

**Workers' compensation state funds: an evolving market force**

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Presenters: Arthur Cohen, ACAS, MAAA  
Rachel Dolsky, ACAS, MAAA

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**Agenda**

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- ▶ History of workers' compensation (WC) insurance
- ▶ Emergence of state funds
- ▶ Types and features of state funds
- ▶ The 1990s
- ▶ Privatization movement
- ▶ The future

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**History of state funds**

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- ▶ Industrial revolution
  - ▶ Insufficient and uncertain compensation
  - ▶ 1855–1907 – laws permitting suing of employers
- ▶ Modern no-fault system of workers' compensation
  - ▶ Circa 1914
  - ▶ Problem: only large employers had the ability to guarantee injured employees mandated benefits
    - ▶ Purchase of WC insurance began

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## Emergence of state funds

- ▶ Employers were afraid of:
  - ▶ Being forced out of business by being refused coverage
  - ▶ Insurance companies imposing excessive premium rates
  - ▶ Insurance rates soar and insurers making unfair profits

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## State funds

- ▶ Established to provide WC insurance exclusively
- ▶ Washington was first state to adopt the state fund approach in 1911
  - ▶ Michigan followed in 1912
  - ▶ Six states had funds by the end of 1916

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## Typically stated goals of state funds

- ▶ Support a competitive local economy
- ▶ Foster a safer workplace
- ▶ Provide fair access to insurance
- ▶ Operate on a self-sufficient basis

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## Features of state funds

- ▶ Self-supporting?
- ▶ Pay dividends or safety refunds
- ▶ Frequently organized as mutual insurance companies
- ▶ May be a source of revenue for the state's general fund
- ▶ May be subject to same regulatory requirements as private companies

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## Types of state funds

- ▶ Exclusive funds
  - ▶ All are required to purchase WC from the state fund or, in some states, self-insure
  - ▶ North Dakota, Ohio, Washington, Wyoming, Puerto Rico
- ▶ Competitive funds
  - ▶ Compete with private companies and self-insurance
  - ▶ May pay dividends to policyholders

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## Key benefits of state funds

- ▶ Availability
- ▶ Affordability?
- ▶ Service?

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### New state funds in the 1990s

- ▶ Montana (1990)
- ▶ Rhode Island (1990)
- ▶ Louisiana (1991)
- ▶ New Mexico (1991)
- ▶ Texas (1991)
- ▶ Maine (1993)
- ▶ Kentucky (1995)
- ▶ Missouri (1995)
- ▶ Hawaii (1996)

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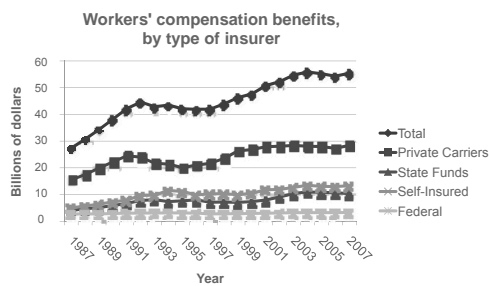
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### Growth of state funds over time




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### State funds today (2008 data)

- ▶ 25% of nationwide state act WC premium (more than \$11 billion in premium)
- ▶ 25 states have active funds – four of which are monopolistic
- ▶ Write 50% or more of the market in eight states

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## Move toward privatization

Some success stories

- ▶ West Virginia
  - ▶ Formerly monopolistic
  - ▶ June 2005 – a private mutual insurance company was created
  - ▶ 1 July 2008 – opened up its workers' compensation business to any insurer that meets state requirements
  - ▶ 207 insurers filed rates, 176 actively writing business
- ▶ Nevada
  - ▶ Formerly monopolistic
  - ▶ Privatized effective 1 January 2000 with the formation of Employers Insurance Company of Nevada
  - ▶ Subsequently demutualized and became a publicly traded insurer

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## Privatization

Arizona

- ▶ State Compensation Fund (SCF) of Arizona
  - ▶ Created in 1925
  - ▶ Has been gradually moving in the direction of privatization since state legislative action in 1968 separated SCF from the Industrial Commission
  - ▶ Pays both premium and property taxes and has not received state money since initial start-up loan (repaid in 1938)
- ▶ S.B. 1045 – SCF of Arizona will become a mutual insurance company owned by the policyholders effective 1 January 2013

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## Other states

Colorado

- ▶ Colorado Pinnacle Assurance
  - ▶ Quasi-mutual company with almost 60% of market and is exempt from premium taxes
  - ▶ Had been discussing privatization, however, talks have been tabled

Oklahoma

- ▶ CompSource
  - ▶ Insures about 35% of market and does not pay premium taxes
  - ▶ Discussions to sell – failed due to adverse effect on small businesses who would be paying higher premiums

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**Other state happenings**

California

- ▶ Largest state fund in the US and fifth largest WC insurance provider in the US (as of 2009 Conning study)
- ▶ Established 1914
- ▶ Self-supporting, nonprofit organization
- ▶ In late 1990s, nearly \$10 billion in NWP – by 2009, just under \$1.25 billion

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**Other state happenings**

Washington and Ohio

- ▶ Both are currently monopolistic and are talking about allowing competition

New York

- ▶ Recent law changed such that it is no longer the only carrier that could deviate from bureau rates

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**Are state funds a continuing competitive force?**

- ▶ Change in market share
- ▶ Current market conditions
- ▶ Effects of the economic conditions
- ▶ Lack of multi-state capabilities
- ▶ Movement towards privatization

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## Resources

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Sengupta, Ishita, Virginia Reno and John Burton, Jr., "Workers' Compensation: Benefits, Coverage, and Costs, 2007." Washington, D.C.: National Academy of Social Insurance, 2009.

"Workers Compensation." Insurance Information Institute, September 2010. Web. 8 Sep 2010. <[http://www.iii.org/issues\\_updates/workers-compensation.html](http://www.iii.org/issues_updates/workers-compensation.html)>.

"Workers' Compensation State Funds: Evolution of a Competitive Force." Strategic Study Series. Conning Research & Consulting, 2009.

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