Corporate Exposure: "Deductible" Is Not "Self-Insurance"

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Many organizations that wish to control workers' compensation costs are considering self-insurance plans. One reason for this is it avoids the residual market loads (RMLs) charges applied to standard workers' comp plans. For some, this approach makes a lot of sense. In general, organizations that maintain a large workforce located in a few states are probably wise to move toward such an arrangement. But companies with smaller locations in several states should consider a deductible plan. We'll explain our rationale later. First, however, we should examine the differences between so-called "self-insured" plans and "deductible" programs. Then, we can briefly review the positive and negative aspects of each program, which, we hope, will help point the reader in the right direction.

Both self-insurance and deductible programs are extremely loss-sensitive. The costs of both programs are directly attributable to the organization's workers' comp losses. As a result, risk control services and the costs of claims handling/administration should weigh heavily in your risk analysis.

Another common feature of both plans is the avoidance of premium taxes and RMLs, which cover a broad range when compared state by state. Some RMLs (which, by the way, are the costs states apply to workers' comp insurance programs to collect funds for the assigned risk pools) range from single- to triple-digit percentages. It is important to note that some states have recognized these plans can result in a significant loss of income and are changing these factors along with their applications. Nonetheless, both self-insured and deductible plans do offer a savings when compared to standard guaranteed cost programs. Finally, both plans will require some type of collateral or security to be posted for the unpaid losses. These obligations will vary by state and the carriers' filed plans in each jurisdiction. A word of caution: Review how long the collateral will be held and be sure the time frames are appropriate.

Self-Insurance

Under a self-insurance plan, the organization assumes all liabilities and administrative burdens associated with reporting losses. Furthermore, the organization must qualify in each state in which it has employees as a self-insurer, which can be difficult. Each state has its own forms, policies, and procedures, and the administrative burden can be tedious and frustrating. Once qualified, the organization must be certain that all losses are reported to the excess carrier as stipulated. Although third-party claims administrators can assist in this obligation, it remains your company's responsibility. The self-insured program does permit more authority over claims administration than a deductible plan, but states have been tightening these loopholes and insisting on certain agreed-upon minimum standards.

> *Make sure you understand the difference.*

Consequently, in our assessment, the administrative burdens associated with self-insurance make it difficult to justify except for only a few companies.

Deductible Plans

Carriers recognize the administrative burdens associated with self-insurance as well as the client's desire to eliminate certain state assessments. The deductible plan was developed to fill what was seen as an obvious need. In a deductible plan, the carrier files with the state and offers your organization the opportunity to pay a deductible on each claim. This process reduces the base against which the RMLs are applied. But not all carriers have approved plans or are filed in every state; thus, only a limited number offers the deductible option. With deductible plans, the carrier is assuming some of the self-insurance administrative burden and becomes responsible for reporting claims. Losses must be filed with the National Council on Compensation Insurance (NCCI) in some states, and prompt notice must be given to the excess carrier when applicable. Since the carrier is responsible for this administrative function, you have less authority and participation in the claims function. Clients can purchase aggregate stop loss limits to transfer a portion of the deductible levels if desired.

In summary, we have noted a strong movement away from self-insurance and toward deductible plans. One reason is the ongoing trend toward downsizing in companies. This means that companies are less able to handle the administrative obligations associated with self-insurance programs. As we have repeatedly emphasized in this column through the years, those organizations that manage their risk control exposures (pre-loss) and have a strong loss management (post-loss) plan in force will end up with more options available than their competitors.

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