Date of Hearing: August 5, 2026

ASSEMBLY COMMITTEE ON APPROPRIATIONS
Buffy Wicks, Chair
SB 536 (Archuleta) – As Amended June 15, 2026

Policy Committee: Insurance Vote: 17 - 0

Urgency: No State Mandated Local Program: No Reimbursable: No

SUMMARY:

This bill requires an insurer to notify the Employment Development Department (EDD) of suspected workers' compensation premium fraud and requires EDD to release payroll information to the insurer to conduct a fraud investigation.

Specifically, this bill:

1) Requires an insurer or licensed rating organization to notify EDD of suspected workers' compensation fraud when the fraudulent act relates to premium fraud.

2) Authorizes an insurer to submit wage records and employee counts for an employer to EDD, and requires EDD to identify and report back discrepancies in the submitted information compared with payroll information maintained by EDD.

3) Authorizes an insurer, based on the discrepancies and relevant premium fraud investigation, to submit a request for detailed payroll information to EDD, and requires EDD to release the information unless doing so violates federal law or compromises an ongoing investigation, allowing the insurer to investigate fraud by comparing such information to records the insurer has from that employer's workers' compensation claims or policies.

4) Requires an insurer requesting information to reimburse EDD quarterly for the actual, direct costs of providing the information.

5) Requires such payroll information to be provided in a confidential manner and used for investigation and subsequent compliance purposes only, and authorizes EDD to require a requesting insurer to enter into a written, enforceable agreement to adhere to safeguards.

6) Provides that the informed consent of an employer required under federal law for EDD to disclose such confidential payroll information to an insurer is given by the employer entering into a workers' compensation insurance policy with the insurer, and establishes the insurer as an agent of the employer for such purposes.

FISCAL EFFECT:

1) One-time costs of approximately $9.7 million and ongoing costs of approximately $6.5 million to EDD to implement this bill, including reviewing employer records submitted by an insurer to identify discrepancies, releasing payroll information to requesting insurers, and ensuring compliance with information sharing agreements, as well as related information

technology system upgrades, partially offset by quarterly insurer reimbursements (General Fund).

2) To the extent this bill increases the detection of workers' compensation fraud by EDD and insurers, this bill would increase costs to the Department of Insurance (CDI) and district attorneys (DAs) to investigate and prosecute additional fraud cases (Insurance Fund), as well as cost pressures to the courts in additional related workload (General Fund or Trial Court Trust Fund). CDI estimates costs of approximately $192,000 in fiscal year (FY) 2026-27, $837,000 in FY 2027-28, and $2.4 million in FY 2028-29 and annually thereafter in increased staff workload to its Fraud Division to investigate suspected fraudulent claims.

3) Potential cost savings to the state as an employer to the extent this bill lowers employers' workers' compensation premium payments by reducing systemic fraud (General Fund or special fund). Additionally, potential increase in various state revenues to the extent this bill helps prevent payroll tax evasion (General Fund and special fund).

COMMENTS:

1) **Purpose.** According to the author:

> California sees underreporting of payroll in the tens of millions of dollars each year, providing an unfair advantage to employers cheating the system. SB 536 will empower insurers and licensed rating organizations to identify when employers are fraudulently withholding premium by comparing what is reported to them with what is reported to [EDD]. It is expected that restitution of premium fraud will amount to tens of millions and potentially even a hundred million dollars a year. SB 536 is also designed to provide tools for [EDD] to identify and prevent tax evasion.

This bill is sponsored by the American Property Casualty Insurance Association and supported by other insurer groups, employer groups, DA offices, and the California State Council of Laborers.

2) **Background.** ***Workers' Compensation Insurance.*** An employer is required to provide workers' compensation by either receiving approval from the Department of Industrial Relations to self-insure following substantial requirements or obtaining coverage from an authorized insurer. When an employer applies for workers' compensation insurance coverage, the insurer generally collects payroll information from the employer, including the number of employees, employee job classifications and duties, and total payroll, as well as information about the employer's industry, workplace locations, prior workers' compensation claims, and workplace safety and risk management practices. This information plays a significant role in setting premiums for workers' compensation insurance. Thus, an employer that provides inaccurate or misleading information distorts the market and places significant strain on the workers' compensation system, generally requiring insurers to increase all premiums to compensate for those insufficient premiums.

Premium Fraud. Payroll or premium fraud is the misrepresentation of payroll and employer information with the intent to reduce the employer's workers' compensation premium. Such fraud may constitute a misdemeanor or felony and includes underreporting total payroll, employee counts, and hours and wages or misclassifying employees into lower-risk job classifications or as independent contractors.

The Workers' Compensation Insurance Fraud Reporting Act (Act) requires an insurer or licensed rating organization to notify the local DA's office and CDI's Fraud Division of suspected workers' compensation fraud, which may include premium fraud or fraud relating to a specific claim. In addition to conducting its own investigations, the Fraud Division administers four of five CDI grant programs that provide funding to DA offices to assist with local efforts to prosecute fraud.

This bill requires an insurer or rating organization to also notify EDD of suspected workers' compensation fraud when the fraudulent act relates to premium fraud. This bill authorizes an insurer to submit payroll and employer information the insurer has collected from the employer to EDD and requires EDD to compare such information against separate payroll information maintained by EDD to identify discrepancies.

The Act requires the insurer or rating organization and EDD, upon request and under certain conditions, to release relevant information deemed important to an authorized governmental agency's workers' compensation fraud investigation. This bill authorizes an insurer, based on discrepancies identified by EDD and reported back to the insurer, to request detailed payroll information from EDD, which EDD must release under certain conditions, to allow the insurer to further compare records and investigate fraud.

Proponents of this bill note that a program enabling the State Compensation Insurance Fund (State Fund) to access EDD payroll data to effectively identify premium fraud has existed for over a decade and "should be expanded to all insurers." The State Fund is a quasi-governmental, public enterprise fund created by the Legislature in 1914 to provide a stable source of workers' compensation insurance to public agencies and private employers. As noted in Assembly Insurance Committee's analysis of this bill, although the author has amended this bill to more closely align with the State Fund program:

> Still, there are key factors distinguishing the process…For instance, State Fund is a quasi-governmental entity, meaning it is bound by different restrictions on its uses of information than a private company, and state and federal confidentiality requirements concerning the sharing of EDD information differ as well.
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> Additionally, and perhaps most importantly, State Fund is a single entity responsible for insuring a large percentage of California's employers. The program proposed by this bill…extend[s] to any insurer. Consequently, the requisite data infrastructure and oversight necessary to ensure maintenance of adequate confidentiality is *much* broader than it is for sharing with State Fund alone. The attack surface for potential data breach exposing the EDD information would also be exponentially larger.

3) **Related Legislation.** SB 1054 (Cabaldon) requires certain employers to report additional employment and wage information to EDD and requires EDD to share the information with certain state agencies to facilitate benefits administration and other program purposes. SB 1054 is pending hearing by this committee.

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