## Introduction

The decision to self-insure is a complex question facing many companies today. Broader interpretations of liability and rising jury awards have complicated the insurance marketplace, causing organizations to turn to alternative risk financing arrangements.

There are two primary reasons why any organization should consider group self-insurance: To save money and/or to exercise greater management control.

Group Self-insurance is an alternative for your organization if:

1. Your company is not large enough to absorb the costs of the worst possible year of paid losses without undue financial strain.

2. You do not have significant claims volume so that self-insurance costs (bonds, excess insurance, taxes, service fees, etc.) are not disproportionate to the cost of a minimum conventional policy.

3. You can arrange, either through employees or contracted services, claims administration, loss control and computer support services equal or better than those provided by insurance companies.

4. Your company is financially strong.

The decision of group self-insurance is based on several factors which are identified in this proposal.

In this analysis we examine the pros and cons of moving into a group self-insured plan for handling your members' workers' compensation obligation.

## FINANCIAL ADVANTAGES

Financial and management advantages normally thought to be attractive attributes of a well conceived self-insurance plan are outlined in the immediately succeeding sections. Each client should examine the stated features and compare them against their own specific needs.

### 1. Savings of Premium Tax

### 2. Insensitive to Primary Market Conditions

Inflated insurance rates and/or an adverse market condition due to class experience is immaterial. The cost of the self-insurance ”premium” is directly proportional to the losses.

### 3. Savings of Insurer’s Overhead and Profit Portions of Premium

The self-insured may be able to administer the insurance system less expensively by retaining those expenses incurred by the normal or predictable hazard risk losses. The insurance company expenses associated with ”prefunded dollar trading” are reduced to a minimum by transferring only the catastrophe exposure to the insurer.

### 4. Cash Flow Advantages

a. The present value of money and inflationary trends make apparent that the value of funds held today is substantially greater than the value at any point in the future. Consequently, losses incurred today but budgeted and paid for tomorrow reflect a lower present value cost.

b. The costs of insurer overhead, bureau fees, premium taxes, acquisition costs, etc. are greatly reduced. However, these savings are partially offset by other taxes and fees.

c. Reserves for future payments are approximately two-thirds of incurred losses. Under an insured plan, the employer gives this money to the insurance company in advance. Under self-insurance, it can be maintained in corporate funds.

## MANAGEMENT ADVANTAGES

1. **Assignment of Responsibility**

   Predictable losses are now the obligation of the self-insured – no longer are they passed on to the insurer. The self-insurance program price tag is reflected in the measure of success management exhibits in its control of losses and loss producing exposures.

2. **Claims Settlement Philosophy**

   Self-insured claim settlements reflect management's philosophy to a greater extent than possible through an insured program. Discretionary settlements apparently made for the convenience of the insurer are precluded.

3. **Tailored Needs**

   Those services normally provided by the carrier under an insured program must be replaced. Management can assess the capabilities of any service vendor and contract only those services desired.

4. **Psychological**

   Psychological incentives for loss and claims control throughout the company are enhanced. There have been instances of claims reduction in frequency and severity when managers were made aware of the direct charge of claims to their account and employees knew there was no outside bottomless source of funds.

# Advantages of Group Self-Insurance

Generally, the primary motivation for becoming self-insured is to realize the financial benefits that normally are achieved by an insurance carrier. The greatest advantage, however, may be control.

### Improved Loss Control

Greater concern regarding loss control programs is likely to result from a self-insurance program. Once departments or divisions become responsible for payment of their own losses, there is greater motivation for proper loss control. In addition, loss control and prevention programs can be designed for the particular needs of any organization. Improved communications and improved data between all parties may result in a greater awareness of an organization's loss control and loss prevention needs.

### Improved Claims Management

The self-insured maintains greater control over claims including the accumulation of loss and exposure data. A self-insurance program may result in more expedient claims payment when payment is in order; defense and investigation of questionable claims may also be superior to that performed by an insurer. Reserve disputes with an insurer are also avoided since reserves are established by the self-insured with assistance from their third party administrator.

