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Senior Legislative Advocate
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Senior Legislative Advocate
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Director of Communications

MEMORANDUM

Date: April 22, 2005

To: The Honorable Carole Migden, Chair
Members, Senate Appropriations Committee

From: Dan C. Dunmoyer, President
Rex D. Frazier, Vice President & General Counsel
Michael A. Gunning, Senior Legislative Advocate
Michael A. Paiva, Senior Legislative Advocate

Re: SB 46 (Alarcón): Workers' Compensation Insurance
As Amended March 30, 2005
Senate Appropriations Committee Hearing: April 25, 2005
PIFC Position: Oppose

The Personal Insurance Federation of California (PIFC), representing insurers who write over 50% of all personal lines insurance sold in California, **opposes SB 46** authored by Senator Alarcón.

SB 46 would require workers' compensation insurers and service plans to obtain approval of a rate change from the Commission on Workers' Compensation Rate Regulation before it can be implemented. This approval mechanism would have a similar impact on rates as the one implemented by Proposition 103 regarding the rating of property casualty insurers. Time and billions of dollars have shown that this process is not the best system for evaluating and regulating insurance rates in California. **Since the passage of Proposition 103 in 1990, the California Department of Insurance budget has increased by 600%.** A 2001 study prepared by David Appel of Milliman-USA concluded that:

- A serious analysis of California insurance premiums indicates that Proposition 103 had no meaningful effect on auto insurance costs in California. It has long been clear that the primary determinant of insurance rates and expenditures is the underlying cost of claims. California expenditures declined in the 1990's because the three branches of government (executive, legislative and judicial) implemented numerous changes that were intended to control what had been extremely rapidly escalating costs.

- It is possible that California consumers would have saved in excess of $10 billion over the past decade, had a competitive market been permitted to function in the state. Comparing actual premiums in California to those that would have been predicted had the state operated in a competitive environment, we find that actual premiums exceeded predicted by between $8.6 billion and $13.0 billion.

As was evidenced by the recent number of insolvent insurers, the promotion of any regulation on rates should be focused on the adequacy of rates, rather than trying to place price caps on rates. The two unintended consequences are that 1) price controls on insurers will result in slower rate decreases than an open market would normally generate and 2) price controls will result in slower rate increases than are justified and this will result in availability problems for consumers.

For the reasons stated above, **PIFC opposes SB 46** (Alarcón). If you have any questions, please contact Dan Dunmoyer at (916) 442-6646.

cc: George Cate, Senate Appropriations Committee
Doug Carlile, Senate Republican Caucus
Richard Costigan, Legislative Secretary for the Governor
Cynthia Bryant, Deputy Legislative Secretary for the Governor
Scott Reid, Office of the Insurance Advisor
Senate Floor Analyses

SB46-SLIR