Session of 2005

## HOUSE BILL No. 2447

By Committee on Commerce and Labor

9 AN ACT concerning workers compensation, reforming the workers com-10 pensation residual insurance market structure and reforming the workers compensation benefit structure; amending K.S.A. 40-2108, 40-11 12 2109, 40-2110, 44-510c, 44-510d and 44-510f and repealing the 13 existing sections. 1415Be it enacted by the Legislature of the State of Kansas: 16Section 1. K.S.A. 40-2108 is hereby amended to read as follows: 40-172108. Agreements may be made among insurers with respect to the equitable apportionment among them of insurance which may be afforded 1819applicants who are in good faith, entitled to but who are unable to procure 20such insurance through ordinary methods and such insurers may agree 21among themselves on the use of reasonable rate modifications for such 22 insurance: Provided, That such apportionment agreements and rate mod-23 ifications are approved by the commissioner of insurance. Not later than 24 September 30, 2005, the director of the department of insurance shall 25approve a plan of operation providing for a competitive bidding process 26to select a residual market insurer. The residual market insurer shall guar-27antee insurance coverage and quality loss prevention and control services 28for employers who are in good faith entitled to but who are unable to 29 procure workers compensation insurance through ordinary methods. 30 Sec. 2. K.S.A. 40-2109 is hereby amended to read as follows: 40-31 2109. Every insurer undertaking to transact in this state the business of 32 either workers compensation or employer's liability insurance or both, 33 and every rating organization which files rates for such insurance shall 34 cooperate in the preparation and submission to the commissioner of in-35 surance of a plan or plans, for the equitable apportionment among in-36 surers of applicants for insurance who are in good faith, entitled to but 37 who are unable to procure through ordinary methods, such insurance. 38 Such plan or plans shall provide: 39 - (a) Reasonable rules governing the equitable distribution of risks by 40 direct insurance, reinsurance or otherwise and their assignment to 41insurers; 42(b) rates and rate modifications applicable to such risks which shall

43 be reasonable, adequate and not unfairly discriminatory;

1 <del>(e)</del> a method whereby applicants for insurance, insured and insurers may have a hearing on grievances and the right of appeal to the 2 3 commissioner: - (d) for every such plan or plans, there shall be a governing board to 4 be appointed by the commissioner of insurance which shall meet at least  $\mathbf{5}$ annually to review and prescribe operating rules, and which shall consist 6 7 of the following members: (1) Seven members who shall be appointed as follows: Three of such 8 9 members shall be representatives of foreign insurance companies, two members shall be representatives of domestic insurance companies and 10 two members shall be licensed independent insurance agents. Such mem-11 12bers shall be appointed for a term of three years, except that the initial 13 appointment shall include two members appointed for a two-year term and two members appointed for a one-year term, as designated by the 1415commissioner; and (2) Two members representative of the general public interest with 16such members to be appointed for a term of two years. 1718 The commissioner shall review the plan as soon as reasonably possible 19after filing in order to determine whether it meets the requirements set 20forth in subsections (a) and (c) above. As soon as reasonably possible after 21the plan has been filed the commissioner shall in writing approve or 22 disapprove the same, except that any plan shall be deemed approved 23 unless disapproved within 45 days. Subsequent to the waiting period the 24 commissioner may disapprove any plan on the ground that it does not 25meet the requirements set forth in subsections (a), (b) and (c) above, but 26only after a hearing held upon not less than 10 days' written notice to 27 every insurer and rating organization affected specifying the matter to be 28considered at such hearing, and only by an order specifying in what re-29 speet the commissioner finds that such plan fails to meet such require-30 ments and stating when within a reasonable period thereafter such plan 31 shall be deemed no longer effective. Such order shall not affect any as-32 signment made or policy issued or made prior to the expiration of the 33 period set forth in such order. Amendments to such plan or plans shall 34 be prepared, and filed and reviewed in the same manner as herein pro-35 vided with respect to the original plan or plans. 36 - If no plan meeting the standards set forth in subsections (a), (b) and 37 (e) is submitted to the commissioner within the period stated in any order, 38 disapproving an existing plan the commissioner shall, if necessary to carry 39 out the purpose of this section after hearing, prepare and promulgate a 40plan meeting such requirements. When such plan or plans or amend-41ments thereto have been approved or promulgated, no insurer shall there-42after issue a policy of workers compensation or employer's liability insur-

