incorporated into IWIF's organic law by Senate Bill 881, (Chapter 567, 2000 Laws of Maryland) and Senate Bill 679, (Chapter 612, 2008 Laws of Maryland). General laws that apply to "insurers" do not apply to IWIF.

By way of background, IWIF was created as the State Accident Fund in 1914 and was part of the State Industrial Accident Commission. Originally, IWIF was a traditional state agency and general insurance laws did not apply. See *Nationwide Mut. Ins. Co. v. U.S. Fidelity & Guar. Co.* 314 Md. 131, 142, 550 A.2d 69, 74 (1988). ("that a statute regulating persons and corporations does not include the government itself unless that

intention is clear, has been consistently adhered to in this State for a long time.”). This began to change in 1988 when IWIF became largely independent of State government under Chapter 585, Laws of Maryland (1987).

In 1999, the Governor’s Task Force to Study IWIF made several recommendations to the Legislature concerning IWIF, including subjecting IWIF to partial regulation by the Maryland Insurance Administration. This recommendation did result in legislation that applied very specific portions of the Insurance Article to IWIF, effective on October 1, 2000. See Senate Bill 881, (Chapter 567, 2000 Laws of Maryland). This legislation specifically applied to IWIF the following provision of the Insurance Article: §2-205, §2-207 §2-208 and §2-209 (Financial Examinations); Title 4, Subtitle 3, (Risk Based Capital); Title 5, Subtitles 1, 2, and 9 (Assets and Liabilities); Title 9 (Impaired Entities); Title 12, Subtitle 1 (Policy Forms and Provisions); Title 19, Subtitle 4, except for §19-403 (Setting Premium Rates); and Title 27, (Unfair Trade Practices).

In 2008, Labor and Employment Article, §10-125 was again amended, this time through Senate Bill 679, Chapter 612, Laws of Maryland (2008). Under Senate Bill 679, IWIF became subject to all of Title 2, Subtitle 2 of the Insurance Article, including market conduct examinations and the general enforcement powers of the Commissioner.

Senate Bill 881 and Senate Bill 679 subjected IWIF to extensive regulation but did so in a very selective fashion and did not render IWIF an authorized insurer. Therefore, IWIF is subject to those portions of the Insurance Article which are referenced in Labor and Employment Article, § 10-125 but is not generally subject to the Insurance Article.

The current status of the law is that IWIF is subject to most of the Insurance Article and virtually all of the Insurance Article that relates to financial solvency and consumer protection. This is summarized in the attached chart. (IWIF Exhibit 4). With the arguable exception of Title 10 (Regulation of Insurance Professionals) and the ratemaking provisions none of the laws to which IWIF is exempt relate to consumer protection or financial solvency.

#### The Current System is Stable and is not in need of an Overhaul

Overall, workers’ compensation rates have been excellent. A recent study ranked Maryland as having rates that were placed at 44<sup>th</sup> lowest out of 51 states and the District of Columbia (IWIF Exhibit 5). This was an improvement from 40<sup>th</sup> just two years ago. Both IWIF rates and NCCI rates have gone down over the past several years as follows for a cumulative decrease of -7.1% (IWIF) and -9.5% (NCCI). (IWIF Exhibit 6).

Given the stability of IWIF’s and the benefits IWIF’s system provides to small business, there seems little reason to require a major overhaul of IWIF’s ratemaking system at this time. While IWIF could comply with a legislative directive to affiliate with NCCI, the costs and potential disruption to a stable system greatly outweigh any potential benefits.

## Conclusion

For all the above reasons, IWIF urges the Commissioner to report to the Legislature the following conclusions:

1. IWIF's rates are actuarially sound.
2. If required to be affiliated with NCCI, IWIF would incur significant costs for no discernable benefit. These costs would be passed on to policy holders.
3. Affiliation with NCCI would be detrimental to small employers in Maryland as the NCCI rules impose a much higher threshold for experience rating.
4. IWIF is already subject to the vast majority of the laws that apply to the property and casualty industry and there are no other laws relating to financial soundness or consumer protection that should be extended to IWIF at this time.

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IWIF Exhibit 1

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June 17, 2008

P. Randi Johnson  
Associate Commissioner  
Property and Casualty  
Maryland Insurance Administration  
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Dear Associate Commissioner Johnson:

In connection with the pending MIA Study under Senate Bill 679, I have attached an actuarial analysis of IWIF's rates prepared by IWIF's Chief Actuary Rial Simons. Mr. Simons is a Fellow of the Casualty Actuarial Society and is a member in good standing of the American Academy of Actuaries. Mr. Simons concludes that the methodologies used in regard to loss trends and development, as well as individual class rates, are in accordance with the generally accepted practices of actuaries. Further, Mr. Simons concludes that "it is my considered opinion that the rates produced by this process . . . are actuarially sound, ensuring IWIF's financial strength, and producing rates that are adequate, not excessive and not unfairly discriminatory."

I have also enclosed a copy of "Injured Workers' Insurance Fund, Rate Level and Classification Analysis, Effective 1/1/08." This is the full analysis for IWIF's 2008 base rate level and classification rates by tier prepared by our outside actuary Deloitte Consulting LLP. This study was based on "IWIF's historical data and actuarial principles promulgated by the Casualty Actuarial Society and American Academy of Actuaries." (*Id.* p.1).

By way of background, I would note that IWIF has historically been exempt from the general requirement that insurers be a member of the rating organization and file its rates with the MIA. As a result, IWIF has established its own rating system and annually presents its rates to its Board of Directors for approval. This system is based on IWIF loss experience and produces rates that are actuarially sound and meet the general standards for fairness in ratemaking.

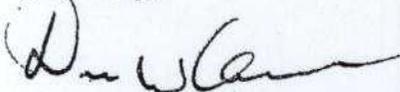
I would also note that IWIF has purchased (as a non-affiliate) the NCCI's Classification System and uses the same NCCI class codes that other insurers use. However, in very limited respects, IWIF does deviate from the NCCI classification system. This occurs mainly in connection with municipal and governmental accounts that use IWIF's blended classification for "municipal employees" rather than specifying each classification.

Finally, I would note that IWIF does not adhere to NCCI rating or experience rules. For example, IWIF uses experience modifications for policies below the NCCI threshold.

We believe it is clear that, despite the variations from NCCI, IWIF's rates are based on well accepted actuarially principles and are actuarially sound. We hope these materials are adequate to establish that fact and will assist you in your report to the General Assembly.

If you require further information, please contact me.

Sincerely,

A handwritten signature in dark ink, appearing to read "Dennis W. Carroll". The signature is written in a cursive style with a large initial "D".

Dennis W. Carroll  
General Counsel

DWC:dew

Enclosures

## **The Actuarial Soundness of IWIF's Ratemaking Process and Methodology**

### **Summary and Overview of IWIF's Current Ratemaking Process**

By statute, IWIF's Board of Directors is required to annually adopt a schedule of rates that most accurately measures the level of hazard for each policyholder, provides incentives to prevent injuries to employees and ensures the solvency of the Fund from year to year (per Title 10 Section 131 MD Labor and Employment Article).

To assist in the process of analyzing rate levels, IWIF has retained and appointed an actuary, Jan Lommele, who is a Fellow of the Casualty Actuarial Society and a Member of the American Academy of Actuaries (the highest set of professional designations that an accredited actuary can attain), who is a principal at an internationally respected independent actuarial consulting firm (Deloitte Consulting LLP) to annually review its workers compensation base rate levels for overall rate level adequacy and to develop an overall indicated base rate level change. In addition, Deloitte Consulting (under Mr. Lommele's direction) develops classification rates by tier and performs a classification analysis at the IWIF selected base rate change level.

The base rate indications and classification rates produced by Deloitte are based on IWIF's historical data. In his rate level analysis report for 2008 rates, Mr. Lommele states (Executive Summary – Purpose and Scope) that the indications and rates are developed using actuarial principles as promulgated by the Casualty Actuarial Society and the American Academy of Actuaries.

Mr. Lommele and Deloitte Consulting have performed actuarial rate reviews for IWIF since 1990.

After Deloitte has produced the rate making report, and submitted it to IWIF, it is reviewed by IWIF's in-house actuary (also a Fellow of the Casualty Actuarial Society and a Member of the American Academy of Actuaries) and passed on to members of IWIF's Pricing Committee, consisting of executives and senior staff principally from IWIF's finance, underwriting, marketing, and claims departments. Generally, the rate level indications are given in the form of a range (usually a midpoint estimate with a range equal to +/-5%), all based on variations in actuarial pricing factors (for example frequency trends, severity inflation trends, expense trends, impacts of legislation, and judicial decisions on loss costs, etc.). After examining the overall rate level indications and the individual indicated classification relativity changes, the Pricing Committee makes a recommendation, which is then carried forward to the Board of Directors for action at their annual budget meeting.

Similarly, IWIF's Experience Rating Plan (which is independent of NCCI's and was designed by actuaries at Deloitte Consulting) is reviewed by its in-house actuary for actuarial balance (keeping the plan's debits and credits relatively aligned with one

another). Recommendations are then also carried forward by the Pricing Committee to the Board for their consideration.

### **Actuarial Soundness and Insurance Rate Regulation Goals**

It has long been recognized that the three major goals of insurance rate regulation are that rates are not to be inadequate, not excessive, and not unfairly discriminatory. Actuarially sound rates are intended to meet these criteria. This subject is also specifically addressed and reviewed in Title 11, Section 306 (**11-306 Rate making principles generally**) of the Maryland Annotated Code.

#### **Rates Not Inadequate**

Inadequate rates, over the long term, dramatically increase the probability that an insurer will become insolvent and not be able to fulfill its obligation to pay its policyholders' claims. According to a study by AM Best (a financial rating agency that specializes in insurance), in recent years over 60% of property/casualty insurance company financial impairments have been caused by inadequate pricing and loss reserves.

Rates for a specific coverage should be sufficient to pay for all the claims and expenses of an insurer as well as providing for an opportunity for a fair rate of return in relation to the risk assumed. An insurer not only faces the usual business risks that other enterprises face, but it also faces risks that other industries do not. Generally, insurers do not know (and may not know until many years later) what their eventual actual paid claims and related expenses will be when policies are sold. Unexpected increases in inflation and or frequency of claims, as well as catastrophes, and unanticipated financially adverse judicial decisions and legislative initiatives can each easily eliminate the profitability of the insurer's product.

#### **Rates Not Excessive**

It goes without saying, that insurers should not earn an excessive or unreasonable profit. Regulators have used a number of factors in determining whether rates are excessive. The following list is taken from a textbook used by the American Institute for Chartered Property Casualty Underwriters to train executives in the employed in the insurance arena (Insurance Operations, Regulation, and Statutory Accounting 2<sup>nd</sup> Ed., p 2.31); "These factors include (1) the number of insurers selling a specific coverage in the rating territory, (2) the relative market share of competing insurers, (3) the degree of rate variation among the competing insurers, (4) past and prospective experience for a given type of insurance, (5) possibility of catastrophe losses, (6) margin for underwriting profit and contingencies, (7) marketing expenses for a given type of insurance, and (8) special judgment factors that might apply to a given type of insurance.

Regulators sometimes use a fair rate of return approach in determining whether rates are adequate or excessive."

## **Not Unfairly Discriminatory**

Again from the textbook, (Insurance Operations, Regulation, and Statutory Accounting 2<sup>nd</sup> Ed., p2.31-2.32) "The third goal of insurance rate regulation is that rates not be unfairly discriminatory. The word "discrimination", as usually used, carries negative connotations, but the word itself is neutral, implying only the ability to differentiate among things. Discrimination, in the neutral sense, is essential to insurance rating. However, insurers' discrimination must be fair and consistent. This means *that loss exposures that are roughly similar regarding expected losses and expenses should be charged substantially similar rates*" (emphasis in the original).

"Only unfair discrimination is prohibited, not *fair* (emphasis in the original) discrimination. If loss exposures are substantially different in terms of expected losses and expenses, then different rates can be charged."

This issue is highly related to the issue of actuarial rate equity, i.e. policyholders of like expected loss and expense exposure should have like rates. For example, the risk of workers compensation injury for an entity in the roofing business differs substantially, from one, for example, whose operations relate to computer software development. So it should be of no surprise that the rates for these two businesses are substantially different. On the other hand, two roofers with similar risks, operations, loss experience, and success of loss control efforts, should have fairly similar rates.

## **Actuarial Standards Relating to Actuarial Sound Rates & Ratemaking**

The primary source for the definition, and criteria for the concept of what constitutes actuarially sound rates and ratemaking are contained in the Statement of Principles Regarding Property and Casualty Ratemaking as promulgated by the Casualty Actuarial Society and is regarded as authoritative by all of its members.. The Statement itself states:

"The principles contained in this Statement provide the foundation for the development of procedures and standards of practice. It is important that proper actuarial procedures be employed to derive rates that protect the insurance system's financial soundness and promote equity and availability for insurance consumers."

To begin with, the Statement offers a definition of Ratemaking, and then proceeds to list the Principles and Considerations that define the concept of actuarially sound rates.

### **Definition of Ratemaking**

"Ratemaking is the process of establishing rates used in insurance or other risk transfer mechanisms. This process involves a number of considerations including marketing goals, competition and legal restrictions to the extent they affect the estimation of future costs associated with the transfer of risk. This statement is limited to principles applicable to the estimation of these costs. Such costs include claims, claim settlement expenses, operational and administrative expenses, and the cost of capital."

The statement then goes on to list and briefly describe these costs; incurred losses, allocated loss adjustment expenses, unallocated loss adjustment expenses, commission and brokerage, other acquisition costs, taxes, licenses and fees, policyholder dividends, general administrative expenses, and underwriting profit and contingency provisions (considered with investment and other income to provide an appropriate rate of return).

