



Understanding Group Self-Insured Workers' Compensation Funds

*Providing Workers' Compensation Insurance
Solutions for Small- and Mid-Sized Employers*



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Every company has financial risks that need to be identified and managed in order to protect corporate assets. The traditional approach is to purchase risk-specific insurance policies from commercial insurance companies.

While there is nothing wrong with this approach, many companies are unaware of another viable risk financing option that can offer numerous advantages – self-insurance. An increasing number of employers have chosen to self-insure a variety of corporate risks such as group health plans, workers’ compensation, automobile, and general liability, rather than paying premiums to commercial insurance companies.

Under a self-insured arrangement, companies pay costs as they are incurred. This normally results in lower costs over time and improved cash flow. Self-insurance also offers employers the ability to customize risk management and risk financing strategies that best fit their situation. Depending on the type of risk, self-insured programs are regulated at either the state or federal level.

Nationwide, most Fortune 1000 employers and many mid-sized employers successfully operate self-insured workers’ compensation programs. Many other mid-sized and smaller employers self-insure through participation in a self-insured group.

It is estimated that there are more than 500 self-insurance groups (SIGs) currently operating in 36 states. Collectively, they provide an effective insurance solution for hundreds of thousands of companies in a variety of industries.

This publication will discuss self-insured workers’ compensation programs and, more specifically group self-insured workers’ compensation funds. You will learn how SIGs operate and read a collection of stories profiling successful SIGs around the country. All of this information has been compiled by the Self-Insurance Institute of America, Inc. (SIIA), a non-profit association that represents companies involved in the self-insurance/alternative risk transfer marketplace.



be homogeneous, meaning they are similar in industry or class codes (i.e. contractors, manufacturers, wholesalers, etc.). Some states do allow for heterogeneous groups, where the individual employers are dissimilar, but this is not the norm.

The Benefits of a SIG

A SIG is designed to benefit its members by controlling costs, limiting accidents through loss control, providing aggressive claims management, and returning dividends to each participating employer. SIGs provide a means for employers to gain control over their losses and claim costs as they provide substantial pools to share in the cost of claims and related expenses.

Many costs associated with traditional workers’ compensation insurance such as premium taxes (in most states) and residual market charges, do not apply to SIGs which can amount to significant savings to members of self-insured groups.

While SIGs can prove to be a viable workers’ compensation alternative, employers need to

What are Self-Insured Groups (SIGs)

A self-insured group (SIG) or Trust is an association of employers formed for the specific purpose of providing statutory workers’ compensation coverage and in some cases employers’ liability coverage.

Who Would Form or Join a SIG

SIGs are widely recognized as tools for companies who want to assume some control over their workers compensation costs and benefit from the cost savings that self-insurance provides but do not have the size or financial capacity to self-insure on their own. Generally, employers who join to form a SIG must

understand the concept, the financial strength of the group, how they are managed, and how they are different from a standard insurance company prior to joining a self-insured group.

The Components of a SIG

Each group is governed by a Board of Trustees, elected by the group members. The Trustees develop bylaws for the group, set the criteria for membership eligibility, oversee the purchase of excess insurance, help set investment guidelines, select the service providers, and determine the guidelines for the distribution of dividends or the collection of an assessment.

Contributions to the SIG are the premiums paid by members to pay for covered losses, claims administration, and other administrative expenses associated with the management of the group. Examples of these expenses are loss control services, actuarial, legal, and accounting services as well as excess insurance.

Any surplus generated in a particular coverage term year is eventually returned to the members in the group participating in that specific year as a dividend. A surplus can be generated from well-managed claim or expense results, and investment returns. The calculation of an individual employer's dividend is based on guidelines set by the Board of Trustees.

Joint and several liability is another element of a SIG which means that each member is responsible for any deficit that occurred during the years they were a participant of the group. Members are required to sign a form obligating them to this requirement prior to joining the group.

SIGs will purchase excess insurance that limits the group's liability on a claim to a "self insured

retention" or SIR. The amount of any loss due to an occurrence that exceeds the SIR will be paid by the excess or reinsurance carrier. This lessens the effect on the group from an unusually large loss.

The management of a SIG consists of services that include underwriting, loss control, claims administration, marketing, auditing, accounting and regulatory reporting. These services can be outsourced entirely or in part to a third party administrator (TPA) or be performed by an administrator chosen by the Board of Trustees who is an employee of the SIG. Individual state requirements will provide guidance as to what limit these services can be outsourced to a TPA.

Another distinction of SIGs is aggressive claims management through lower adjuster caseloads than commercial insurance companies. This allows an adjuster the time to proactively handle the claims thereby reducing the overall claim costs.

SIGs are regulated by the state in which they are domiciled and only cover exposures in that particular state. The initial established rates are based on suggested rates of a national workers' compensation rating organization but eventually rates are based on the SIG's own loss experience.

Setting up a SIG

Currently SIGs or Trusts are allowed in over 30 states. Because the regulatory and statutory requirements for SIGs vary by state, the first step in setting up a SIG is to review the appropriate regulations. Many states only allow associations to form a SIG but this is not the case in every state.

When assessing the feasibility of starting a SIG, certain factors must be considered including the number of core members to begin the group, the minimum group contribution

(premium) size, and the net worth of the membership.

In all cases, employers wanting to form a SIG must apply to the governing state for approval. The requirements vary by state, but ultimately, the state will evaluate the group's financial strength. This evaluation will include a review of pro forma financials, estimated contribution size, an actuarial feasibility study, employer makeup of the proposed group, and proposed contribution to be paid by group members to fund the liabilities.

The following is a list of items a group of employers seeking authorization to operate as a SIG should consider gathering/developing to help in determining the feasibility of the group:

- State promulgated application to become a group self-insurer;
- The appointment/voting of a Board of Trustees including the responsibilities of the Trustees;
- Development of bylaws that describe the group's operation and the rights and responsibilities of members;
- The participation agreements the members need to sign before joining the group;
- The criteria for the payment of dividends and the collection of a deficit pursuant to the joint and several liability obligations of the members;
- A current payroll report by classification for each participating employer for the preceding fiscal year;
- An actuarial feasibility study directed and certified by an independent actuary;
- A description of the proposed safety program for the group;
- A report outlining the projected rate of contribution and assessments to be paid by each member in the initial year of operation of the group

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and a description of how such contributions were calculated;

- A description of the group's plan to administer claims along with the contract between the group and the proposed administrator;
- The proposed self-insured retention and estimated excess/reinsurance contribution;
- The collateral requirements of the state of domicile. If the posting of collateral is required, the cost of a letter of credit or other method of meeting the posting requirement must be considered. Some states require the payment into a guarantee fund instead of posting collateral;
- Determine if the state of domicile requires a separation of service providers where the administrative duties cannot be provided by the same administrator that handles the claims;

Once the group is formed, the Board of Trustees has a fiduciary responsibility to the members of the group to oversee the administration and operation of the SIG. Trustees will have a say in the decision making of the SIG; however, they will generally hire an administrator or administrators to handle the day-to-day operations of the SIG. The Trustees must ensure the administrator(s) chosen is properly licensed and qualified to perform these duties.

Reporting Requirements of SIGs

Once a SIG is approved, it is generally required to notify the governing agency any time employers join or leave the group. In addition, each state will require statutory reporting consisting of at least an annual filing of the SIG's audited

financial statement and a qualified actuarial report to establish claim reserves. Several states also require an annual actuarial analysis of the group's rate structure for adequacy. This is an actuarial opinion the rates charged are sufficient to cover the expenses of the particular group.

Financial Safeguards of SIGs

Besides hiring a group and claims administrator, Trustees must retain other service providers to fulfill their fiduciary responsibility while providing additional oversight for the group. It is recommended that these providers are knowledgeable and are specialists in the self-insurance industry.

The hiring of an accountant is necessary to file the required statutory financial statements and perform and complete the annual

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audited financial statement. Having an outside independent accountant gives the Board of Trustees and group members an outside view of the finances of the group.

