F I S C A L   I M P A C T   R E P O R T

SPONSOR SFL **ORIGINAL DATE** 2/19/07 **LAST UPDATED** 3/6/07 **HB**

SHORT TITLE Self Insured Group Investment Guidelines **SB** CS/473/SFlS

ANALYST Lucero

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY07	FY08	FY09	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		NFI	NFI	NFI	NFI	NFI

(Parenthesis ( ) Indicate Expenditure Decreases)

Duplicates, Relates to, Conflicts with, Companion to
Relates to Appropriation in the General Appropriation Act

SOURCES OF INFORMATION
LFC Files

SUMMARY

Synopsis of Bill

Senate Floor Substitute for Senate Judiciary Committee Substitute for Bill 473 amends the section of the Workers' Compensation Act pertaining to investments of group self-insurer's (GSI). The bill proposes to allow GSIs to invest up to ten percent of the group's assets but not exceed two percent of such assets on any one such loan or investment, provided that such loans and investments do not constitute an amount that is greater than total surplus as allowed in Section 59A-9-3 NMSA 1978.

This bill also exempts the fair market value of any real property occupied by the self-insured group from the calculation of the group's other loans and investments as mentioned above.

FISCAL IMPLICATIONS

There is no appropriation being made.

This bill will allow self-insured groups to earn a greater rate of return on certain investments.

There does not appear to be an impact to administrative costs at the Workers' Compensation Administration to monitor the proposed changes to the Workers' Compensation Act.

SIGNIFICANT ISSUES

The bill potentially allows a self-insured group to invest all of its surplus and even funds intended to pay for existing liabilities in investments that may not be as secure or as liquid as investments currently allows under chapter 59 of the insurance code. allows an insurer to make loans and investments not otherwise expressly permitted under the Insurance Code. These miscellaneous investments are limited to 5% of the insurer's assets and not exceeding 1% as to any single investment or loan. This bill increases the percentage of total assets allowed for investment. Allowing investment of up to 10% of assets in miscellaneous investments as proposed in SB 473 may leave a group with insufficient assets to meet its obligations in a timely manner. Allowing these investments as a percentage of surplus instead might allow a group to diversify its investments for greater return while not placing funds intended to pay benefits at greater risk.

Self-Insured Groups (SIG) are currently limited by the Insurance Act when investing the group's funds. The Insurance Act currently limits miscellaneous investments to 5 percent of the insurer's assets, this bill proposes to increase that limit to 10 percent. The Insurance Act also limits to one percent any one such loan or investment, this bill proposes to increase the limit to two percent. Essentially this bill is proposing to double the percentages allowable under the Insurance Act.

The bill also proposes to exempt from the asset calculations real property which is occupied by the group. Under proposed §52-6-16(B), "the calculation of the group's assets for the purpose of Subsection A of this section shall not include the fair market value of any real property occupied by the group." "Occupied by the group" presents problems in situations where a group leases or rents office space. Wording such as "owned or being purchased by the group" would be preferable, more conservative, and would provide more clarity, applying to investment real property not being occupied by the group.

PERFORMANCE IMPLICATIONS

None identified at this time

ADMINISTRATIVE IMPLICATIONS

The Workers' Compensation Administration (WCA) does not anticipate an administrative impact to the WCA by this act.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

None identified at this time

TECHNICAL ISSUES

The Advisory Council on Workers' Compensation has approved this bill.

ALTERNATIVES

Allowing the investments to be made from the Group's surplus instead of from the assets would allow for greater financial stability and less risk, as such adding language to 52-16 (A) such as "provided that such loans and investments do not constitute an amount that is greater than total surplus" is a positive change that might provide a greater measure of security. It ensures that the group will be better able to fulfill its obligations. Limiting these investments to the surplus will

allow a group to diversify its investments for greater return while not placing funds intended to pay benefits at greater risk.

WHAT WILL BE THE CONSEQUENCES OF NOT ENACTING THIS BILL

Status Quo

DL/mt