



April 15, 2025

The Honorable Lola Smallwood-Cuevas  
Senate Labor, Public Employment and Retirement Committee  
1021 O Street, Room 6740  
Sacramento, CA 95814

**RE: Senate Bill 536 (Archuleta) Workers' compensation insurance fraud reporting.  
SUPPORT**

Dear Chair Smallwood-Cuevas and Members of the Committee:

The American Property Casualty Insurance Association (APCIA) is proud to sponsor **SB 536** and the undersigned organizations are pleased to support **SB 536** which is a much-needed piece of legislation that would help fight fraud in the workers' compensation system. Representing nearly 60 percent of the U.S. property casualty insurance market, the APCIA promotes and protects the viability of private competition for the benefit of consumers and insurers. APCIA represents the broadest cross-section of home, auto, and business insurers of any national trade association. APCIA members represent all sizes, structures, and regions, which protect families, communities, and businesses in the U.S. and across the globe.

**SB 536** would expand the payroll base for premium, decrease the cost of workers' compensation insurance for honest employers, and increase revenue to be taxed in California.

***This program has been utilized by SCIF to successfully fight fraud since 2011 and expanding it will further benefit the workers' compensation system.***

Dishonest entities significantly and substantially underreport or misreport payroll to insurers. This directly impacts the competitiveness of employers that accurately report payroll. In 2011, efforts were made to allow insurers to verify and ensure compliance with workers' compensation payroll reporting requirements for calculating premiums by providing them access to payroll reporting records from the Employment Development Department's (EDD). The pilot was initiated with the State Compensation Insurance Fund (SCIF) and for over a decade, this program has allowed SCIF to effectively identify premium fraud and recover premium via restitution. This successful pilot program initiated with SCIF to allow access to EDD's payroll data should be expanded to all insurers to assist in payroll verification compliance. Applying this program to the entire workers' compensation insurance market would likely identify over a \$100,000 million dollars annually in underreported premiums and would result in the actual recovery of tens of millions of dollars or more.

***Those playing by the rules are being unfairly penalized.***

Employers who accurately report their payroll probably face rates three to ten times higher in the high-risk classifications than they would face if all employers reported accurately. California sees an underreporting of payroll in the tens of millions of dollars each year, providing an unfair advantage to those cheating the system.

Fortunately, **SB 536** addresses the type of premium fraud in which employers underreport payroll for purposes of workers' compensation insurance while separately reporting alternate amounts of payroll for state tax purposes. This bill would allow for the provision of EDD data directly to insurers, allowing them to quickly identify premium fraud.

***Insurers would be obligated to report suspected fraud.***

Importantly, this bill would create a new obligation for insurers to report suspected fraud directly back to the EDD (in addition to the Department of Insurance (CDI) and relevant district attorneys), which would alert the EDD to conduct further investigations of potential fraud. Where an employer commits insurance fraud, they are more likely to commit tax fraud.<sup>i</sup> Once this process is established, the EDD can take advantage of the fraud fighting efforts of all California insurers to increase tax recoveries in California. As this reporting would also go to CDI, CDI already is empowered to monitor insurer follow-up to assure that insurers investigate and use information from EDD appropriately.

***SB 536 increases the collection of legitimate tax dollars.***

Underreporting of payroll also impacts the collection of taxes, and in California that may add up to more than \$10 billion a year.<sup>ii</sup> This can be remedied when the abuse is identified; in 2009, 51 percent of businesses identified as underreporting or misreporting payroll came into compliance, increasing legitimate collection of taxes.<sup>iii</sup> California tax collections would benefit from the increased reporting of fraudsters to the EDD, since greater compliance with these laws means more revenue to be taxed and a reduced burden on government-supported programs to fill the gaps left by insufficient insurance coverage, improper payment of wages, and occupational injuries and illnesses that can be prevented. Additionally, **SB 536** is designed to create an additional stream of income for the Department of Industrial Relations. In cases where premium is recovered because the insurer has identified that payroll has been understated, the insurer will pay premium tax of 2.35 percent on every dollar recovered which will result in additional income for the state.

***With the influx of contractors into Los Angeles, SB 536 will help fight fraud in the aftermath of the Los Angeles wildfires.***

This proposal is especially important to help small businesses in the aftermath of the recent wildfires in Southern California. Unfortunately, the fraud described above will likely proliferate in the chaos and turmoil of the coming months and years as contractors will be in severe demand. Many local contractors will be expanding their payroll in Southern California to handle the influx of work, and California is already seeing out-of-state contractors entering the market. Unscrupulous contractors may add to the workforce but report as few workers as possible in hopes of spending less on premiums.

**SB 536** would expand the payroll base for premium and decrease the cost of workers' compensation insurance for honest employers. For these reasons, APCIA and the undersigned organizations strongly support **SB 536**.

Sincerely,



Laura Curtis  
Assistant Vice President, State Government Relations  
American Property Casualty Insurance Association

African American Farmers of California  
Almond Alliance  
American Pistachio Growers  
American Property Casualty Insurance Association (**Sponsor**)  
California Association of Joint Powers Authorities  
California Association of Winegrape Growers  
California Chamber of Commerce  
California Citrus Mutual  
California Coalition on Workers' Compensation

California Cotton Ginners and Growers Association  
California District Attorneys Association  
California Farm Bureau Association  
California Fresh Fruit Association  
California Hotel + Lodging Association  
California League of Food Producers  
California Pool & Spa Association  
California State Council of Laborers  
California Walnut Commission  
Grower-Shipper Association of Central California  
Independent Insurance Agents and Brokers of California  
Nisei Farmers League  
Western States Regional Council of Carpenters  
Western Tree Nut Association

cc: Members and Consultants, Senate Labor Committee  
Author, Senator Archuleta  
Legislative Affairs, Office of the Governor  
Alma Perez, Senate Labor, Public Employment and Retirement Committee  
Cory Botts, Senate Republican Caucus