An actuary is necessary to initially provide the feasibility study for the group. Once a group has formed, an actuary will complete an annual actuarial report to ensure the group has the proper loss picks and reserves. The actuary should also help determine and recommend adequate rates for the group.

Hiring an investment advisor is recommended to develop an Investment Policy Statement and oversee the investments to make sure the policy is followed. The advisor must be aware of the individual state regulations that generally limit the type of investments a group can make with funds reserved to pay claims, administrative expenses or held in surplus.

The Board of Trustees should meet at least quarterly to review claims, claim reserves, and the financial status of the group.

And Sometimes Group Funds Fail

Self-insured group funds (SIGs) possess some significant inherent advantages over other forms of insurance. First, SIGs usually stress loss control and safety, which help their members reduce their losses. Second, SIGs usually encourage each employer to stay involved with their claims, so they can help reduce the cost of loss through return-to-work programs. Third, SIGs are designed to be a zero-sum game; that is, all profits including investment income made by the organization belong to the members. Conversely, all losses also belong to the members, which can be a SIG's greatest disadvantage.



Most SIGs that fail do so because they either underestimate their incurred losses or charge inadequate rates. SIGs are like insurance companies in that they must both make provision for the ultimate cost of all of the losses that occur as the result of policies that they have underwritten. Sometimes the cost of a claim is not known until many years after it has occurred. SIGs, their actuaries, their accountants, and their regulators try to ensure that the premiums that they charge and the loss reserves (estimated liabilities) that they establish for unpaid claims are both adequate. Sometimes they are not successful.

Insurance companies are not allowed to operate in a state unless they meet the minimum surplus requirements in that state. Insurance companies that fall below these minimums may be subject to regulatory action up to and including termination. When an insurance company fails, most states have mechanisms called guaranty funds that pay for any claims in excess of the company's resources funded by insurance companies as a charge included in the premiums they collect from their policyholders.

However, when a SIG's liabilities exceed its assets, the fund must call upon its members to make up the difference. Since the SIG's members are jointly and severally liable for any losses of the program, an assessment is issued. The amount of the assessment and subsequent collection generally determines whether a SIG will survive the assessment process.

Active, engaged Boards of Trustees are a hallmark of successful SIGs. Post mortem studies of failed programs regularly point to uninformed, disaffected Boards that have allowed the service providers to run the program for potentially their own enrichment. However, active oversight taken together with experienced, dedicated, and skilled administrators, claims adjusters, underwriters, loss control specialists, actuaries, and accountants have developed SIGs that have been successful year in and year out.

Management Guidelines for Self Insured Workers' Compensation Groups (SIGs)

The Self-Insurance Institute of America, Inc. (SIIA) has compiled a list of management guidelines for Self Insured Workers' Compensation Groups (SIGs). The list is comprised of suggestions from the management of some of the leading SIGs from around the country and the industry's top service professionals including actuaries, accountants, third party administrators and excess insurance brokers. Several of the suggestions have also been recommendations made by speakers at SIIA's annual Self-Insured Workers' Compensation Executive forum. As the leading national association for SIGs, SIIA's objective is to provide insight as to how SIGs can improve their overall program management and retention of members.

A. Management:

1. Utilize specialists in the self-insurance industry for professional services including administration, actuarial, accounting and excess brokerage to provide broader expertise.
2. Prospective applicants to the SIG must sign a joint and several liability agreement to join the SIG. They also need to be made aware of the SIG's bylaws/rules, i.e. light duty, drug testing, etc. No submission should be considered without the applicant acknowledging the bylaws and membership documents.
3. Consider expanding committee membership into underwriting, loss control, marketing, and claims. This can make it easier to engage the members instead of relying on a traditional eight person board. Try to have your largest members participate on a committee.
4. Establish separation of duties to achieve proper financial controls.
5. Establish the role of the Board of Directors in managing the program and create a training program for the development of new board members.
6. Each board should have a formal mission statement for the group. Include the mission statement with all member communication and at the inception of each board meeting.
7. Develop methods to maintain regular contact with the member utilizing safety, claims, marketing and management personnel.
8. Communicate an open invitation for any member to attend board meetings. Consider inviting one large member to each board meeting.
9. Retain sufficient reserves to stabilize the SIG and do not consider paying a dividend until there are sufficient reserves. Seek the advice of your outside professionals as to when it is financially sound to pay a dividend.
10. When surplus distributions are made to your members, include a summary of the formula that was used to calculate the amount of surplus distributed to each member.
11. Hand out surplus distribution checks (dividends) at an annual meeting or incorporate a dividend credit to the member's renewal to reduce their cost of coverage..
12. Get to know your excess workers' compensation carrier as they should be a key partner of a SIG. Work with your broker to have an annual meeting with both underwriting and claims.
13. Choose a low retention for excess loss/reinsurance coverage when first starting a SIG and base any future increases on the financial stability of the SIG.
14. Analyze the managed care network and claim vendors for performance on an annual basis and communicate the results to the members.
15. Lobby your legislature on issues affecting the members of the SIG.
16. Issue board meeting minutes to all members of the SIG.
17. Many successful SIGs do not readily rotate their board members as it takes years of service to become a knowledgeable and interactive board member. Management of the SIG from these experienced and engaged association members can be very beneficial.
18. Establish and monitor appropriate financial benchmarks for the SIG and pricing guidelines based on continuous reviews of the SIG's financial position.

B. Underwriting:

1. Perform annual premium audits. The additional premium collected will offset the expense of the physical audit.
2. Consistently apply strict underwriting guidelines based on the SIG's financial performance and not on the competing markets' pricing.
3. Develop a process to review on a periodic basis selected accounts based on loss history, size, new to the Trust, or otherwise fall outside the SIG underwriting guidelines.
4. Review all accounts at the time of the preparation of their

renewal quote. Document the underwriting file regarding analysis of renewal pricing. Try and meet with larger accounts – over \$100,000 – in person to review loss experience, experience mod changes, and renewal pricing.

5. Schedule an underwriting meeting to review all accounts at six months into term. The meeting can consist of the claims managers, loss control manager, marketing team, CEO and underwriter. Everyone can share info about the accounts being discussed to provide input to the underwriter to help with pricing/non renewal decisions. Any issues that require follow-up can be discussed to get compliance with loss control recommendations, return to work issues, etc.

6. Claims reviews are an essential function of sound underwriting. The underwriting program must include ongoing and frequent claims monitoring (monthly or quarterly) including the TPA, member and administrator to help preserve the integrity of the program.
7. The quality of the employee/ employer relationship should be evaluated as an underwriting factor with the help of loss control.

C. Claims Administration/ TPA services:

SIIA has published a comprehensive white paper on this topic. For a copy contact the SIIA at 800-851-7789.

1. If you can't say you love your claims TPA, then either fix it, change TPAs or take it in house.
2. Create a service agreement to outline the roles and responsibilities of each party, including fees, duration of

contract, changes to contract, reports, timelines, penalties for violations, fees, third party contractual agreement requirements, and others as appropriate for your SIG.

3. Monitor and review clients consistently breaching prompt claim reporting standards and communicate to underwriting.
4. Determine appropriate adjuster authority levels and security access for claim payments.
5. Be proactive in claims management, with at least quarterly general review meetings.
6. Maintain low adjuster caseloads for indemnity claims; 50 - 100 compared to the industry averages of 150 – 175, the investment will pay off in reduced claim expenses.
7. Loss runs should include adjuster name and phone number.



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8. Summary page for loss runs sent to each member should include detailed information by year – losses, premium, loss ratio, total payroll, etc.
9. Conduct regular and ongoing claim reviews with members to establish a sense of ownership and control over the process and participation in the SIG. At least quarterly for claims exceeding a pre-established threshold and in particular any claim that could be reported to the excess carrier.
10. Develop proper financial controls of claim payments.

