

SUBJECT: Revisions to Texas Workers' Compensation Insurance Fund

COMMITTEE: Business and Industry — committee substitute recommended

VOTE: 6 ayes — Brimer, Rhodes, Corte, Elkins, Solomons, Woolley

0 nays

3 absent — Dukes, Giddings, Janek

WITNESSES: None

BACKGROUND : The Texas Workers' Compensation Insurance Fund is the state's largest provider of workers' compensation insurance. A state-created, independent corporation, the fund sells workers' compensation in the regular market and also insures high-risk employers. The fund is governed by a nine-member board that meets monthly. Board members serve staggered six-year terms.

DIGEST: CSHB 3354 would revise the portion of the Insurance Code outlining the duties, powers and mission of the Texas Workers' Compensation Insurance Fund. CSHB 3354 would require that the board meet on a quarterly basis, and allow board members whose term has expired to continue to serve until a replacement is named.

CSHB 3354 would eliminate statutory interest rates the fund is permitted to charge employers that elect not to prepay premiums; this interest rate would be determined annually by the board. CSHB 3354 would also allow the board, not more than once in any calendar year, to use up to 20 percent of any surplus funds to prepay or retire bond debt acquired in starting up the fund.

The bill would take effect September 1, 1997.

SUPPORTERS SAY: CSHB 3354 would free the Texas Workers Compensation Insurance Fund from statutory restrictions that have outlived their usefulness and hamper the fund's ability to effectively manage its finances. CSHB 3354 would enable the fund to compete in the premium finance market. Currently, when an employer chooses to pay premiums in installments rather than prepaying the

full amount, an outside company finances these premium payments. The fund would like to begin financing premiums, but the interest rate set in statute is considerably higher than the rate currently charged by premium finance companies, so the fund would have difficulty competing in this market. CSHB 3354 would give the fund the flexibility to determine its rates based on current market conditions. Also, CSHB 3354 would save the state money by enabling the fund to prepay its outstanding bond debt.

Now that the fund is established, board members do not need to meet every month to oversee fund operations. Board members live in various parts of the state, and the monthly meeting requirement is burdensome. Quarterly meetings would be sufficient to allow board members to adequately oversee operations.

The board's business would run more smoothly if members were allowed to serve beyond their terms until a replacement is named. In some situations, important decisions regarding the fund are held up because of delays in the Governor's Office in appointing a replacement. CSHB 3354 would ensure that these delays would not hamper the board's activities. Members of other boards routinely continue to serve beyond their terms; CSHB 3354 would simply put into statute an arrangement that has previously been conducted informally.

OPPONENTS
SAY:

CSHB 3354 would give the board too much freedom in setting interest rates. While the board's immediate objective may be to lower interest rates, nothing in the bill would prohibit the fund from dramatically increasing interest rates if market conditions change. The bill should include some ceiling on the rate the fund may charge.

The bill should also limit the amount of time board members are allowed to serve beyond their terms so that the Governor's Office would have an incentive to name a replacement in a timely manner.

NOTES:

The committee substitute limited the board's ability to prepay its bond debt to once in each calendar year.