

Self-Insurance: A Local Engine for Economic Development

By Gary Cooper, Association
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We've all heard that old adage "If it's not broken, don't fix it." That saying can apply today to the self-insurance industry. Self-insurance isn't broken, but it is always in jeopardy of falling into disrepair unless the self-insurance industry and insurance regulators continue to work together to preserve and protect what we have.

Self-insured entities can feel good about the overall national success and strength of the self-insurance industry in light of the economic downturn. Self-insurance remains a very popular and positive mechanism to protect businesses and public entities around the country against the risk of loss. It provides a mechanism to increase business profitability and a value-added resource for a safe workplace environment.

Given the current state of the economy, local communities around the country are searching for ways to spur economic development, a cornerstone of sustainable progress. Self-insurance provides an often overlooked opportunity to boost local economies.

Keeping Insurance Dollars at Home

The self-insurance industry is a local economic engine driving business development in almost every community in the nation.

Instead of purchasing traditional insurance policies, thousands of private businesses and public entities choose to join together as groups and self-insure their workers' compensation liabilities for cost effectiveness, better control over their claims dollars, more efficient return-to-work pro-

grams, and increased loss control and safety management.

Depending on the business classification, for most groups workers' compensation cost savings can be significant when compared to the traditional marketplace. Up-front annual savings can range from 10 to 25 percent, in addition to the return of surplus funds in the form of a dividend if the self-insured group performs well. These returned surplus funds, as well as the up-front cost savings, have an immediate positive impact on a local member's ability to meet competitive demands in the marketplace or a public entity's capacity to meet its annual budget.

Aside from lowering costs for workers' compensation, the self-insurance group industry has another very positive story to tell. Self-insured groups create and support many local jobs in areas such as insurance administration, underwriting, actuarial support, loss control, safety supervision, third-party claims administration, claims management, accounting, and technical and legal support. Statutes and regulations require almost all of these services be performed within the group's state of domicile.

Group member premiums or contributions are generally kept by the group in local banks and not sent to an out-of-state home office like most traditional primary insurance premium transactions.

When self-insured groups turn a profit, dividends or surplus funds are returned to respective members and reinvested in the local community as opposed to a traditional insurance company, where profits are returned

to corporate shareholders or held internally so traditional insurance companies can expand their operations around the globe.

For example, let's take a look at the state of California's group marketplace. Group surplus funds are first approved by the state regulator if the distribution is less than 23 months after a program year. Regulatory prior approval is not required if the distribution is 23 months after a program year. Unfortunately, the amount of surplus funds returned to members by all the different group associations is difficult to quantify in the aggregate as this information isn't tracked at the state regulatory level. However, a look at the largest self-insured group in California proves that these groups positively impact local communities.

The California Restaurant Mutual Benefit Corporation is the largest self-insured group operating in California. It has been in existence for only five years, has more than 1,200 members with restaurants operating in 3,000 locations throughout the state, and covers \$1.3 billion in payroll. From 2005 through 2008, this group returned approximately \$19 million of group surplus funds back to its members to be used for their respective businesses. Those surplus funds equate to about 17 percent of the total premium of the group. Not only are CRMBC's workers' compensation

costs comparable to those rates in the traditional marketplace, but their members receive surplus funds when the group has a successful year.

CRMBC is just one example of the successful role self-insurance plays in solidifying profitability for local businesses. There are approximately 450 groups like this one around the country, and most can tell a similar story.

The Role of State Government

Many of the recent successes within the self-insurance industry are the result of regulatory guidance and support. However, a few failures for the self-insurance industry have been assigned to state regulators and legislators for review and resolution.

State regulators and legislators have done well by passing numerous laws and regulations to preserve and protect the self-insurance industry, but in some parts of the country not enough has been done to oversee the changing self-insurance group marketplace.

Many issues face insurance regulators today. Some areas these officials struggle with include whether group administrators need to be licensed, determining the actuarial confidence level appropriate for group loss reserves, and whether group administrators can act as TPAs. Today's economic climate also has led to challenges regarding group and member insolvencies as well as claims guarantee fund reimbursement protections. These concerns are just a sampling of the pressing topics today's regulators and legislators are facing in the self-insurance group marketplace.

It will take time for the regulatory machinery of each state to sort through these and other issues and analyze the pros and cons. Clear and workable resolutions are needed through revised laws and regulations to safeguard the overall self-insurance industry and assure future economic development in our local communities, profitability of our businesses,

and budgetary requirements of our public entities.