D. Marketing:

1. Direct marketing without agents/brokers could result in them selling against the SIG. This may work with a small group of 25 participants or less, but a well-established and interactive agency/brokerage network can offer significant value.
2. Offer competitive commissions/fees to level the playing field and discourage non-renewals, consider an increased level for new accounts, and consider offering a graduated scale for renewal commissions/fees based on volume.
3. Your webpage should have a public area and a password protected area for members. The public area should present the benefits and quality of your SIG, being careful not to give the marketplace information that will be used to sell against the value of the SIG. Include historical loss ratios, if favorable, surplus, photo of board members, and benefits of group self insurance. The protected area should include

information the members should be aware of or benefit from. These may include financials, loss control resources, adjuster claim levels, managed care savings, and average claim cost compared to your state average.

4. Encourage and track the success of referrals from current members to obtain premium growth. Members need to understand that the growth of quality companies is beneficial.
5. Immediately establish the role of and services offered by the sponsoring association in the marketing of the program as a valued member benefit.
6. SIG program manager: Marketing strategy options to evaluate:
 - *Exclusive Agent/Broker*: This is when only one agent/broker can bring members into the program. The positive is this agent/broker gets to know the program very well including all the intricate services and benefits that your SIG can offer a prospective member. The downside is they have a limited ability to penetrate the marketplace (especially if it is a large area) and they must be able to sever an existing and possibly long-term agent/broker and client relationship.

– *Direct Marketing*: This involves the association and/or program manager soliciting members directly. The positive is they only have one product to sell with specific, targeted expertise and services to offer. The downside is they have to sever an existing agent/broker and client relationship. This generally only works for smaller SIGs where there are limited numbers of potential members to access.

– *Open Agent/Broker network*: This is where any licensed agent/broker has the ability to sell the program. Many agent/brokers do not like this method because of the greater potential for changes in the agent/broker of record on an account. This method depends heavily on price, whereas a SIG is based on a long-term solution and net pricing after the payment of dividends. This method does not necessarily create as much loyalty among agents/brokers with the SIG, yet it can offer the broadest opportunity for the marketing of the program.

– *Contract Agents/Brokers*: Develop a small network of exclusive agents/brokers who understand and believe in the self-insurance group concept. This method creates a “franchise” value for the agents/brokers because they know not every agent/broker can sell the program. It also promotes the long-term benefits of group self-insurance rather than simply looking at which market is the most competitively priced – which improves renewal retention. A concern would be to insure that your agent/broker network is broad enough and has the expertise to market to all classes of potential members. This would include the size of the accounts, their specific operations, and geographic regions within your state

1. Maintain consistent visibility:
 - Marketing should meet regularly with broker network
 - Attend trade shows to promote the SIG
 - Quarterly newsletters or broker grams
 - Direct mailings to potential clients
2. Market the fund based on high service standards and value added service, in addition to competitive pricing.

E. Key Loss Control

Operating Principles:

1. SIG's need to understand the importance of and take advantage of being able to evaluate a risk prior to writing them. The use of pre-surveys that describe the operations of a prospect, the hazard potential, size, previous claims activity, current safety program, etc. are very beneficial. The more communication there is on this front; the better the SIG can be expected to perform due to effectively controlling who is allowed into the SIG. The pre-survey can also get a potential new member engaged in safety while still a prospect or get them to commit to addressing select safety issues as a condition of joining the SIG.
2. Base underwriting credits on the safety and claims management characteristics of the member. These would include timely reporting, transitional duty, drug-testing program, hiring practices to name a few.
3. Develop a mandatory "Safety Orientation/Education" seminar for all new members in which the company owner and safety representative are required to attend. This is a powerful tool to help "set the stage" up front with regards to engaging each member and making clear all roles and responsibilities to the SIG.
4. Require a mandatory "Modified Duty/Return to Work" program with clearly defined communications on preferred occupational medicine providers, interim transitional duty positions, and claim representative involvement (per claim when warranted and for periodic claim review sessions with policy holders).
5. Establish a large account review with underwriting and claims teams prior to renewals. Everybody needs to be aware of current account performance and if a game plan to allocate resources to any specific account is warranted, a multi-faceted approach can be developed with all team members being involved and in agreement to what's best for all parties involved.
6. Evaluate and communicate to underwriting consistently, with pre-determined service guidelines and clearly defined underwriting criteria, each member's safety program effectiveness. Thinking beyond "typical" criteria is essential. Be sure to include and consider criteria such as overall hiring process, use of job descriptions, drug testing, pre-hire physical testing, etc. It is easier to motivate a business owner to buy-in and implement a risk management technique when it can be directly related to a potential savings on premium.
7. To help encourage interest in safety and loss control issues, SIG members should have access to in-house safety training materials and information. Examples include safety videos, safety posters, safety training booklets, etc.
8. Outside safety training resources provide fund members the opportunity to receive training and instruction in a variety of different areas. Sources can include but are not limited to:
 - Certified OSHA Training Institutes
 - OSHA sponsored seminars
 - National Safety Council
 - American Society of Safety Engineers
 - Local human resource organizations
9. Focus on hands-on, personalized training that is specific to a particular policyholder or group of similar industries. Establish a network of safety equipment providers and specialized safety service providers for your members to take advantage of. Tapping these "extra" resources for training classes will lead to a high-impact hands-on class demonstrating the proper use of safety products benefiting the member and SIG.
10. Design your website to incorporate your safety resources and services that are available to members.
11. Recognize members who have implemented procedures and achieved success in preventing and controlling the cost of accidents and injuries.
12. Ongoing seminars such as OSHA 10 Hour, OSHA 30 Hour, Competent Person classes, Scaffolding, Fall Protection, All About OSHA, Hiring Practices, etc. are crucial to getting member's engaged and involved. Having these regularly available for fund members is an important part of sharing information required to help the fund's overall performance.
13. Having a variety of services available for OSHA compliance type items and training is important but so is having a variety of services available for non-OSHA related items such

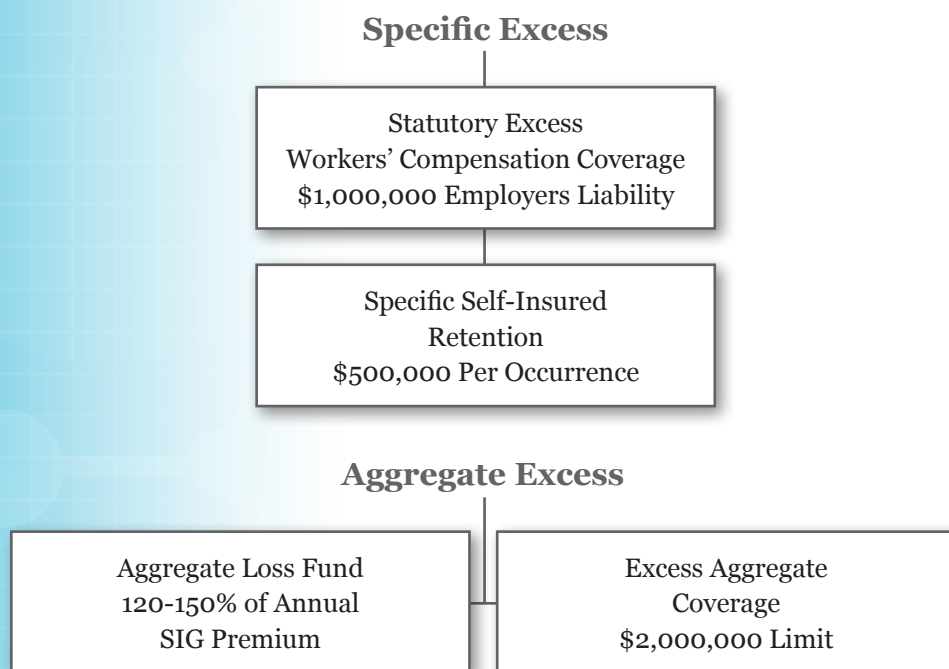
as hiring practices, pre-employment testing, DOT issues, claims analysis/review, management meetings/training, etc. All of these items collectively have a huge impact on safety and are often times equally important to compliance items.

