House Bill 2634

Sponsored by Representative CLEM (at the request of Oregon Self Insurers Association) (Presession filed.)

SUMMARY

The following summary is not prepared by the sponsors of the measure and is not a part of the body thereof subject to consideration by the Legislative Assembly. It is an editor's brief statement of the essential features of the measure **as introduced.**

Establishes Self-Insurer Security Fund for certain employers subject to workers' compensation laws. Requires self-insured employers to become members of fund. Instructs Director of Department and Consumer and Business Services to adopt rules related to fund and alternative security deposit system. Requires fund to adopt certain bylaws and to set assessment for members. Requires fund to make annual report to director and members of fund. Imposes penalties for certain violations.

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- Relating to self-insurance of workers' compensation obligations; creating new provisions; and amending ORS 656.018 and 656.704.
- 4 Be It Enacted by the People of the State of Oregon:
 - SECTION 1. Sections 2 to 11 of this 2013 Act are added to and made a part of ORS chapter 656.
 - SECTION 2. As used in sections 2 to 11 of this 2013 Act:
 - (1) "Board member" means a member of the board of trustees of the Self-Insurer Security Fund.
 - (2) "Composite deposit" means an alternative security deposit system under which all eligible self-insured employers collectively secure, in whole or in part, aggregate self-insured workers' compensation liabilities through the Self-Insurer Security Fund.
 - (3) "Insolvent self-insured employer" means a self-insured employer:
 - (a) That has been declared insolvent by a court of competent jurisdiction; or
 - (b) That has failed to pay compensation and whose security deposit has been called by the director pursuant to ORS 656.407.
 - (4) "Member" means a private self-insured employer that participates in the Self-Insurer Security Fund.
 - (5) "Self-insured employer" means an employer certified under ORS 656.430 as meeting the qualifications set out by ORS 656.407. "Self-insured employer" does not include self-insured employer groups and public entities.
 - SECTION 3. (1) There is established the Self-Insurer Security Fund, in the form of a nonprofit mutual benefit corporation. Each self-insured employer shall become and remain a member of the fund as a condition of the self-insured employer remaining certified under ORS 656.430, except as provided by administrative rule. Self-insured employers whose liabilities have been turned over to the fund by the Director of the Department of Consumer and Business Services shall forfeit their membership in the fund.
 - (2) The fund shall be governed by a board of trustees. The board of trustees shall consist of an odd number of board members elected by the members of the fund, subject to the approval of the director. Board members shall be representatives of self-insured employers.

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- (3)(a) The fund shall adopt bylaws necessary to effectuate the purposes of this section, to carry out the responsibilities of the fund under this chapter, including, but not limited to, any obligations imposed by the director pursuant to ORS 656.403, 656.407 and 656.430, and to provide for governance of the fund. The fund and self-insured employers participating in the fund are not obligated to pay any amounts or assessments to the Self-Insured Employer Adjustment Reserve established under ORS 656.614.
- (b) The fund may carry out its responsibilities directly or by contract, and may purchase services and insurance and borrow funds as it deems necessary for the protection of the board members and employees of the fund.
- (4) The fund may receive confidential information concerning the financial condition of self-insured employers whose liabilities to pay compensation may devolve upon the fund and shall adopt bylaws to prevent dissemination of that information.
- SECTION 4. (1)(a) As an alternative to each self-insured employer securing its own incurred liabilities as provided in ORS 656.407, the Director of the Department of Business and Consumer Services may adopt by rule an alternative security deposit system whereby all self-insured employers designated for full or partial participation by the director shall collectively secure their aggregate incurred liabilities through the fund.
- (b) The rules adopted under subsection (1) of this section shall require the director to set a total security requirement for participating self-insured employers based on a review of the participating self-insured employers' annual reports and any other information required by the director.
- (c) The fund shall submit to the director annually a proposed composite deposit, which may consist of a combination of cash and securities, surety bonds, irrevocable letters of credit, insurance or other financial instruments or guarantees sufficient to meet the security requirement set by the director. The director may object to the proposed composite deposit within 30 days of submission of the proposed composite deposit by the fund. If the director does not object within 30 days of submission, the proposed composite deposit is approved by the director. If the proposed composite deposit is not approved, each self-insured employer shall secure its incurred liabilities in the manner required by ORS 656.407.
- (d) Self-insured employers not designated for full or partial participation by the director shall meet all requirements as established by the director and by the fund.
- (2) In order to provide the composite deposit approved by the director, the fund shall assess each participating self-insured employer a deposit assessment payable within 30 days of assessment. The amount of the deposit assessment charged to each participating self-insured employer shall be set by the fund.
- (3)(a) In order to make a composite deposit proposal to the director and set the deposit assessment to be required of each participating self-insured employer, the fund shall have access to the annual reports and other information submitted by all self-insured employers to the director.
- (b) The director shall adopt rules that specify the conditions for access by the fund to the information specified in paragraph (a) of this subsection. The rules adopted under this subsection shall preserve the confidentiality of the self-insured employers' financial information.
- (4)(a) Upon payment of the deposit assessment required under subsection (2) of this section, the self-insured employer paying the assessment loses all right to, title to and interest

in the deposit assessment.

