

Self-Insurance: The How's & Whys

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Poll the Room: Raise Your Hand if you are

- ▶ Already Self Insured
 - ▶ Happy to Continue
 - ▶ Considering becoming fully insured
- ▶ Considering Becoming Self Insured
- ▶ Previously Were Self Insured
- ▶ Work for a self insured
- ▶ Are employed by a self insured
- ▶ Wandered into the wrong room

Agenda

- ▶ Self-Insurance
 - ▶ The Downside
 - ▶ The Benefits
- ▶ Should You Self Insure?
- ▶ How to Self Insure?
- ▶ Q & A

What is Self-Insurance?

- ▶ **PA Self-Insurance:** The privilege granted to an employer which has been exempted by the Bureau from insuring liability under §305 of the Act PA Code
- ▶ 3 Kinds
 - ▶ Individual
 - ▶ Group
 - ▶ Trusts

Why Not Just Buy Insurance?

The background of the slide is white with abstract green geometric shapes on the right side. These shapes include overlapping triangles and polygons in various shades of green, from light lime to dark forest green. A thin, light gray line runs diagonally across the white space, starting from the bottom left and extending towards the top right.

Financial Savings

- ▶ Improved cash flow
- ▶ Insulation from Insurance market cycles
- ▶ Lower Administration Fees
- ▶ Subrogation: Direct Negotiation and Direct cost reduction

Better Claims Management

- ▶ Greater control over the WC Program
 - ▶ TPA Selection/Partnership
 - ▶ Panel Selection
 - ▶ RTW Support
 - ▶ Quality of Care
 - ▶ Ancillary Providers: NCM, DME, Bill Repricing, etc.
- ▶ No prior carriers fighting over old claims
 - ▶ i.e. 2016 vs. 2023 back injury
- ▶ Sense of responsibility/ownership for claims occurrence
 - ▶ Claims do not become the responsibility of the Insurance Carrier
- ▶ Ability to more closely coordinate Claims Management
 - ▶ Employer & TPA work together
 - ▶ Claim decisions are SI employer's decisions - not insurance company's

Labor and Employment Symbiosis

- ▶ Holistic approach to cases: WC, Labor, and Employment
- ▶ Global Settlements include ADA, Labor, Termination
- ▶ Best for Heart and Lung and other specific programs covering bargaining units and classes of workers

Safety and Wellness

- ▶ Real time injury data can be used for Targeted Loss Prevention Initiatives
- ▶ Immediate financial benefit of safety initiatives- not just long-term premium savings
- ▶ Easier to sell Loss Prevention initiatives to C-Suite
- ▶ Better partnership with Employee Assistance Program, particularly in cases involving stress or exposure to violence in the workplace
- ▶ Coordination with Wellness or other Programs
- ▶ Caution:
 - ▶ You need to have someone qualified to sign your HandS Report
 - ▶ No 5% premium reduction for having a Qualified Safety Committee

If you're considering, self-insurance, remember:

- ▶ Involvement v. Commitment

Covid

- ▶ Include Work Comp exposure in decision making
- ▶ Addressing Work from Home Risks
- ▶ Out of State Employees

Is Self-Insurance for You???

- ▶ Not for everyone
 - ▶ Requires leadership/ownership engagement
- ▶ Different -- usually lower -- costs, than traditional insurance
- ▶ NOT a short term solution/approach

Five Worst Things About Self-Insurance

- ▶ Have to pick a Panel
- ▶ Have to pick a TPA
- ▶ Have to deal with Adjusters
- ▶ Have to deal with lawyers
- ▶ 10 year Bureau Audit

Potential Downside

- ▶ SI within PA but will not compensate claimants in other states
 - ▶ Other WC coverage required for non-PA SI Claims
- ▶ Some increased administrative requirements
 - ▶ Applications, Reported data, etc.
- ▶ Runoff considerations
 - ▶ SI Employer owns the claims for life
- ▶ Excess Insurance Coverage Cost
- ▶ No fixed monthly premium costs
 - ▶ I.e. if there is a settlement, it is paid by SI employer that month
- ▶ No ability to go in/out of market
 - ▶ May not make sense based upon market