When Workers' Compensation is self-insured, claims procedures and prompt payment can improve employee relations. In addition, employees may become more conscious and aware of the costs of claims and therefore reduce their claims frequency and severity. The self-insured employer maintains greater control of coordination of benefits; group health insurance, disability, sick pay, etc., can be paid with recognition of Workers' Compensation and social security benefits. Duplication of benefits can be controlled.

### Cost Control

Under a self-insurance program, costs are easily identifiable. Total costs can be detailed by components, e.g., losses, claims handling, loss control, overhead costs, excess insurance, and premium taxes. Reduction in program costs can be achieved through lower overhead expenses than those of commercial insurance carriers. Also, the premium tax component is generally less under a self-insurance program since premium taxes are not applicable to administrative expenses or loss control expenses.

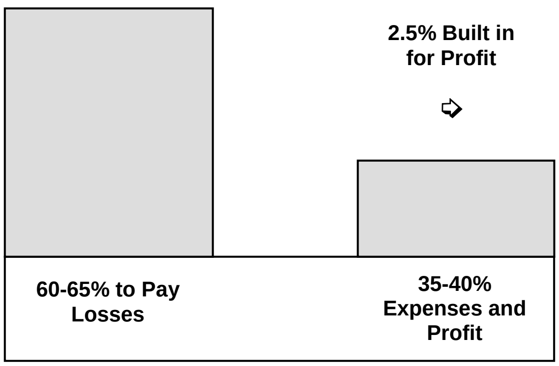
### Cash Flow Benefits

The self-insured realizes maximum cash flow benefits through the use of unpaid loss reserves and lower costs. Loss reserves are controlled by the self-insured until actual loss payment is made. Therefore, the self-insured has the opportunity for increased earnings through the profitable use of those funds.

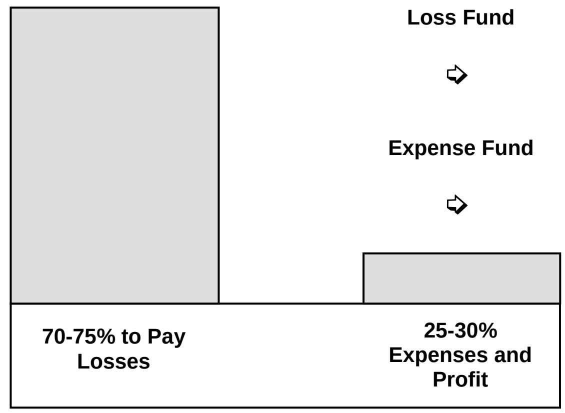
Also, the self-insured has the potential for even greater savings as a result of efficiency of operations; loss control and claims handling may become more efficient and effective, corresponding with the exact needs and policies of the self-insured, thereby enhancing the cash flow benefits.

# Premium Dollar Distribution

### Insurance




### Self Insurance




## Insurance Company

Has investment earnings on entire 100% until expenses and loss dollars are actually *paid*.

Workers' Compensation ultimate loss dollars paid out over a number of years; thus, investment earnings of losses reserved but not yet paid constitute additional profits.

National Statistics show that loss dollars are typically paid out as follows:

- 26% First Year
- 25% Second Year
- 22% Third Year
- Etc.

## Self Insurance

Has benefit of all investment earnings.

Reduced administrative costs mean increased savings.

Expense piece includes:

- Cost of administration of program.
- Purchase of Loss Control Services.
- Purchase of claims paying and statistical services.
- Purchase of necessary insurance to protect the insured.
    - Excess insurance to assure no or minimal risk.

# Why Is A Pool Started?

Pooling is a mechanism through which many small to medium-sized insureds join together to treat their Workers' Compensation, Liability or other loss exposures. Pooling offers an attraction to group members through the potential for lower costs than the traditional insurance markets, investment income to be earned, superior and specialized services, and broader coverages than otherwise available.

A group or association serves as the source of pool funds; the pool can be described as a not-for- profit, unincorporated association that pools and assumes the covered loss exposure of its members. Pools are most commonly formed by members of pre-existing groups such as professional or trade associations or associations of governmental entities.