43 ance or undertake to transact such business in this state unless such

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insurer shall participate in such an approved or promulgated plan. If, after 1 2 a hearing conducted in accordance with the provisions of the Kansas 3 administrative procedure act, the commissioner finds that any activity or practice of any insurer or rating organization in connection with the op-4 5eration of such plan or plans is unfair or unreasonable or otherwise in-6 consistent with the provisions of this section the commissioner may issue 7 a written order specifying in what respects such activity or practice is 8 unfair or unreasonable or otherwise inconsistent with the provisions of 9 this section and requiring discontinuance of such activity or practice. 10(e) The commissioner shall approve rates and rate modifications for each plan that provides workers compensation insurance pursuant to this 11 12 section which, over a period of time, but no later than January 1, 1997, 13 will reduce the assessments levied by the plan to less than 10%. If the commissioner finds that the percentage of the total Kansas workers com-1415pensation premium volume written by the plan has not decreased below 1620% of the total amount of such premium volume by December 31, 1998, 17the provisions of this subsection shall no longer apply and the commis-18sioner may cause the governing board of the plan to file new rates and 19rate modifications pursuant to this section. Notwithstanding the foregoing 20provisions of this subsection, the commissioner shall not approve rates or 21rating plans which produce rates or premiums for risks with less than 22 \$2,250 annual premium that are higher than those which would be ap-23 plied to such risks in the voluntary market, except that this provision shall 24 not prohibit the application of surcharges, experience modifications or 25other rating variables based on the elaims experience of individual risks. 26 (a) The plan of operation described in K.S.A. 40-2108, and amendments 27thereto, shall provide for a competitive bidding process pursuant to which 28the commissioner shall seek, and any insurer seeking to qualify as the 29 residual market insurer may submit, rates at which the insurer will agree 30 to insure any employer who is in good faith entitled to but who is unable 31 to procure workers compensation insurance through ordinary methods. 32 (b)The commissioner shall develop a request for proposals which 33 shall set forth the criteria an insurer must satisfy in order to be selected 34 as the residual market insurer. No later than September 30, 2005, the 35 commissioner shall provide the request for proposals to all insurers li-36 censed to write workers compensation insurance in Kansas. The commis-37 sioner shall also post such request for proposals on its website. Any insurer

that satisfies the capital and surplus requirements set forth in this chapter may submit a proposal in response to such request for proposals. The commissioner shall confer with the director of workers compensation for establishing and implementing the request for proposals.

42 (c) The commissioner shall require that an insurer seeking to qualify 43 as the residual market insurer agree to provide insurance for the residual

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1 market for no less than three years, and that it submit rates for such 2 insurance for at least one year. Insurers may at their option submit guar-3 anteed rates for subsequent years. The commissioner shall select as the 4 residual market insurer the insurer submitting the lowest and best pro-5 posal in response to the request for proposals developed by the 6 commissioner.

(d) The residual market insurer selected by the commissioner shall
operate as the residual market insurer for a minimum of three years.
Thereafter, the commissioner in his sole discretion shall determine
whether to renew the contract with the residual market insurer selected
by the commissioner or to conduct a new competitive bidding process.

12 (e) After the period for which the residual market insurer selected by 13 the commissioner has submitted rates has run, the residual market insurer shall submit proposed rates and any supplementary rate information spec-1415 ified by the commissioner to the commissioner for approval 60 days before 16their effective date. The commissioner shall approve such rates if they are not excessive, inadequate or unfairly discriminatory. The commissioner 1718shall disapprove any filing that does not meet the requirements of this 19section. A filing shall be deemed to meet such requirements unless ap-20proved, disapproved or modified by the commissioner within 60 days after 21the filing is made.