14. The underwriting and loss control teams need to have tools and criteria in place to indicate which members are performing poorly. The SIG needs to develop triggers that identify problems when they arise such as loss severity or frequency. Once identified, a plan can be set in motion to take corrective action and ensure the member understands the importance of performing well for their individual needs as well as the needs of all members of the fund.

Excess Workers' Compensation Coverage for Self-Insured Groups

A major component of any Self-Insured Workers' Compensation Group (SIG) is the Excess Workers' Compensation policy. The partnership with your Excess Workers' Compensation Carrier can impact not only the financial solvency and operating performance of your SIG, but the value you provide to your members.

Two categories of coverage are available: specific, which contains loss severity by placing a cap on losses the SIG must pay arising out of a single occurrence, and aggregate, which addresses loss frequency over the course of the year. A typical excess program structure for a SIG is as follows:



Excess Coverage:

Specific excess limits are normally provided as a statutory limit. This affords unlimited excess coverage according to state workers' compensation statutes. A specific excess limit of \$10MM-50MM could be utilized, however, excess markets can normally provide statutory unless there are significant employee concentration issues. Securing the full statutory limit provides the ultimate protection to SIG members for a catastrophic loss involving multiple employees.

Specific excess also includes a sublimit for Coverage B, Employers Liability

(E/L) or in certain instances, can be purchased as a stand-alone policy. Normally a \$1,000,000 E/L limit is provided. However, states that have a high level of E/L claim activity will elevate the underwriting exposure for this sublimit. (SIIA's Work Comp Committee can share a white paper on Employers Liability Claims).

Aggregate excess is normally provided as a \$1-5 MM excess limit above the annual loss fund or multiple thereof. Many SIG's elect not to purchase Excess Aggregate if permitted by state regulators due to the cost verses reward obtained in comparing pricing and retentions.

Selecting a Retention Level:

Specific retentions will typically range from \$500,000 to \$3,000,000 based on hazard codes, state of operation and historical loss experience. The appropriate retention should be determined based on regulatory guidelines, available surplus, pricing, historical developed losses and risk tolerance. It is imperative to understand the pricing options for various layers to assess your level of retained risk.

Occupational disease exposures are subject to a per employee disease retention. If a disease exposure exists, your broker should negotiate a per occurrence disease retention for both direct and indirect disease exposures.

SIGs with high hazard exposures can control excess premiums by utilizing a corridor retention in addition to their specific retention. An example would be a \$1,000,000 retention for the first large claim and \$500,000 retention for one or more subsequent large losses exceeding the existing specific retention. Alternatively, a small layer of reinsurance could also be utilized to manage the net retentions.

Excess Workers' Compensation Market Selection:

Less than ten insurance companies control the entire excess workers' compensation market. Developing a long-term partnership with a carrier should be based on several criteria:

- Financial strength for long tail medical costs that may include lifetime care.
- Depth of catastrophic claim expertise, loss prevention and underwriting
- Premium / Retention.
- Commitment by the carrier to this long tail coverage that is subject to
- significant medical inflation.
- Underwriting flexibility for your target classes.

Excess Carrier Insolvency:

Just as with all insurance companies, there have been carriers

that write coverage in the excess market that have gone insolvent. Some SIG's that have experienced an insolvent excess carrier have had challenges in collecting from their state guarantee fund. Guarantee funds may deny coverage based on certain asset criteria that may exist within the SIG or its individual members.

For example, if the collective assets of all SIG members exceed the maximum, coverage could be denied. Considering some catastrophic claims could remain open for 10+ years, adequate financial strength of your excess carrier is imperative.

SIIA's Workers' Compensation Committee can be used as a resource for any aspect of evaluating your excess coverage or carrier selection.

Conclusion

Participating in a SIG has tremendous potential benefits to employer members. These include lower costs, industry-specific loss control services, aggressive claims handling, profits paid to the members in the form of dividends, and improved cash flow. The process of forming a group requires careful consideration and planning to be successful. Reliance upon state regulators in your particular state is paramount in the decision making process.

About SIIA

The Self-Insurance Institute of America, Inc. (SIIA) is a national trade association that represents companies involved in the self-insurance/alternative risk transfer marketplace. Additional information about SIIA can be accessed on at www.siia.org, or by calling 800/851-7789.



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SIG Success Stories

Michigan Association of Timbermen WC Fund, makes the North Woods a safer workplace

Some involved with the Michigan Association of Timbermen Self-Insurers' Fund (MATSIF) endure difficult conditions, as their work requires them to maneuver through tough terrain in a volatile climate – and those aren't just the timber workers, but the Loss Control Representatives.

“That's right, our Loss Control Representatives go out and find members on their job sites to observe them for safe practices and use of Personal Protective Equipment (PPE),” says Fund Administrator Barb Bennett of the methods that through 40 years have made the Michigan forest products industry a safer place to work.

“The underwriting requirements of MATSIF are such that we can't accept every company that applies, and we have to weed out those that ignore sound safety practices,” Bennett continues. “Part of our obligation to our overall membership is to assure that the safety is being practiced by our entire membership.” MATSIF currently has in excess of 320 members insuring over 3,000 employees.

MATSIF has strengthened through the recent economic downturn and trend toward recovery. While losing some members who weren't able to maintain during the difficult business environment, the Fund gained new members among manufacturing businesses that tended to be larger than the members that fell away.

The three MATSIF Loss Control Representatives pay unexpected visits to the Fund's members at least annually to observe each member's



operation. These unannounced visits usually result in some type of recommendation for improved safety practices. The penalty for repeated infractions or noncompliance with safety recommendations could lead to cancellation of a company's membership. “It doesn't happen often, but it does happen,” Bennett says.

Founded in 1974, MATSIF was the answer to extremely high workers' compensation rates being charged by insurance carriers for the forest products industry (\$51 per \$100 of payroll). Logging has always been one of the most dangerous and costly occupations for workers' compensation. It is always at the top of the list with commercial fishing and certain building trades as the most hazardous occupations in the United States.

“The Michigan Association of Timbermen, a trade association formed in 1972, began lobbying the state legislature to allow group self-insurance in Michigan. After several years of intense lobbying, legislation was finally passed to allow MATSIF to be formed,” recalls Bennett, who joined MATSIF during its early years.

MATSIF is the oldest group self-insured fund in the state and has succeeded in cutting the workers' compensation rate nearly in half for the manual logging rate (chain saws). In addition to very competitive rates, MATSIF also declares biannual surplus distributions to its members averaging 30% of collected premium.

“The group has an excellent record of avoiding major claims – that's its number one focus,” says Ed Costner of Casualty Actuarial Consultants,

Inc., of Brentwood, Tennessee, which provides actuarial services to MATSIF.

The nature of the industry has changed during recent decades from relying mostly on manual chain saws to today's highly mechanized processes. Processors harvest trees at the ground level. They are then cut to length, hauled to the landing, loaded and trucked oftentimes without being touched by human hands. The workers' compensation rate for mechanical logging has settled to a level of \$5.51 per \$100 of payroll, a testament to its improved safety.

There is an increased emphasis on safety in the woods including vision and hearing protection, use of safety apparel including hard hats, safety chaps, cut-proof boots and gloves, as well as monthly safety training on subjects such as how to avoid back strains and other muscular-skeletal injuries.

In 1994, MATSIF implemented the Think Safety program that provides monthly training and documentation that is required by MIOSHA of all forest products companies. The Think Safety program is a turnkey safety

program that is tailored to the member companies' specific operations. It's an awards-based program that rewards the employees for remaining claims-free. "Members get really excited about the program because it takes the burden off them to organize their own program that meets the MIOSHA requirements," Bennett says.

"The employees really enjoy the program, too," says Bennett. "They enjoy presentations put on by our Loss Control Representatives. It's a different face and oftentimes has more meaning than when delivered by the company foreman." Teams remaining claims-free receive a scratch-off card to win monetary prizes that are redeemable at Wal-Mart or Cabelas.