The pooling approach involves charging each participating member of the group a premium based on its own individual loss exposures. Premium dollars and exposures of the members are pooled. Covered losses and expenses are paid out of the pooled funds; investment earnings accrue on the funds until they are used. Periodically, earnings generated on the fund and any unused portions of the fund will be distributed back to group members in the form of dividends.

Workers' Compensation is the line of coverage most often included in a pool. Other lines of coverage such as General and Automobile Liability, Professional Liability and some Property exposures may also be included.

**Advantages of Pooling**

Potential cost reduction is perhaps the most cited advantage to pooling. Expense savings (minimal premium taxes, elimination of insurance company profits, group purchasing power for administration services), combined with investment income are sources of cost reduction. Also, lower costs result from the improved loss experience that may result from specialized loss control and safety programs and increased loss awareness.

Membership in a pool may afford a member broader coverages than available to an individual insured. Coverages will be tailored to the needs of the members and generally be written at more favorable terms.

Loss control services can be more specialized and tailored specifically for the needs of the group. Also, loss control may improve because of the increased awareness of the impact of losses and how these losses are paid.

Claims services may be improved for pool members since their control over claims is increased. Claims handling, settlement, and defense policies and procedures are established by the pool's governing board and members.

**Disadvantages of Pooling**

Pooling does place an element of risk with group members. Adverse loss experience and unpredictable losses may lead to increased costs and decreased profitability for the pool. Unanticipated assessment of members is possible, thereby increasing program costs.

Shared experience is an area of concern to some insureds. The fact that another member's loss experience affects every other member's costs make some insureds reluctant to join a pool.

The smooth operation of a pool requires trained management. Members may lack the experience to successfully operate a pool or monitor the activities of a professional administrator. Pooling may appear as an overly-complicated alternative when compared to guaranteed cost coverage or dividend plans.

**Conclusion**

Pooling presents a viable alternative to small and medium-sized insureds that desire to become involved in more advantageous risk management approaches than are available to them individually. Smooth operations and prudent organization will assure solvency. Well-run pools can maintain proper financial strength by careful underwriting, proper claims handling, promotion of safety and loss control programs, using conservative loss reserving practices, and purchasing proper excess insurance to protect its members.

## Summary Advantages and Disadvantages Of Group Self-Insurance

| Advantages | Disadvantages |
|---|---|
| Greater program control than insured plans | Additional assessments possible to cover losses |
| Development of organization’s own claim policies | Increased administrative responsibility |
| Safety program specifically tailored to needs | Instability of loss costs |
| Shared expenses | Proper accumulation of historical loss and exposure data may require new systems |
| Spread of risk | Potential employee problems due to loss of insurer as intermediary in claims disputes |
| Greater motivation to control losses | |
| Improved management and employee awareness of importance of loss control | |
| Improved investigation and defense of questionable claims | |
| Avoid or reduce over-reserving of losses | |
| Retain investment income | |
| Potential for dividends if excess funding occurs | |

## Formation of the Pool

When a trade group or association expresses interest in forming a pool, certain actions are necessary. First, a membership survey is required. Each member of the association should be sent a survey asking for historical premium and loss data, the member's interest in joining the pool, and, if possible, a commitment to join the pool if it is indeed feasible.

Next, a feasibility study is done using data received in the membership survey as well as expected costs for required services. The feasibility study considers the number of members interested in the pool, their premium and loss histories, expected losses for the upcoming period, and the costs of services such as claims handling, loss control, excess insurance, information systems, agent's commissions, etc. The feasibility study also includes projections of underwriting profit, investment income, and the resulting dividends to pool members. Because of the necessity for projections and estimates, it is important for the feasibility study to examine a "best case", a "worst case", and an "expected case" analysis.

Necessary services can be purchased on behalf of the entire pool. Claims handling, loss control, information systems, and other administrative services can be purchased on an unbundled basis from Alternative Risk Services, LLC (ARS).

When first organizing a pool, activities undertaken on more than a statewide level become overwhelming. Utilizing an association on a statewide basis offers a good spread of risk and a sufficient number of homogeneous exposures to enhance predictability. Operationally, to facilitate statewide formation, a managing general agent will often be used to coordinate the program through the pool members. The marketing function is crucial to the success of a pool. The managing general agent typically works in conjunction with association officials in marketing the program to its members.