- (b) To the extent that in any one year the deposit assessment paid by self-insured employers is not depleted in the purchase of securities, surety bonds, irrevocable letters of credit, insurance or other financial instruments or guarantees, the surplus shall remain as part of the composite deposit in subsequent years.
- (c) If in any one year the fund fails to post the required composite deposit by the date required by the director, or if the director rejects the proposed composite deposit, and the director requires each self-insured employer to secure the incurred liabilities of the self-insured employer in the manner required by ORS 656.407, the deposit assessment paid in that year shall be refunded, upon the posting of sufficient individual collateral by the self-insured employer, to the self-insured employer that paid the deposit assessment.
- (5)(a) If a self-insured employer objects to the calculation, posting or any other aspect of the deposit assessment required by subsection (2) of this section, upon payment of the deposit assessment in the time provided, the self-insured employer may appeal the assessment to the director, who shall have exclusive jurisdiction over the dispute.
- (b) If a self-insured employer fails to pay the deposit assessment in the time provided, the director:
- (A) Shall order the self-insured employer to pay a penalty of not less than 10 percent of the deposit assessment, and to post a separate security deposit in the manner provided by ORS 656.407. The penalty shall be paid to the director, who shall transfer moneys received to the fund.
 - (B) May revoke the certificate of self-insurance of the self-insured employer.
- (c) The composite deposit, and all deposit assessments, shall be held by the fund. The director shall determine when a self-insured employer has failed to pay workers' compensation benefits as required by this chapter and order the fund to commence payment. Upon ordering the fund to commence payment, the director shall make available to the fund any deposit held by the director for payment of the workers' compensation benefit obligations of the self-insured employer that fails to pay the deposit assessment.
- (6) The fund may hold and invest the cash portion of the deposit, and may draw upon it to pay claims of self-insured employers that fail to pay the deposit assessment, purchase financial instruments, pay reasonable administrative expenses of the fund or establish a cash reserve or for other purposes authorized by the director by rule.
- (7)(a) The fund shall set minimum credit, financial or other conditions that a self-insured employer must meet in order to be a fully or partially participating self-insured employer in the alternative security deposit system.
- (b) The fund may exclude a self-insured employer from participating in the alternative security deposit system for credit or financial reasons. In the event a self-insured employer is excluded from participation, the nonparticipating self-insured employer shall post a separate security deposit as set by the director in the manner provided by ORS 656.407.
- (8) A self-insured employer that fails to submit reports or information as required by the director to implement the purposes of sections 2 to 11 of this 2013 Act is subject to the assessment of a civil penalty under ORS 656.745. A civil penalty collected under this section shall be paid to the fund.
- <u>SECTION 5.</u> (1) A self-insured employer shall secure the incurred workers' compensation liabilities of the self-insured employer at all times, either in the manner required by ORS

656.407 or through the alternative security deposit system.

- (2) Employers that have ceased to be self-insured employers shall discharge their continuing obligations to secure the payment of workers' compensation benefits that accrued during the period of self-insurance and shall comply with the following obligations of current certificate of self-insurance holders:
- (a) Filing annual reports as required by the Director of the Department of Consumer and Business Services to carry out the requirements of this chapter.
- (b) Depositing and maintaining a security deposit for accrued liability for payment of any worker's compensation benefits that may become due, pursuant ORS 656.430.
- (c) Paying within 30 days of notice all assessments for when the employer's certificate of self-insurance was in effect.

SECTION 6. (1)(a) If the Director of the Department of Consumer and Business Services determines that a self-insured employer, including an employer that is no longer self-insured, has failed to comply with section 5 of this 2013 Act or has violated sections 2 to 11 of this 2013 Act, the director may enter an order against the self-insured employer directing compliance and restitution for any losses and imposing a civil penalty, which shall be paid to the Self-Insurer Security Fund.

