

## Pinnacol Assurance Proposal for Statutory Flexibility

### What

Allow Pinnacol to establish a subsidiary through which to provide the same services in other states – workers’ compensation coverage and related products/services – that Pinnacol is currently allowed to provide in Colorado.

### Why

More and more Colorado businesses operate beyond Colorado’s borders. For years, our policyholders have asked us to provide workers’ compensation coverage to their out-of-state employees, but we can only do so through a reinsurance arrangement where all we do is pay claims; it does not enable us to provide the same level of service our policyholders value and which gives them a competitive advantage (e.g., through our comprehensive safety and worksite wellness programs).

A number of other state legislatures have enabled their own workers’ compensation funds to operate in other states. Examples include Maine, Maryland, Michigan, Minnesota, Missouri, Utah.

### How

- Establish a taxable, for-profit subsidiary, with a separate board of directors, through which Pinnacol policyholders and others can receive the same services in other states that Pinnacol currently provides in Colorado.
- Pinnacol’s investment in the subsidiary will be limited to no more than 3% of its admitted assets (today that would be approximately \$75 million). We envision, however, that the necessary funding will be significantly less – between \$20-50 million. The investment would be subject to the same statutory restrictions as all of Pinnacol’s investments.
- The subsidiary would be owned entirely by Pinnacol. However, if business needs call for additional funding in the future, other investors could be invited to participate but Pinnacol would always maintain majority control.
- Pinnacol would remain as is:
  - Colorado state authority operating as a nonprofit mutual insurance company
  - Carrier of last resort (must accept all comers)
  - Board of directors appointed by the Governor
  - Employees participate in PERA

*I am pleased to see Pinnacol moving forward with this statutory change. This has been a ripe issue since I served on the Board of Pinnacol in the 90's. This was an appropriate remedy then just as it is now. It is time to remove this barrier and allow Colorado-based companies to be covered by Colorado's premier workers compensation program. Pinnacol has demonstrated well the capabilities and resources to implement and manage a national program for the benefit of all concerned.*

*– Mark Larson, Executive Director, Colorado-Wyoming Petroleum Marketers Assn.*

Contact: Edie Sonn, Pinnacol Assurance (720) 201-7307, [edie.sonn@pinnacol.com](mailto:edie.sonn@pinnacol.com)  
Virginia Morrison Love (303) 882-8717, [vamlove@aol.com](mailto:vamlove@aol.com)  
Will Coyne, (720) 308-7931, [will@headwatersstrategies.com](mailto:will@headwatersstrategies.com)  
Adam Eichberg, (303) 204-6930, [adam@headwatersstrategies.com](mailto:adam@headwatersstrategies.com)

## Q&A

### **How many and which states would the subsidiary operate in?**

There are fewer than 30 states in which a Pinnacol subsidiary of this kind could be licensed. We anticipate rolling the subsidiary out slowly, expanding to no more than 2-3 states over the next few years. We will identify those states according to critical mass of Colorado businesses operating there, overall business climate and other factors. We don't yet know which states we would go to; it is highly unlikely that we will ever have operations in all potential states in which the subsidiary could be licensed.

### **Will the subsidiary only cover Colorado companies in the other states in which it is licensed?**

No; that would not provide sufficient critical mass for the subsidiary to be viable. In addition, the subsidiary would not be the residual carrier in those other states.

### **Will the subsidiary be wholly-owned by Pinnacol, or will other investors participate?**

The subsidiary would be owned entirely by Pinnacol. If business needs call for additional funding in the future, other investors could be invited to participate but Pinnacol would always maintain majority control.

### **Who would be on the board of the subsidiary?**

We propose a 7-member board that would include a mix of Pinnacol and independent members. Pinnacol members would be its CEO and two of its board members.

### **What happens if the subsidiary loses money? How will Pinnacol's policyholders be protected?**

The subsidiary is a separate corporation from Pinnacol; thus, Pinnacol's policyholders are automatically protected. In addition, Pinnacol's investment in the subsidiary is subject to the general restrictions on insurance company investments in Title 10 of the Colorado Revised Statutes, including the specific restrictions in CRS 10-3-802 on the amount of investment an insurer can make in a subsidiary. That section limits such an investment to the lesser of 10% of an insurer's assets or 50% of surplus – which, in turn, protects policyholders from undue risk. Further, our proposed legislative language limits our allowed investment in the subsidiary to no more than 3% of our admitted assets.

### **Have other states done similar things?**

Yes. Maine, Maryland, Michigan, Minnesota, Missouri and Utah have all enacted legislation over the last 20+ years, allowing them to provide workers' compensation coverage and related services in other states.

### **How is this different from privatization?**

This proposal is completely different from privatization. Pinnacol remains as-is: an authority of Colorado state government, nonprofit, tax-exempt, board appointed by the Governor. The only change to our current statute is the authorization to establish a for-profit subsidiary through which to provide the same services outside Colorado that Pinnacol is permitted to provide within Colorado. While the subsidiary will be Pinnacol's, its operations will be separate and will not affect Pinnacol's operations.