(f) The commissioner shall establish by rule and regulation standards 2223 to assure that any employer insured by the residual market insurer shall receive the same quality of service in the areas of employee classification, 24 safety engineering, loss control, claims handling and claim reserving prac-2526tices as do employers in the voluntary market. The residual market insurer 27shall process applications, conduct safety engineering or other loss control 28services and provide claims handling within the state of Kansas or ad-29 joining states.

(g) If, after a hearing conducted in accordance with the provisions of 30 31 the Kansas administrative procedure act, the commissioner finds that any 32 activity or practice of the residual market insurer is unfair or unreason-33 able or otherwise inconsistent with the provisions of this section the com-34 missioner may issue a written order specifying in what respects such ac-35 tivity or practice is unfair or unreasonable or otherwise inconsistent with 36 the provisions of this section and requiring discontinuance of such activity 37 or practice. 38

(h) If the commissioner finds that no insurer has submitted an acceptable proposal in response to the request for proposal described in this
section, he shall implement an alternative method of providing insurance
to employers who are in good faith entitled to but who are unable to

42 procure workers compensation insurance through ordinary methods.

43 Sec. 3. K.S.A. 40-2110 is hereby amended to read as follows: 40-

1 2110. An The residual market insurer participating in the plan approved

2 by the commissioner may pay a commission with respect to insurance

3 assigned under the plan to an on residual market business to any agent

4 licensed for any other insurer participating in the plan or to any insurer

5 participating in the plan who submits such business.

6 New Sec. 4. (a) Not later than July 1, 2005, and after consultation 7 with the workers compensation insurance industry, the commissioner 8 shall establish an interactive internet site which shall enable any employer 9 licensed in this state to obtain a quote from each workers compensation 10 insurer licensed to write the coverage sought by the employer.

(b) The internet site established by the commissioner shall enable employers to complete an online form that shall capture information sufficient to generate a quote from each insurer for the coverage sought by the employer. After an employer has answered all the questions appearing on the online form, the internet site shall display quotes for the employer for the coverage such employer has sought from each insurer licensed to write such coverage.

(c) Quotes provided at the internet site shall at all times be accurate.
Whenever the commissioner approves any rate change of a workers compensation insurer, the commissioner shall implement such change at the
internet site as soon as practicable, but in no event later than 10 days
after such change has been approved.

(d) The commissioner shall design the internet site to incorporate
user-friendly formats and self-help guidance materials, and shall develop
a user-friendly internet user-interface.

(e) The internet site shall display contact information for each insurer
licensed to write workers compensation insurance in this state. Such contact information shall consist of address, telephone number, fax number,
e-mail address and any additional information that the commissioner may
require. The internet site shall also display the name, address and telephone number of each agent each such insurer has appointed in this state.

Sec. 5. K.S.A. 44-510c is hereby amended to read as follows: 44-510c. Where death does not result from the injury, compensation shall be paid as provided in K.S.A. 44-510h and 44-510i and amendments thereto and as follows:

36 (a) (1) Where permanent total disability results from the injury, 37 weekly payments shall be made during the period of permanent total 38 disability in a sum equal to 662/3% of the average gross weekly wage of 39 the injured employee, computed as provided in K.S.A. 44-511 and 40 amendments thereto, but in no case less than \$25 per week nor more than the dollar amount nearest to 75% 100% of the state's average weekly 4142wage, determined as provided in K.S.A. 44-511 and amendments thereto, 43 per week. The payment of compensation for permanent total disability shall continue for the duration of such disability, subject to review and
 modification as provided in K.S.A. 44-528 and amendments thereto.

