
DIGEST

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HB 393 Reengrossed

2015 Regular Session

Lorusso

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

Present law (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 present law (R.S. 23:1191 et seq.).
- (3) By entering into an agreement with an interlocal risk management agency as provided for in present law (R.S. 33:1341 et seq.).
- (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 five 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.
- (5) Equities that are subject to the following limitations:
 - (a) Does not exceed 15% of the overall investment fund.
 - (b) A minimum of 5 different issues shall be held in the equity sector for diversification.
 - (c) No single issue may represent more than 5% of the overall investment fund.
 - (d) The market capitalization of each issue shall be at least \$1,000,000,000.
 - (e) Each eligible issue must be paying a cash dividend.
 - (f) Equity holdings are limited to high quality, readily marketable securities corporations that are domiciled in the U.S. and are actively traded on the New York Stock Exchange and the NASDAQ.

Proposed law provides that foreign domiciled corporations are eligible if they trade American Depository Receipts on the major U.S. exchanges.

Proposed law further provides that in lieu of individual securities, a mutual fund or exchange traded

fund that pays a dividend and consists of securities which have an average market capitalization of at least \$1,000,000,000 are acceptable as long as the same quality constraints are met and the aggregate total of the funds plus any individual securities may not exceed 15% of the overall investment fund.

Present law requires that obligations of the state of La. 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), (10), and (11))

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%.

The House Floor Amendments to the engrossed bill:

1. Make technical amendments.
2. Add another method of investment for funds which are not needed for current obligations to the six methods allowed by present law and four methods described in proposed law.
3. Provide that foreign domiciled corporations are eligible if they trade American Depository Receipts on the major U.S. exchanges.
4. Provide that in lieu of individual securities, a mutual fund or exchange traded fund that pays a dividend and consists of securities which have an average market capitalization of at least \$1,000,000,000 are acceptable as long as the same quality constraints are met and the aggregate total of the funds plus any individual securities may not exceed 15% of the overall investment fund.