A pool requires accurate projections to function efficiently. The projections and forecasts become more credible as the exposures increase. Consequently, a common minimum threshold often stated is $1 million in annual premiums for the entire pool, with a minimum of 10-20 individual members. Pools have been formed with individual members' premiums averaging $1,500 up to $1,000,000. However, there should be balance and no one should hold a position of dominance or control.

# How Will The Pool Operate?

**Management of the Pool**

- Trustees are representatives from participating members.
- A Board of Trustees will govern and administer the funds.
- Trustees are responsible for meeting and carrying out the requirements of the pool as regulated by the State.
- Trustees will supervise the allowable investments of the pool funds. They control all of the money.
- The Trustees will determine the renewal and admission requirements of each proposed member.
- Trustees will evaluate and monitor the participation and experience of each pool member.
- The State requires that strict underwriting requirements be met by all members of the pool.

# Administrative Functions

**1. Claims Handling**

a. Process claim reports.
b. Investigate, evaluate, reserve and adjust claims.
c. Advise management on payment amount.
d. File reports to satisfy statutory requirement.
e. Prepare claims for formal hearings.
f. Assist counsel in award contests.
g. Effect loss recoveries through subrogation.

**2. Loss Control**

a. Conduct inspections.
b. Advise on OSHA requirements.
c. Audit current safety programs and implement suggestions.
d. Conduct accident/incident investigations.
e. Perform accident/incident analyses.
f. Conduct specialized loss control training.

**3. Insurance Services**

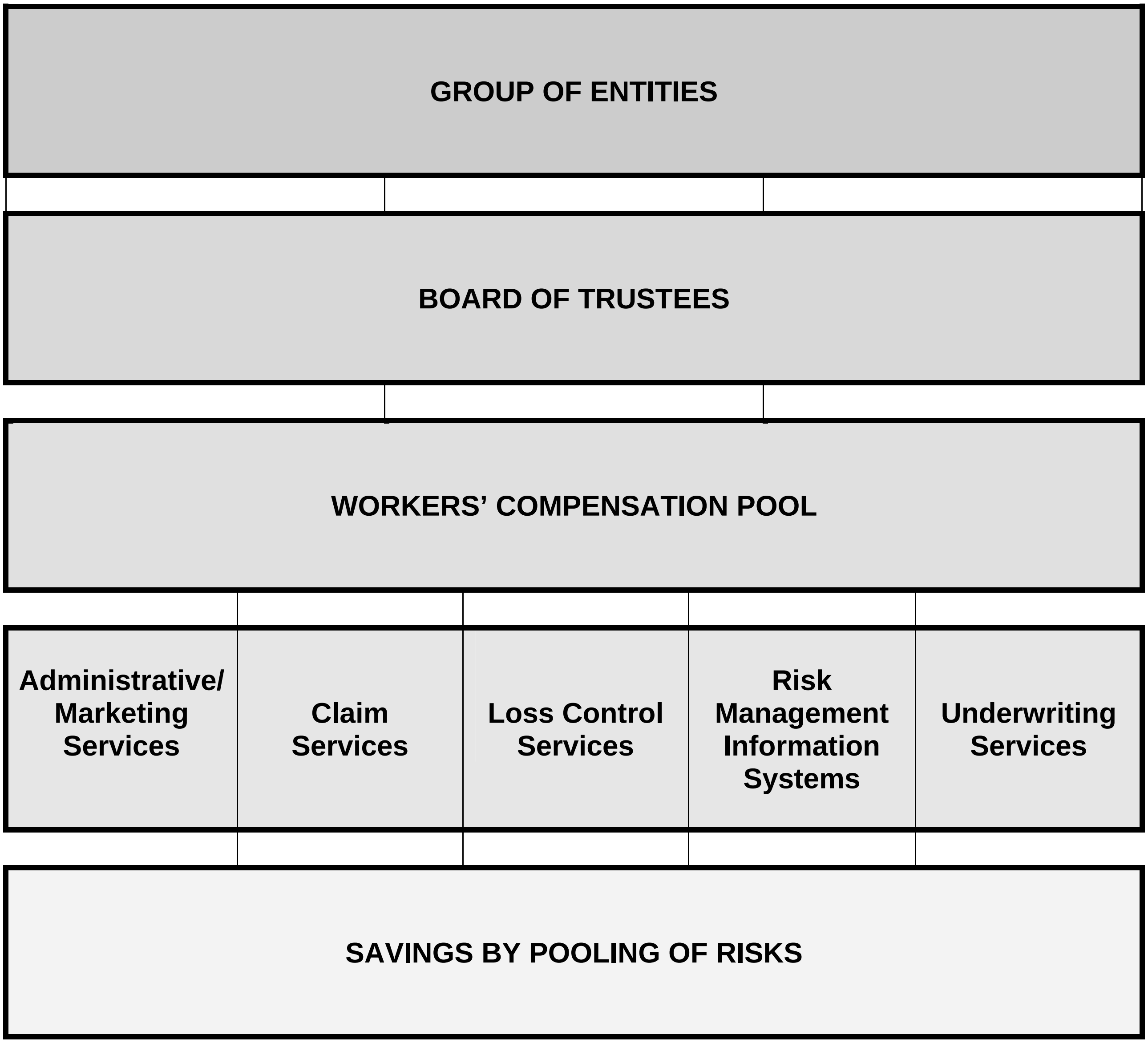
a. Purchase of excess insurance.
b. State qualification.
c. State taxes.
d. Loss forecasting and development.
e. Bond placement.
f. Underwriting.