How to Self-Insure

▶ Rules and Regulations

- ▶ PA Code Title 34. Labor And Industry
- ▶ Part VIII Bureau of Workers' Compensation
- ▶ Chapter 125. Workers' Compensation Self-Insurance
- ▶ Subchapter A. Individual Self-Insurance
 - ▶ Regulation provides guidelines for administration of self-insurance to individual employers
 - ▶ Purpose: **To ensure full payment of compensation to employees/dependents of self-insured employers under the Act**

Self-Insurance Requirements

- ▶ Application
 - ▶ Broker or TPA can assist
- ▶ Financials
- ▶ Excess Insurance
- ▶ Health & Safety Program
 - ▶ HandS

Application Requirements

- ▶ Initial Application must be submitted no later than 3 months prior to requested effective date
 - ▶ \$ 500 Application Fee
- ▶ Audited Financial Statements for prior 3 fiscal years
- ▶ Health & Safety Program Information
- ▶ Incurred WC loss experience for prior 3 completed policy years
 - ▶ Listing of open and closed claims & case reserves
- ▶ Credit ratings (Moody's, Fitch, and S&P)
- ▶ Additional data as requested
- ▶ Annual Renewal Application (3 months prior to expiration of permit; \$100 for each renewing affiliate)

Financial/Security Requirements

▶ Regulations

- ▶ PA Code, Title 34, Chapter 125.9 (Private Employers)
- ▶ PA Code, Title 34, Chapter 125.10 (Funding by Public Employers)

▶ For **initial applicant**, required security is:

- ▶ The greater of:
 - ▶ 2x its greatest insured incurred loss prior to applying, or
 - ▶ Minimum security amount
- ▶ Discounted rating, rounded to the nearest \$100,000

▶ Minimum Security Amount

- ▶ The lower of:
 - ▶ Current Statewide AWW multiplied by 500
 - ▶ 2023 average weekly wage is \$1,273
 - ▶ Retention amount of applicant's current/proposed excess insurance

Security Requirements Cont'd

Actuarial Analysis in a Nutshell: The Bureau collects self-insureds' historical claim counts, paid and case outstanding losses and then utilizes actuarial methods to project the ultimate losses. **The required security is the difference between the projected ultimate and paid losses.**

Actuarial liability is used on a case-by-case basis (separate calculation for each self-insured), after adjustment for rounding, minimum liability amounts and the financial health of the self-insured according to the self-insured regulations to determine a **required security** for the self-insured at each annual renewal date.

This process is also performed for self-insured employers who are in runoff status.

Types of Security

- **Surety Bond** - Surety Company shall possess A.M. Best rating of A- or better or a S & P insurer's financial strength rating A or better
- **Letter of Credit** - Issued by a Bank with:
 - Fitch: B/C or better rating or 2.5 or better credit evaluation score; or
 - S&P: CD or long-term issuer credit rating of BBB or better, or a short-term issuer credit rating of A-2 or better
- **Trust (Public Entities)** - A dedicated asset account to provide funds for payment of benefits and other obligations/expenses for its self-insurance program

WC Special Funds Assessments

PA Code, Title 34, Chapter 125.13

- Administrative Fund
- Subsequent Injury Fund
- Supersedeas Fund
- Self-Insurance Guaranty Fund
- Uninsured Employers Guaranty Fund
 - ▶ Funds calculated on % of Total Compensation Paid in prior year
 - ▶ Ratio is paid by either insurer and passed along to you (perhaps with a mark-up); or directly on the base amount by SI
 - ▶ Also applies to self-insured employers in runoff status (until all liability under period of self-insurance has ended)

Initial Report of Accident & Illness Prevention Program/HandS Report

- ▶ Completed and submitted through WCAIS with the rest of application
- ▶ HandS: Take the "H" in Health, the "S" in Safety, and
- ▶ put "and" in the middle: you have HandS.

Questions?