

131st MAINE LEGISLATURE

FIRST REGULAR SESSION-2023

Legislative Document

No. 1372

H.P. 886

House of Representatives, March 28, 2023

An Act to Amend the Workers' Compensation Self-insurance Laws to Allow for the Use of Fronting Companies

Reference to the Committee on Labor and Housing suggested and ordered printed.

ROBERT B. HUNT Clerk

R(+ B. Hunt

Presented by Representative MORRIS of Turner.
Cosponsored by Senator STEWART of Aroostook and

Representatives: PERRY of Calais, RUSSELL of Verona Island.

| 1 | Be it enacted by the People of the State of Maine as follows: |
|--|--|
| 2 | Sec. 1. 39-A MRSA §403, sub-§4-B is enacted to read: |
| 3 4 | <u>4-B. Group self-insurance reinsurance fronting arrangements.</u> This subsection governs group self-insurance reinsurance fronting arrangements. |
| 5 6 | A. As used in this subsection, unless the context otherwise indicates, the following terms have the following meanings. |
| 7 8 9 10 | (1) "Fronting arrangement" means a situation in which a fronting company issues a policy for workers' compensation insurance to an employer member of a group self-insurer licensed under this Title and cedes all of the premium and exposure of the policy for out-of-state employers to the self-insured group. |
| 11 12 13 | (2) "Fronting company" means an entity that engages in a fronting arrangement. A fronting company may be owned by one or more group self-insurers or by a group self-insurance reinsurance account. |
| 14 | (3) "Superintendent" means the Superintendent of Insurance. |
| 15 16 | B. An employer member of a group self-insurer licensed under this Title may insure its employees through a fronting arrangement under the following conditions. |
| 17 | (1) The group self-insurer must: |
| 18 19 | (a) Be a member of a group self-insurance reinsurance account, the assets of which must be available to satisfy the obligations of a fronting company; |
| 20 21 | (b) Insure employees who live or work in a state other than this State and agree to be subject to the workers' compensation laws of that state; and |
| 22 23 24 | (c) Provide that members of a group self-insurer are jointly and severally liable for the workers' compensation obligations of an employer member of a group self-insurer whose out-of-state employees are insured by a fronting company. |
| 25 26 27 28 29 30 31 | Any fronting arrangement must require the group self-insurer or group self-insurance reinsurance account to assume all responsibility for administration and claims handling for the fronting company. More than one group self-insurer may enter into a fronting arrangement with the same fronting company. The obligations of a fronting company ceded to a group self-insurer must be included in the actuarial analysis of the group and such other filings as the Superintendent may require under this section. |
| 32 | (2) The fronting company must: |
| 33 | (a) Have capital in the amount of \$500,000; |
| 34 35 36 37 38 | (b) Submit a plan of operation to the superintendent, establish a board of directors and establish bylaws and procedures by which all the powers and duties of the company are performed, including, but not limited to, defining the date and conditions upon which the fronting company will commence coverage for claims; |
| 39 40 | (c) Provide a detailed explanation of each fronting arrangement, including the process by which all exposures are ceded to a group self-insurer; and |

| 1 | (d) Be subject to examination and regulation by the superintendent. The board |
|----|--|
| 2 | of directors of a fronting company under this subsection shall submit, within |
| 3 | 120 days after the close of each fiscal year, an audited financial report, an |
| 4 | actuarial report, an audited financial statement and other information the |
| 5 | superintendent may require. |
| 6 | C. The provisions of Title 24-A and rules adopted under that Title relating to the |
| 7 | formation, review, approval and operation of a workers' compensation insurance |
| 8 | company do not apply to a fronting company established under this subsection. |
| 9 | D. The superintendent may adopt rules to implement to this subsection. Rules adopted |
| 10 | pursuant to this paragraph are routine technical rules as defined in Title 5, chapter 375, |
| 11 | subchapter 2-A. |
| 12 | SUMMARY |
| 13 | Current law provides that group self-insurers under the Maine Workers' Compensation |
| 14 | Act of 1992 are regulated by the Superintendent of Insurance Under current law |
| 17 | |

Current law provides that group self-insurers under the Maine Workers' Compensation Act of 1992 are regulated by the Superintendent of Insurance. Under current law, employees of a member of a self-insurance group who live and work out of state cannot be covered by the group but must purchase a conventional insurance policy in each state in which the employees work. This bill establishes fronting companies, which allow self-insured groups to insure employees in other states.