### **Principles of Ratemaking**

“Ratemaking is prospective because the property and casualty insurance rate must be developed prior to the transfer of risk.

Principle 1: A rate is an estimate of the expected value of future costs.

Ratemaking should provide for all costs so that the system is financially sound.

Principle 2: A rate provides for all costs associated with the transfer of risk.

Ratemaking should provide for the costs of an individual risk transfer so that equity among insureds is maintained. When the experience of an individual risk does not provide a credible basis for estimating these costs, it is appropriate to consider the aggregate experience of similar risks. A rate established from such experience is an estimate of the costs of the risk transfer for each individual in the class.

Principle 3: A rate provides for the costs associated with an individual risk transfer.

Ratemaking produces cost estimates that are actuarially sound if the estimation is based on Principles 1, 2, and 3. Such rates comply with four criteria commonly used by actuaries: reasonable, not excessive, not inadequate, and not unfairly discriminatory.

**Principle 4: A rate is reasonable, and not excessive, inadequate, or unfairly discriminatory if it is an actuarially sound estimate of the expected value of all future costs associated with an individual risk transfer.”**

### **Considerations**

“A number of ratemaking methodologies have been established by precedents or common usage within the actuarial profession. Since it is desirable to encourage experimentation and innovation in ratemaking, the actuary need not be completely bound by these precedents. Regardless of the ratemaking methodology utilized, the material assumptions should be documented and available for disclosure. While no ratemaking methodology is appropriate in all cases, a number of considerations commonly apply.”

The statement then lists and briefly discusses each of the following considerations: exposure unit, data, organization of data, homogeneity, credibility, loss development,

Trends, catastrophes, policy provisions, mix of business, reinsurance, operational changes, other influences, classification plans, individual risk rating, risk, investment and other income, and actuarial judgment.

### **Actuarial Standards of Practice (ASOPs)**

As part of promulgating actuarially sound rates actuaries are required to follow the Actuarial Standards of Practice (ASOPs) as put forth by the Actuarial Standards Board, which is part of the American Academy of Actuaries and adhered to by requirement by all members of the Casualty Actuarial Society.

The following table lists Actuarial Standards of Practice (ASOPs) that are relevant to property/casualty insurance ratemaking taken from the American Academy of Actuary's **Applicability Guidelines for Actuarial Standards of Practice**, developed by the Council on Professionalism of the American Academy of Actuaries. Note that the Guidelines explicitly state that "...although the guidelines are meant to encourage the professionalism of actuaries, they are not intended to be exhaustive, nor are they, in any sense, authoritative by nature. Ultimately, it remains the actuary's responsibility to identify the standard or standards that apply to each assignment, and to appropriately apply such requirements when performing that assignment."

### **Standards of Actuarial Practice Applicable to Ratemaking (Property/Casualty)**

ASOP No.	Title
9	Documentation and Disclosure in Property and Casualty Insurance Ratemaking, Loss Reserving, and Valuations
12	Risk Classification (All Practice Areas)
13	Trending Procedures in Property/Casualty Insurance Ratemaking
23	Data Quality
25	Credibility Procedures Applicable to Accident & Health, Group Term Life, and Property Casualty Coverages
29	Expense Provisions in Property Casualty Insurance Ratemaking
30	Treatment of Profit and contingency Provisions and the Cost of Capital in Property Casualty Insurance Ratemaking
38	Using Models Outside the Actuary's Area of Expertise (Property and Casualty)
39	Treatment of Catastrophe Losses in Property/Casualty Insurance Ratemaking
41	Actuarial Communications

For further details regarding the above standards the reader is referred to the website of the Actuarial Standards Board (<http://www.actuarialstandardsboard.org/>).

### **Actuarial Standards of Practice are Principles Based**

According to the ASB's *Introduction to the Standards of Practice - 3.1.6*; "The ASOPs are principles-based and do not attempt to dictate every step and decision in an actuarial assignment. Rather the ASOPs provide the actuary with an analytical framework for exercising professional judgment, identifying factors that the actuary should consider when faced with a particular type or aspect of professional service. The ASOPs intentionally leave significant room for the actuary to use professional judgment when selecting methods and assumptions, conducting an analysis, and reaching a conclusion, whether a single value or a range of values. Emphasizing process over outcome, the ASOPs recognize that actuaries can and do reasonably differ in their preferred methodologies and choices of assumptions and can reasonably reach differing opinions, even when faced with the same facts. Two actuaries could follow generally accepted practice, both using reasonable methods and assumptions, and reach appropriate results that could be substantially different."

### **Summary of the Basics of the Workers Compensation Manual Rate System**

In general an equitable premium should cover the claims a policyholder is expected to have (on average) during the up coming year as well as the insurer's expenses in writing the policy (underwriting, commissions, loss control, etc.). The insurance industry's starting point for determining a policyholder's premium for workers' compensation insurance is base rate (some times referred to as the manual or class rate) times the policyholders' payroll (in \$100 units).

### **Payroll as an Exposure Base for Premium**

Why use Payroll? Obviously, a business with a workforce twice as large as another business in the same industry should roughly have twice the base premium, since they have twice the opportunity for workers compensation claims to occur. Payroll then is used as a measure of workforce size and consequent exposure to possible loss. Worker/Hours could be used instead, but there are a number of significant advantages to the use of payroll as a measure of exposure to loss (and therefore also as an exposure base for base premium). First, wage loss payments made to injured workers are highly related to their current wages (benefits are frequently expressed as a certain number of weeks times a fixed % of a workers average weekly wage). Obviously, then indemnity payments are strongly correlated to workers payroll. Secondly, unlike worker/hours, payroll is a number already collected by the policyholder for various financial purposes, and does not have to be separately kept track of. Therefore there is far less work to be done on the part of the business owner in keeping track of payroll alone rather than both payroll and worker/hours, it is easier for the insurer to audit, and more difficult to fraudulently manipulate, helping to ensure equity amongst policy holders.

### **Rates are by Class of Business**

The workers compensation insurance industry (through the various ratemaking bureaus such as the NCCI) has traditionally produced rates by industry, since there is a fundamental difference in workers compensation insurance claims experience by type of

industry (with some exception classes such as clerical employees, and outside salesmen, occupations common to almost all businesses). As has already been mentioned there is a substantial difference between the risk of worker injury at a soft ware developer and a roofing company. IWIF uses the vast majority of classes of business that the rest of the insurance industry uses, with some exceptions. For example, IWIF uses a different set of classes for Counties and Municipalities than the rest of the industry.

### **Review of the Injured Workers' Insurance Fund Rate Level Analysis Report**

As stated above Jan Lommele, FCAS, FCA, MAAA of Deloitte Consulting annually produces a report to IWIF analyzing its overall rate level indications along with a classification analysis for rates effective January 1 of the following year. This particular study will review Deloitte's report for rates effective January 1, 2008 for use with policies with effective dates in 2008, as representative. Deloitte's report includes a descriptive narrative, which contains more specific details of both Deloitte's ratemaking methodology and assumptions than is given in this review, which contains only a brief summary and comment. For a more comprehensive understanding it is recommended that the reader refer to Deloitte's report.

### **Overview of Overall Indication**

#### **Methodology**

According to the text published by the Casualty Actuarial Society, *Foundations of Casualty Actuarial Science (4<sup>th</sup> Ed.)*, pp 87-88 There are two basic methods recognized as generally accepted actuarial methodologies used for projecting rate level indications in manual ratemaking. They are the pure premium, and loss ratio methods. Deloitte's approach (under the direction of Jan Lommele, FCAS, MAAA) uses the pure premium method to determine the overall rate indication.

The fundamental goal of any ratemaking method is that it should produce a projection of losses and expenses that can be expected to hold during the year in which rates take effect. The pure premium method first develops a pure premium (to cover the loss cost of claims) by taking the historical claims experience per unit of exposure (in the case of workers compensation – per \$100 of payroll) and making a number of adjustments to project it to future levels during which rates are effective. The same is done to the corresponding historical payroll. The adjusted claims experience is then divided by the underlying adjusted payroll corresponding to the policies from which the claims experience arose (again in \$100 units). For example, if the total adjusted historical claims experience were \$160,000,000 (for policies effective in 2006) and the adjusted payroll of policies exposed to loss during that historical period was \$8,000,000,000, then the pure premium would be \$2.00 per \$100 of payroll ( $100 * \$160M / \$8,000M$ ). The pure premium itself, however, is only enough to cover the cost of projected claims. At this point it is necessary to develop an appropriate expense and investment income loading to produce a final average projected base rate.

This second step incorporates an expense load, which contemplates all expenses related to the insurance product, such as commissions, other acquisition expenses, taxes, licenses and fees, statutory assessments (such as guaranteed fund assessments, etc.), loss adjustment expenses and general administrative expenses.

Finally, there is the addition of an (investment income)/(contingency-profit load), and the resulting indicated average base rate is then compared (or ratioed) to the current average base rate, to produce an indicated base rate level change.

### **Calculation of the Pure Premium**

#### **Payroll Adjustments**

The two basic adjustments done to the historical experience period payrolls to bring them to current levels consist in developing payrolls to ultimate (to account for projected payroll audit adjustments), and to apply a payroll trend to adjust for wage inflation.

#### **Payroll Development**

At the inception of any policy year the payroll reported by policyholders is by necessity only an estimate, since the actual payroll expense incurred by the insured business owners will only be known after the period covered is completed. The insured's payroll is then audited and an adjustment to premium is made (either up or down). Generally, due to wage inflation, and economic growth this adjustment is an upward one rather than downward. Therefore, reported payroll exposure for a particular coverage year is expected to grow until audits for that year are completed. To arrive at an ultimate payroll exposure it is therefore necessary to reflect this historical growth pattern (as does the NCCI in its loss cost filing). Deloitte's methodology of using payroll development triangles is a commonly used and accepted method, and the resulting factors appear reasonable.

#### **Payroll Trend**

According to Deloitte's report "A payroll trend is used to adjust the payroll in the experience period for which the base rates are being calculated." The payroll trend adjusts payroll for wage inflation so that it will equal the expected level of payroll for the period in which rates will be effective. Deloitte uses the state average weekly wage as promulgated by the Maryland Workers Compensation Commission to measure wage inflation over time, and this appears to be an appropriate technique. The selected payroll trends also appear reasonable (given industry norms) given the historical data.

#### **Loss Adjustments**

There are four adjustments done to the historical period claims experience to bring it to levels expected to prevail while rates are effective. They are; projecting historical losses out to their ultimate paid level, reflecting the impact of benefit level changes (to account

for changes in the law and judicial decisions relating to statutory workers compensation benefits), what is known as "severity trend" having to do with the effects of increases in loss costs (particularly due to medical inflation and utilization) on the average size of a claim, and frequency trend, which measures the change in claim frequency over time.

### **Projections of Ultimate Loss & ALAE**

As claims occur, they are reported to IWIF, and the claims department sets up a reserve, which reflects their current belief as to how much will be paid on the claim. As long as a claim is open the incurred amount (the sum of the cumulative paid and the remaining reserve amount) is periodically reviewed. There is an industry-wide historical pattern to paid and incurred claim amounts, which shows that in aggregate they develop higher over time. There are a number of reasons for this, including late reporting of claims, re-opening of previously closed claims (for medical reasons) and the fact that larger claims, which can take many years to pay out (sometimes over several decades), are much harder to estimate in total until the claims are mature. Therefore it is not sufficient to use incurred claims data that has not been projected out to its ultimate paid amount. Since Jan Lommele also produces an annual projection of the historical ultimate losses & ALAE as part of his annual reserve study (and used as support of his annual reserve opinion as IWIF's appointed actuary), Deloitte uses these projections in the ratemaking report. The reasonableness of these loss reserve estimates has recently been attested to by an actuarial firm hired by the Maryland Insurance Administration to review the adequacy of IWIF's loss reserve levels.

### **Benefit Level Changes**

Workers Compensation claims are paid according to the statute in effect during the experience period. If there have been changes in that statute, in administrative features (such as medical and hospital fee schedules), or in judicial decisions relating to how the statute is to be interpreted, that differ from the historical claims experience period, then claims amounts from the past have to be adjusted to reflect current law. Deloitte uses the estimates published by the NCCI in their annual statistical bulletins to reflect the quantitative impact of legislative and judicial changes relating to workers compensation claims. The only exception to this practice being the impact of the Harris Decision on the compensability of claims. At the time of the Harris decision Deloitte prepared its own independent analysis based on a study done by IWIF's claims department using IWIF claims data only. Deloitte's analysis and its use of NCCI's estimates all appear to be reasonable and according to generally accepted actuarial practice.

### **Severity Trend**

Severity trend measures the impact of claims costs changes and adjusts historical claims experience to current claim cost levels. The principal component of claims cost changes arise from medical inflation changes in medical utilization (increased/decreased use of medical procedures, drugs etc.). Deloitte's method seeks not to double count changes that

purely due to changes in benefits (see above), and factors them out in their analysis. Deloitte uses IWIF's own claims data and compares the result to NCCI's published results in its State of the Line Report (for reasonableness) before arriving at its selected severity trend. The resulting numbers are well in line with industry results, and appear reasonable as well.

