Representative Michael E. Henne
Ohio House District 40

Sponsor Testimony – HB 268

Chairman Brinkman, Ranking Member Boccieri and members of the Insurance Committee, thank you for the opportunity to present HB 268, Ohio BWC Self Insured Modernization.

Ohio joins Washington, Wyoming and North Dakota as one of just four states in the country that does not offer workers' compensation through the free market, but rather through a monopolistic system ran by the state. Under Ohio's system, employers must obtain workers' compensation coverage through the Ohio Bureau of Workers' Compensation (BWC). One exception to this rule is if an employer qualifies for self-insuring status.

If an employer can demonstrate to BWC that they have the financial ability to meet their workers' compensation obligations (Moody's "A" rating, among other metrics), and the administrative capabilities to manage those claims, BWC may grant the employer self-insured status.

There are companies throughout Ohio who are very financially sound and confident they can meet their workers' compensation obligations yet are denied self-insuring status. This may put them in a competitive disadvantage with companies from other states with more options.

To address this, HB 268 establishes a "B Fund" for companies who want to self-insure but fall just short of the requirements established by BWC. Similar to a company that wants to set up a line of credit or an employer needing to establish a bonding authority, there are market solutions that can give the financial institution the security it needs to make the transaction. HB 268 allows BWC to require an irrevocable line of credit, bond, or any other security determined necessary to ensure the employer's solvency. BWC already uses these tools with companies who currently self-insure but have had a change in their financial position.

It is necessary to note the importance of employers meeting their obligations to self-insure. If a company does fail to meet their obligations, it is the responsibility of each self-insured employer to recoup those losses via the self-insured guaranty fund. BWC operates the guaranty fund and each self-insured company must pay into the fund annually to cover any default in payment by another employer. By setting up a "B Fund", current self-insured employers remain insulated while other companies, backed by additional securitization, have the ability to self-insure and contribute to the B pool.

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HB 268 also allows employers already granted the authority to self-insure the ability to transfer their exposure to a third party, a workers' compensation insurance policy. This makes sense for a number of reasons.

- Under current law, a self-insured employer may already transfer their administrative responsibilities to a third party administrator (TPA).
- Self-insured employers are removed from BWC and therefore should be able to choose how to manage their own risk as they see fit.
- By granting these employers the ability to transfer risk to a third party with extensive financial resources, it makes the guaranty fund even more secure.
- Providing options for employers is most efficient. For example, Walmart – one of the U.S.'s largest employers with massive financial resources self-insures in some states yet has purchased a workers' compensation policy in others. Let employers determine how to manage their own risk.

These changes will modernize Ohio's workers' compensation self-insured programs. Self-insuring is a privilege which is only afforded to the most financially sound companies, as it should be, but we can still protect the fund while giving more Ohio employers an option. Options save money and offer a more competitive product or service. Right now BWC is the only game in town. HB 268 will allow more Ohio employers the *option* to self-insure, and for those that are self-insured the ability to manage their risk as they see fit. At this time, I would be happy to answer any questions the Committee may have.

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