- (b) Penalties assessed under paragraph (a) of this subsection may not exceed:
- (A) For a failure to file a complete or timely annual report, the lesser of an amount up to five percent of the incurred liabilities reported in the last report or \$1,500 for each 30-day period or portion thereof during which there is a failure to file a complete or timely report.
- (B) If the failure to file a complete or timely annual report was malicious, fraudulent, the result of bad faith or a repeated violation, twice the amounts assessed under section 4 (8) of this 2013 Act.
- (C) For a failure to timely or completely pay a deposit assessment required under section 4 of this 2013 Act, the lesser of an amount up to the total deposit assessment or \$2,500 for each 30-day period or portion thereof during which there is a failure to pay the total deposit assessment.
- (c) Penalties imposed under this section are in addition to remedies and penalties otherwise provided for in this chapter for the failure to secure the payment of workers' compensation benefits.
- (2) A self-insured employer may deposit and maintain a security deposit or pay a deposit assessment, while reserving the right of the self-insured employer to challenge the amount of the deposit assessment or liability for the assessment at a hearing as provided for in ORS 656.740. If the director or a court, upon appeal, concludes that the amount assessed was excessive or that the employer is not liable for the assessment, the director may waive, release, compromise or order the refund of amounts that had been paid or deposited by the self-insured employer.

SECTION 7. (1) Upon order of the Director of the Department of Consumer and Business Services, the Self-Insurer Security Fund shall assume the workers' compensation obligations of an insolvent self-insured employer, including existing workers' compensation obligations of a self-insured employer that became insolvent prior to the creation of the fund. If the director determines that the payment of benefits and claims administration shall be made through the fund, the fund shall commence payment of the self-insured employer's workers' compensation obligations within 30 days of notification from the director.

- (2) Upon the assumption of obligations by the fund pursuant to an order issued by the director, the fund shall have a right to immediate possession of any posted security, and the custodian, surety or issuer of any irrevocable letter of credit and the director shall convey to the fund the security and the interest that has accrued since the date of the self-insured employer's default or insolvency.
- (3) The director shall advise the fund promptly after receipt of information indicating that a self-insured employer may be unable to meet its compensation obligations. The director shall also advise the fund of all determinations and directives made or issued pursuant to this section.
- (4) Any decision by the director or the fund may be contested in the manner provided for in ORS 656.704.
- (5) Nothing in sections 2 to 11 of this 2013 Act abrogates the ability of a self-insured employer to insure against known or unknown claims arising out of the self-insurance period.
- (6) Notwithstanding section 6 of this 2013 Act, the fund is not liable for the payment of any penalties assessed for any act or omission on the part of any person other than the fund, including, but not limited to, the penalties provided in ORS 656.382, 656.745, 656.750 or 656.990.
- (7) The fund shall be a party in interest in all proceedings involving workers' compensation claims against an insolvent self-insured employer whose workers' compensation obligations have been paid or assumed by the fund. The fund may:
 - (a) Investigate, process, accept or deny claims.

- (b) Receive notice of, adjust, compromise, settle and pay claims.
- (c) Appear in any proceeding related to a claim, defend claims and appeal claims.
- SECTION 8. (1) The Self-Insurer Security Fund shall obtain reimbursement from an insolvent self-insured employer of amounts up to the amount of the self-insured employer's workers' compensation obligations and legal costs. This includes, but is not limited to, reimbursement for wages and other necessities of life advanced to a claimant in any action to collect against the self-insured employer as the debtor in which the fund is the subrogee of the claimant.
- (2) The fund shall obtain, from the security deposit of an insolvent self-insured employer, the amount of the self-insured employer's workers' compensation obligations, including reasonable administrative and legal costs, paid or assumed by the fund. The fund shall be a party in interest in any action to obtain the security deposit for the payment of workers' compensation obligations of an insolvent self-insured employer.
- (3) The fund may bring an action against any person, including, but not limited to, an excess insurance carrier of the self-insured employer and a person whose negligence or breach of an obligation contributed to an underestimation of the self-insured employer's total accrued liability, as reported to the Director of the Department of Consumer and Business Services, to recover compensation paid and liability assumed by the fund.
- (4) The fund may be a party in interest in an action brought by a person seeking damages resulting from the failure of an insolvent self-insured employer to pay workers' compensation benefits required under this chapter.
- (5) The fund shall have the same preference over the other debts of the principal or the principal's estate as is given by law to the person directly entitled to workers' compensation benefits.