### **Frequency Trend**

The final adjustment to loss experience relates to frequency trend. Frequency trend measures the number of claims per unit of exposure, which is payroll in the case of workers compensation. Historically, claims per 100,000 workers (and therefore per \$100 of payroll exposure) have been declining for the entire workers compensation industry several decades. This fact has been attested to by both OSHA and the NCCI, among others. This historical pattern has also held true for IWIF. Deloitte's report reflects the impact of IWIF's declining claims frequency per \$100 units of payroll exposure. The methodology takes IWIF's estimated ultimate claim count by accident year (adjusted for the impact of the Harris decision to avoid double counting) and compares them to payroll adjusted to current wage levels. Finally, IWIF's data is compared to the NCCI's State of the Line Report (again for reasonableness) before arriving at its selected trend. All of this is done according to commonly accepted actuarial procedures.

### **Expense Loadings**

Deloitte's report contains the following expense loads: Guarantee Fund Assessment, Claim Adjustment Expense, and General Expense. Both the Claim Adjustment Expense load (to cover loss adjustment expenses and the General Expense Load (covering all general administrative expenses, commissions, etc.) are based on IWIF's history. Currently IWIF is not a member of the Guarantee Fund Load, but is expected to be some time later this year. All of these loadings appear to be appropriate.

### **Investment Income Loading**

Deloitte's report discounts the base rate for the expected investment income to be generated by loss reserves arising out of premiums paid by policyholders. Workers Compensation is known as a "long tailed" line of insurance, paying out claims occurring in any accident year over many years (possibly several decades). After expenses are paid, the remaining funds generated by the associated premiums are used to pay claims over this extended period of time until all claims are paid. IWIF returns a portion of the investment income by discounting its base rate by 3.25%. This amount was selected by IWIF's management to reflect a relatively safe level of return (below historical treasury yields and IWIF's investment yield), that would allow IWIF to continue to build on its financial strength, while still returning a substantial portion of its investment income to its policyholders. For example, IWIF's yield on invested assets (according to the IRIS ratios filed with the National Association of Insurance Commissioners) in 2007 was 5.20%. This interest differential (between its actual yield and 3.25%) allows IWIF a margin for unexpected adverse inflationary and frequency trends, legislation,

catastrophes, etc. and stands as an implicit contingency load in its rates, which is according to actuarial practice. Note that being a nonprofit IWIF does not focus on providing a rate of return to its shareholders but rather on its financial strength and its ability to meet the promises it has made to policyholders and injured workers, as cost efficiently as possible.

## **Overview of the Classification Analysis**

### **Class Rates**

Similarly to the rest of the insurance industry IWIF uses approximately 650 class codes, each representing a different type of business, and with its own rate. Most of these classes are the same as the NCCI's, with a few exceptions, primarily for counties and municipalities. After the overall indication has been determined it must be spread back to each individual class code in an equitable fashion to balance back to the whole.

### **Methodology**

Deloitte's methodology involves the use of a balanced credibility weighted class relativity model subject to rate change caps to determine each class codes rate. This methodology is described in their report. To quote Deloitte's report; "To determine the base rate relativity for a given class we rely on the pure premium relativity of that class to the extent that IWIF's historical experience is credible." Note that credibility is defined by the Statement of Principles Regarding Property and Casualty Ratemaking as "a measure of the predictive value that the actuary attaches to a particular body of data. Credibility is increased by making groups more homogeneous or by increasing the size of the group analyzed." Their report goes on to say; "To the extent that IWIF's historical experience is not credible, we rely on a weighted average of the Maryland NCCI loss cost relativity and IWIF's current base rate relativity. At the request of IWIF, we apply 40% weight tot the Maryland NCCI loss cost relativity and 60% weight to IWIF's current base rate relativity. Specifically, the base rate relativity for each class is determined using the following formula:

**Base Rate Relativity = Credibility x Pure Premium Relativity + (1.00 - Credibility) x {40% x NCCI Relativity + 60% x Current Base rate Relativity}."**

For further details the reader is referred to Deloitte's Ratemaking Report. ASOP no. 25 on credibility procedures list four criteria for an actuary to consider when selecting credibility procedures. They are as follows: they should "a) produce results that are reasonable in the professional judgment of the actuary", b) "not tend to bias the result in any material way", c) be "practical to implement, and d) give consideration to the need to balance responsiveness and stability." Deloitte's methodology appears to meet all of these criteria, as well as being inline with generally accepted actuarial procedures.

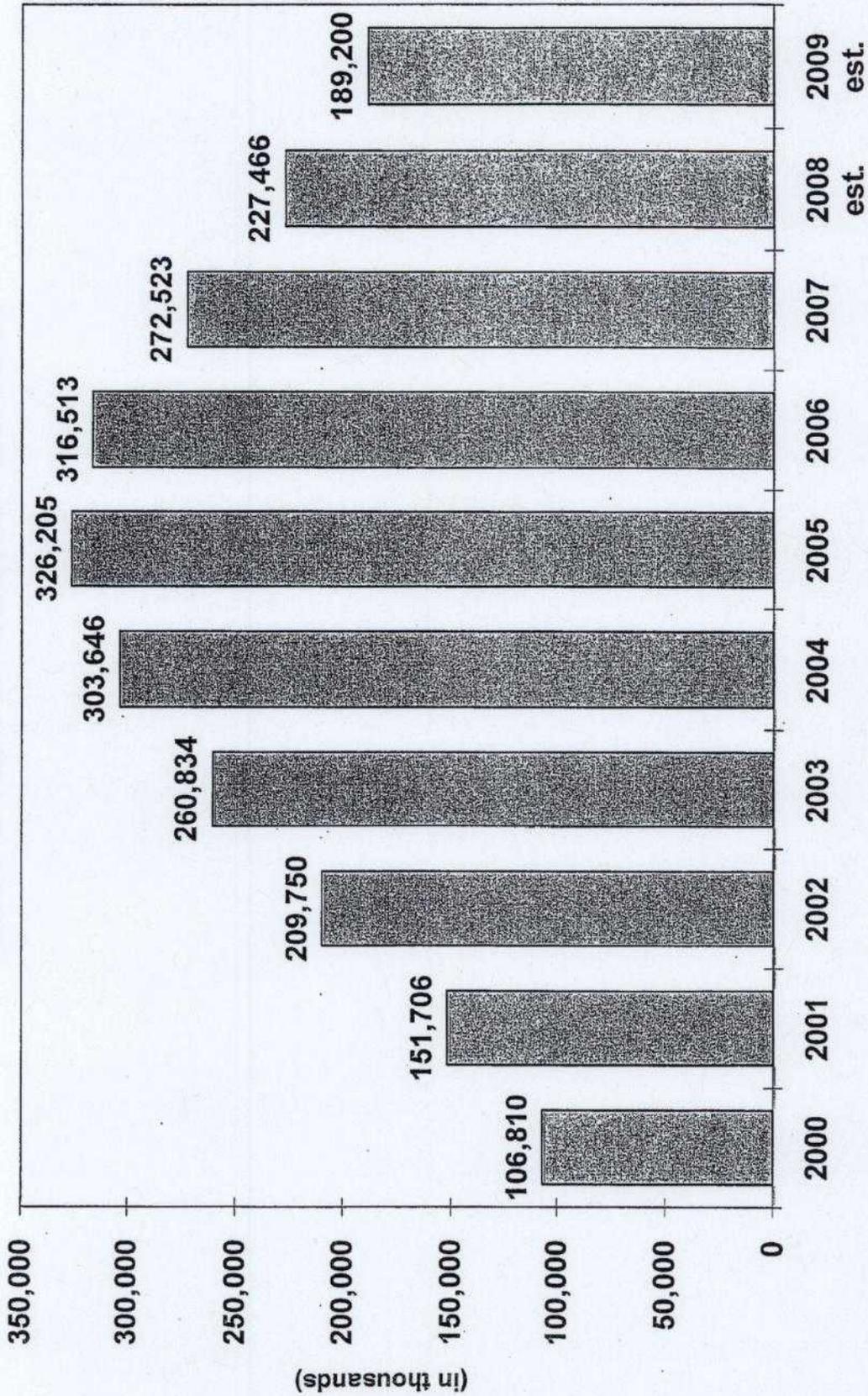
## **Conclusion**

As discussed and demonstrated above, Deloitte's report meets the various actuarial standards as promulgated by the Casualty Actuarial Society and the Actuarial Standards Board (which is affiliated with the American Academy of Actuaries), its methodologies, in particular with regards to payroll trend and development, loss trends and development, expense and investment income loads, and its method for developing individual class rates are ones that are generally accepted practices of actuaries. Deloitte's associated assumptions appear reasonable and are also well within industry norms. Therefore, it is my considered opinion that the rates produced by this process and adopted by IWIF are actuarially sound, ensuring IWIF's financial strength, and producing rates that are adequate, not excessive and not unfairly discriminatory.

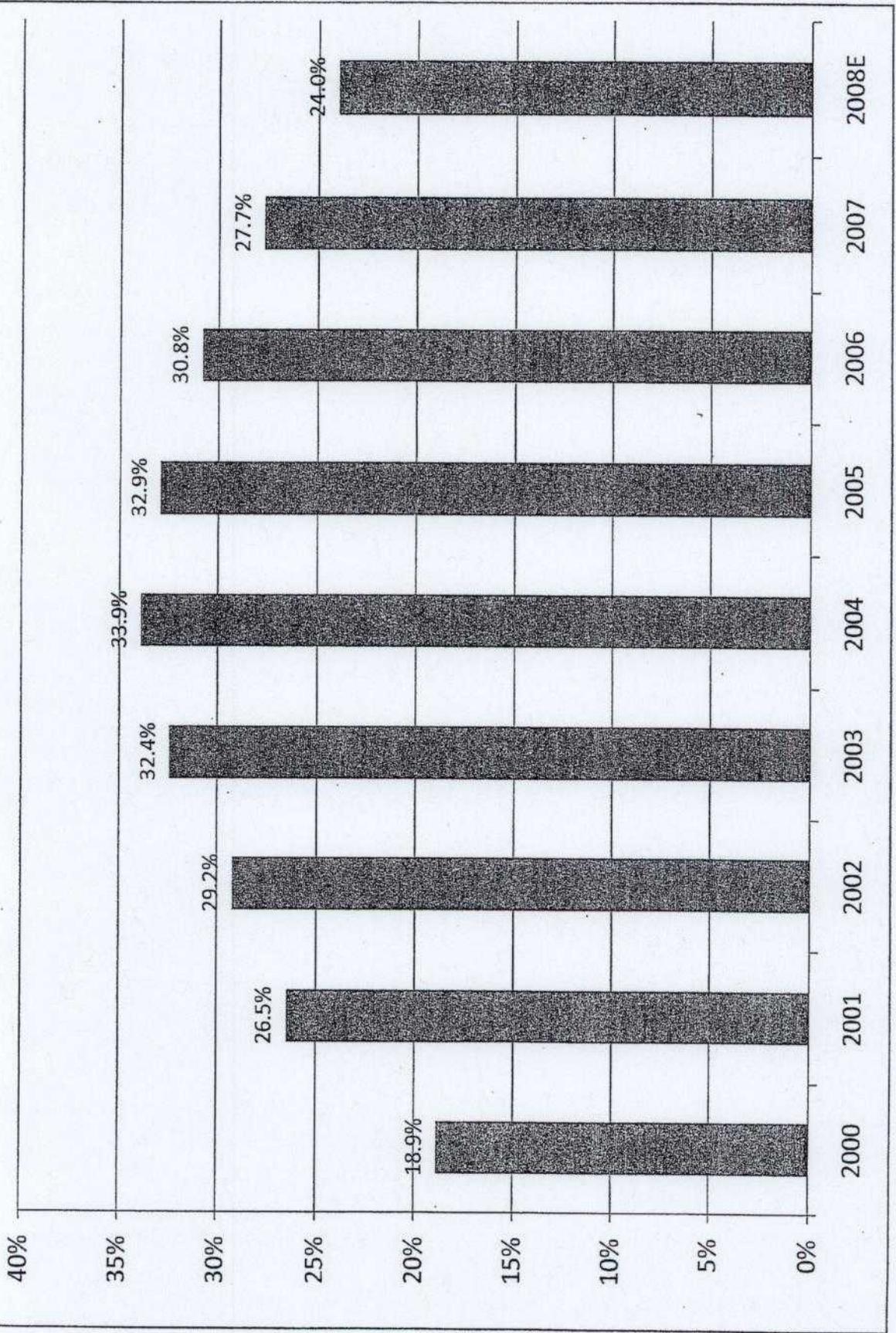
## **Qualifications**

This report has been prepared by IWIF's Chief Actuary, Rial Simons, a Fellow of The Casualty Actuarial Society, and a member in good standing of the American Academy of Actuaries. Mr. Simons holds a Bachelor of Arts degree in Mathematics from Syracuse University and a Master of Science degree in Applied and Computational Mathematics from Johns Hopkins. He has over 25 years experience as an actuary, principally in the workers compensation insurance line (including both Zurich and Royal & Sun Alliance), and in addition, over the period of his career, has participated on a number of actuarial committees of the NCCI (National Council on Compensation Insurance), as well as the New York Compensation Insurance Rating Bureau, as well as on the Textbook Rewriting Committee of the Casualty Actuarial Society for the fourth edition of the *Foundations of Casualty Actuarial Science* (2001).