The MATSIF headquarters is located in a spacious new log building located in Newberry, Michigan, a small town located in the eastern Upper Peninsula. MATSIF employs seven full-time employees, all having been with the Fund for many years. MATSIF is governed by a five-person board of trustees, all involved in Michigan's forest products industry.

When asked about MATSIF's success, Bennett comments, "I attribute our success to a number of things: A dedicated board of trustees, a competent and hard working staff, our emphasis on safety and loss prevention as well as good claims management. No matter how hard we work to eliminate claims, they will occur and when they do, timely reporting of injuries is critical. The sooner we know about a claim, the sooner we can get started in managing the claim." Claims are reported to MATSIF via a toll free number and are then electronically transferred to Comprehensive Risk Services in Farmington Hills, Michigan, the third party administrator responsible for claims management.

"Our approach is to manage every injury closely. We want our claimants to get timely and appropriate care enabling a quick recovery," Bennett says. "We want them to feel closer to us than to the legal system." She says that few MATSIF claims go to litigation.

Over a quarter century, Michigan's forest products industry workers have found a safer environment through the efforts of the Michigan Association of Timbermen Self-Insurers' Fund.

"The Michigan Association of Timbermen, a trade association formed in 1972, began lobbying the state legislature to allow group self-insurance in Michigan. After several years of intense lobbying, legislation was finally passed to allow MATSIF to be formed,"

New York Lumberman's Trust Survives State's Purge of SIGs

The year 2009 was a tough one for the U.S. economy and perhaps even tougher for workers' compensation self-insured groups (SIG) in New York State. In the depths of the greatest recession in decades, business failures or eroding finances of some SIGs triggered a massive purge of the groups by state government.

During the turmoil members of the New York Lumberman's Trust, which had safely insured workers' compensation for three decades, had no choice but to consider alternative methods of coverage. "We looked at creating our own insurance company or even going back into the state workers' comp fund," recalls Edward G. Wright, president and CEO of W.J. Cox Associates, Inc. of Clarence, New York, which administers the trust.

"A task force appointed by the governor had initially recommended that the state close down all SIGs," Wright says, while noting that New York Lumbermen's survived the crisis. Rather than facing a death penalty, the trust survived in near-solitary confinement as the number of New York SIGs declined from more than 60 to just three today. And no new SIGs may be formed short of further state government action.

"We were able to live with the new financial standards for SIGs because we were well funded with sufficient loss reserves," Wright notes. The goal of New York Lumbermen's Trust remains the same today as when it was formed 32 years ago: to provide stable, economic and efficient workers' compensation coverage to companies involved in what could be considered a highly dangerous industry.

Prior to the trust's formation, New York wood products companies faced onerous traditionally-insured workers' comp premiums of up to \$56 per \$100 of payroll for logging and as much as \$30 for sawmill workers. The trust now carries rates of about \$18 for logging and about \$12 for sawmill work. Membership has remained stable at about 300 employers with a working population of about 4,000. It is a true vertical organization through the wood products industries including harvesting, processing, transportation, manufacturing, distribution and retail.

Wright credits the success of the trust to careful risk selection, diligent loss prevention and thorough follow-through after injuries to get employees back on the job as soon as possible.

"Specialization is a powerful tool for what we do," Wright says. "We know all the companies in our industry and we see a lot of similar injury cases, and have learned over the years the best ways to manage them."

Prudent risk selection means the trust doesn't accept every applicant. "We know these companies, and we know things that won't show up on an application," Wright says. Representatives of the trust always hold initial meetings with prospective members on their job sites. "You can tell pretty quickly whether



"By keeping employees involved in the culture of their jobs through light duty or just inviting them to come in for a pizza party, you can encourage them to come back to work as soon as possible,"

or not a company has the proper attitude toward safety and will make the necessary commitment to loss prevention,” he says. That attitude and commitment are actually more important to the trust than previous loss experience, according to Wright.

Once admitted, new trust members are obligated to stage up to 18 safety programs, depending on their employee job classifications. “These evolve continually,” Wright says. “We are driven by examining what goes wrong and developing means to prevent it.”

For example, administrator W.J. Cox has learned that a disproportionately high number of work accidents occur to employees during their first six months on the job. The administrator emphasizes new employee safety orientation that includes several hours of face time with experienced employees and Cox loss prevention representatives.

“It’s frightening what can happen to employees in these industries if they’re not careful,” Wright says. “That gets the attention of new people right away. The safety techniques they learn then will tend to follow them throughout their career.”

A new safety program reflects the trending national concern with the hazards of distracted driving. “We saw an increase in the severity of vehicle liability claims that could be traced to distracted driving,” Wright says. “We are developing a training program to address that, along with requiring member company policies prohibiting cell phone calls or texting by drivers during vehicle operation.”

Another element of job risk that W.J. Cox learned from the Bureau of Labor Statistics is that about 40% of work accidents occur as employees are distracted by personal or family problems. The trust provides an employee assistance program (EAP)

that is available 24/7. It provides free consultation through the first few phone calls and then refers employees or family members to additional resources if necessary.

“We also involve families in our safety program because we know that family members can be more influential than safety messages by their employer or program administrator,” Wright says.

Examples include a safety quiz for spouses in the trust’s employee newsletter. “That’s going to get the employee and spouse talking to each other about safety, and that’s the most powerful influence you can generate,” Wright says. Another newsletter feature is a safety poster contest for employees’ children. “Same kind of influence, but maybe even more emotionally engaging,” Wright says.

A proactive safety promotion program recognizes both employees and employers for safe practices. Employees receive gifts such as ball caps or sweatshirts for going six months without an injury and employers who go a year without a reportable injury are recognized at the annual meeting.

W.J. Cox devotes a higher percentage of the premium dollar to loss prevention and claims management than industry averages. Each representative covers 60 to 70 member companies, compared to as many as 300 for some comp programs. And claims managers carry a load of fewer than 150 files compared to 200 or more for other programs.

“We’ve seen studies that say up to a point every dollar spent on loss prevention can pay back \$3 on claims costs, so we spend as much as it takes to get the job done on this area. Also, we save elsewhere by not advertising or paying commissions,” Wright says. “When you have claims averaging

\$40,000 you don’t have to prevent very many to justify spending money on loss prevention or claims management.”

By allocating more time for claims files Wright contends that injured workers stay in better contact with their jobs during recovery time. “By keeping employees involved in the culture of their jobs through light duty or just inviting them to come in for a pizza party, you can encourage them to come back to work as soon as possible,” Wright says. “If an employee is off the job and out of touch for a period of months there’s a good chance he or she will never come back.”

New York Lumbermen’s Trust presents a case study of positive benefits to its members, their employees and dependents, and the public. It also presents a compelling example of survival in a regulatory environment of challenging restraints.

The vision came true for Alabama Trucking Association's Self-Insured Workers' Compensation Fund

Longtime members of the Alabama Trucking Association (ATA) Workers' Compensation Self-Insured Fund marvel at how its early vision, first expressed two decades ago, has paid off in affordable coverage and good care for injured employees.

"Now, twenty years later, it's amazing to me how well the Fund has served our needs," says Board Chairman Drew Linn, President of Southland International Trucks of Homewood, Alabama.

Linn credits strong staff leadership and continuity of board membership representing the 467 companies participating in the Fund. These companies embody all aspects of the state's commercial transportation industry. With steady growth since its beginnings, the ATA Fund is reportedly the largest trucking based workers' compensation self-insured group in the U.S.

"Since Day One (January 1, 1993), our leadership has made the mental investment in making this work for our members," Linn says. "We didn't set out to be the largest self-insured group, but the quality of member services provided has taken us to that position, step by step."

Linn doesn't recall who first proposed the idea of forming a self-insured group, but he remembers the many conversations among industry leaders regarding the destabilizing cyclical hard markets of commercial workers' compensation insurance that brought financially crippling premium increases.