- (6) The liability of the fund for a claim brought under this chapter and under the federal Longshore and Harbor Workers' Compensation Act to pay for shortfalls in a security deposit is limited to the amount of claim liability owing the claimant under this chapter offset by the amount of any claim liability owing under the Longshore and Harbor Workers' Compensation Act.
- (7) The insolvent self-insured employer loses all right to, title to and interest in, and any right to control, all assets or obligations posted or left on deposit as security. The director may liquidate the deposit as provided in ORS 656.443 and apply it to the insolvent self-insured employer's incurred liabilities either directly or through the fund.
- SECTION 9. (1) The Self-Insurer Security Fund may assess each of its members amounts necessary to carry out the purposes of sections 2 to 11 of this 2013 Act. Moneys obtained by such assessments and moneys and other assets held by the fund may be used only for the purposes of sections 2 to 11 of this 2013 Act.
- (2) The failure of a member to timely pay required assessments shall be good cause for revocation by the Director of the Department of Consumer and Business Services of the member's certification as a self-insured employer under ORS 656.430.
- (3) The fund shall certify to the director the receipt, collection and delinquencies in payment of all moneys from assessments and penalties payable to the fund. The fund shall take any action deemed appropriate by the fund to collect delinquent assessments and penalties.
- SECTION 10. (1) The Self-Insurer Security Fund shall annually contract for an independent certified audit of the financial activities of the fund. An annual report on the financial status of the fund as of June 30 of each year shall be submitted to the Director of the Department of Consumer and Business Services and to each member of the fund by December 1 of each year.
- (2) Except for taxes levied on real or personal property, the fund is exempt from payment of all fees and taxes levied by this state or by any city, county, district or other political subdivision of this state.
- SECTION 11. (1) If an insolvent self-insured employer is a party to a pending proceeding under this chapter, the proceeding shall be stayed for 60 days after the date the Director of the Department of Consumer and Business Services orders the self-insurer security fund to assume the workers' compensation obligations of the insolvent self-insured employer.
- (2) If any claim under this chapter arises from a judgment based on the default of the insolvent self-insured employer or the failure of the insolvent self-insured employer to defend the claim, the fund may apply to have the judgment set aside, and shall be permitted to defend against the claim on its merits.
 - SECTION 12. ORS 656.704 is amended to read:
- 656.704. (1) Actions and orders of the Director of the Department of Consumer and Business Services regarding matters concerning a claim under this chapter, and administrative and judicial review of those matters, are subject to the procedural provisions of this chapter and such procedural rules as the Workers' Compensation Board may prescribe.
- (2)(a) A party dissatisfied with an action or order, including actions by the Self-Insurer Security Fund, regarding a matter other than a matter concerning a claim under this chapter may request a hearing on the matter in writing to the director. The director shall refer the request for hearing to the Workers' Compensation Board for a hearing before an Administrative Law Judge.

Review of an order issued by the Administrative Law Judge shall be by the director and the director shall issue a final order that is subject to judicial review as provided by ORS 183.480 to 183.497.

- (b) The director shall prescribe the classes of orders issued under this subsection by Administrative Law Judges and other personnel that are final, appealable orders and those orders that are preliminary orders subject to revision by the director.
- (3)(a) For the purpose of determining the respective authority of the director and the board to conduct hearings, investigations and other proceedings under this chapter, and for determining the procedure for the conduct and review thereof, matters concerning a claim under this chapter are those matters in which a worker's right to receive compensation, or the amount thereof, are directly in issue. However, subject to paragraph (b) of this subsection, such matters do not include any disputes arising under ORS 656.245, 656.247, 656.248, 656.260 or 656.327, any other provisions directly relating to the provision of medical services to workers or any disputes arising under ORS 656.340 except as those provisions may otherwise provide.
- (b) The respective authority of the board and the director to resolve medical service disputes shall be determined according to the following principles:
- (A) Any dispute that requires a determination of the compensability of the medical condition for which medical services are proposed is a matter concerning a claim.
- (B) Any dispute that requires a determination of whether medical services are excessive, inappropriate, ineffectual or in violation of the rules regarding the performance of medical services, or a determination of whether medical services for an accepted condition qualify as compensable medical services among those listed in ORS 656.245 (1)(c), is not a matter concerning a claim.
- (C) Any dispute that requires a determination of whether a sufficient causal relationship exists between medical services and an accepted claim to establish compensability is a matter concerning a claim.
- (c) Notwithstanding ORS 656.283 (3), if parties to a hearing scheduled before an Administrative Law Judge are involved in a dispute regarding both matters concerning a claim and matters not concerning a claim, the Administrative Law Judge may defer any action on the matter concerning a claim until the director has completed an administrative review of the matters other than those concerning a claim. The director shall mail a copy of the administrative order to the parties and to the Administrative Law Judge. A party may request a hearing on the order of the director. At the request of a party or by the own motion of the Administrative Law Judge, the hearings on the separate matters may be consolidated. The Administrative Law Judge shall issue an order for those matters concerning a claim and a separate order for matters other than those concerning a claim.
- (4) Hearings under ORS 656.740 shall be conducted by an Administrative Law Judge from the board's Hearings Division.
- (5) If a request for hearing or administrative review is filed with either the director or the board and it is determined that the request should have been filed with the other, the dispute shall be transferred. Filing a request will be timely filed if the original filing was completed within the prescribed time.

