

ASSEMBLY BILL

No. 1897

Introduced by Assembly Member Jones

February 16, 2010

An act to amend Section 11770 of, to add Sections 11806 and 11807 to, and to repeal Article 7 (commencing with Section 11885) of Chapter 4 of Part 3 of Division 2 of, the Insurance Code, relating to the State Compensation Insurance Fund.

LEGISLATIVE COUNSEL'S DIGEST

AB 1897, as introduced, Jones. State Compensation Insurance Fund.

(1) Existing law establishes the State Compensation Insurance Fund to be administered by a board of directors for the purpose of transacting workers' compensation insurance and other public employment related insurances, as specified. The board of directors is composed of 11 members, 9 of whom are appointed by the Governor.

This bill would require that the Governor's appointments be subject to confirmation by the Senate.

(2) Existing law requires that the assets of the fund be applicable to the payment of losses sustained on account of insurance and to the payment of salaries and other expenses.

This bill would require that each employee of the fund, at no cost to the employee, obtain the appropriate licenses for transacting workers' compensation insurance as a condition of employment. The bill would also require the fund to analyze the workers' compensation insurance industry standards and practices regarding adjuster caseload ratios and report to the Legislature, by March 31, 2011, on the fund's adjuster caseload ratios and a plan to bring the funds' standards and practices into line with those of other workers' compensation insurers.

(3) Existing law authorizes the Director of Finance, acting as agent for the state, to sell a portion of or otherwise obtain value for the State Compensation Insurance Fund assets and liabilities. Existing law specifies the procedures applicable to the sale or other disposition of these assets and liabilities, and would require that the proceeds of any sale or any proceeds achieved through any other disposition of workers' compensation assets and liabilities, less transaction costs, be deposited into the General Fund.

This bill would repeal those provisions.

Vote: majority. Appropriation: no. Fiscal committee: yes.
State-mandated local program: no.

The people of the State of California do enact as follows:

1 SECTION 1. Section 11770 of the Insurance Code is amended
2 to read:

3 11770. (a) The State Compensation Insurance Fund is
4 continued in existence, to be administered by its board of directors
5 for the purpose of transacting workers' compensation insurance,
6 and insurance against the expense of defending any suit for serious
7 and willful misconduct, against an employer or his or her agent,
8 and insurance to employees and other persons of the compensation
9 fixed by the workers' compensation laws for employees and their
10 dependents. Any appropriation made therefrom or thereto before
11 the effective date of this code shall continue to be available for the
12 purposes for which it was made.

13 (b) (1) The Board of Directors of the State Compensation
14 Insurance Fund is composed of 11 members, nine of whom shall
15 be appointed by the Governor, *subject to confirmation by the*
16 *Senate*. The Governor shall appoint the chairperson. One of the
17 members appointed by the Governor shall be from organized labor.
18 The members appointed by the Governor, other than the labor
19 member, shall have substantial experience in positions involving
20 workers' compensation, legal, investment, financial, corporate
21 governance and management, accounting, or auditing
22 responsibilities with entities of sufficient size as to make their
23 qualifications relevant to an enterprise of the financial and
24 operational size of the State Compensation Insurance Fund. At all
25 times the board shall have a member with auditing background
26 for the purposes of fulfilling the responsibility of the chair of the

1 audit committee. A quorum is a majority of those appointed,
2 provided that at no time shall a quorum be established with less
3 than five members.

4 (2) The Speaker of the Assembly shall appoint one member
5 who shall represent organized labor, and the Senate Committee
6 on Rules shall appoint one member who shall have been a
7 policyholder of the State Compensation Insurance Fund, or an
8 officer or employee of a policyholder, for one year immediately
9 preceding the appointment, and must continue in this status during
10 the period of his or her membership.

11 (3) The Director of Industrial Relations shall be an ex officio,
12 nonvoting member of the board, and shall not be counted as
13 members of the board for quorum purposes or any other purpose.

14 (4) Notwithstanding subdivision (c), the initial term of the
15 members of the board added in the 2008 portion of the 2007–08
16 Regular Session shall be as follows:

17 (A) One of the members appointed by the Governor shall serve
18 an initial term of two years, one shall serve an initial term of four
19 years, and two shall serve an initial term of five years.

20 (B) The member appointed by the Senate Committee on Rules
21 shall serve an initial term of four years.

22 (C) The member appointed by the Speaker of the Assembly
23 shall serve an initial term of three years.

