

1 AN ACT
2 relating to creation and operation of a guaranty fund for certain
3 groups certified to self insure for workers' compensation insurance
4 coverage and to service companies that administer the guaranty
5 fund.

6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

7 SECTION 1. Chapter 407A, Labor Code, is amended by adding
8 Subchapter J to read as follows:

9 SUBCHAPTER J. TEXAS SELF-INSURANCE GROUP GUARANTY FUND

10 Sec. 407A.451. DEFINITIONS. In this subchapter:

11 (1) "Board" means the board of directors of the
12 guaranty fund.

13 (2) "Guaranty fund" means the Texas self-insurance
14 group guaranty fund.

15 (3) "Trust fund" means the trust fund established
16 under Section 407A.457.

17 Sec. 407A.452. GUARANTY FUND. (a) The Texas self-insurance
18 group guaranty fund is a nonprofit association established to
19 provide for the payment of workers' compensation insurance benefits
20 for injured employees covered by a group declared insolvent under
21 Section 407A.355.

22 (b) Each group that desires to be certified under this
23 chapter must participate as a member of the guaranty fund.

24 Sec. 407A.453. BOARD OF DIRECTORS. (a) The guaranty fund is

1 managed by a board of directors.

2 (b) The board is composed of the following voting members:

3 (1) three members elected as provided by Subsection
4 (c), each of whom represents a different group certified under this
5 chapter;

6 (2) one member to represent wage earners designated by
7 the commission;

8 (3) one member designated by the commissioner; and

9 (4) the public counsel of the office of public
10 insurance counsel.

11 (c) Representatives of each group certified under this
12 chapter may participate equally in the election of the three
13 members of the board elected under Subsection (b)(1). A person
14 elected under Subsection (b)(1) must be approved by the
15 commissioner before the person may serve on the board.

16 (d) Notwithstanding Subsection (c), the commissioner shall
17 appoint the initial board members representing groups. A person
18 appointed as an initial board member under this subsection is
19 eligible to serve additional terms on election by the members of the
20 guaranty fund.

21 Sec. 407A.454. IMMUNITY. A board member or a member of the
22 staff of the board is not liable in a civil action for an act
23 performed in good faith in the execution of that person's powers or
24 duties.

25 Sec. 407A.455. BOARD GENERAL POWERS AND DUTIES. (a) The
26 board shall:

27 (1) create and maintain a trust fund for payment of the

1 workers' compensation liabilities of an insolvent group;

2 (2) hire staff as necessary;

3 (3) provide recommendations to the commissioner
4 regarding rules or guidelines applicable to groups;

5 (4) receive reports from the department on the
6 financial condition of groups, including examination and audit
7 reports;

8 (5) engage consulting experts as necessary to review
9 information provided by or filed with the department to ensure
10 financial solvency of groups under this chapter;

11 (6) provide advisory recommendations to the
12 commissioner as necessary regarding an applicant's compliance with
13 Subchapter B relating to application requirements for
14 certification; and

15 (7) take action, in response to a finding by the
16 commissioner that a group is insolvent, to use the trust fund's
17 resources to ensure the payment of the group's valid workers'
18 compensation claims and related administrative expenses.

19 (b) The board shall control all amounts in the trust fund,
20 including investment of those amounts.

21 (c) The guaranty fund may not disclose confidential
22 information received from the department in a financial report
23 under Subsection (a)(4), including an examination or audit report.
24 Information received from the department remains confidential and
25 not subject to disclosure under Chapter 552, Government Code.

26 (d) The board may make recommendations under Subsection
27 (a)(6) outside of regular board meetings.

1 Sec. 407A.456. PLAN OF OPERATION. (a) The board shall adopt
2 a plan of operation governing the board's activities and the
3 operation of the guaranty fund and the trust fund.

4 (b) The plan of operation adopted by the board is subject to
5 approval by the commissioner.

6 Sec. 407A.457. TRUST FUND; SCHEDULE. (a) Each group shall
7 contribute an amount, based on the total amount of income benefit
8 payments made in this state for the preceding reported calendar
9 year, to create, over a period of 10 years beginning January 1,
10 2006, a trust fund of at least \$1 million for:

11 (1) the emergency payment of the compensation
12 liabilities of an insolvent group; and

13 (2) the administrative expenses of the guaranty fund.

14 (b) The board may adopt provisions in the plan of operation
15 that provide for the indexing of the amount of the trust fund to a
16 risk analysis.

17 (c) At least annually, the board shall adopt a year-by-year
18 schedule of assessments to meet the funding goal of the trust fund.

19 (d) The board may:

20 (1) defer assessments if the fund equals or exceeds \$2
21 million; and

22 (2) allow the trust fund to accrete based on its
23 investment earnings.

24 (e) The contribution required for the first year after a
25 group is issued a certificate of approval under this chapter shall
26 be based on the group's estimated income benefit payments for the
27 group's first year of operation.

