CLIENT ADVISORY

Self-Insurance in the Monopolistic State Fund

Monopolistic state funds (State Fund) require employers to obtain workers' compensation insurance from a compulsory state fund or to qualify as a self-insurer. Of the remaining monopolistic state/jurisdictions in the United States (North Dakota, Ohio, Puerto Rico, Washington, Wyoming, and the U.S. Virgin Islands), only Ohio and Washington allow self-insurance as an alternative to workers' compensation insurance procured through the State Fund.

There are several potential advantages to an employer choosing self-insurance as an option, including:

- direct input into who handles claims and how they are administered
- ability to design and tailor safety/loss control programs, return-to-work programs and other post-loss cost containment strategies
- ability to design program structure
- lower overall cost of workers' compensation program
- cash flow advantages

There are, of course, associated costs and risks which must be considered before choosing self-insurance as an option. These include:

- potential for unusual and adverse costs in any given policy period
- requirement to post collateral with regulatory authorities
- devotion of management time and energy to oversee components of the self-insurance plan
- legacy costs if the program is closed
- more limited choice in excess insurers compared to primary insurers

Despite these costs, self-insurance often remains a viable and typically cost-effective alternative to State Funds or, for that matter, private carriers.

If of interest, a feasibility study will be required to make an educated and factual analysis of whether self-insurance is a viable option in any individual case. If it's determined to be an option – and the insured chooses to pursue – an application to the state, along with additional documentation including loss history, financial statements, and a demonstrated ability to administer a self-insurance program, is required for approval to self-insure.

Once the insured has received permission to self-insure, contracts with various service providers, third-party administrators (TPA), safety/loss control consultants, and excess carriers need to be executed. In addition, the state will require letters of credit to secure the retained portion of the risk, and a claims payment fund needs to be established so the TPA can pay claims.

Requirements for receiving and maintaining qualified self-insured status vary by state and can be challenging to comply with for employers with operations in multiple states, although it is frequently done. However, for single-state employers, self-insurance is certainly an option that should be evaluated. And, for brokers who serve clients whose only other option is the State Fund, self-insurance is an opportunity to provide additional value and added services for your insured.

AmWINS has resources available to help you evaluate the viability of a self-insurance solution for your insureds.

To learn more about how AmWINS can help you place coverage for your clients, reach out to your local AmWINS broker or marketing@amwins.com.

If you do not have a contact at AmWINS to help with your workers' compensation risks, click here for a list of brokers on our website.

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