**4. Risk Information Services**

a. Development of computerized data base.
b. Timely information.
c. Statistical information.
d. Report format.

**5. Fund Management**

a. Utilize staff CPA.
b. Develop Experience Modifiers and prepare premiums.
c. Payroll audits and audit recaps.
d. Calculate and distribute dividends.
e. Prepare financial reports.


GROUP OF ENTITIES
BOARD OF TRUSTEES
WORKERS’ COMPENSATION POOL
Administrative/ Marketing Services
Claim Services
Loss Control Services
Risk Management Information Systems
Underwriting Services
SAVINGS BY POOLING OF RISKS

# Funding For A Workers' Compensation Pool

The governing body of a pool, generally a board appointed by the members, holds the responsibility for the pool's operations and financial condition. These responsibilities include determining premium levels and assessments, securing excess insurance, establishing dividend and earnings distribution procedures, selecting service providers, and establishing procedures for new members and membership termination.

## Funding of the Pool

Premium development for group members generally follows the rating procedures for a traditional, insured program. That is, manual rates are applied to a member's exposure base. The extent to which a pool discounts or deviates from manual rates is an issue for the group to determine and may be stipulated by state regulation in some instances.

Premium discount plans are generally allowed. However, the premium discount plan utilized with pools is not the volume discount determined on the basis of premium size that is allowed by an insurance company. Rather, the discount applied to a group member's premiums is a flat percentage deviation that reduces developed premium.

The premium and loss experience of an individual member is subject to the experience rating plan filed in the state, if applicable. With respect to Workers' Compensation, groups are not required to report experience data to the appropriate rating organization. However, groups are required to use the rating procedures and rating plan. Additionally, when a group member withdraws from the pool, it is important that the experience modifiers be readily available for rating and premium quotation purposes.

## Premium Assessments

Premium assessments may be levied on members when the group's premiums and investment income are insufficient to cover members' losses and pool expenses. Through an assessment, the group can obtain the funds necessary to satisfy its obligations. The articles or by-laws of the pool give the group the power to assess its members. In evaluating participation in a pool, it is important to predetermine when an assessment should be made, the body that is to decide if and when an assessment will be made, which members will be assessed, and how much an individual member can be assessed.

Early action to fund a projected deficit is important since it may be possible to use small assessments levied over several years to accumulate sufficient funds and avoid imposing financial difficulties on the pool or any of its members. Also, it is important to clarify which members will be assessed. Current members that left the pool are no longer subject to assessment.

