2015 Regular Session

HOUSE BILL NO. 393

BY REPRESENTATIVE LORUSSO

Prefiled pursuant to Article III, Section 2(A)(4)(b)(i) of the Constitution of Louisiana.

WORKERS COMPENSATION: Provides relative to permissible investments of group self-insurance funds

AN ACT

To amend and reenact R.S. 23:1196.1(B)(4), (5), and (6) and to enact R.S. 23:1196.1(B)(7), (8), (9), and (10), relative to workers' compensation, to provide with respect to group self-insurance funds; to provide for admissible investments; and to provide for related matters.

Be it enacted by the Legislature of Louisiana:

Section 1. R.S. 23:1196.1(B)(4), (5), and (6) are hereby amended and reenacted and R.S. 23:1196.1(B)(7), (8), (9), and (10) are hereby enacted to read as follows:

§1196.1. Investments

* * *

B. Amounts not needed for current obligations may be invested by the board of trustees as provided in this Section, and not otherwise, in any or all of the following:

* * *

(4) Obligations of the state of Louisiana or its subdivisions having a minimum rating of "A" by Moody's, Standard & Poor's, or Fitch. No more than five percent of the fund's assets may be invested in any one issue <u>nor can this type of investment exceed fifteen percent of the fund's assets in aggregate</u>.

CODING: Words in ~~struck through~~ type are deletions from existing law; words <u>underscored</u> are additions.

(5) Obligations of any state or its subdivisions having a minimum rating of "A" by Moody's, Standard & Poor's, or Fitch. No more than five percent of the fund's assets may be invested in any one issue nor can this type of investment exceed fifteen percent of the fund's assets in aggregate.

(6) Commercial mortgage backed securities with purchases having a minimum rating of "AAA" by Moody's, Standard & Poor's, or Fitch. No more than two percent of the fund's assets may be invested in one issue, nor can this type of investment exceed ten percent of the fund's assets in aggregate.

(7) Asset backed securities with purchases having a minimum rating of "AA" by Moody's, Standard & Poor's, or Fitch. No more than five percent of the fund's assets may be invested in one issue, nor can this type of investment exceed ten percent of the fund's assets in aggregate.

(8) Repurchase agreements, without limitation, when the collateral for the agreement is a direct obligation of the United States government, provided that the repurchase agreement shall:

(a) Be in writing.

(b) Have a specific maturity date.

(c) Adequately identify each security to which the agreement applies.

(d) State that in the event of default by the party agreeing to repurchase the securities described in the agreement at the term contained in the agreement, title to the described securities shall pass immediately to the fund without recourse.

~~(6)~~ (9) Corporate bonds, subject to the following limitations:

(a) The bonds must have a minimum rating of ~~"A"~~ "BBB" by Moody's, Standard & Poor's, or Fitch.

(b) Except as provided in Subparagraph (6)(d), not more than five percent of a fund's assets may be invested in corporate bonds of any one issue or issuer.

(c) Except as provided in Subparagraph (6)(d), not more than fifty percent of a fund's assets may be invested in corporate bonds of all types.

(d) The five percent and fifty percent limitations specified in Subparagraphs (6)(b) and (c), respectively, may be exceeded up to an additional ten percent of a fund's assets in the event, and only in the event, of financial circumstances acceptable to the Department of Insurance, such as an increase in market value after initial purchase of a corporate bond, provided that:

(I) The initial purchase of corporate bonds was within the limitations specified in Subparagraphs (6)(b) and (c); and

(ii) For the purpose of determining the financial condition of a fund, the Louisiana Department of Insurance will not include as assets of a fund corporate bonds which exceed fifty percent of a fund's total assets.

<u>(10) Mutual or trust fund institutions which are registered with the Securities and Exchange Commission under the Securities Act of 1933 and the Investment Act of 1940, and which have underlying investments consisting solely of and limited to securities approved for investment as set forth in this Subsection. This type of investment shall not exceed fifty percent of the fund's assets in aggregate.</u>

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DIGEST

The digest printed below was prepared by House Legislative Services. It constitutes no part of the legislative instrument. The keyword, one-liner, abstract, and digest do not constitute part of the law or proof or indicia of legislative intent. [R.S. 1:13(B) and 24:177(E)]

HB 393 Engrossed 2015 Regular Session Lorusso

Abstract: Provides for the investment of funds by self-insured workers' compensation carriers.