24 (c) The term of office of the members of the board, other than
25 that of the director, shall be five years and they shall hold office
26 until the appointment and qualification of their successors.

27 (d) (1) Each member of the board shall receive his or her actual
28 and necessary traveling expenses incurred in the performance of
29 his or her duties as a member and, with the exception of the ex
30 officio members, one hundred dollars (\$100) for each day of his
31 or her actual attendance at meetings of the board.

32 (2) (A) Each member of the board appointed pursuant to
33 paragraphs (1) and (2) of subdivision (b) shall receive the
34 compensation fixed pursuant to subparagraph (B).

35 (B) Each board member described in subparagraph (A) shall be
36 paid an annual compensation of fifty thousand dollars (\$50,000),
37 to be automatically adjusted beginning January 1, 2010, by
38 multiplying the compensation in effect the prior June 30 by the
39 percentage of inflation that occurred during the previous year,
40 adding this amount to the annual compensation from the previous

1 year, and rounding off the result to the nearest dollar. “Percentage
2 of inflation” means the percentage of inflation specified in the
3 Consumer Price Index for All Urban Consumers, as published by
4 the Department of Industrial Relations, Division of Labor Statistics
5 and Research, or its successor index.

6 (e) Each member of the board of directors shall attend training
7 approved by the board of directors that covers topics, including,
8 but not limited to, the duties and obligations of members of a board
9 of directors, corporate governance, ethics, board of director legal
10 issues, insurance, finance and investment, and information
11 technology. The training shall be conducted by persons or entities
12 not affiliated with the State Compensation Insurance Fund.

13 (f) No person who has had a direct or indirect interest in any
14 transaction with the State Compensation Insurance Fund since the
15 beginning of the last fiscal year of the fund, or who has a direct or
16 indirect material interest in any proposed transaction with the fund,
17 where the amount involved in the transaction exceeds one hundred
18 twenty thousand dollars (\$120,000) shall be eligible for
19 appointment as a member of the board of directors of the fund.
20 Once appointed, no member of the board of directors shall have a
21 financial conflict of interest, as defined in Chapter 7 ~~of Title 9~~
22 (commencing with Section 87100) *of Title 9* of the Government
23 Code, and every member shall be subject to Article 4 (commencing
24 with Section 1090) of Chapter 1 of Division 4 of Title 1 of the
25 Government Code, provided that the existence of a contract of
26 insurance between the State Compensation Insurance Fund and
27 the policyholder member appointed by the Senate Committee on
28 Rules shall not constitute a conflict of interest pursuant to this
29 subdivision. For purposes of board actions affecting generally
30 applicable rates, a member of the board of directors shall not be
31 deemed to have a financial interest, as defined in Article 4
32 (commencing with Section 1090) of Chapter 1 of Division 4 of
33 Title 1 of, or pursuant to Chapter 7 (commencing with Section
34 87100) of Title 9 of, the Government Code, in a contract of
35 insurance between the State Compensation Insurance Fund and
36 an organization of which any member of the board of directors is
37 an owner, officer, or employee.

38 (g) The appointing authority of a member of the board may
39 remove the member and make an appointment replacing the
40 member for the duration of the term if the member ceases to

1 discharge the duties of his or her office for the period of three
2 consecutive board meetings.

3 (h) The board of the State Compensation Insurance Fund shall
4 create, at a minimum, an audit committee, an investment
5 committee, a corporate governance committee, and other
6 committees as the board determines are necessary.

7 SEC. 2. Section 11806 is added to the Insurance Code, to read:

8 11806. The fund shall require each employee who solicits,
9 negotiates, or effects contracts of workers' compensation insurance,
10 or acts in any of the capacities defined in Article 1 (commencing
11 with Section 1621) of Chapter 5 of Part 2 of Division 1, to obtain
12 all appropriate licenses from the department as a condition of
13 employment. The employee shall not bear the cost of obtaining
14 these licenses, including any applicable education and licensing
15 fees.

16 SEC. 3. Section 11807 is added to the Insurance Code, to read:

17 11807. The fund shall analyze the workers' compensation
18 insurance industry standards and practices regarding adjuster
19 caseload ratios and report to the Legislature, by March 31, 2011,
20 on the fund's adjuster caseload ratios and a plan to bring the funds'
21 standards and practices into line with those of other workers'
22 compensation insurers.

23 SEC. 4. Article 7 (commencing with Section 11885) of Chapter
24 4 of Part 3 of Division 2 of the Insurance Code is repealed.