Current members may be responsible for a disproportionate share of the deficit. Because of possible inequities and misunderstandings, it is important that terms of assessment be clear and communicated to all members and potential members.

In the early years of a Group Self-Insured Fund, premiums are calculated in the same manner as your insured plan.

(Manual Rate) x (Estimated Payroll) x (Experience Mod)
x (Premium Discount and/or Rate Deviation) = Premium

***Based on the feasibility study results, a discount from the calculated premium is possible.*** The largest portion of your premium will be placed into an interest earning (Claims Fund) for the purpose of paying claims. The other portion of your premium (Expense Fund) will purchase:

- **Loss Prevention** - Tailored programs to meet the needs of each member.
- **Claims Management** - Intense supervision of all claim occurrences.
- **Risk Management Information Systems** – Monthly analysis of claims data for open and closed claims including paid and incurred information.
- **Administration/Marketing** – Assist with all administrative functions and market to prospective entities.
- **Excess Insurance** - Pays losses in excess of a specified amount.
- **Miscellaneous Operational Expenses** - Each member pays into the pool their normal developed premium. These premiums are invested in secured bank accounts and other investments approved by the Board of Trustees. Investment income is produced for each fund. Claim costs and other operating costs are paid from these funds.

## Excess Insurance

### What if the Pool has a Large Claim or the Pool Claims Fund is Exhausted?

A successful self-insurance program must be able to sustain variability in loss experience. Loss experience may deteriorate over a period of time as a result of rapid growth or expansion of operations, changes in management, changes in operations, or lay-offs and cutbacks.

In addition, catastrophic or shock losses will cause fluctuations and thus the potential of catastrophic loss such as occupational disease, explosion causing multiple injuries, etc., must be carefully evaluated. The stability of loss costs is essential to a self-insured pool; therefore, excess insurance becomes an important item in a self-insurance program.

Excess insurance is purchased by a self-insured pool to provide insurance coverage for losses in excess of a stipulated amount. Excess insurance limits the maximum probable fluctuation in loss experience from year to year by allowing the self-insurer to retain the portion of its losses that will not impair the financial capabilities of the organization. The dollar amount at which excess insurance should attach will generally be the amount at which individual losses are infrequent and therefore more economical to pool with other exposures. If the excess coverage is to be structured on an aggregate basis, the attachment point selected should be at a point which is not frequently exceeded by aggregate losses. Other criteria to consider will be the financial strength of the organization. In some instances, tax consequences become a factor because of the tax deductibility of excess insurance premiums. The excess insurance coverage may be purchased on a per occurrence or annual aggregate basis.

Most State regulations require that the Workers' Compensation pools have excess insurance to protect them from adverse losses. Excess insurance is a form of reinsurance which protects the pool in two ways.

#### *Per Occurrence Excess Insurance*

Per occurrence excess insurance is purchased to provide coverage for any loss occurrence which exceeds the stipulated self-insured retention. Because it applies on a per occurrence basis, the definition of occurrence becomes important. Generally, loss resulting from continuous exposure will be said to have resulted from a single occurrence. The self-insured retention will vary according to the loss experience and type of exposure and financial strength of the self-insured pool, but normally ranges from retention minimums of $200,000 up to $1 million per loss occurrence.