3 (2) Permanent total disability exists when the employee, on account of the injury, has been rendered completely and permanently incapable 4 of engaging in any type of substantial and gainful employment. Loss of  $\mathbf{5}$ both eyes, both hands, both arms, both feet, or both legs, or any combi-6 7 nation thereof, in the absence of proof to the contrary, shall constitute a permanent total disability. Substantially total paralysis, or incurable im-8 9 becility or insanity, resulting from injury independent of all other causes, shall constitute permanent total disability. In all other cases permanent 10 total disability shall be determined in accordance with the facts. 11

12 (b) (1) Where temporary total disability results from the injury, no compensation shall be paid during the first week of disability, except that 13 provided in K.S.A. 44-510h and 44-510i and amendments thereto, unless 1415 the temporary total disability exists for three consecutive weeks, in which 16case compensation shall be paid for the first week of such disability. Thereafter weekly payments shall be made during such temporary total 1718disability, in a sum equal to 66 2/3% of the average gross weekly wage of 19the injured employee, computed as provided in K.S.A. 44-511 and 20amendments thereto, but in no case less than \$25 per week nor more 21than the dollar amount nearest to 75% 100% of the state's average weekly 22 wage, determined as provided in K.S.A. 44-511 and amendments thereto, 23 per week.

(2) Temporary total disability exists when the employee, on account 24 25of the injury, has been rendered completely and temporarily incapable of 26engaging in any type of substantial and gainful employment. A release 27 issued by a health care provider with temporary medical limitations for an employee may or may not be determinative of the employee's actual 28 29 ability to be engaged in any type of substantial and gainful employment, 30 except that temporary total disability compensation shall not be awarded 31 unless the opinion of the authorized treating health care provider is shown 32 to be based on an assessment of the employee's actual job duties with the 33 employer, with or without accommodation.

34 (3) Where no award has been entered, a return by the employee to 35 any type of substantial and gainful employment or, subject to the provisions of subsection (b)(2), a release by a treating health care provider or 36 37 examining health care provider, who is not regularly employed or retained 38 by the employer, to return to any type of substantial and gainful employ-39 ment, shall suspend the employee's right to the payment of temporary 40 total disability compensation, but shall not affect any right the employee may have to compensation for partial disability in accordance with K.S.A. 414244-510d and 44-510e and amendments thereto.

43 (c) When any permanent total disability or temporary total disability

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1 is followed by partial disability, compensation shall be paid as provided 2 in K.S.A. 44-510d and 44-510e and amendments thereto.

3 Sec. 6. K.S.A. 44-510d is hereby amended to read as follows: 44-510d. (a) Where disability, partial in character but permanent in quality, 4 results from the injury, the injured employee shall be entitled to the  $\mathbf{5}$ compensation provided in K.S.A. 44-510h and 44-510i and amendments 6 7 thereto, but shall not be entitled to any other or further compensation 8 for or during the first week following the injury unless such disability exists for three consecutive weeks, in which event compensation shall be 9 paid for the first week. Thereafter temporary total or temporary partial 10disability compensation shall be paid for temporary total or temporary 11 12partial wage loss of use and as provided in K.S.A. 44-510c and 44-510e, 13 and amendments thereto. Thereafter permanent loss of use compensation shall be paid as provided in the following schedule, 66<sup>2</sup>/<sub>3</sub>% of the average 1415 gross weekly wages to be computed as provided in K.S.A. 44-511 and 16amendments thereto, except that in no case shall the weekly compensation be more than the maximum as provided for in K.S.A. 44-510c and 1718amendments thereto. If there is an award of permanent disability as a 19result of the injury there shall be a presumption that disability existed 20immediately after the injury and compensation is to be paid for not to 21exceed the number of weeks allowed in the following schedule: 22

For loss of a thumb, 60 weeks. (1)

23 (2)For the loss of a first finger, commonly called the index finger, 24 37 weeks.

25(3)For the loss of a second finger, 30 weeks.

(4)For the loss of a third finger, 20 weeks.

27 (5)For the loss of a fourth finger, commonly called the little finger, 2815 weeks.