SECTION 13. ORS 656.018 is amended to read:

656.018. (1)(a) The liability of every employer who satisfies the duty required by ORS 656.017 (1) is exclusive and in place of all other liability arising out of injuries, diseases, symptom complexes or similar conditions arising out of and in the course of employment that are sustained by subject workers, the workers' beneficiaries and anyone otherwise entitled to recover damages from the employer on account of such conditions or claims resulting therefrom, specifically including claims for

 contribution or indemnity asserted by third persons from whom damages are sought on account of such conditions, except as specifically provided otherwise in this chapter.

- (b) This subsection shall not apply to claims for indemnity or contribution asserted by a railroad, as defined in ORS 824.020, or by a corporation, individual or association of individuals which is subject to regulation pursuant to ORS chapter 757 or 759.
- (c) Except as provided in paragraph (b) of this subsection, all agreements or warranties contrary to the provisions of paragraph (a) of this subsection entered into after July 19, 1977, are void.
- (2) The rights given to a subject worker and the beneficiaries of the subject worker under this chapter for injuries, diseases, symptom complexes or similar conditions arising out of and in the course of employment are in lieu of any remedies they might otherwise have for such injuries, diseases, symptom complexes or similar conditions against the worker's employer under ORS 654.305 to 654.336 or other laws, common law or statute, except to the extent the worker is expressly given the right under this chapter to bring suit against the employer of the worker for an injury, disease, symptom complex or similar condition.
- (3) The exemption from liability given an employer under this section is also extended to the employer's insurer, the self-insured employer's claims administrator, the Department of Consumer and Business Services, the Self-Insurer Security Fund, members of the Self-Insurer Security Fund, the Self-Insurer Security Fund's claims administrator, and the contracted agents, employees, officers and directors of the employer, the employer's insurer, the self-insured employer's claims administrator, [and] the department and the Self-Insurer Security Fund, except that the exemption from liability shall not apply:
- (a) Where the injury, disease, symptom complex or similar condition is proximately caused by willful and unprovoked aggression by the person otherwise exempt under this subsection;
- (b) Where the worker and the person otherwise exempt under this subsection are not engaged in the furtherance of a common enterprise or the accomplishment of the same or related objectives; or
- (c) Where the injury, disease, symptom complex or similar condition is proximately caused by failure of the employer to comply with the notice posted pursuant to ORS 654.082.
- (4) The exemption from liability given an employer under this section applies to a worker leasing company and the client to whom workers are provided when the worker leasing company and the client comply with ORS 656.850 (3).
- (5)(a) The exemption from liability given an employer under this section applies to a temporary service provider, as that term is used in ORS 656.850, and also extends to the client to whom workers are provided when the temporary service provider complies with ORS 656.017.
- (b) The exemption from liability given a client under paragraph (a) of this subsection is also extended to the client's insurer, the self-insured client's claims administrator, the department, and the contracted agents, employees, officers and directors of the client, the client's insurer, the self-insured client's claims administrator and the department, except that the exemption from liability shall not apply:
- (A) When the injury, disease, symptom complex or similar condition is proximately caused by willful and unprovoked aggression by the person otherwise exempt under this subsection;
- (B) When the worker and the person otherwise exempt under this subsection are not engaged in the furtherance of a common enterprise or the accomplishment of the same or related objectives; or
 - (C) When the injury, disease, symptom complex or similar condition is proximately caused by

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- 1 failure of the client to comply with the notice posted pursuant to ORS 654.082.
 - (6) Nothing in this chapter shall prohibit payment, voluntarily or otherwise, to injured workers or their beneficiaries in excess of the compensation required to be paid under this chapter.
 - (7) The exclusive remedy provisions and limitation on liability provisions of this chapter apply to all injuries and to diseases, symptom complexes or similar conditions of subject workers arising out of and in the course of employment whether or not they are determined to be compensable under this chapter.

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