1 (f) Each group certified under this chapter shall make
2 contributions under this section to the trust fund, and the board
3 shall provide a mechanism in the plan of operation to ensure that
4 all groups contribute equitably to the trust fund.

5 (g) The board shall administer the trust fund in accordance
6 with the plan of operation adopted by the board and approved by the
7 commissioner.

8 Sec. 407A.458. EFFECT OF INSOLVENCY OF GROUP. (a) On
9 determining that a group has become insolvent, the commissioner
10 shall secure release of the surety bond or security deposit
11 required under Section 407A.053 and shall promptly estimate:

12 (1) the amount of additional funds needed to
13 supplement the bond or security deposit; and

14 (2) the assets of the insolvent group available to pay
15 all incurred compensation liabilities.

16 (b) If the bond or security deposit and the available assets
17 of the insolvent group are insufficient to cover all of the group's
18 incurred compensation liabilities, the commissioner shall direct
19 the insolvent group to immediately assess its members to cover all
20 incurred liabilities under a schedule approved by the commissioner.

21 (c) If the assessments under Subsection (b) will be
22 insufficient to cover the incurred liabilities, the commissioner
23 shall estimate the additional funds necessary to cover the incurred
24 liabilities for benefit compensation and related administration
25 expenses for the insolvent group. On receipt of the commissioner's
26 estimate, the board shall provide from the trust fund the
27 additional funds needed for benefit compensation and related

1 administrative expenses for the insolvent group.

2 (d) Disbursements from the trust fund under Subsection (c)
3 shall be replenished:

4 (1) if within the 10-year funding period of the trust
5 fund, by adjusting the next year's schedule of assessments from
6 groups; or

7 (2) if beyond the initial 10-year funding period, by
8 assessment of all groups.

9 (e) If, after application of Subsections (b)-(d), the
10 amount available in the trust fund is still insufficient, the board
11 shall assess all groups for the remaining deficiency.

12 (f) The commissioner may exempt a group from assessment
13 under this section on a determination that the payment of the
14 assessment would render the group insolvent.

15 (g) The commissioner may, on a finding of insolvency,
16 commence a delinquency proceeding for the purpose of liquidating,
17 rehabilitating, reorganizing, or conserving a group. Such a group
18 shall be considered an insurer for purposes of Article 21.28,
19 Insurance Code, and an insurance company for purposes of 11 U.S.C.
20 Section 109. The conservator, receiver, or other statutory
21 successor of a group shall coordinate with the board in the
22 furtherance of the purposes of this subchapter.

23 Sec. 407A.459. COLLECTION OF ASSESSMENTS FROM GROUP
24 MEMBERS; CONTINUATION OF JOINT AND SEVERAL LIABILITY. (a) Each
25 member of an insolvent group shall pay the amount of its assessment
26 under this chapter to the commissioner not later than the 30th day
27 after the date on which the commissioner notifies the member of the

1 assessment. The commissioner shall collect assessments and costs
2 from the members of the insolvent group.

3 (b) The joint and several liability of the members of a
4 group under Section 407A.056 continues and is not terminated by
5 payment of benefits through the guaranty fund.

6 (c) If the guaranty fund assumes payment of benefits for
7 compensation liabilities on behalf of an insolvent group, the
8 guaranty fund may collect delinquent assessments and costs through
9 suit. Venue for a suit under this subsection is in Travis County.

10 Sec. 407A.460. PAYMENT OF BENEFITS THROUGH GUARANTY FUND.

11 (a) If the commissioner determines that the payment of benefits and
12 claims administration shall be made through the guaranty fund, the
13 guaranty fund assumes the workers' compensation obligations on
14 behalf of the insolvent group and shall begin the payment of the
15 obligations for which it is liable not later than the 30th day after
16 the date of notification by the commissioner.

17 (b) The guaranty fund shall make payments to claimants whose
18 entitlement to benefits can be ascertained by the guaranty fund.

19 (c) Notwithstanding Subsection (a), the guaranty fund is
20 not liable for the payment of any penalties assessed for any act or
21 omission on the part of any person other than the guaranty fund.

22 Sec. 407A.461. POSSESSION OF SECURITY BY GUARANTY FUND. On
23 the assumption of obligations on behalf of an insolvent group by the
24 guaranty fund under the commissioner's determination, the guaranty
25 fund is entitled to immediate possession of any assets of the
26 insolvent group and any security deposited or the proceeds of any
27 surety bond deposited by the insolvent group, along with all

1 interest on the security. All assessments from members of the
2 insolvent group shall be paid to the guaranty fund.

3 Sec. 407A.462. RELEASE OF CLAIM INFORMATION TO GUARANTY
4 FUND. If the guaranty fund has assumed compensation obligations on
5 behalf of an insolvent group, information on a workers'
6 compensation claim may be released to the guaranty fund as provided
7 by Section 402.084(a).