# IWIF's Net Written Premium



### IWIF's Market Share



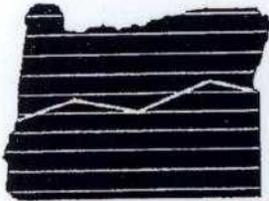
	Specifically applies to IWIF	Specifically exempts IWIF	Applies generally to insurers without specifying IWIF
<b>Labor and Employment Article</b>			
<b>Title 9. Workers' Compensation</b>	X		
§ 9-806. Assessments (Subsequent Injury Fund)	X (from LE § 9-402)		
§ 9-1007. Assessment on awards and settlements (Uninsured Employers)	X (from LE § 9-402)		
<b>Title 10. Funds</b>			
§ 10-101 to § 10-320 Injured Workers Insurance Fund	X		
<b>Insurance Article</b>			
<b>Title 1. Definitions; General Provisions</b>			
§ 1-201. Compliance with article required			X
§ 1-207. Particular provisions prevails			X
<b>Title 2. Maryland Insurance Administration</b>			
§ 2-112. Fees			X
§ 2-113. Payment of taxes or fees in immediately available funds			X
§ 2-201. Enforcement of article	X (from, LE § 10-125)		
§ 2-202. Discrimination in underwriting and rate-setting practices	X (from, LE § 10-125)		
§ 2-203. Oaths, witnesses, and subpoenas	X (from, LE § 10-125)		
§ 2-204. Orders and notices	X (from, LE § 10-125)		
§ 2-205. Analysis or examinations of insurers, rating organizations, and health maintenance organizations	X (from, LE § 10-125)		
§ 2-206. Examinations of insurance producers, managers, and others.	X (from, LE § 10-125)		

	Specifically applies to IWIF	Specifically exempts IWIF	Applies generally to insurers without specifying IWIF
§ 2-207. Conduct of examinations	X (from, LE § 10-125)		
§ 2-208. Expense of examinations	X (from, LE § 10-125)		
§ 2-209. Reports of examinations and investigations	X (from, LE § 10-125)		
§ 2-210. Hearings	X (from, LE § 10-125)		
§ 2-211. Notice of hearing	X (from, LE § 10-125)		
§ 2-212. State of order proposed action	X (from, LE § 10-125)		
§ 2-213. Hearing procedure	X (from, LE § 10-125)		
§ 2-214. Order resulting from hearing	X (from, LE § 10-125)		
§ 2-215. Judicial Review	X (from, LE § 10-125)		
§ 2-401. Definitions			X
§ 2-501 to § 2-506 Insurance Regulation Assessment			X
<b>Title 3. Kinds of Insurers</b>			
§ 3-124. Bulk reinsurance – Stock insurers	X (from, LE § 10-125)		
<b>Title 4. General Requirements for Insurers</b>			
§ 4-101. Certificate of authority required; exceptions			X
§ 4-102 to § 4-114			X
§ 4-115. Home office; location of account records and assets	X (from, LE § 10-125)		
§ 4-116. Annual and interim statements; audited financial report	X (from, LE § 10-125)		
§ 4-117. Notice to third party claimant of payment to attorney			X

	Specifically applies to IWIF	Specifically exempts IWIF	Applies generally to insurers without specifying IWIF
§ 4-118. Qualified independent certified public accountants	X (from, LE § 10-125)		
§ 4-205. Statutory authorization required to do insurance business			X
§ 4-301 to § 4-314 Risk Based Capital Standards for Insurers	X (from, LE § 10-125)		
<b>Title 5. Assets, Liabilities, Reserves, and Investments of Insurers</b>			
§ 5-101 to § 5-104 Assets and Liabilities	X (from, LE § 10-125)		
§ 5-201 to § 5-206 Reserves	X (from, LE § 10-125)		
§ 5-401 to § 5-403 Valuation of Investments	X (from, LE § 10-125)		
§5-601 to § 5-609 Investments of Insurers Other Than Life	X (from, LE § 10-122)		
§5-701 and § 5-703 Deposits of assets and Purpose of Deposits			X (from Ins. § 5-701 and § 5-703)
§ 5-702, §5-704 to §5-709 Administration of Deposits			X
§ 5-901 to § 5-905 (Reinsurance)	X (from, LE § 10-125)		
<b>Title 6. Taxes and Fees</b>			
§ 6-101 to § 6-120 Taxes			X
§ 6-201 to § 6-204 Fraud Prevention Fee			X
§ 6-301 to § 6-304 Retaliation			X
<b>Title 7. Maryland Insurance Acquisitions Disclosure and Control Act</b>			X (from, Ins. § 7-103)
<b>Title 8. Entities that Act as Insurers</b>			

	Specifically applies to IWIF	Specifically exempts IWIF	Applies generally to insurers without specifying IWIF
§ 8-201 to § 8-209 Managing General Agents			X
§ 8-301 to § 8-322 Third Party Administrators			X
<b>Title 9. Impaired Entities</b>			
§ 9-101 to § 9-104 Regulation of Entities Operating in Financially Hazardous Condition	X (from, LE § 10-125)		
§ 9-201 to 9-232 Liquidation, Rehabilitation, Reorganization, and Conservation	X (from, LE § 10-125)		
§ 9-301 to § 9-316 Property and Casualty Insurance Guaranty Corporation	X (from, LE § 10-125)		
§ 9-401 to 9-419 Life and Health Insurance Guaranty Corporation Act	X (from, LE § 10-125)		
<b>Title 10. Regulation of Insurance Professions</b>			
§ 10-101 to § 10-132 Insurance Producers			X
§ 10-201 to § 10-215 Advisers			X
<b>Title 11. Insurance Rating Law</b>			
§ 11-101 Definitions			X
§ 11-201 to § 11-232 Prior Approval Rate Making		X (§ 11-202(b)(5))	
§ 11-301 to § 11-344 Competitive Rate Making		X (§11-303(a)(7))	
<b>Title 12. Policy Forms and Provisions</b>			
§ 12-101 to § 12-107	X (from, LE § 10-125)		
<b>Title 19. Property and Casualty Insurance</b>			
§ 19-101 to § 19-114 General Provisions			X
§ 19-402, §19-404, §19-405, § 19-	X (from, LE		

	Specifically applies to IWIF	Specifically exempts IWIF	Applies generally to insurers without specifying IWIF
406 Workers' Compensation Insurance	10-125)		
§ 19-403 Setting Premium Rates		X (from, LE §10-125)	
<b>Title 23. Premium Financing</b>			X
<b>Title 27. Unfair Trade Practices and Other Prohibited Practices</b>	X (from, LE § 10-125 and § 27-402)		



# 2008 Oregon Workers' Compensation Premium Rate Ranking Summary

Department of Consumer & Business Services

October 2008

By Mike Manley and Jay Dotter

Oregon employers in the voluntary market pay, on average, the 39th highest workers' compensation premium rates in the nation.

Oregon's premium rate index is \$1.88 per \$100 of payroll, or 83 percent of the national median. National premium rate indices range from a low of \$1.08 in North Dakota to a high of \$3.97 in Alaska, with a median value of \$2.26. No jurisdictions have an index rate above \$4; 6 are in the \$3.00-\$3.99 range; 31 are in the \$2.00-\$2.99 range; and 14 have indices under \$2.00. Indices are based on data from 51 jurisdictions, for rates in effect as of January 1, 2008.

Figure 1. 2008 Workers' compensation premium index rates

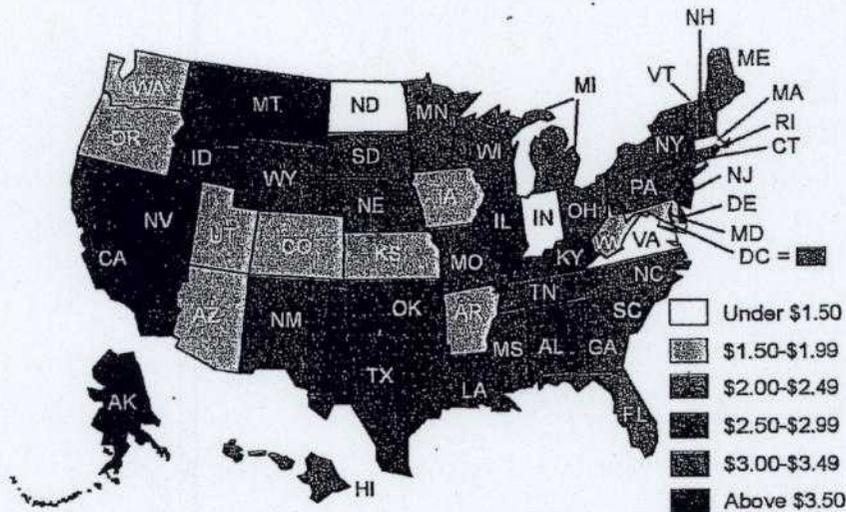


Table 1. Oregon's ranking in the top 10 classifications

Occupation	Ranking
Clerical office employees NOC	49
Salespersons - Outside	47
College: Professional employees & clerical	41
Physician and clerical	38
Restaurant NOC	45
Store: Retail, NOC	40
Hospital: Professional employees	40
Automobile service/repair center & drivers	34
Trucking: NOC - All employees & drivers	25
Health care employees - Retirement, nursing, convalescent	32

Classification codes from the National Council on Compensation Insurance (NCCI) were used in this study. Of approximately 450 active classes in Oregon, 50 were selected based on relative importance as measured by share of losses in Oregon. To control for differences in industry distributions, each state's rates were weighted by 2002-2004 Oregon payroll to obtain an average manual rate for that state. Listed in Table 1 are Oregon's rankings in the top 10 of the 50 classifications used.

Table 2 (on the back) contains the premium rate ranking for all 51 jurisdictions.

Table 2. Workers' compensation premium rate ranking

2008 Ranking	2006 Ranking	State	Index Rate	Percent of study median	Effective Date
1	1	Alaska	3.97	176%	January 1, 2008
2	5	Montana	3.50	155%	July 1, 2007
3	12	Ohio	3.32	147%	July 1, 2007
4	7	Vermont	3.14	139%	April 1, 2007
5	19	New Hampshire	3.06	136%	January 1, 2008
6	8	Maine	3.04	135%	January 1, 2008
8	3	Delaware	2.96	131%	December 1, 2007
8	4	Kentucky	2.96	131%	October 1, 2007
9	9	Alabama	2.90	129%	March 1, 2007
10	13	Oklahoma	2.89	128%	8/1/07 State Fund, 1/1/08 Private
11	21	Illinois	2.79	124%	January 1, 2008
12	11	Louisiana	2.76	122%	October 1, 2007
13	25	South Carolina	2.74	121%	May 7, 2007
14	2	California	2.72	121%	January 1, 2008
15	18	Pennsylvania	2.68	119%	April 1, 2007
16	23	New Jersey	2.66	118%	January 1, 2008
17	17	Texas	2.61	116%	January 1, 2008
18	30	Nevada	2.58	115%	March 1, 2007
19	10	New York	2.55	113%	October 1, 2007
20	14	Connecticut	2.46	109%	January 1, 2008
21	26	Tennessee	2.44	108%	July 1, 2007
22	37	North Carolina	2.43	108%	April 1, 2007
24	21	Minnesota	2.33	103%	January 1, 2008
24	32	Mississippi	2.33	103%	March 1, 2007
25	41	Georgia	2.29	102%	August 3, 2007
26	22	Rhode Island	2.26	100%	February 1, 2007
28	6	Florida	2.20	98%	January 1, 2008
28	25	Missouri	2.20	97%	January 1, 2008
29	16	District of Columbia	2.16	96%	November 1, 2007
32	27	New Mexico	2.15	95%	January 1, 2008
32	39	Michigan	2.15	95%	January 1, 2007
32	33	Nebraska	2.15	95%	February 1, 2007
34	35	Wisconsin	2.12	94%	October 1, 2007
34	32	Idaho	2.12	94%	January 1, 2008
36	15	Hawaii	2.08	92%	January 1, 2008
36	44	South Dakota	2.08	92%	July 1, 2007
37	29	Wyoming	2.06	91%	January 1, 2008
38	37	Washington	1.98	88%	January 1, 2008
39	42	OREGON	1.88	83%	January 1, 2008
41	34	West Virginia	1.86	83%	July 1, 2007
41	45	Iowa	1.86	82%	January 1, 2008
42	43	Kansas	1.77	78%	January 1, 2008
43	29	Colorado	1.76	78%	January 1, 2008
44	40	Maryland	1.72	76%	January 1, 2008
45	46	Arizona	1.67	74%	January 1, 2008
46	38	Utah	1.63	72%	December 1, 2007
47	48	Arkansas	1.61	71%	January 1, 2008
48	49	Virginia	1.43	63%	April 1, 2007
49	47	Massachusetts	1.39	62%	September 1, 2007
50	50	Indiana	1.23	55%	January 1, 2008
51	51	North Dakota	1.08	48%	July 1, 2007

Notes: Starting with the 2008 study, when two or more states' Index Rate values are the same, they now are assigned the same ranking. The Index rates reflect appropriate adjustments for the characteristics of each individual state's residual market. Rates vary by classification and insurer in each state. Actual cost to an employer can be adjusted by the employer's experience rating, premium discount, retrospective rating, and dividends.

Employers can reduce their workers' compensation rates through accident prevention, safety training, and by helping injured workers return to work quickly.

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# Rate Change History

Date	IWIF's Rate Changes	NCCI's Loss Cost Changes
1/1/2009	-6.8%	-5.4%
1/1/2008	-5.0%	-1.7%
1/1/2007	+0.0%	-5.2%
1/1/2006	+0.0%	+5.7%
1/1/2005	+1.9%	+3.4%
1/1/2004	+3.0%	-6.1%
Cumulative	-7.1%	-9.5%

# IWIF's Response to SB 679

December 10, 2008

## Last year we testified in response to SB 679:

- IWIF's rates are actuarially sound;
- It would cost IWIF about \$1 million annually to join NCCI;
- IWIF is subject to virtually all of the same laws as other carriers;
- There could be an adverse impact on small businesses and local governments by IWIF joining NCCI;
- The system works, so why "tinker" with it?