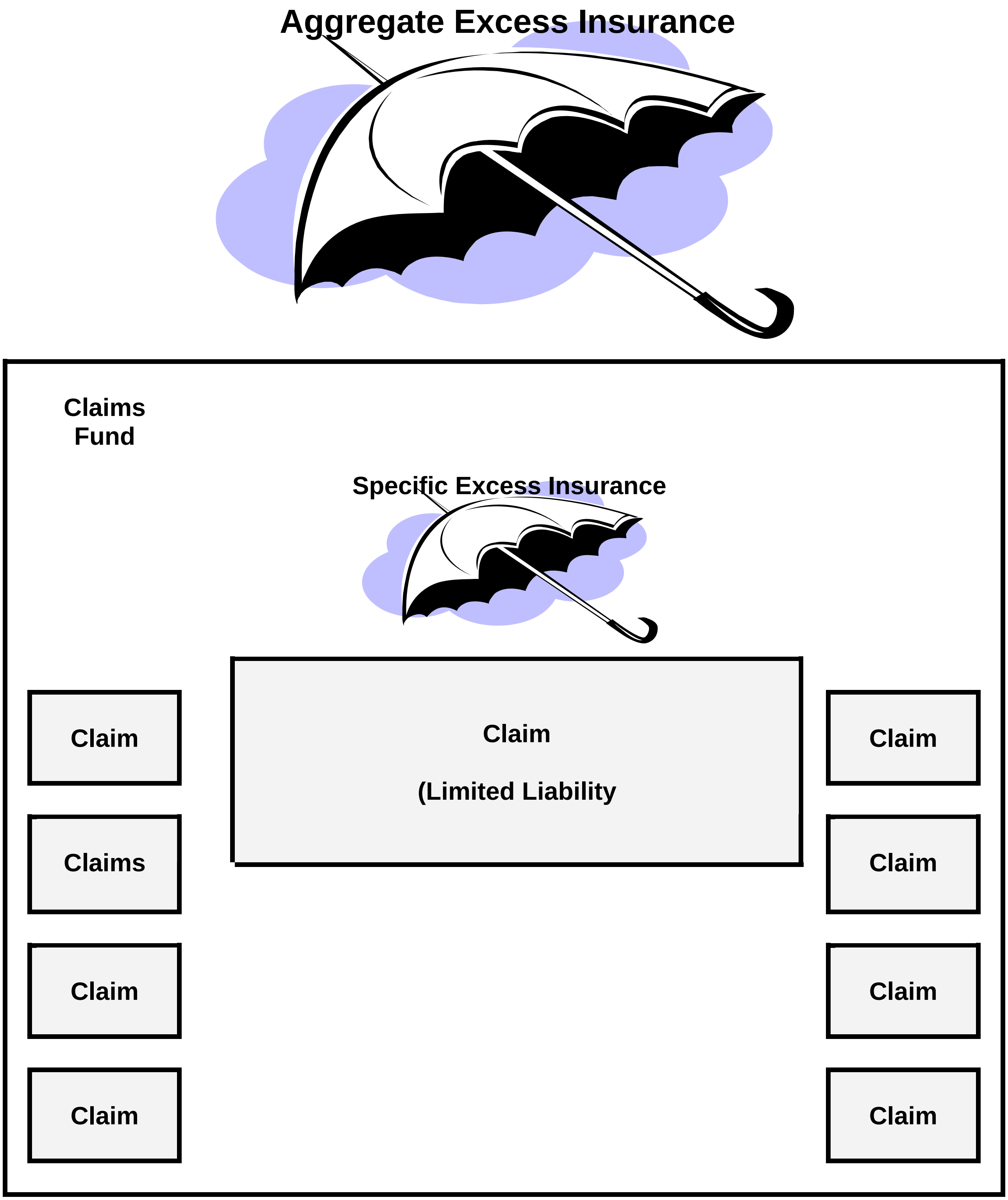
***Annual Aggregate Excess Insurance***

Excess insurance can be purchased on an annual aggregate or stop loss basis. An annual aggregate policy responds to an aggregate loss amount accumulated over the entire policy period. The pool will retain all losses up to the point where the aggregate amount of losses exceeds the stated retention amount.

Annual aggregate, or stop loss excess insurance, is the type of excess insurance most readily accepted by State regulatory authorities. The self-insured retention of an annual aggregate excess policy will generally be greater than the expected losses in the program; per occurrence excess coverage will be required in conjunction with the aggregate coverage.

**Summary**

A pool that has relatively stable historical loss frequency but is concerned about the potential for catastrophic losses may be more inclined to select a per occurrence retention. On the other hand, if the self-insured pool is expanding operations or is experiencing other changes that could lead to an increase in loss frequency, an annual aggregate retention may be more attractive.