29 Loss of the first phalange of the thumb or of any finger shall be (6)30 considered to be equal to the loss of  $\frac{1}{2}$  of such thumb or finger, and the 31 compensation shall be 1/2 of the amount specified above. The loss of the 32 first phalange and any part of the second phalange of any finger, which 33 includes the loss of any part of the bone of such second phalange, shall be considered to be equal to the loss of 3/3 of such finger and the com-34 35 pensation shall be <sup>2</sup>/<sub>3</sub> of the amount specified above. The loss of the first phalange and any part of the second phalange of a thumb which includes 36 37 the loss of any part of the bone of such second phalange, shall be considered to be equal to the loss of the entire thumb. The loss of the first and 38 39 second phalanges and any part of the third proximal phalange of any 40 finger, shall be considered as the loss of the entire finger. Amputation through the joint shall be considered a loss to the next higher schedule. 41

42For the loss of a great toe, 30 weeks. (7)

43 (8)For the loss of any toe other than the great toe, 10 weeks. 6

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1 (9) The loss of the first phalange of any toe shall be considered to be 2 equal to the loss of  $\frac{1}{2}$  of such toe and the compensation shall be  $\frac{1}{2}$  of 3 the amount above specified.

4 (10) The loss of more than one phalange of a toe shall be considered 5 to be equal to the loss of the entire toe.

(11) For the loss of a hand, 150 weeks.

(12) For the loss of a forearm, 200 weeks.

8 (13) For the loss of an arm, excluding the shoulder joint, shoulder
9 girdle, shoulder musculature or any other shoulder structures, 210 weeks,
10 and for the loss of an arm, including the shoulder joint, shoulder girdle,
11 shoulder musculature or any other shoulder structures, 225 weeks.

12 (14) For the loss of a foot, 125 weeks.

13 (15) For the loss of a lower leg, 190 weeks.

14 (16) For the loss of a leg, 200 weeks.

15 (17) For the loss of an eye, or the complete loss of the sight thereof,16 120 weeks.

17 (18) Amputation or severance below the wrist shall be considered as 18 the loss of a hand. Amputation at the wrist and below the elbow shall be 19 considered as the loss of the forearm. Amputation at or above the elbow 20 shall be considered loss of the arm. Amputation below the ankle shall be 21 considered loss of the foot. Amputation at the ankle and below the knee 22 shall be considered as loss of the lower leg. Amputation at or above the 23 knee shall be considered as loss of the leg.

(19) For the complete loss of hearing of both ears, 110 weeks.

(20) For the complete loss of hearing of one ear, 30 weeks.

26(21)Permanent loss of the use of a finger, thumb, hand, shoulder, arm, forearm, toe, foot, leg or lower leg or the permanent loss of the sight 27 28of an eye or the hearing of an ear, shall be equivalent to the loss thereof. 29 For the permanent partial loss of the use of a finger, thumb, hand, shoul-30 der, arm, toe, foot or leg, or the sight of an eye or the hearing of an ear, compensation shall be paid as provided for in K.S.A. 44-510c and amend-3132 ments thereto, per week during that proportion of the number of weeks 33 in the foregoing schedule provided for the loss of such finger, thumb, 34 hand, shoulder, arm, toe, foot or leg, or the sight of an eye or the hearing 35 of an ear, which partial loss thereof bears to the total loss of a finger, 36 thumb, hand, shoulder, arm, toe, foot or leg, or the sight of an eye or the 37 hearing of an ear; but in no event shall the compensation payable here-38 under for such partial loss exceed the compensation payable under the 39 schedule for the total loss of such finger, thumb, hand, arm, toe, foot or leg, or the sight of an eye or the hearing of an ear, exclusive of the healing 40 period. As used in this paragraph (21), "shoulder" means the shoulder 4142joint, shoulder girdle, shoulder musculature or any other shoulder 43 structures.