Kimble Coaker has served as CEO of the Fund since 1995. He first got acquainted with the self-insured industry as a CPA performing audit, tax and management advisory

services to self-insured groups and their sponsoring associations. Then he formed and managed the workers' compensation self-insured group of the Alabama Rural Electric Cooperative Association as the Association's Vice-President before assuming his current position with the ATA Fund. The Fund is headquartered in Montgomery with a staff of 9 employees and a dedicated claims adjusting staff of 10 individuals based in Birmingham.

"Our success is measured by reduced workers' compensation coverage costs that have been cut in half since we started the Fund, and by the profits returned to members as dividends,"

Coaker says. A total of \$54.3 million in surplus has been refunded to members over the years, and another \$13.6 million is held in reserve for future refunds. The Fund continues to work successfully for its member companies with total operating revenues for 2012 of \$43.1 million.

Changing the concept of workers' compensation was a pivotal accomplishment, according to former Board Chairman Bruce MacDonald, President of Carrier Transcold South of Birmingham. "We had to teach members that an injury isn't treated just as an 'insurance problem' that gets passed on to someone else, because that's how costs get driven up," MacDonald says. "The key is ownership of employee injuries before they occur with safety programs, immediately as they occur with prompt reporting and after they occur with proper treatment and rehabilitation."

The Fund has steadily experienced lower rates through management techniques that include a comprehensive loss prevention program, which focuses on loss control and safety training in an inherently unsafe industry. Studies show that trucking industry classifications are usually among the most hazardous occupations in the country.

A staff of three loss control experts, headed by Director of Loss Control Rick Hunter, continually provides safety inspections and training among ATA members. "Rick can tailor educational material and meetings to fit most any needs," Coaker says. "For instance, if the company has forklift drivers or needs a defensive driving program, he can produce written safety guidelines for them and help implement a comprehensive program. He's qualified to handle most industry hazards and environmental related exposures based on his 30-plus years of handling occupational safety and health related issues."

ATA's third-party claims administrator, York Risk Services of Birmingham, maintains a dedicated unit of 10 experienced claims adjusters and administrative staff who work exclusively on ATA claims. "Their professionalism and efficiency is one reason our members don't have to worry about their claims," Coaker says. It is also why they have become an integral part of the overall program over the past 17 years of service.

The Fund relies on light duty assignments to help injured workers recover faster and return to full duty more quickly, despite historic resistance

among many industries. “There are opportunities for recovering workers to assist in and around the administrative and maintenance facilities of our members,” Coaker says. “That helps them in many situations learn more about the company, and to be more valuable field representatives on behalf of the company when they get back to their normal job responsibilities.”

“Our outstanding membership retention can be attributed to continual improvement of services,” Chairman Linn said. One example is the addition of Staff Legal Counsel Harold Smith. “He has been working for us in an outside loss control capacity for many years, but now he can devote all his time to our business,” Linn said. “His top goal is to prevent litigation while expediting successful conclusions of disputed cases for the mutual benefit of the employee, the employer and the Fund.”

A second example of evolving services is the use of advanced technologies in the Fund’s loss control and safety training programs. New webinar based programs will provide education and safety services to all members without requiring travel to central locations, and will lessen the need for loss control engineers to spend a large part of their time on the road.

Continual improvement of quality service and systems also comes from member involvement and innovation. “Probably the strongest influence on our member companies is through peer reviews and peer pressure to make our workplaces as safe as possible,” Linn said.



SIGs Watch for Sunshine in California

Members of the California Agricultural Network (CAN) workers’ compensation self-insured group (SIG) are scattered throughout the length of the massive state but their eyes were on Sacramento as the General Assembly considered a 2013 bill that could change their course of business.

Comprised of agricultural enterprises that directly hire permanent employees (compared to seasonal labor) CAN has completed seven successful years providing worker’s compensation benefits to its members, including a successful return-to-work program for injured employees.


CAN members believe their organization could become even more secure by passage of a bill that would establish their separate guaranty fund from that of single employer self-insured workers’ compensation plans. “Think of it as legislative ratification of our own declaration of independence,” says CAN administrator David Johnson of Self-Insured Solutions in Ontario, California.

SIGs have appeared to thrive in

California even while they have been under fire in other states, particularly New York. At about the time New York was banning formation of new SIGs a few years ago a California commission was studying reasons for their continuance and a separate guaranty fund.

The California Commission on Health and Safety and Workers’ Compensation, a function of the Labor and Workforce Development Agency of the Department of Industrial Relations, released a report on SIGs in April 2009 that validated the coverage structure and recommended SIGs’ financial independence from single-employer plans. Those recommendations took legislative form during the 2013 session of the General Assembly.

The commission report stated about SIGs: “This model has the potential to save money and reduce the adverse impacts of industrial injuries for both employers and injured workers. Furthermore, group self insurance may be able to



serve public policy goals by providing appropriate incentives to participating employers.” The commission observed that under traditional workers’ compensation insurance programs it is the insurance company, not the employer, which would receive the direct savings when an injured worker has been returned to the job.

The executive officer of the commission at the time of its SIG report was Christine Baker who by 2013 became head of the Department of Industrial Relations (DIR). Members of the industry view her and John Wroten, chief of the Office of Self-Insured Plans of DIR, as robust proponents of the SIG concept.

Johnson of Self-Insured Solutions believes that, if passed, a California law establishing a separate SIG guaranty fund would be the first by a U.S. state. “This would be viewed as beneficial by all self-insured groups in California – we would no longer be the stepchild,” Johnson says. “The new SIG-only guaranty fund would validate that our plans are a viable way to administer workers’ compensation liabilities.”

Johnson explained that the separate guaranty fund would provide state regulators a method to deal with any troubled plans on a case-by-case basis rather than all plans being affected by the blanket guaranty fund that treats all alike, be they single-employer or group funds.

CAN contributed to the good reputation of SIGs in California, Johnson believes, through enlightened leadership among its members that has maintained financial stability through the difficult economy of recent years.

“Our members anticipated workers’ compensation rates and claims costs going up, with also the possibility of business failures, and adjusted their contribution levels to get ahead of the curve,”

Johnson explains. “Now the group is healthy going forward.

Johnson believes that CAN’s knowledgeable, committed board of directors and a policy of complete financial transparency among members has contributed to a positive reputation of SIGs among state government figures.

Financial transparency and separate guaranty fund were pivotal recommendations of the 2009 state commission. “Full disclosure...to a prospective member and the prospective member’s broker and to every member will both promote member involvement in a group’s affairs and reduce the potential to evade liability if problems arise,” the report stated.

Regarding the need for a separate guaranty fund, the commission report said it would “allow each risk pool to be made up of employers (or groups) that have adopted similar programs for workers’ compensation rather than...with those that have less in common with themselves.” Further, the report predicted “the pooling of risk among SIGs in a separate account will have the salutary effect of promoting higher standards for SIGs.”

With the first California workers’ compensation SIG licensed only in 2002, development of the industry and the state regulatory structure have proceeded on a healthy growth track which could serve as an enviable case study for many other jurisdictions.

Missouri Employers Find Group SIG Beneficial

Many Missouri employers benefited from the 2005 workers' compensation legislation that was prompted by leaders of the Missouri Merchants and Manufacturers Association (MMMA). Now the MMMA Self-Insured Workers' Compensation Fund is providing a haven for many of those same employers from the high premium costs and attachment points of excess insurance coverage that trouble many individually self-insured companies.

"Both in matters of legislation advocacy and excess insurance coverage, employers are learning that there is safety in numbers," says Tim Phelps, administrator of the MMMA Workers Compensation Fund, a self-insured group (SIG). "We continually work to improve the state workers' compensation laws on behalf of our members, and we continually work to provide a lower cost alternative to hard markets for workers' compensation excess coverage."

At a glance, the MMMA Fund is a great success. Founded in 1992, it has more than 140 members employing about 11,000 with \$400 million in payroll. Total WC premium is \$7 million. And through careful management and a rigorous loss prevention program, the Fund has distributed \$9.5 million in surplus to its members.

The Missouri workers' compensation reform law of 2005 brought changes that MMMA advocated as common sense improvements such as reduction of WC benefits for injuries resulting from known safety violations or under the influence of alcohol or drugs. Accidents that occur while going to/from home and work are no longer WC matters, and the "extension of premises" doctrine was eliminated.

