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**Labor & Workplace Standards  
Committee**

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**SB 5463**

**Brief Description:** Concerning the duties of industrial insurance self-insured employers and third-party administrators.

**Sponsors:** Senators Alvarado, Conway, Saldaña, Salomon, Nobles, Valdez, Hasegawa, Stanford, Robinson, Shewmake, Trudeau, Bateman, Chapman, Harris, Liias, Cleveland, Holy, Lovelett and Wilson, C..

**Brief Summary of Bill**

- Extends the duty of good faith and fair dealing to all workers' compensation self-insured employers and third-party administrators.

**Hearing Date:** 3/18/25

**Staff:** Kelly Leonard (786-7147).

**Background:**

Self-Insured Employers.

Workers who, in the course of employment, are injured or disabled from an occupational disease are entitled to workers' compensation benefits, which may include medical, temporary time-loss, vocational rehabilitation benefits, and permanent disability benefits. The Department of Labor and Industries (L&I) administers the state's workers' compensation system. Employers in Washington must obtain coverage either through the industrial insurance fund administered by the Department of Labor and Industries (L&I) or by qualifying to self-insure.

Self-insurance is a program in which the employer covers all costs associated with an on-the-job injury or occupational disease. Self-insured employers administer their own claims and maintain

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a long-term obligation to pay benefits during the lifetime of their claims. Self-insured employers must meet certain requirements and maintain certification through L&I. Self-insured employers may contract with a third-party administrator (TPA) to administer claims. L&I licenses TPAs and certifies claims administrators.

#### Duty of Good Faith and Fair Dealing.

Effective July 1, 2024, the state established a specific duty of good faith and fair dealing in certain instances. All self-insured municipal employers, self-insured private sector firefighter employers, and their TPAs have a duty of good faith and fair dealing to workers. A "municipal employer" includes any county, city, town, port district, water-sewer district, school district, metropolitan park district, fire district, public hospital district, regional fire protection service authority, education service district, or such other units of local government. A "private sector firefighter employer" includes any private sector employer that employs over 50 firefighters, including supervisors, on a full-time, fully compensated basis as a firefighter of the employer's fire department, only with respect to their firefighters.

A self-insured municipal employer, self-insured private sector firefighter employer, or its TPA violates the duty if it coerces a worker to accept less than the compensation due to him or her, or otherwise fails to act in good faith or fair dealing regarding its obligations. L&I must investigate each alleged violation of the duty of good faith and fair dealing, and issue an order determining whether a violation has occurred within 30 calendar days. If the duty has been violated, the applicable employer must be ordered to pay a penalty of 1 to 52 times the average weekly wage at the time of the order, depending upon the severity of the violation, which accrues for the benefit of the worker. In addition, if a self-insured municipal employer, self-insured private sector firefighter employer, or its TPA violates the duty of good faith and fair dealing, L&I may impose the following penalties:

- a maximum of \$3,000 or 75 percent of the amount due, or the underpayment, for unreasonably delaying or refusing to pay benefits; and
- maximum of \$3,000 for failure to comply an L&I rule or other provision pertaining to workers' compensation.

L&I must decertify a self-insured municipal employer if it violates the duty of good faith and fair dealing three times within a three-year period, excluding violations constituting errors or delays that are inadvertent or minor.

#### Delaying Decertification.

L&I may delay decertification while a self-insured municipal employer has an enforceable contract with a licensed TPA that may not be legally terminated; however, the self-insured municipal employer may not renew or extend the contract.

### **Summary of Bill:**

#### Duty of Good Faith and Fair Dealing.

The duty of good faith and fair dealing is extended to all self-insured employers and TPAs,

including its requirements and applicable penalties. L&I must decertify a self-insured employer when L&I finds it has violated the duty of good faith and fair dealing three times in a three-year period. The requirements in the bill apply to all claims regardless of the date of injury.

Delaying Decertification.

L&I may delay this decertification of a self-insured employer while it has an enforceable contract with a licensed TPA that may not be legally terminated; however, the self-insured municipal employer may not renew or extend the contract.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** The bill takes effect on January 1, 2026.