8 Sec. 407A.463. GUARANTY FUND AS PARTY IN INTEREST. (a) The
9 guaranty fund is a party in interest in a proceeding involving a
10 workers' compensation claim against an insolvent group whose
11 compensation obligations have been paid or assumed by the guaranty
12 fund.

13 (b) The guaranty fund has the same rights and defenses as
14 the insolvent group, including the right to:

15 (1) appear, defend, or appeal a claim;

16 (2) receive notice of, investigate, adjust,
17 compromise, settle, or pay a claim; and

18 (3) investigate, handle, or deny a claim.

19 Sec. 407A.464. PREFERENCES. (a) Benefit payments made by
20 the guaranty fund under this subchapter are entitled to the same
21 preference over other debts of the insolvent group as provided by
22 law to benefit payments owed by the insolvent group to the person
23 entitled to the benefits.

24 (b) The guaranty fund has the priority status provided by
25 Section 8, Article 21.28, Insurance Code.

26 Sec. 407A.465. SPECIAL FUND. Monies advanced by the
27 association under this chapter do not become assets of the

1 insolvent group but constitute a special fund advanced to the
2 commissioner, receiver, or other statutory successor only for the
3 payment of compensation liabilities, including the costs of claim
4 administration and legal costs.

5 SECTION 2. Section 407A.051, Labor Code, is amended by
6 amending Subsection (c) and by adding Subsection (h) to read as
7 follows:

8 (c) The application must be accompanied by:

9 (1) a nonrefundable \$1,000 filing fee;

10 (2) proof of compliance with the financial
11 requirements under Section 407A.053;

12 (3) proof of compliance with the excess insurance
13 requirements under Section 407A.054;

14 (4) a copy of the articles of association or
15 declaration of trust of the group, if any;

16 (5) a copy of any agreements entered into with an
17 administrator or a service company;

18 (6) a copy of the bylaws of the proposed group;

19 (7) a copy of the agreement between the group and each
20 employer who is a member of the group that:

21 (A) secures the payment of workers' compensation
22 benefits; and

23 (B) includes provisions for payment of
24 assessments as provided by Section 407A.355;

25 (8) designation of the initial board of trustees and
26 administrator of the group;

27 (9) the address in this state where the books and

1 records of the group will be maintained at all times;

2 (10) a pro forma financial statement, in a form
3 acceptable to the commissioner, that shows the financial ability of
4 the group to pay the workers' compensation obligations of the
5 employers who are members of the group;

6 (11) proof of one of the following:

7 (A) payment to the group, or a bona fide promise
8 to pay on approval of the group, by each employer who is a member of
9 the group of not less than 25 percent of that member's first year
10 estimated modified schedule rating premium on a date prescribed by
11 the commissioner, which shall be considered part of the first year
12 premium payment of each member; or

13 (B) if the group is formed from a trust existing
14 on September 1, 2003, that the assets of the trust are sufficient to
15 cover the workers' compensation obligations of the trust;

16 (12) a \$250,000 fidelity [~~performance~~] bond for the
17 administrator in the form prescribed by the commissioner;

18 (13) a \$250,000 fidelity [~~performance~~] bond for the
19 service company in the form prescribed by the commissioner; and

20 (14) an indemnity agreement that meets the
21 requirements of Section 407A.056.

22 (h) In lieu of the bonds required under Subsections (c)(12)
23 and (c)(13), a security deposit of cash or securities acceptable to
24 the commissioner may be deposited with the commissioner to be held
25 in the state treasury.

26 SECTION 3. Section 407A.057, Labor Code, is amended to read
27 as follows:

1 Sec. 407A.057. ADDITIONAL PERFORMANCE BOND REQUIREMENTS.

2 (a) In addition to the requirements under Section 407A.051, the
3 commissioner may require a service company providing claim services
4 to furnish a performance bond of \$250,000 in the form prescribed by
5 the commissioner.

6 (b) In lieu of a performance bond under Subsection (a), a
7 security deposit of cash or securities acceptable to the
8 commissioner may be deposited with the commissioner to be held in
9 the state treasury.

10 SECTION 4. Sections 407A.356 and 407A.357, Labor Code, are
11 repealed.

12 SECTION 5. This Act takes effect September 1, 2005.

David Swinhart

President of the Senate

Tom Cradick

Speaker of the House

I certify that H.B. No. 1353 was passed by the House on May 9, 2005, by a non-record vote; and that the House concurred in Senate amendments to H.B. No. 1353 on May 27, 2005, by a non-record vote.

Robert Harvey
Chief Clerk of the House

I certify that H.B. No. 1353 was passed by the Senate, with amendments, on May 25, 2005, by the following vote: Yeas 31, Nays 0.

Lacey Spaw
Secretary of the Senate

APPROVED: 18 JUNE '05

Date

Rick Perry
Governor

FILED IN THE OFFICE OF THE
SECRETARY OF STATE
12:20 PM O'CLOCK

JUN 18 2005
Roger Williams
Secretary of State