The legislation was amended to have the insurance commissioner study the following:

1. Are IWIF's rates actuarially sound?
2. What are the costs to affiliate?
3. How will small businesses be affected?
4. Are there other laws that should apply to IWIF?

## **IWIF's Rates are Actuarially Sound**

- Determined through the expertise of Deloitte Consulting, LLP and their actuaries
- Reviewed by our internal actuary, who is also a fellow of the Casualty Actuarial Society
- Determined "reasonable" by a third independent actuarial firm, Merlinos and Associates, Inc.

## **NCCI Affiliation is Unnecessary**

- Affiliation is a dramatic departure from existing law
- IWIF's current status enhances competition in Maryland
- NCCI does not need IWIF data since current MD data is "sufficient to determine a reasonable and adequate loss cost level"  
(page 4)

# **NCCI Affiliation Would be Detrimental to Small Businesses and Local Government Accounts**

- 13,000 small businesses would experience a price increase through moving from IWIF's actuarially sound experience rating plan to NCCI's
- IWIF's uses blended rating and IWIF specific class codes to price our municipal and other governmental accounts.

## **NCCI Affiliation Would be Costly to IWIF**

- Annual cost in excess of \$1 million per year
- Conversion costs and time would distract IWIF from its core business function – providing workers compensation insurance to Marylanders

# **NCCI Affiliation Would not “Level” the Playing Field**

- IWIF would still accept all applicants independent of their risk or our appetite
- IWIF continues to write only workers compensation insurance
- IWIF is not licensed in other states
- IWIF is under specific state regulations as a quasi-public entity

# **Maryland Insurance Administration**

## **Hearing Regarding Actuarial Soundness of IWIF Rates**

Jan Lommele, FCAS, MAAA, FCA  
Deloitte Consulting LLP

December 10, 2008

**Deloitte**<sup>o</sup>

# Introduction

## **Jan A. Lommele, FCAS, MAAA, FCA**

- Performed Rate Analysis for IWIF for approximately 20 years, also serves as the Appointed Actuary for the Statement of Actuarial Opinion
- Experience in workers' compensation spans 35 years with service to insurers, self-insurers, pools, and over a dozen state funds
- Deloitte Consulting Chief P&C Actuary
- American Academy of Actuaries professional service includes role of Vice President, twice Board member, and Chair of the Committee on Property & Liability Financial Reporting

# IWIF Rate Level Analysis Program Overview

## **IWIF Rate Level Analysis Process Overview**

- Deloitte analysis performed is a Loss Cost, or Pure Premium, Approach (losses per \$100 of payroll)
- The loss cost is adjusted to current inflation and benefit levels to estimate expected loss cost in the next year
- Company operations and investment results discussed with responsible IWIF personnel
- Factors are included for expenses, premium discount offset, terrorism load, Guarantee Fund Assessment, and investment income
- Indications for classification rates are calculated
- IWIF considers the impact of experience rating, schedule rating, and tiers
- Management provides a detailed presentation to the Board for approval; Deloitte is present to provide commentary

# Statewide Rate Level Analysis

## **Statewide Rate Level Analysis Components**

- Experience Period
- Payroll trend
- Payroll development factor
- Losses developed to ultimate
- Loss trend
- Benefit level adjustment to current levels
- Terrorism Load
- Guarantee Fund Assessment
- Investment income consideration
- Offset for Premium Discount Plan
- Claim adjustment expense load
- General expense load

## **Components Discussion**

---

- We consider ten years for the experience period, giving more weight to the more recent years with the objective to balance stability and responsiveness
- Payroll trend is used to adjust the payroll in the experience period to the wage level of the period for the base rate being calculated
- Payroll development factors are used to account for increases in payroll as a result of payroll audits
- Losses are developed to ultimate due to reported claim department loss estimates generally increasing over time
- Losses are trended to the next year's expected inflation levels based on separate trends for frequency and severity, with consideration for impacts such as national trends and IWIF operations and experience
- Terrorism load of three cents per \$100 of payroll

## **Components Discussion**

- The Guarantee Fund Assessment is capped at 2% in accordance with statute
- An investment income discount factor based on a rate of 3.25%, selected by IWIF, is calculated to reflect investment income generated through the deposit of policyholder premiums
- To reflect the impact for the Premium Discount Plan, an offset factor is calculated
- Claim handling expenses provision is included based on IWIF experience and trends in loss volume from market cycles
- General expenses provision is included based on IWIF experience and trends in volume from market cycles

# Rate Level Change Calculation

## Calculation of Pure Premium

Effective January 1, 2008  
(000's)

Calendar Accident Year	Payroll (2)	Payroll Trend to 2008 \$'s (3)	Payroll Development Factor (4)	Developed & Trended Payroll (5)	Ultimate Loss & ALAE Projection (6)	Loss Trend to 2008 \$'s (7)	Benefit Level Changes (8)	Adjusted & Trended Ultimate (9)	Pure Premium Unadjusted (10)	Pure Premium On-Level (11)
1997	3,899,175	1.554	1.000	6,058,637	94,000	1.712	1.247	200,733	2.41	3.31
1998	3,616,390	1.509	1.000	5,455,571	97,000	1.702	1.239	204,513	2.68	3.75
1999	3,607,915	1.437	1.000	5,183,607	100,500	1.623	1.229	200,468	2.79	3.87
2000	4,038,491	1.368	1.000	5,525,931	105,750	1.548	1.206	197,413	2.62	3.57
2001	4,926,234	1.303	1.000	6,419,662	130,750	1.476	1.188	229,244	2.65	3.57
2002	6,426,266	1.241	1.000	7,975,657	167,500	1.408	1.158	273,004	2.61	3.42
2003	7,353,022	1.205	1.000	8,860,056	200,250	1.343	1.097	295,019	2.72	3.33
2004	8,249,149	1.170	1.000	9,653,305	227,750	1.280	1.040	303,431	2.76	3.14
2005	8,886,303	1.125	1.004	10,032,029	253,750	1.210	1.026	314,887	2.86	3.14
2006	8,965,782	1.082	1.034	10,024,431	269,000	1.143	1.020	313,667	3.00	3.13
Total	59,968,726			75,188,886	1,646,250			2,532,379	2.73	3.37
									2002-06 Weighted Avg: 7 Yr Avg x hi/low:	3.22 3.32
						(12)			Selected Pure Premium Point:	3.22

# Rate Level Change Calculation

## Determination of Overall Base Rate Change Prior to Merit Rating

Effective January 1, 2008

	<u>Point</u>
(1) Selected Pure Premium:	3.22
(2) NCCI Terrorism Loss Cost:	0.03
(3) Pure Premium (Including NCCI Terrorism Loss Cost):	3.25
(4) Guarantee Fund Assessment (2.0%):	1.02
(5) Investment Income Adjustment (3.25%):	0.793
(6) Premium Discount Adjustment (9.85%):	1.109
(7) Claim Adjustment Expense Load; 12.0% of Losses	1.120
(8) General Expense Load [1/(1-.185)]; 18.5% of Premium	1.227
(9) Indicated Average Base Rate:	4.01
(10) 1/1/2007 Average Base Rate:	4.23
(11) Indicated Base Rate Level Change:	-5.1%
(12) Selected Base Rate Level Change:	-5.0%

# Classification Analysis

## **Classification Analysis**

- Indicated classification base rates are determined by applying base rate relativities to the overall base rate
- Base rate relativities are a function of the IWIF relativity based on historical loss cost experience, the current IWIF base rate relativity, and Maryland NCCI loss cost relativity
- Weights for the above relativities are based on a credibility formula which is based on payroll

# Conclusion on Actuarial Soundness of Rates

## **Conclusion on Actuarial Soundness of Rates**

- In my opinion, IWIF's rates are actuarially sound and
  - i. Provide sufficient funds to pay expected losses and expenses
  - ii. Maintain an adequate margin for contingencies
  - iii. Support the maintenance of sufficient surplus

# Deloitte.

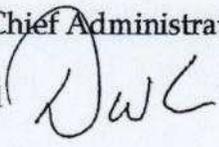
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Deloitte Touche Tohmatsu

**IWIF** Workers'  
Compensation  
Insurance

(410) 494-2265; FAX (410)-494-2001  
[DCARROLL@IWIF.COM](mailto:DCARROLL@IWIF.COM)

**RECEIVED**  
DEC 15 2008  
MARYLAND INSURANCE  
ADMINISTRATION

DATE: December 12, 2008  
TO: David Diehl, Chief Administrator, MIA  
FROM: Dennis Carroll   
SUBJECT: IWIF as a Competitive Insurer

In support of my statement that IWIF's mission is, and always has been, to be both a competitive insurer and the insurer of last resort, I offer the following documents:

1. A copy of a document titled "Why is IWIF a Competitive Insurer?" This was drafted by me and contains some of the policy and historical reasons supporting IWIF's dual role as a competitive insurer and insurer of last resort.
2. Portions of the First Annual Report of the State Industrial Accident Commission (1915) which states:

"Of the [various State] Compensation Acts, ... nine, like the Maryland Act, provide for the operation of a State Fund ...in competition with private insurance companies." (p.5)

"It was predicted by competitors that the Fund would not be a success; that it would get the undesirable or 'bad risks', but after a year's experience none of these fears have been realized...the Fund is steadily growing.." (p.9)

"The creation of the Accident Fund brings about real competition and safeguards employers from excessive rates. The Commission believes that a healthy competition is the wisest policy." (p. 10)

3. Portions of the Second Annual Report of the State Industrial Accident Commission (1916) which states:

"There are several types of State Fund Insurance actually in operation in America, all of which are slight deviations from one of two systems, namely: Exclusive State Funds, and State Funds in competition with stock or mutual companies.... The Maryland Fund is the second class mentioned, namely: a Fund in competition, nominally at least, with stock and mutual insurance companies.." (p. 17,18)

"In addition... there is also advanced the argument that a State Fund is advisable as a check on private companies, especially in keeping down the rates charged for the class of insurance." (p. 18)

"The right of the State Fund's entering into competition with the stock companies or the wisdom of its doing so has been questioned by some; suffice it to say that at least so far, the Commission has not entered into such competition by active solicitation." (p.18)

4. Portions of the 1987 Report of the Governor's Commission to study the workers' compensation system which states:

"Maryland SAF (State Accident Fund) is not an 'assigned risk pool' insurer. Any employer who chooses, regardless of his risk history, ...can have the SAF provide coverage...

The maintenance of such a Fund is not unique to Maryland. Eighteen other states also have such an entity. Twelve of those states have "competitive" funds similar to Maryland's. This basically means an employer has three options in obtaining coverage against workers' compensation claims. He can use a private carrier, self-insure or use the State Accident Fund." (p. 71)

5. Portions of the 1988 Governor's Task Force to study the State Accident Fund which states:

"The purpose of the Fund then [in 1914], as today [1988], was to insure employers who did not want or could not obtain workers' compensation coverage from commercial casualty insurance sources...." (p.7)

"The Fund, now and for the last 73 years, is not just an insurer of last resort. It is a viable alternative to self-insurance and the commercial insurance market." (p.7)

6. Executive Order 01.0.1999.16 which states in the second whereas clause:

"The Injured Workers' Insurance Fund, formerly known as the State Accident Fund, has a long and distinguished history of providing workers' compensation insurance to any Maryland employer unable to obtain such coverage in the private market, or who chooses to insure through the Fund in lieu of the private market." (p.1)

Maryland statutory law does not, in any fashion, limit IWIF to writing residual business. Instead, the statute directs IWIF "to insure employers against liability" under the Workers' Compensation law. LE Art. §10-117. Obviously, this applies to all employers who choose to be insured by IWIF. Moreover, the statute directs IWIF to "have a plan to promote the services of the Fund to employers in the State." LE Art. § 10-114. Again, on its face, this legislative directive is not limited to employer who cannot obtain coverage elsewhere. It applies broadly to all employers in the State.

I hope you find this helpful. Please call me if you have any questions or if you wish to discuss this further.

cc: Thomas Phelan



CONTACT: DENNIS CARROLL  
(410-494-2265)

### Why is IWIF a Competitive Insurer?

- **IWIF has been competing for almost a century.** IWIF is the insurer of last resort in Maryland and must take all comers. However, IWIF is and has for nearly 94 years also been a competitive insurer. See Report of the Governor's Task Force to Study the State Accident Fund (1988). In fact, the First Annual Report of the State Industrial Commission (Dec. 31, 1915) stated "The creation of the Accident Fund brings about real competition and safe-guards employers from excessive rates. The Commission believes that a healthy competition is the wisest policy."
- **IWIF assures available, affordable WC insurance.** IWIF's mission is to ensure that Maryland employers have an available and affordable source of workers' compensation insurance. This includes new businesses, small companies, hazardous occupations, and other enterprises that are uninsurable in the standard market. But to fulfill this mission, IWIF must be able to compete for profitable business to share the risks in the aggregate; this helps sustain lower rates for all its policyholders. Today, IWIF writes approximately 28% of the Maryland market, including both residual and competitive business.
- **IWIF benefits Maryland employers and the Maryland economy.** As a competitive insurer, IWIF guarantees that competition exists in the Maryland market and this competition keeps everyone's rates affordable. IWIF's primary purpose is to assure an affordable, available market, not to maximize its profits. IWIF's only profit goals are to stay financially sound, in compliance with standards of the National Association of Insurance Commissioners. It is noteworthy that Maryland is consistently ranked among the states with the lowest workers' compensation costs. (Note: As reported by NCCI, Maryland is ranked 12<sup>th</sup> lowest in costs of all the States).
- **A strong IWIF is important to the creation of small businesses in Maryland.** Businesses with fewer than three years of claims experience often have extreme difficulty getting coverage in the private market. They rely on IWIF. Were IWIF not able to spread its risks across a larger pool of policyholders, it could be forced to raise rates prohibitively high, thereby impeding the creation of new small businesses, which are the lifeblood of a vibrant economy.
- **IWIF is small-business friendly.** 72% of IWIF policyholders pay less than \$5,000 in annual premiums. One reason IWIF is so attractive to small businesses is our policy of providing discounts for good loss experience to policyholders paying as little as \$3,000 in premium over three years. Private insurance carriers normally reserve this benefit for larger businesses only.
- **Larger scale yields greater stability.** In general, as the number of policyholders increases, the accuracy of predicting future losses also increases. Therefore, a small number of policyholders is much more likely to produce volatile financial results than a large number of policyholders. As a result, if limited to the residual market, IWIF would

not be large enough to be financially stable and would not have sufficient size to provide the type of pricing and benefits that Maryland employers expect and deserve.

