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February 5, 2015

Mr. Vernon Steiner, President and CEO
State Compensation Insurance Fund
333 Bush Street
San Francisco, CA 94104

Dear Mr. Steiner:

Congratulations on your recent appointment as President and CEO of the State Compensation Insurance Fund. As you may know, the State Compensation Insurance Fund (State Fund) falls within the oversight jurisdiction of the Senate Insurance Committee. At the time of this committee's last examination in 2008, State Fund was the subject of serious allegations of financial and operational improprieties involving senior officials. An audit at the time provided a scathing review of an organization run amok, with poor business and accounting practices throughout the organization. There have been many changes in the leadership, size, scope and operations of State Fund since that time. I respectfully request that you appear before the Committee on Wednesday March 11 at 1:30 in Room 112 to provide an update on State Fund and answer questions so that the Legislature can assess the adequacy of these changes and their impact on the workers' compensation marketplace. I also request that you bring those staff members best able to respond to specific questions about State Fund's operations and finances.

In preparation for the hearing I request that you provide the Insurance Committee with the following information and documents no later than February 23, 2015 COB:

- Any operational review/audit reports of State Fund for the past six years
- Annual budgets for the past six years
- Reduction in force documentation for the past six years, including job classification and location information
- Information on the current staff to premium ratio, and how this compares to other workers' compensation insurers
- Information on claims data for the past six years, and how State Fund's claims performance and risk profile compares to other workers' compensation insurers
- Information on State Fund's investment portfolio for the past four years. Include changes that have been made in the past two years regarding investments in the stock of certain corporations, specified mortgage-related investment instruments, and in the

stock of federal home loan banks, and changes in rate of return as a result of those changes

- Information, including financial justification, of excess income over legally required reserves or surplus, returned to policyholders over the past six years
- Information on the decision to change from a group insurance to tiered rating system, and how this change has affected premiums

Among the questions this Committee seeks to address include, but are not limited to:

- How is State Fund responding to the dramatic reduction in its workers' compensation market share to approximately 11% in 2013, versus 30% in 2008? Is this an appropriate market share for California's workers' compensation "insurer of last resort"?
- What steps is the organization taking to remain competitive? How much market share does it need to remain financially sustainable?
- Can an entity that is legislatively created, but run as a private business with the need to respond to market-based conditions, effectively operate with the restrictions imposed by civil service status?

State Fund plays a critical role in assuring the health of California's workers' compensation market and its growing economy. I appreciate your prompt response, and I look forward to working with you in the months and years ahead.

Sincerely,

A handwritten signature in black ink, appearing to read 'R. Roth', with a long horizontal line extending to the right.

Richard D. Roth
Senator, 31st District

RDR/emr