Lobbying for the law was led by the Fund's founding director Sheelah Yawitz who has since retired.

"I use the 2005 Missouri law as the benchmark of how workers' compensation reform should be executed in other states," says Duke Niedringhaus, vice president of JW Terrill Inc. of St. Louis, which provides excess workers' compensation brokerage services to MMMA. He currently also serves as chairman of the Workers' Compensation Committee of the Self-Insurance Institute of America, Inc. (SIIA).

Fund Administrator Phelps comments that the SIG concept has gained in acceptance by Missouri employers as they have learned that active participation is necessary. "Being a member of our group requires an employer's willingness to take extra steps to manage their workers' compensation through safety and early response to injuries," he says. "And we operate under careful underwriting practices so we can't accept every company that applies."

Phelps points out that Fund members are obligated to apply safety practices that are developed as part of a comprehensive loss control system. In addition, employers are encouraged to become part of the Fund governance through membership on its board of directors. "We strive to have active board members who represent our membership by geography in the state, size and type of industry."

Phelps notes that companies that previously self-insured their workers' compensation programs on an individual basis have recently joined the Fund. "They came to us to protect themselves from high excess coverage premiums and attachment points for individual claims as high as half a million dollars," he says. "But they stay because our program helps their employees receive prompt, efficient medical care and get them back on the job as soon as possible."

Niedringhaus of JW Terrill cites the MMMA Fund's partnership with Safety National Casualty of St. Louis



which has provided excess coverage for more than 20 years since the Fund's inception. "They are the largest excess workers' compensation market in the country with expertise in underwriting and claims management, and they can support MMMA members' out-of-state payroll exposures as well," he says.

Phelps says that treating member employees like "family" is not just a slogan. He related the case of a manufacturing employee who suffered a back injury requiring multiple surgeries that left him addicted to prescription pain medication. After five years of the man's inactivity under medication and despite the claim having been settled, MMMA initiated an addiction-recovery program for him.

"We brought the family to St. Louis for treatment by a pain specialist over several periods," Phelps reports. "The treatment resulted in elimination of narcotic drug use and an increased quality of life that has led the man to regain normal activities and feel like he can return to employment. The payoff for us was the wife's letter thanking us for giving her husband back to her."

Missouri has long been known as the "show-me" state. The MMMA Workers' Compensation Fund has conclusively shown Missourians and those elsewhere that a self-insured group workers' compensation program can be a powerful tool for its members and the state's business community.

"Both in matters of legislation advocacy and excess insurance coverage, employers are learning that there is safety in numbers,"





Texas Cotton Gin Trust Succeeds Despite State Drought

It was business as usual for members of the Texas Cotton Ginners Trust self-insured group workers' compensation plan right up until it stopped raining. Devastating drought years in 2011 and 2012 caused widespread agricultural and economic damage and, by the spring of 2013, the drought lingered on.

The state's cotton gin production fell from nearly eight million bales in 2010 to only 3.45 million bales in 2011. "Unlike farmers, cotton gin operators don't have crop insurance, and so the drop in production caused a significant reduction in gin payroll and revenue to the Trust," says Administrator Tim Loonam.

During the dropoff, premium to the Trust fell from by about one third from \$12.4 million in fiscal 2011 to \$8.1 million in the most recent complete year, fiscal 2012. But, significantly, annual April distributions of Trust surplus capital have remained relatively steady, at \$4.8 million in 2011, \$4.4 million in 2012 and \$4.3 million in 2013.

"Our surplus grew even while the industry as a whole was down," Loonam says. By the end of FY 2012 reserves were \$15.7 million and total assets were \$27 million including a new office building for administrative staff in Austin. Loonam largely credits the Trust's stability to its loss ratio in the 30 to 35 percent annual range.

Texas presents an interesting workers' compensation profile as the only state that will allow employers to operate bare of insurance. "Our members include 78 percent of Texas cotton gins and we have experienced growth by adding related companies such as cotton warehouses, farmers and other support businesses," Loonam says. "We think that's significant given that employers aren't legally required to insure against job injury liabilities."

Loonam points to safety policies and training as the key to the Trust's success. "We really poured the coal on safety from the beginning," Loonam says as he describes the Trust's carrot-and-stick approach to worker safety.

The "carrot" for employers to enhance safety is a five percent reduction in their

annual premium if all safety policies including training and machinery management are completed. The "stick" is a new employee training standard program that is just rolling out after a prototype was tested among several members.

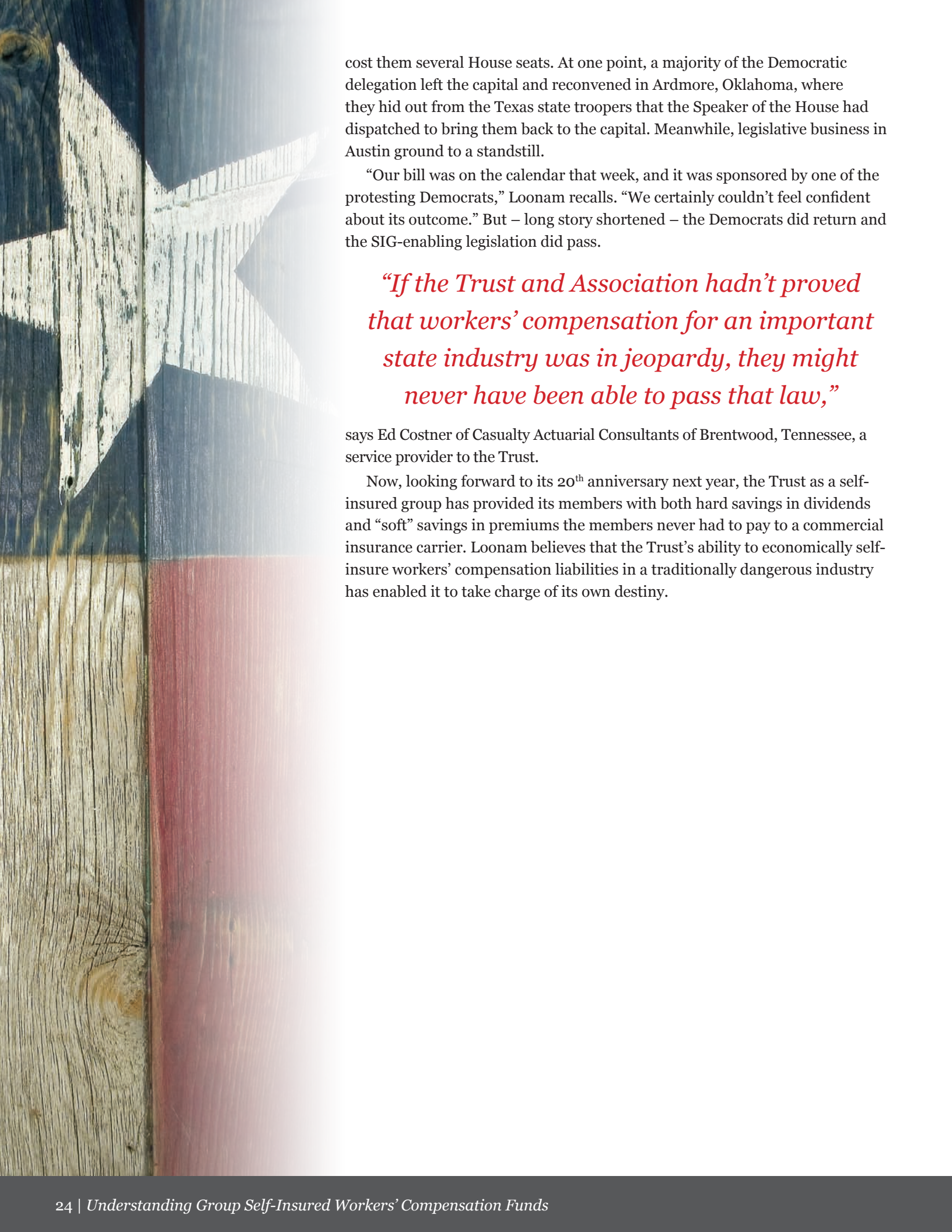
"The objective is to get every one of our members' new employees to be trained on their specific jobs within the first weeks of employment," Loonam said. "We hear all the time from injured employees, 'Nobody showed me how to run that machine.' This is an especially complex and sensitive issue as so many employees are temporary migrant workers. But we expect our members to train them and closely supervise their performance."