- **Residual market alone can't sustain IWIF.** The size of the residual market fluctuates with market conditions. According to the NCCI, the national residual market has ranged from a mere 3% of the overall insured market to 29% over the past 15 years. At 3%, the low end, no single line insurer could remain financially viable and certainly could not remain viable with its market share fluctuating as wildly as the residual market. This is not a new idea. The very first year of IWIF's existence, the Commission noted: "It was predicted by competitors that the Fund would not be a success; that it would get the undesirable or 'bad risks' but after one year's experience none of these fears has been realized; on the contrary the Fund is steadily growing [and] has met all demands upon it promptly..." (First Annual Report of the State Industrial Accident Commission of Maryland. Dec. 31, 1915). Not surprisingly, the State Funds in other states also compete for business and have substantial market share. Almost all have market shares far larger than IWIF. (e.g. Arizona-65%; Idaho-60%; California-55%; Colorado-50% etc.)
- **IWIF's competitive position and economies of scale allow IWIF to:**
  - (a) keep its rates low for all Maryland employers, especially small business;
  - (b) ensure that other insurers' rates remain competitive;
  - (c) provide many critical services to our policyholders, and the State of Maryland, that would be impossible if IWIF were a much smaller residual insurer (e.g. IWIF has a large scale pharmacy contract, extensive safety programs, world-class medical bill payment systems, PPO networks, and other cost saving mechanisms).
- **IWIF has been able to expand and contract as needed.** For example, during the hard market of 2000 – 2006, IWIF's earned premium grew from \$95 Million to \$321 Million. This unprecedented growth was the result of other carriers contracting their business due to unfavorable conditions in the P&C market including: (a) 9/11 and the resultant turmoil in the financial industry; (b) a near collapse in the reinsurance markets; and (c) major hurricanes- 8 of the top 10 costliest hurricanes on record occurred between 2001 and 2006 including Katrina, Wilma and Ivan. Had IWIF not been large enough to absorb this increased business, Maryland's economy would have suffered. IWIF's market share is now shrinking due to the now favorable conditions (current earned premium has dropped to \$ 265 Million-projected).
- **IWIF contributes significantly to the Maryland economy.** Unlike other insurers, IWIF is located entirely in Maryland. All of IWIF's jobs (approximately 400), systems and contractors are in state. The effect on the local economy is obvious.
- **IWIF has been sufficiently large and financially stable to be part of the solution when majors problems arose in Maryland:**
  - (a) 1994- The assigned risk pool for United States Longshore and Harborworkers' (USL&H) was disbanded. More than 150 Maryland employers were suddenly without coverage and faced the prospect of relocating to other states or ceasing operations. Working with key legislators, IWIF undertook the coverage.

- (b) 1995- The private insurance market for Black Lung coverage in Western Maryland disappeared. Again IWIF took the coverage when no other insurer would.
- (c) 2003- At the request of the Governor, the WCC and the UEF, IWIF became the administrator for the Bethlehem Steel self-insurance program when Bethlehem Steel was sold as part of a bankruptcy proceeding. IWIF began immediately paying claims and there was no interruption in benefit payments.
- **IWIF is managed efficiently.** The Ward Group, a national organization that benchmarks operating efficiencies of financial institutions, indicated in its 2006 and 2007 reports that IWIF's performance outpaces the "best in industry" as measured against other small property/casualty insurance companies.

In short, Maryland has a very stable, successful workers' compensation insurance system and IWIF is an integral part of this success. IWIF, after two straight years of flat rates, has implemented a 5% decrease in rates for 2008. Given increased medical and claim costs, declining rates over a three-year period is extraordinary. At the same time, IWIF has met the RBC requirements mandated by the 2000 legislation. This reaffirms that the balance struck in the 2000 reforms was the correct balance and has led to financial strength, stable rates, effective competition and a solid workers' compensation system.

State of Maryland

FIRST  
ANNUAL REPORT

OF THE

State Industrial Accident Commission  
OF MARYLAND

For The Year November 1, 1914 to October 31, 1915

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COMMISSIONERS

JOHN B. HANNA, Chairman

CHAS. D. WAGAMAN

JAMES HIGGINS

HOWARD C. HILL, Secretary

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BALTIMORE, MD.

MULKS PRINTING CO.



## REPORT OF THE STATE INDUSTRIAL ACCIDENT COMMISSION OF MARYLAND

From November 1, 1914 to October 31, 1915

In compliance with the provisions of Chapter 800, Acts of the General Assembly of Maryland of 1914, commonly known as the Workmen's Compensation Act, the following persons were appointed by Governor Goldsborough as members of the State Industrial Accident Commission, and duly qualified and entered upon their duties on September 1, 1914: John B. Hanna (Chairman), Chas. D. Wagaman, James Higgins.

Permanent offices were at once secured at Suite 741, Equitable Building, Baltimore, and while those quarters were being fitted up, temporary offices were established in the same building. The Commission before taking up the work of perfecting an organization and the multitude of details incident thereto, visited New York and Massachusetts to study the methods of the Compensation Boards in those States. The law became operative in Maryland as between employers and employees on November 1, 1914, and within the sixty days intervening between September 1, and November 1, the Commission whipped into shape a complete organization and this new department of the State Government was successfully launched.

The members of the Commission, during the entire period since the Act went into effect, have devoted their entire time to its administration. We have diligently applied ourselves to the many difficult problems arising out of the inauguration of this new and beneficent undertaking by the State, both administrative and in the interpretation of the law.

### Scope of the Compensation Act.

The principle underlying Workmen's Compensation statutes is that the system provided by the Common Law for redress of occupational injuries is, in the light of modern industrial conditions, uneconomic, unjust and wasteful. This system had its origin, and the rules of law peculiar thereto were developed and established, in conditions of industry which were simple and comparatively safe. And however logical and workable they might have been, so long as these conditions continued, they are, today, archaic and unworkable.

In recognition of this principle the General Assembly of 1914, following the example of twenty-one sister states, enacted a Compensation Law for this State. A year's experience under this Law has demonstrated its efficacy. In respect of injuries occurring in the prosecution of the employments therein enumerated, the Act affords certain and prompt pecu-

niary relief. The elimination of the ingredient of fault as a cause of the injury (this being the distinguishing feature of a Compensation Law) has greatly narrowed the debatable ground as to the right to relief.

#### **Speedy Relief for Injured Workmen.**

While the Commission has conducted many hearings on contested claims, the great majority of the claims have, however, been disposed of without contest. The Commission has been thereby enabled to award prompt relief to the workman or his dependents. And in the case of contested claims (save in the very few cases of appeals to Court) the Commission has been able to dispose of these without substantial delay and thus to award prompt relief. Accordingly we have presented a very different condition from that which prevailed under the Common Law system, the administration of which was marked by uncertainty as to recovery, delays in awaiting trial which prevent relief in the time of the greatest need, economic waste in lawyers' fees and court costs, disturbance of business and the creation of hostility between employer and employe.

#### **Acceptable to Employers and Employes.**

The Commission believes that the Workmen's Compensation Act has proven most acceptable to employers and employes alike. So far as the employes are concerned the benefits of the Act are not open to question. So far as the employers are concerned, the element of certainty as to the cost of compensation, and the state of satisfaction of their employes resulting from the assurance of relief in case of accident, have been decided advantages in the prosecution of business; and in this connection the assurance that this cost of compensation is not in large part wasted by litigation is also worthy of consideration. The best evidence that the Act has proven acceptable is the fact that no serious suggestion has been made by employers, as has happened in other states, to attack its constitutionality. The only attack has come from an employe who sued at Common Law instead of accepting the Compensation provided in the Act. The Court decided against him.

#### **Compared With Compensation Acts of Other States.**

The Maryland Compensation Act differs from many of those adopted by other states, and in some respects, we believe, is better than most of them. The most important characteristics which makes towards its superiority, is the fact that it is compulsory. Of the thirty-one states and two territories which now have Compensation Acts on their statute books, twenty-four have adopted the elective form of law for private employers, and nine have, like Maryland, made it compulsory. The compulsory law imposes the scheme of compensation

upon employers and employes alike. The elective law makes it possible for any employer to reject the Compensation scheme therein provided and to choose to be governed by a rule of liability which is but an unsatisfactory modification of the Common Law system and open to most of its objections. The effectiveness of an elective law, in so far as its scheme of compensation is concerned, depends entirely upon the good will of the employer. And its natural operation is, therefore, a lack of uniformity in its application to industries competitive with each other, a situation which is, to say the least, undesirable from a business point of view.

#### Admirable Plan to Secure Compensation.

Another important feature of the Maryland Compensation Act is the plan which it embodies to secure the payment of Compensation. An award of pecuniary relief would be of little value to the workman or his dependents if his employer were insolvent. The method of compensation consisting, as it does, of weekly payments extending, in many cases, for a long period of time (for instance in death cases, a period of eight years) there is involved the element of risk that the employer, even if he be solvent at the time of the injury, might subsequently become unable to complete the payments. Accordingly, the Act requires that unless an employer can furnish satisfactory proof of his financial ability to pay compensation as it might accrue, he shall insure that compensation in an approved insurance company or association, or in the State Accident Fund administered by the Commission. The Compensation Acts of some jurisdictions, eight in number, do not require that compensation be insured. In six states the law requires the insurance of compensation in a State Fund to the exclusion of all other methods. Of the remaining nineteen Compensation Acts, ten provide for insurance in private companies only, and nine, like the Maryland Act, provide for the operation of a State Fund (or a semi-mutual Association) in competition with private insurance companies.

#### State Fund a Protection Against Excessive Rates.

The most important influence upon the employer's attitude toward a Compensation Law is the cost of compensation; and it is, therefore, most desirable that he be protected against unduly high insurance rates. The scheme provided in the Maryland Act for the operation of a State Fund in competition with private companies accomplishes this result. The State Accident Fund can and does write policies at lower rates than private companies, because of the elimination of commissions and the overhead cost; and, in the nature of things, this may, in course of time, lead to a monopoly of this form of insurance. However, we feel that the law should accord the employer the

widest choice in the placement of his insurance, so long as the underwriter be strong financially and prompt and fair in the settlement of compensation claims.

#### Involving Jurisdiction.

Troublesome jurisdictional questions have arisen in respect to the coverage of railroad employes. The law says that it shall apply to them "only to extent that their mutual connection with intra-state work may and shall be clearly separable and distinguishable from inter-state or foreign commerce." The effect of this is that few railroad employes, one of the most hazardous employments, have been found to come within the jurisdiction of this Commission. (See formal decision elsewhere in this report). We have been confronted with the same question in respect to the operation of vessels which are referred to in opinions filed in specific cases. In the cases of both railroad employes and those engaged in maritime pursuits, the Commission finds itself in harmony with some Workmen's Compensation Boards and out of harmony with rulings of other Boards, notably that of New York. The Supreme Court of the United States will probably pass upon the questions at issue in due time and settle the principles of law involved.

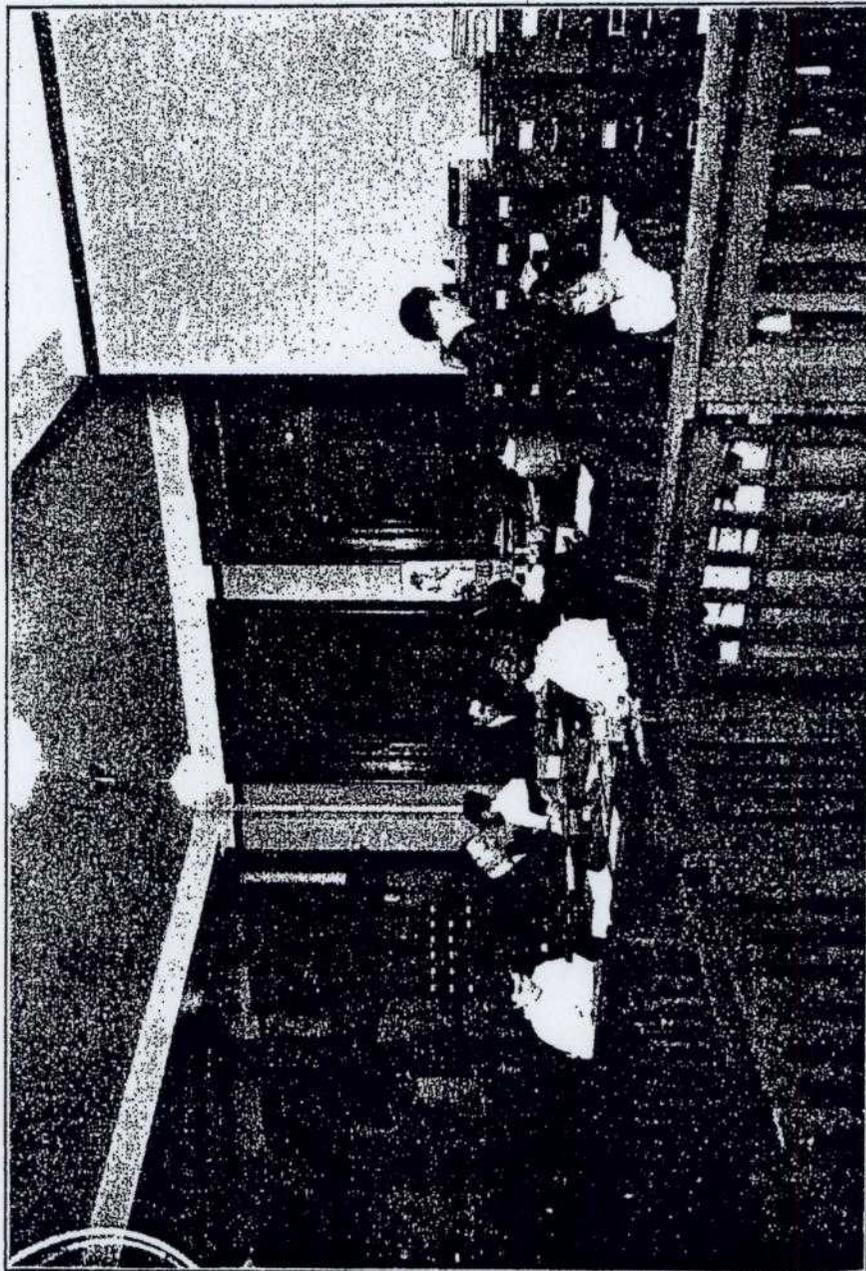
#### 12,000 Employers Insured Under Act.

