

Pinnacol Assurance - Past History and Recent Proposals

Pinnacol Assurance was founded as a state chartered insurance firm when the Colorado General Assembly passed the Workers Compensation Act in 1915. This legislation was designed to offer an assured source of workers' compensation coverage to Coloradans. Pinnacol is the insurance company of last resort for businesses that are denied coverage by other companies.

Pinnacol's business plan has changed over the years. In 1987 it filed a "Plan for the Future" with the Division of Insurance and transitioned to a quasi-public authority. In 2004 Pinnacol assumed management of its \$1.5 billion investment portfolio from the state treasurer's office and was able the next year to begin distributing general dividends to its policyholders. In seven years, 435 million dollars in dividends have been paid to its clients. <www.pinnacol.com/about-us/factsheets>

The governance of the company is by an eight member board of directors appointed by the governor. It employs over 588 people in two offices, one in Denver and the other Grand Junction. In 2011, Pinnacol had 55,000 policy holders covering one million clients, over 57% of Colorado's work force. <www.pinnacol.com/about-us/fact-sheets>

Several proposals have been put forward over the years to privatize Pinnacol. In 2010 when Bill Ritter was governor, the proposal was canceled when state legislators showed no interest in making a change. However, the proposal to privatize was brought up again this past year by CEO of Pinnacol, Dennis Ross. Ross offered a \$330 million stake in the company (later increased to \$340 million) to the state so the company could go private, about \$130 million more than an earlier offer. Due to Colorado's budget crises, the idea appealed to some groups. Besides that, relations between the state and Pinnacol have been strained ever since a lavish spending trip costing \$318,717, was taken by board members to Pebble Beach, California in 2010. More criticism was leveled at the company when a new \$4.3 million severance package was given to its top 12 executives in May of 2011. (Huff Post, Denver, 8-5-11; Huff Post, Denver, 9-2-12)

To further complicate matters, Pinnacol declared in January, 2011 it would no longer administer claims of the state's 42,000 employees. (Huff Post, Denver, 8-5-11). Pinnacol spokesperson Susan Stolte said this had nothing to do with criticism of the company's spending habits and severance packages. (Huff Post, Denver, 8-5-11)

The plan put forward by Pinnacol in November, 2011 would privatize Pinnacol and in exchange give the state a 40% (\$340 million) ownership stake in the company. Dividends from this stake would go to a business-development fund and to an education fund. Pinnacol would become a privately held mutual assurance company with stock owned by its policyholders. Under the proposal, Pinnacol would be free to sell its insurance outside of Colorado. It would also lose its tax-exempt status. (Denver-Post, 11-2-11)

Colorado Governor John Hickenlooper, who was involved in developing this proposal, appointed a 19-member task force to examine and report out about the merits of the privatization. To be enacted, the plan would require enabling legislation from lawmakers, approval from Pinnacol board members, and approval of policyholders.

By the first of the year, the Governor suggested modifications to the original deal which would increase the state's ownership to \$350 million and create a \$22 million injured-workers fund. (Denver-Post, 1-27-12) Opponents held that they were happy with the current low rates and saw no need to change course. They also felt that the

state overvalued what would be its stake in the company. Proponents argued that Pinnacol might not be able to keep its low rates of insurance if it wasn't in a better position to expand and diversify its business. (Denver Post, 1-31-11) Members of the task force were either luke warm to the proposal or opposed to it.

It was clear that an impasse had been reached. Hickenlooper and Pinnacol officials agreed that the matter needed more discussion before being presented to the legislature. Hickenlooper said, "Clearly, there is more work to do. We look forward to continuing the conversations about restructuring in the coming weeks and months." The official Pinnacol statement said, "The board believes that restructuring Pinnacol has many long-term benefits for all stakeholders, and we remain committed to pursuing such a change." (Denver Post, 2-3-12)

The privatization of Pinnacol will not be on the legislative agenda for 2012 but it is clear that the subject will continue to be discussed and a new proposal will be forthcoming, probably before the end of 2012.

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