The state of California's Commission on Health and Safety and Workers' Compensation recently completed a task force report on self-insurance groups that discussed many of the above issues. By resolving those issues, California regulators will be preserving and protecting a very vibrant self-insurance industry and setting themselves on the right road to spur local economic development and progress.

The Commission's Report on Self-Insurance can be found at https://www.dir.ca.gov/chswc/Reports/2009/CHSWC_SIGReport.pdf

Excess Providers Help Self-Insured Entities Keep Costs Down

Even with the benefits of self-insurance, self-insured employers need a relationship with an excess workers' compensation insurer in order to provide risk and financial stability in the face of a potential catastrophic workers' compensation loss. This stability, coupled with additional risk prevention and analysis offerings, makes choosing an excess workers' compensation insurance partner an important issue for self-insured employers and groups.

Safety National currently provides excess insurance for almost \$130 billion of self-insurance workers' compensation payroll and about 270 groups countrywide. Most of that payroll is split between local retail, service and manufacturing businesses, hospitals, police and fire departments, school systems, and city and county governments. Safety National is an industry leader in providing excess workers' compensation insurance protection to self-insured groups. In total, Safety National's Excess Workers' Compensation policies cover more than 7.4 million workers in the U.S., representing almost 5 percent of the nation's workforce.

In addition, many excess providers offer risk control services to self-insured enti-

ties in an effort to help keep workers' compensation costs under control. For example, Safety National offers its insureds its Management, Analysis and Prevention (MAP) Client Services online safety program, an in-depth safety management resource that is intended to support a safe workplace environment. This safety-focused resource includes training tools, regulatory analysis of OSHA and state safety laws, regulatory updates, best practices guidelines and many other resources. We offer the majority of these services to Safety National policyholders free of charge.

Without self-insurance and cost saving components such as Safety National's MAP Client Services, self-insured groups, businesses and public entities would face greater economic uncertainty in protecting and providing for their employees' workplace safety and workers' compensation benefits. Everyone wins when businesses and public entities can provide a safer workplace environment through resources found in the self-insurance industry.

We Have to Work Together

If you enjoy old movies like I do, you'll remember the film "Witness" starring Harrison Ford and Kelly McGillis. In one scene, all of the neighboring farmers come together to help one community member build a new barn. That is a great analogy for the self-insurance group market. There is definitely a one-for-all and all-for-one mentality of mutual interest in the success of these groups.

Like the families working together in that film, businesses in local communities and public entities from around a state can come together and become a self-insured by funding their own workers' compensation claims. And, companies like Safety National stand at the ready to help self-insured groups keep workers' compensation costs low through risk control programs like our MAP Client Services as well as through our experienced and

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highly respected underwriting and claims operations.

The same analogy can apply when self-insurance groups interact with state regulators and legislators. Regulators need the help and support of self-insurance industry experts and industry associations when overseeing this market segment. All stakeholders should work closely together and toward positive goals to build a better industry and, in turn, a stronger local economy.

The engine of self-insurance is a pragmatic and powerful tool that can help

significantly reduce workers' compensation costs and provide a safer workplace for all businesses and public entities that participate. As we start to pull out of our countrywide economic doldrums, when our local businesses start to expand and begin to hire once again, we can't forget the positive role self-insurance plays in controlling insurance costs for public entities and increasing bottom-line profitability for private businesses.

Gary Cooper is currently the Association Manager for Safety National. Before

joining Safety National, he was the Deputy Commissioner of Captive Programs for the State of Nevada Division of Insurance, also serving as a hearing officer for the division.

Cooper joined the division in 2004 as the Chief of Insurance Examiner of the self-insured workers' compensation section, where he was responsible for the financial and regulatory oversight of the individual and group self-insured workers' compensation programs.



Prior to joining the division, Cooper was involved in the private insurance sector, starting in 1977. During that time he worked for AIG, Meadowbrook Insurance, Louisiana Workers Comp Corp., Great West Casualty, the Travelers Insurance Co. and Commercial Union Companies, holding various positions in the claims and underwriting departments.

Cooper is a graduate of Loyola University School of Law in New Orleans, La., and earned his bachelor's degree from Fort Hays State University in Hays, Kan.

Safety National provides alternative risk funding solutions within specialized areas where the company's experience and expertise is unmatched. Since 1942, Safety National has pioneered new products for the self-insured community and provided unparalleled service to employers nationwide as the leading and longest continual provider of excess workers' compensation coverage in the insurance industry. Please visit www.safetynational.com for more information.

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