During the first few months the offices of the Commission were crowded with employers eager to secure information to enable them to comply with the Act. More than a hundred blank forms for the use of employers and employes were printed and distributed and a standard form of policy to be used by insurance carriers was prepared. During the first year beginning Nov. 1st, 1914, and ending Oct. 31st, 1915, twelve thousand employers insured the payment of compensation under the Act. Of these, 11,035 insured with stock companies, 842 in the State Accident Fund, and 123 were granted the right to carry their own insurance, each self-insurer giving bond, except in the case of public utilities regulated by the State, the State itself, Counties and Municipalities.

20,348 accidents were reported during the year. Of these, 121 were fatal. Accidents are referred to in separate tables elsewhere in this report. *.006 %*  
*.287 % do.*

#### Claims and Hearings.

There were filed with the Commission during the first year ended Oct. 31st, 1915, 3,443 claims, 3,353 non-fatal and 91 fatal. Of these, compensation was awarded in 2977 and disallowed in 199 leaving 267 in the course of investigation. 249 claims were contested, resulting in hearings held at the principal office in Baltimore and, to serve the convenience of par-



A SECTION OF THE GENERAL OFFICES.

ties interested, residing in other parts of the State, in Hagerstown, Cumberland, and Cambridge. 273 of such formal hearings were held during the year.

#### First Year Benefits to Workmen.

The great value of the Law in affording prompt relief to injured workmen is strictly shown by the following statement of benefits derived by them during the first year: Awards for 66 fatal accidents \$178,950.54; funeral expenses \$5,720.65; awards for 225 permanent partial disabilities \$44,450.21; awards for 2960 temporary total disabilities \$83,713.64; awards for 5 temporary partial disabilities \$33.31; medical services in compensation cases \$37,321.08; medical services in cases where the injury did not incapacitate the employe beyond two weeks, \$53,843.10; showing grand total of \$404,032.53.

#### Beneficent Law—Commission's Ideals.

Compensation under the Maryland Act is fifty per cent. of the average weekly wage. Loss of member, including foot, leg, arm, hand, eye, fingers, etc., is compensated specifically for a stated number of weeks. In death cases, widows and minor children or other dependents, receive fifty per cent. of the deceased employes average weekly wage, for a period not exceeding eight years. What this relief means to those suddenly deprived of the support of husband, father, brother, or other provider for the family can only be understood fully by the beneficiaries and by those who are charged with the administration of the Compensation Act. It is true that the economic side of the plan of compensation as it relates to loss of earning power and as a charge upon industry is important, but the humanitarian aspect, the swift relief of injured workmen, and in case of death the succor extended women and children, or other dependents, marks it as the most beneficent measure ever devised to promote the social betterment of the wage-earners of the State. It is not charity, the amount received is compensation charged against hazardous industries as a part of the cost of operation of the industry.

Under this Act the Courts are relieved of damage suits, and the injured workman, who under the old law had no remedy in the Courts, brings his claim before the Industrial Accident Commission. If this body errs or if any claimant or employer is aggrieved by any decision, he still has the right to a Court review. The work of the Commission demands a very high conception of its importance and dignity, and the same judicial poise and impartiality in passing upon the claims coming before it for adjudication, that would be expected and demanded of any tribunal administering justice. In this spirit the members of the State Industrial Accident Commission have dedicated themselves to the work committed to them. The

Commission's ideals have not been fully realized in the first year of its work. Some important work could not be accomplished due to the press of duties requiring its entire time. This condition arose out of the complex character of its duties in a field in which the beaten paths were few. New and intricate problems arose daily requiring a vast amount of study and research covering a wide range. In the main, employers have complied with the Act, twelve thousand having insured during the year, but it is believed that quite a large number have not done so. The various Departments are now running smoothly, and another year will bring opportunities for a more effective enforcement of the Act.

#### State Accident Fund.

Under the provisions of Chapter 800 of the Acts of the General Assembly of Maryland of 1914, the Commission was authorized and directed to create, establish and administer a fund to be known as the State Accident Fund, for the purpose of insuring employers against liability under the Workmen's Compensation Act, and to secure to employes and their dependents the payment of compensation specified in the Act. The other kinds of insurance permitted are stock, mutual associations, and self-insurance when approved by the Commission. The State did not appropriate working capital for the Accident Fund, but simply provided for the creation of a fund through rates charged on each one hundred dollars of payroll, graded according to the hazard of the employment. In the absence of reliable statistics showing the cost of compensation insurance in Maryland, it was decided to use the Maryland rates of the Workmen's Compensation Service Bureau of New York, and discount these by approximately ten per cent., for the first year's business.

An experienced man who had handled workmen's compensation insurance for one of the largest stock companies, was chosen as Superintendent, and under the direction of the Commission, conducts the business of the State Accident Fund in a manner similar to other insurance carriers. It was predicted by competitors that the Fund would not be a success; that it would get the undesirable or "bad risks," but after one year's experience none of these fears has been realized; on the contrary, the Fund is steadily growing, has met all demands upon it promptly, and winds up the year's business in a very satisfactory condition.

After reserving \$4,213.93 to pay all awards to maturity; setting aside \$3,145.64 representing unearned premiums; and \$1,682.88, an amount equal to ten per cent. of all premiums, as required by Section 23 of the Act, to be set aside each year as a special surplus, there remained a balance of \$42,573.97.

This balance includes \$15,000 transferred from the 1914 appropriation in furtherance of what the Commission conceived to be sound business policy. It is our hope and expectation that within a reasonably short time this amount may be returned to the State Treasury. On June 23, 1915, the Commission requested the Board of Public Works to invest \$30,000 in approved interest-bearing securities.

As the State compels employers to insure the payment of compensation to their injured employes, it would be manifestly unfair not to provide a method wholly under the control of the State. The creation of the Accident Fund brings about real competition and safe-guards employers from excessive rates. The Commission believes that a healthy competition is the wisest policy. Rates in the "State Accident Fund" have been further reduced for the year beginning November 1, 1915, (approximately fifteen per cent.), in line with the policy of bringing the rates down to as near cost as is consistent with the maintenance of a solvent Fund. Eight hundred and forty-two employes insured in the Fund during the year ended October 31, 1915, and there were five hundred and three accidents adjusted under its policies.

The Superintendent of the State Fund is planning a vigorous campaign for accident prevention this year and in this laudable work should receive the cordial co-operation of employers and employes.

The medical service of this Department is under the direction of Dr. Robert P. Bay, the Chief Medical Examiner of the Commission. Physicians designated to attend injured employes insured by the Accident Fund have been selected with special reference to their professional standing and availability in time of need. The Fund will accept the services of a family physician selected by the injured whenever it is apparent that the best interests of the injured will be served thereby.

One of the most important questions associated with Workmen's Compensation is the cost of insurance to employers. Reliable data upon which to base scientific calculations has been meagre up to this time, due to the short period of time such laws have been in operation in this country. Insurance carriers, compensation Boards, State Insurance Departments and other agencies are all carefully studying the subject, and with the compiling of statistics of all these agencies from accurate data now being secured, it is believed that within a comparatively short time sufficient experience will have been gained upon which rates may be scientifically computed. When this is done, in our judgment, rates will be gradually reduced.

#### Suggested Changes.

The State Accident Fund under the provisions of Sec. 23 of the Act, is required to be organized and maintained on a

reserve basis, yet, there are provisions in the law which are inconsistent with that idea, and which are properly applicable only to an insurance business conducted on a current cost basis. For instance, Section 26, which prescribes the terms on which employers insured in the fund may withdraw therefrom imposes conditions precedent for withdrawal which would seem to be proper only when the fund or business is conducted on a current cost basis. In the opinion of the Commission, the State Accident Fund should be continued on a reserve basis, and the Act so amended as to make all the provisions thereof relative to the Fund, consistent with the basis upon which it is to be conducted.

By a reference to Secs. 17 and 21 of the Act, it will be seen that premiums for insurance in the State Accident Fund are required to be paid quarterly or every three months. These premiums are based upon the amount of the employer's payroll which the employer is required to submit to the Commission every four months. That the Act thus provides for the payment of the premium every three months, and the filing of the payroll every four months, is probably due to an inadvertence. These sections should be amended and we recommend that Employers insuring in the State Accident Fund be required to submit the payroll and pay the premium every four months.

We further recommend that the Act be so amended as to authorize and empower the Commission, in its discretion, to require all employers against whom an award of compensation has been made who have failed to insure such compensation, to pay unto the State Accident Fund the present worth of all compensation payments awarded by the Commission to any claimant or claimants, and to collect such present worth, if need be, by civil action against said employer in the name of the State of Maryland. Out of the funds in the said State Accident Fund there should then be set apart and maintained a reserve sufficient at all times to meet all payments under the terms of said awards.

In the second paragraph of Section 11 the word **except** is omitted immediately following the word **exclusive**, and an amendment should be made so that said paragraph will read:

"The liability prescribed by the last preceding paragraph shall be exclusive, except that if an employer fail, etc.

The last clause of Section 19, being the proviso clause, should be amended to read as follows:

"Provided, also, that for the purpose of this Act, the pay of the employee employed partly within and partly without the State shall be deemed to be such proportion of the total pay of such employee as his service within the State bears to his total services.

State of Maryland

SECOND  
ANNUAL REPORT

OF THE

State Industrial Accident Commission  
OF MARYLAND

For The Year November 1, 1915,  
To October 31, 1916, Inclusive

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COMMISSIONERS

JNO. MILTON REIPSNIDER, Chairman  
CHAS. D. WAGAMAN                      JAMES HIGGINS  
HOWARD C. HILL, Secretary

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BALTIMORE CITY  
PRINTING AND BINDING  
COMPANY

## STATE ACCIDENT FUND.

Some method of securing to the injured employee the payment of such compensation or other benefits as are provided to be paid is recognized as an essential feature of any compensation system. The method by which these payments shall be so secured is a question upon which there is a wide difference of opinion. There are four general methods in operation, or provided, for securing the payment of compensation: State Fund Insurance, Stock or Mutual Companies, Mutual Associations of Employers, and so-called Self-Insurance, by which an employer assumes his own risk, usually conditioned upon his furnishing bond or depositing securities.

The term "State Insurance" in the ears of some people has a socialistic tone, although that indictment has almost ceased to be raised as a serious objection to so-called State Funds as they are being operated in various States of the United States and Provinces of Canada.

We have come to accept not only the principle of Workmen's Compensation and compulsory insurance but also the right and the wisdom of the State's entering into the insurance field, and providing a means whereby this burden which is borne ultimately by the citizens who are the consumers, but in the first instance by the employers, may be provided for with a fair degree of safety and certainty of cost.

There are several types of State Fund Insurance actually in operation in America all of which are slight deviations from one of the two systems, namely: Exclusive State Funds, and State Funds in competition with stock or mutual companies. Ohio and Washington are typical of the former class in the United States, the Province of Nova Scotia having perhaps the most extreme type of compulsory exclusive State Insurance for Workmen's Compensation. In that Province, not only are all hazardous employments subject to the law as regards compensation, but also every employer so covered is presumed to have insured in the State Fund, the only method of Insurance provided, with a penalty attached for failure to notify the Industrial Board and pay the premiums due. This, of course, affords complete protection to the injured workman, although there is a strong feeling among even advocates of State Fund Insurance that this places too heavy a potential burden upon the subscribers

to the Fund who do comply with the requirements of the law. It seems, however, that the degree of this burden would depend upon the thoroughness with which the penalties are exacted.

The Maryland Fund is in the second class mentioned, namely: a Fund in competition, nominally at least, with stock and mutual insurance companies. It is very obvious that under a compulsory insurance law some form of State Insurance is a necessity, in order to provide a certain method for employers to accept; inasmuch as there might otherwise develop the rather anomalous situation in which no company would offer to write insurance which the Law requires.

In addition to the necessity for it there is also advanced the argument that a State Fund is advisable as a check upon private companies, especially in keeping down the rates charged for this class of insurance. Practice and experience generally serve to demonstrate how far this aim is accomplished.

