



Brentley Yim
California Department of Insurance
300 Capitol Mall, Suite 1700
Sacramento, CA 95814

May 21, 2018

Dear Mr. Yim:

Thank you for submitting the standardized regulatory impact assessment (SRIA), Appendix to the SRIA, summary (Form DF-131), and proposed text of regulations for Workers' Compensation Deductible Policies, as required in California Code of Regulations, title 1, section 2002(a)(1). The following comments are based on these documents, as well as other publicly available information.

Proposed regulations increase capital and credit requirements for insurers offering high-deductible workers' compensation policies, which are estimated to increase costs to employers by around \$20 million annually but are expected to prevent one insurer insolvency every four years. Only large employers can purchase workers' compensation insurance with deductibles higher than \$100,000, and fewer than 900 out of the 6700 firms purchase high-deductible plans. Average costs are estimated to be around \$25,000, as employers may pay higher premiums or offer collateral on their deductibles for multi-state policies if cheaper. When an insurer fails, guaranty associations of the insurers must cover losses, and fewer insolvencies are expected to save around \$42 million annually, in addition to protecting workers whose compensation payments may be disrupted. The SRIA estimates only nine insurers will be required to increase capital or take other measures, as most already meet the requirements.

Finance generally concurs with the methodology used by the Department to estimate impacts of proposed regulations. The SRIA identifies assumptions made and data sources used to estimate expected impacts, and clearly explains how this market works and how the regulations will affect businesses and insurers. The sensitivity analyses for key elements of additional collateral needed and the cost of that additional collateral, and the alternatives analysis are also well done. The one area where the analysis may benefit from further detail is in the description of how this proposed regulation protects workers, who would be the beneficiaries of a more stable and predictable insurance market.

These comments are intended to provide sufficient guidance to outline prospective revisions to the SRIA. The SRIA, a summary of Finance's comments, and any responses must be included in the rulemaking file that is available for public comment. Finance understands that the proposed regulations may change during the rulemaking process. If any significant changes to the proposed regulations result in economic impacts not discussed in the SRIA, please note that the revised economic impacts must be reflected on the Standard Form 399 for the rulemaking

file submittal to the Office of Administrative Law. Please let us know if you have any questions regarding our comments.

Sincerely,

A handwritten signature in blue ink, appearing to read "Irena Asmundson".

Irena Asmundson
Chief Economist
Department of Finance

cc: Ms. Panorea Avdis, Director, Governor's Office on Business and Development
Ms. Debra Cornez, Director, Office of Administrative Law
Mr. Geoffrey Margolis, Deputy Commissioner, Department of Insurance
Mr. George Teekell, Attorney, Department of Insurance
Ms. Rani Isaac, Economist, Department of Insurance
Mr. Joseph Lee, Economist, Department of Insurance