1 (22)For traumatic hernia, compensation shall be limited to the com-2 pensation under K.S.A. 44-510h and 44-510i and amendments thereto, compensation for temporary total disability during such period of time as 3 such employee is actually unable to work on account of such hernia, and, 4 in the event such hernia is inoperable, weekly compensation during 12  $\mathbf{5}$ 6 weeks, except that, in the event that such hernia is operable, the unrea-7 sonable refusal of the employee to submit to an operation for surgical 8 repair of such hernia shall deprive such employee of any benefits under 9 the workers compensation act. (23) Loss of a scheduled member shall be based upon permanent 10

impairment of function to the scheduled member as determined using
the fourth edition of the American Medical Association Guides to the
Evaluation of Permanent Impairment, if the impairment is contained
therein.

15 (b) Whenever the employee is entitled to compensation for a specific 16injury under the foregoing schedule, the same shall be exclusive of all 17other compensation except the benefits provided in K.S.A. 44-510h and 44-510i and amendments thereto, and no additional compensation shall 18 19be allowable or payable for any temporary or permanent, partial or total 20disability, except that the director, in proper cases, may allow additional 21compensation during the actual healing period, following amputation. 22 The healing period shall not be more than 10% of the total period allowed 23 for the scheduled injury in question nor in any event for longer than 15 24 weeks. The return of the employee to the employee's usual occupation 25shall terminate the healing period.

Sec. 7. K.S.A. 44-510f is hereby amended to read as follows: 44-510f.
(a) Notwithstanding any provision of the workers compensation act to the
contrary, the maximum compensation benefits payable by an employer
shall not exceed the following:

(1) For permanent total disability, including temporary total, temporary partial, *and* permanent partial <del>and temporary partial</del> disability payments paid or due, <del>\$125,000</del> \$250,000 for an injury or any aggravation
thereof;

(2) for temporary total disability, including any prior permanent total,
permanent partial or temporary partial disability payments paid or due,
\$100,000 \$125,000 for an injury or any aggravation thereof; and

(3) subject to the provisions of subsection (a)(4), for permanent or
temporary partial disability, including any prior temporary total, permanent total, temporary partial, or permanent partial disability payments
paid or due, \$100,000 \$125,000 for an injury or any aggravation thereof;
and.

42 (4) for permanent partial disability, where functional impairment only
 43 is awarded, \$50,000 for an injury or aggravation thereof.

1 Beginning July 1, 2006, and on July 1 of each subsequent year, the 2 maximum compensation benefits set out in subsection (a) shall be adjusted 3 up or down by a percentage equal to the percentage of change in the state's average weekly wage as determined by the secretary by computing 4 the average weekly wages paid to employees in insured work during the  $\mathbf{5}$ previous calendar year. Such percentage shall be rounded to the nearest 6 7 full percentage and if the dollar amount of the maximum compensation benefit so computed is not a multiple of \$1, then the computed maximum 8 9 compensation benefit amount shall be reduced to the next lower multiple of \$1. Prior to July 1 of each year, the secretary shall announce the max-10 imum compensation benefits so computed, by publication in the Kansas 11 12register. 13 (b) If an employer shall voluntarily pay unearned wages to an employee in addition to and in excess of any amount of disability benefits to 1415 which the employee is entitled under the workers compensation act, the 16excess amount paid shall be allowed as a credit to the employer in any final lump-sum settlement, or may be withheld from the employee's 1718wages in weekly amounts the same as the weekly amount or amounts paid 19in excess of compensation due, but not until and unless the employee's 20average gross weekly wage for the calendar year exceeds 125% of the 21state's average weekly wage, determined as provided in K.S.A. 44-511 22and amendments thereto set out in subsection (a). The provisions of this 23 subsection shall not apply to any employer who pays any such unearned wages to an employee pursuant to an agreement between the employer 24 25and employee or labor organization to which the employee belongs. 26Sec. 8. K.S.A. 40-2108, 40-2109, 40-2110, 44-510c, 44-510d and 44-27 510f are hereby repealed.

28 Sec. 9. This act shall take effect and be in force from and after its 29 publication in the statute book.