In measuring the efficiency of any method of insurance three important elements are to be considered: First, Stability, measured by the adequacy and security of its reserves, and the volume of its business; second, Economy, measured by the administrative and operating expenses; and third, Service, or degree of promptness and justice exercised in the payment of losses.

The Maryland State Fund when measured by these requirements shows a highly satisfactory condition. A glance at the financial statement will show a financial condition of security far beyond the ordinary requirements. As to the volume of business not only are nearly 9% of the employers insured in the State Fund, about 80% being distributed among about 20 insurance companies, and a trifle less than 1% being Self Insurers, but so far as has been ascertained the volume of business in the Fund measured by the amount of premiums leaves only three or four companies ahead of it.

This amount of business has come to the Fund with comparatively little solicitation. The right of the State Fund's entering into competition with the stock companies or the wisdom of its doing so has been questioned by some; suffice it to say that at least so far the Commission has not entered into such competition by active solicitation. This no doubt has materially helped the State Fund to measure up to the second requirement, that of economical administration. The criticism

that the administrative expense of the Fund should be borne by the Fund and not by the general appropriations for the expenses of the Commission is perhaps a just one, and an amendment to the law by the 1916 Legislature makes provision for such a shifting of the burden. But from whatever source the funds for maintenance are forthcoming, a rather liberal cost accounting for the past two years indicates that the cost of administration of the Fund has not exceeded 10%, this is to be compared with cost for stock companies ranging from 30% to 40%.

From the standpoint of service the State Accident Fund, under the general direction of the Chief Medical Adviser, furnishes promptly first aid and such medical, surgical, hospital and like services as are required by the Act, and promptly pays to injured employees such compensation as is ordered by the awards of the Commission. An obstacle in the way of prompt service in the payment of compensation has been removed by an arrangement recently consummated whereby the sum of \$5,000 of the State Accident Fund will be placed by the State Treasurer in the custody of the Commission for payment of current awards, to be reimbursed from time to time by the usual requisitions on the Treasurer's office for payments as made. It has been necessary in the past for claimants to wait until the requisition could be forwarded to the Treasurer, through the Comptroller's office, and the check sent back by the same route to the office of the Commission. The claimant can now be paid immediately following an award.

The following report from the office of the State Accident Fund shows the general condition and experience of the Fund, with tabulated statistics of the accidents to the employees of the employers insured in the Fund:

THE STATE INDUSTRIAL ACCIDENT COMMISSION:

GENTLEMEN:

I herewith submit my report as to the condition of the State Accident Fund, at the end of the second year of its operation, October 31, 1916.

The State Accident Fund started business November 1, 1914, without capital.

Assets November 1, 1916.....	\$102,152.74
Reserves for benefit of policy holders over all claims .....	67,689.07
Transferred from appropriation for support of the Commission (Sec. 63, Chapter 800, Acts of 1914)....	15,000.00
Reserve at end of the two years.....	52,669.07

The above result has been obtained notwithstanding the obstacles in the law, as originally passed, which required a policy holder to deposit the present value of all outstanding claims for accidents against his policy if he wished to withdraw from the State Accident Fund.

An amendment passed at the last Session of the Legislature provides that any policy holder may withdraw from the Fund, on sixty days' notice, if he provides protection for his employees under one of the other methods provided for in the Compensation Act.

The Commission has greatly strengthened the State Accident Fund in two important departments.

First—By re-insuring the Fund against catastrophe hazard, the effect of which is to so safeguard the Fund against heavy losses, that single accident, involving the payment of compensation costs, ranging from \$25,000 to \$150,000 would not in any way endanger the solvency of the Fund.

Second—By securing the services of Emile E. Watson, Columbus, Ohio, in the capacity of Consulting Actuary.

Mr. Watson is considered an Actuary of the highest attainments, having broad experience in State Fund Work. He has reduced our rates to a sound actuarial basis, and has worked out for the Fund one of the most scientific Merit Rating Systems now in use in the United States.

By developing a strong State Accident Fund the employers of Maryland will be enabled to secure Compensation Insurance at a minimum cost, as all State fund rates are relieved from the usual load of agents' and brokers' commissions, dividends to stock holders and State taxation.

It is therefore to the interest of all employers to help in the developing and strengthening of the State Accident Fund, for by so doing they are developing an insurance carrier, the aim of which is to write Compensation Insurance at actual cost.

Respectfully submitted

J. ARTHUR BRADLEY,  
Superintendent.

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# Report of the Governor's Task Force to Study the State Accident Fund

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**1988**



**WILLIAM DONALD SCHAEFER**  
Governor of Maryland

**MELVIN A. STEINBERG**  
Lt. Governor

January 23, 1988

The Honorable William Donald Schaefer  
Governor, State of Maryland  
State House  
Annapolis, Maryland 21404

Dear Governor Schaefer:

In accordance with Chapter 585 of the Laws of Maryland of 1987, I am pleased to submit to you the final report of the findings and recommendations of the Governor's Task Force to Study the State Accident Fund.

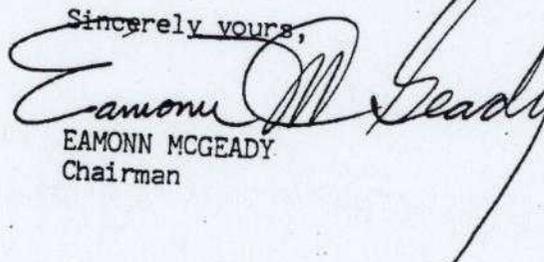
Beginning with our initial organization meeting the Commission and staff have worked very hard to complete the task assigned to us by the statute. All of the Task Force members and staff demonstrated great dedication and commitment to meet their responsibilities.

The following report provides a comprehensive set of nine recommendations directed toward the goal of enlarging the scope and enhancing the ability of the State Accident Fund to serve the needs of Maryland's employers.

While there was not unanimous agreement on all the recommendations, and, in fact, two minority reports are submitted as part of this report, there was a strong consensus on all the recommendations. In addition, all the members worked in a very constructive manner and in an atmosphere of goodwill.

On behalf of myself and all the members of the Commission, I wish to thank you for giving us the opportunity to help you move Maryland forward.

Sincerely yours,

  
EAMONN MCGEADY  
Chairman

EMcG:bah

## Part I

### INTRODUCTION

#### History

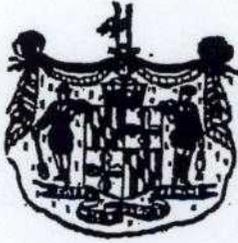
Maryland was one of the first states in the union to enact a workers' compensation statute. This occurred in 1914 and was a significant breakthrough for Maryland workers and employers. As part of this original statute (Chapter 800 of the Acts of 1914) the State Accident Fund was created. The purpose of the Fund then, as today, was to insure employers who did not want or could not obtain workers' compensation coverage from commercial casualty insurance sources and who chose not to or who could not self insure.

The Fund provides insurance to any Maryland employer who meets the two simple requirements of filing accurate payroll data and not defaulting on premium payments. These are the only reasons an employer can lose his coverage with the State Accident Fund. Because of this, the State Accident Fund serves clients who have been unable to obtain private insurance because of risk factors, and clients who may never have sought private insurance. The Fund, now and for the last 73 years, is not just an insurer of last resort. It is a viable alternative to self insurance and the commercial insurance market. Today the State Accident Fund is the single largest writer of workers' compensation insurance in Maryland, with approximately 20% of the market.

Although the Fund is an integral part of Maryland's workers' compensation system, it has often been overlooked. From 1978-1986 several groups have studied workers' compensation in Maryland, but none of them have made mention of the Fund. In 1986, Governor Hughes appointed the Governor's Commission to Study the Workers' Compensation System to make recommendations in response to objective findings that showed Maryland has a high cost of workers' compensation relative to other states. That Commission's final report provided a comprehensive set of twenty-five recommendations directed toward the goal of reducing costs and enhancing efficiency while providing equity and an adequate level of benefits. Three of those recommendations concerned the State Accident Fund. Recommendation 14 read, in part "that...a subsequent Commission prepare a plan for the Governor and the 1988 General Assembly on the appropriate organizational and legal structure of the State Accident Fund so that services may be delivered more effectively".

As a direct result of this recommendation, the 1987 General Assembly enacted and Governor Schaefer signed into law Chapter 585 of the Laws of 1987. This bill, in addition to making certain changes in the structure and power of the State Accident Fund, directed the Governor to appoint a Task Force to Study the State Accident Fund. The Task Force was charged with examining:

- (1) The role, scope, procedures, and operations of the Fund;
- (2) The Fund's reserve and accounting practices, including the adequacy of the Fund's reserves to meet its financial obligations over time;
- (3) The manner and degree to which the Fund should be subject to the State budget process;



# The State of Maryland

## Executive Department

### EXECUTIVE ORDER

01.01.1999.16

The Governor's Task Force to  
Study the Injured Workers' Insurance Fund

WHEREAS,

Workers' compensation insurance is required of all Maryland employers in order to protect and provide security to employees and their dependents against accidental injuries and occupational diseases;

WHEREAS,

The Injured Workers' Insurance Fund, formerly known as the State Accident Fund, has a long and distinguished history of providing workers' compensation insurance to any Maryland employer unable to obtain such coverage in the private market, or who chooses to insure workers through the Fund in lieu of the private market;

WHEREAS,

During the 1987 Session of the Maryland General Assembly, legislation was enacted to revamp workers' compensation costs in Maryland, making the State Accident Fund an independent agency and establishing a Task Force to review issues affecting the Fund and its place in the competitive market;

WHEREAS,

Some recommendations of that Task Force were considered and enacted by the Maryland General Assembly in 1990, including renaming the agency as the Injured Workers' Insurance Fund, requiring audits by the Legislative Auditor every three years, increasing the competitiveness of the agents' commissions, expanding marketing of the Fund and removing employees of the Fund from classified service;

WHEREAS,

Several recommendations of the Task Force were not implemented, including expanding the number of board members from 7 to 9 and requiring that members have experience in marketing, underwriting or business;

WHEREAS,

Periodically, issues are raised for consideration by the Legislature concerning regulatory oversight, the payment of premium taxes and the fact that the Fund is not an insurer of last resort but a competitor with the private market;

**WHEREAS,**

Recent concerns have surfaced regarding procurement and management practices, as well as Board oversight; and

**WHEREAS,**

It is in the best interests of the Maryland business community and its labor force to make certain that the Fund operates at peak performance and provides a critical contribution to the goal of making workers' compensation insurance available to employers at an affordable price.

**NOW, THEREFORE,**

**I, PARRIS N. GLENDENING, GOVERNOR OF THE STATE OF MARYLAND, BY VIRTUE OF THE AUTHORITY VESTED IN ME BY THE CONSTITUTION AND THE LAWS OF MARYLAND, HEREBY PROCLAIM THE FOLLOWING EXECUTIVE ORDER, EFFECTIVE IMMEDIATELY:**

**A. The Governor's Task Force to Study the Injured Workers' Insurance Fund is hereby created.**

**B. Composition. The Task Force shall consist of up to thirteen members, including:**

**(1) Two members of the Senate appointed by the Governor upon nomination by the President of the Senate;**

**(2) Two members of the House of Delegates appointed by the Governor upon nomination by the Speaker of the House;**

**(3) A designee of the Governor;**

**(4) The Secretary of Budget and Management;**

**(5) The Insurance Commissioner; and**

**(6) Up to 6 members appointed at the discretion of the Governor, including representatives of claimants and insured small businesses and any others with relevant interest, knowledge or experience.**

**C. The Governor shall designate a Chairperson from among the members of the Task Force.**

**D. Scope.** The Task Force shall conduct a thorough examination of the Injured Workers' Insurance Fund, including:

- (1) Laws, procedures, process and scope of the Fund;
  - (2) Composition, requirements and duties of the Board;
  - (3) Underwriting practices;
  - (4) Reserve and accounting practice, including reserve adequacy;
  - (5) Management and marketing issues;
  - (6) Procurement practices;
  - (7) Commissions to agents and service to insured parties and claimants;
  - (8) Tax exempt status;
  - (9) Overall mission of the Injured Workers' Insurance Fund;
- and

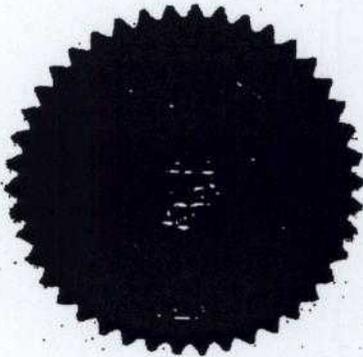
(10) Such other matters as the Task Force in its judgment deems appropriate in completing a broad program management and performance evaluation of the Fund.

**E.** Staff support for the Task Force shall be coordinated by the Governor's Office, with assistance being provided as necessary from State Departments and units.

**F.** Members of the Task Force may not receive any compensation for their services. Members may be reimbursed for their reasonable expenses incurred in the performance of duties in accordance with the State Standard Travel Regulations and as provided in the State budget.

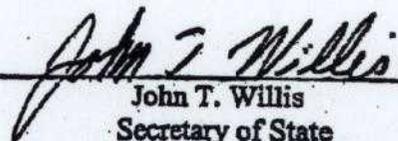
G. By November 1, 1999, the Task Force shall make an interim report of its findings, together with appropriate legislative proposals. The Task Force shall make its final report on or before June 30, 2000.

GIVEN Under My Hand and the Great Seal of the State of Maryland, in the City of Annapolis, this 2nd Day of June, 1999.



  
Parris N. Glendening  
Governor

ATTEST:

  
John T. Willis  
Secretary of State