<u>Present law</u> (R.S. 23:1168) provides that an employer shall secure compensation for his employees in one of the following ways:

(1) By insuring and keeping insured the payment of compensation with any stock corporation, mutual association, or other concern authorized to transact the business of workers' compensation insurance in this state.

(2) By entering into an agreement with a group self-insurance fund as provided for in <u>present law</u> (R.S. 23:1191 et seq.).

(3) By entering into an agreement with an interlocal risk management agency as provided for in <u>present law</u> (R.S. 33:1341 et seq.).

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(4) By furnishing satisfactory proof to the director of the employer's financial ability to pay for compensation.

Present law outlines differing requirements for providing security for insurers with different ratings.

Present law provides that only interest-bearing, interest-accruing, or dividend- or income-paying investments shall be eligible for purchase or acquisition by a fund.

Present law allows funds that are not needed for current obligations to be invested in any of the following methods:

(1) Deposits in federally insured banks or savings and loan associations.

(2) Bonds or securities not in default as to principal or interest, which are obligations of the United States government.

(3) Pass-through mortgage-backed securities and collateralized mortgage obligations issued by the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Home Loan Mortgage Corporation, or the Federal Housing Administration, without limitation, provided that such collateralized mortgage obligations have a minimum rating of "A" by Moody's, Standard & Poor's, or Fitch.

(4) Obligations of the state of Louisiana having a minimum rating of "A" by Moody's, Standard & Poor's, or Fitch. No more than 5% of the fund's assets may be invested in any one issue.

(5) Repurchase agreements, without limitation, when the collateral for the agreement is a direct obligation of the United States government.

(6) Corporate bonds with a minimum rating of "A" by Moody's, Standard & Poor's, or Fitch.

Proposed law adds four methods of investment for funds not needed for current obligations to the six methods allowed by present law:

(1) Obligations of any state or its subdivisions with a minimum rating of "A" by Moody's, Standard and Poor's or Fitch. The investment is limited to no more than 5% of the funds assets nor can it exceed 15% of the fund's assets in aggregate.

(2) Commercial mortgage backed securities with purchases having a minimum rating of "AAA" by Moody's, Standard & Poor's or Fitch, requiring that no more than 2% of the fund's assets may be invested in one issue, nor can that type of investment exceed 10% of the fund's assets in aggregate.

(3) Asset backed securities with purchases having a minimum rating of "AA" by Moody's, Standard & Poor's or Fitch. No more than 5% of the fund's assets may be invested in one issue, nor can that type of investment exceed 10% of the fund's assets in aggregate.

(4) Mutual or trust fund institutions which are registered with the Securities and Exchange Commission and the Investment Act of 1940 and which have underlying investments consisting solely of and limited to securities approved for investment as approved in present law. Proposed law further provides that the investments in proposed law shall not exceed 50% of the fund's assets in aggregate.

Present law requires that obligations of the state of Louisiana have a minimum rating of "A" and that no more than 5% of the fund's assets may be invested in any one issue. Proposed law provides that the investment cannot exceed 15% of the fund's assets in aggregate.

Present law requires that investments in corporate bonds must be in bonds with a minimum rating of "A" by Moody's, Standard & Poor's, or Fitch. Proposed law changes the minimum rating from "A" to "BBB".

(Amends R.S. 23:1196.1(B)(4), (5), and (6); Adds R.S. 23:1196.1(B)(7), (8), (9), and (10))

Summary of Amendments Adopted by House

The Committee Amendments Proposed by House Committee on Labor and Industrial Relations to the original bill:

1. Change the Moody's, Standard & Poor's, or Fitch rating requirement from "AA" to "A" for obligations of the state of La. or its subdivisions, to restore present law.

2. Provide that investments with mutual or trust fund institutions registered with the SEC under the Securities Act of 1933 and the Investment Act of 1940 and have underlying investments as approved by present law shall not exceed 50%.