The Trust's safety staff has doubled in recent years and programs include a Certified Safety Trainer seminar for management and supervisory employees. This two-day course in safety and first aid/CPR is designed to provide the knowledge and skills necessary for a supervisor to take control of plant safety as an in-house trainer.

The Texas Cotton Ginners Trust was insured by a traditional WC carrier during its early years. But in 2004 its 10-year insurer suddenly announced it would not renew coverage. "That would have left us high and dry," Loonam recalls.

But the Trust and the Texas Cotton Ginners' Association which sponsors the Trust had prepared for that eventuality by petitioning in 2003 the state legislature to pass a law enabling self-insured groups (SIG) to provide workers' compensation coverage. That legislation was part of an episode that still resonates in the state capital.

That was the year that minority Democrats fought a Congressional redistricting plan that would have



cost them several House seats. At one point, a majority of the Democratic delegation left the capital and reconvened in Ardmore, Oklahoma, where they hid out from the Texas state troopers that the Speaker of the House had dispatched to bring them back to the capital. Meanwhile, legislative business in Austin ground to a standstill.

“Our bill was on the calendar that week, and it was sponsored by one of the protesting Democrats,” Loonam recalls. “We certainly couldn’t feel confident about its outcome.” But – long story shortened – the Democrats did return and the SIG-enabling legislation did pass.

“If the Trust and Association hadn’t proved that workers’ compensation for an important state industry was in jeopardy, they might never have been able to pass that law,”

says Ed Costner of Casualty Actuarial Consultants of Brentwood, Tennessee, a service provider to the Trust.

Now, looking forward to its 20th anniversary next year, the Trust as a self-insured group has provided its members with both hard savings in dividends and “soft” savings in premiums the members never had to pay to a commercial insurance carrier. Loonam believes that the Trust’s ability to economically self-insure workers’ compensation liabilities in a traditionally dangerous industry has enabled it to take charge of its own destiny.

Performance of Self-Insured WC Group More than Just Luck

Those seeking lucky numbers would do well to consider a “pick 3” of 0-20-40 that could be associated with the Independent Schools Compensation Corporation (ISCC), a self-insured workers’ compensation group in Massachusetts. Here are the facts behind the numbers:

0: The number of members that have withdrawn from the group during the 21 years of its existence (not including a couple of private schools that ceased operations).

20: The downward percentage deviation from current Massachusetts workers’ compensation rates that ISCC has earned because of its outstanding loss experience.

40: The percentage of premium that ISCC’s 168 members have earned in dividends over the life of the group. The actual numbers are \$44 million in dividends earned on \$111 million of premium.

ISCC founding president and current president emeritus Cornelius N. (Nick) Bakker, Jr. is clearly proud of his organization’s record but with New England prudence he cautions, “We encourage our members not to budget for dividends – let it be manna from Heaven.”

ISCC was among the first self-insured groups approved by the state in a time when workers’ compensation was reaching crisis conditions. “The workers’ compensation situation in Massachusetts had deteriorated so badly that almost everyone was put in the assigned risk pool and traditional markets didn’t want to write workers’ comp,” Bakker recalls.

“They say you’ve got to have a crisis to pull off major change, and we had our crisis,” Bakker adds. The feasibility committee that worked on

founding ISCC was comprised of school business managers Andrew Leighton (Buckingham Browne & Nichols School), Ted Wade (Milton Academy), Morgan K. Smith, Jr. (Noble and Greenough School), Edward Gotgart (St. Mark’s School), Peter McCone (Dana Hall School) and Bakker, who has since retired from Thayer Academy.

The initial group of 24 ISCC members in April 1992 expanded to 58 members by the end of that year with about \$1.2 million in premium. Now ISCC has a total membership of 168 including five Class B members that are major colleges. The broad range of members in size includes small institutions whose premiums are in the hundreds of dollars to major colleges at the \$800,000 premium level.

“Spending a little more on immediate care helps to ensure the best possible care for the injured workers, keeps costs down in the long run and brings a healthier worker back to the job sooner,”



Marcio Jose Bastos Silva / Shutterstock.com

Of course, one may not expect a group comprised of private schools, colleges and cultural organizations to pose workplace hazards on a level with heavier industries. But one could be mistaken.

“Our members have many of the same workplace challenges as other industries when you consider jobs in dining services, custodial, housekeeping and grounds maintenance,” says Carol DiPietro, regional vice president of Meadowbrook Insurance Group’s Andover, Massachusetts, branch, which

has administered ISCC since its inception. “Educational facility services have many lifting tasks like shoveling snow, moving furniture, throwing trash and repetitive tasks like preparing food, weed whacking and trimming, or computer work,” she adds.

“For physically demanding jobs we began last year to reimburse our members who agreed to put new employees through post-offer, pre-employment (POPE) physicals,” says current ISCC president Thom Greenlaw, assistant head of operations and CFO for Buckingham Browne & Nichols School in Cambridge. “This is an important component to help ensure that we are hiring people who are physically capable of meeting the essential functions of our more demanding jobs. Employment offers may be conditional pending the results of the POPE screening. Our board is considering making POPE physicals mandatory for members next year.”

Mr. Bakker adds that such screening enabled ISCC to opt out of the state’s second injury fund, saving members about another five percent of workers’ comp costs.

Not only was workers’ compensation insurance exorbitantly expensive or unavailable when ISCC began but its founders also felt they

could improve on injured worker treatment quality, safety programs and claims management by going on their own in a self-insured group.

“When an employer is involved and has more control over the care of injured workers, you can get a better result,” DiPietro says. “The employer will be more concerned about getting the best care for their employee because the employer has a vested interest in the employee’s well-being. The employer also understands the impact that injuries have on their business in terms of employee morale, lost productivity, job replacement and recruiting.

“Spending a little more on immediate care helps to ensure the best possible care for the injured workers, keeps costs down in the long run and brings a healthier worker back to the job sooner,” she adds.

Safety training is an evolving process for ISCC members. Included are behavioral safety programs that improve in-house incident investigations through greater focus on near-miss reporting. “That’s an important development for our members,” DiPietro says. “By focusing on accidents that didn’t happen but could have, employee working techniques are improving to reduce lost-time injury accidents.”

ISCC annually stages a Safety Day

that is like the Super Bowl of training –in fact, last year’s event was held at Gillette Stadium, home of the New England Patriots. “We make it a top-notch safety education day but also give our members the chance to enjoy a good lunch in an interesting venue,” Greenlaw says.

Regional safety workshops have included subjects ranging from “How Diabetes and Obesity Impact the Workplace” to use of automated external defibrillators and a SawStop table saw demonstration.

Members of ISCC maintain shared responsibility for management of their claims. “When both the employer and the injured worker are actively involved in the claims management process in a close collaboration with the claims service provider, the injured employee receives the best treatment, his or her recovery time is decreased, and he or she is able to return to the workplace much more quickly,” DiPietro says. ISCC’s claims adjusters maintain active caseloads well below the industry average, DiPietro notes.

ISCC’s historic performance may have provided some lucky numbers, but lots more than luck was involved in forming a pioneering self-insurance group and achieving outstanding performance over its lifetime.





As Past President of SIIA, I would like to commend the volunteer leadership and contributors for this unique and timely publication. As the leader in protecting and promoting self-insurance, SIIA has once again proven its unsurpassed value to its diverse and dynamic membership.

Freda Bacon
Administrator
Alabama Self-Insured Workers' Compensation Fund

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