Aggregate Excess Insurance
Claims Fund
Specific Excess Insurance
Claim
(Limited Liability
Claim
Claims
Claim
Claim
Claim
Claim
Claim
Claim

# Dividends

Dividends to pool members are perhaps the most important cost reducing element of a pool. Dividends are particular refunds of premium from a surplus account and are paid to members because the sum of premiums and investment income is greater than the total of paid claims, loss reserves, and expenses. There will normally be a waiting period between the end of a group year and actual calculation of the dividend due to the probability of changes in loss reserves and incurred by not reporting losses.

Dividends can be generated by three sources: (1) loss experience; (2) expense savings; and (3) investment income. Better than average loss experience brings a savings to the pool and that savings is returned to the members as a dividend. Portions of a dividend that result from the favorable loss experience of the group will usually be related to each member's premium volume and individual loss experience as in a sliding scale dividend plan.

**Expense/Savings Summary**

Expense savings may result from reduced administrative expenses, more cost efficient loss control and safety programs, and economies of scale due to group purchasing power. The investment income earned on the premium and loss reserve funds is another source of funds for the payment of dividends. The portions of a dividend due to expense savings and investment income are normally calculated separately from the portion due to loss experience. The expense savings and investment income portions are usually returned on a pro rata basis and do not relate back to the loss experience of each member.

The dividend policy of a group must address not only how the dividends will be determined but also who is eligible for dividends. Pool by-laws may stipulate that a member is eligible for dividends arising from only the fund years of its membership. Alternatively, dividends may be determined based on the overall results of the pool for all years combined without evaluating each separate fund year. Also contrary to some insurance company practices, some pools may not continue to pay dividends to members who voluntarily withdraw from the pool since the receipt of future dividends is a strong incentive for renewing membership.

**Size of Dividends**

Other associations across the country have paid average dividends of 30% to 40%. Some pools have returned as much as 50%. It is suggested that not all members participate equally in the dividend. Rather, each member received a dividend based on their own losses.

## FEASIBILITY CONSIDERATIONS

The actual process of determining whether a pool is feasible and whether members will participate is quite time consuming and complex. There are, however, certain basic "go-no-go" questions that can be used to determine whether a pool actually may succeed. While these are not a substitute for a complete feasibility analysis, they are fair predictors of the pool's likelihood of successful formation. The questions include:

**Is there enabling legislation in place?** This can be checked by reviewing Table 1 and/or checking with the state organization responsible for Workers' Compensation.

**Are the State's rates adequate?** This can be reviewed by examining the most recent NCCI (or other rating bureau) filings and/or the size of residual market loads being charged in your state. If the rates are grossly inadequate, then this could be a significant cautionary signal.

**What is the attitude of regulators?** In some states, the regulators are very conservative in overseeing the formation and operation of pools. This tends to stymie their growth. This attitude can be gauged by discussing potential groups with them and/or talking to other groups that have attempted formation.

**Is there a driving force for formulation?** Often it is best to work with the management and members of an association to form a pool. An alternative to this is to work with an agent or broker who works with a large number of the class of insureds that may be underwritten by the pool.

**Can $1 million of premium be collected?** As a conservative estimate, a pool should be able to collect $1 million of gross premiums. This is not the total available market, but rather a reasonable estimate of what premium can be gathered in the second year of operation. In considering this question, do not assume that insurers and agents will be enthusiastic about losing their clients.

**Is affordable excess available?** Many pools have found that the cost and attachment points of aggregate excess insurance have been increasing over time. This increasing conservatism of underwriters has made it more difficult to start pools when so many of the details remain speculative. If your state requires some form of aggregate excess, then it would be wise to speak with excess underwriters early and often.

**Can administrative costs be reduced?** In the long run, a pool needs to provide its members with lower costs. One element of these lower costs are reduced costs for functions such as marketing, underwriting, policy issuance and the like. However, there are few economies of scale available to smaller, start-up pools so that it may be difficult to reduce these costs.

**Can loss costs be reduced?** The largest cost element of virtually all Workers' Compensation programs is their losses. There are increasingly sophisticated medical and indemnity cost containment programs – some borrowed from benefits programs – which can be applied to reduce pool costs. The most successful pools have taken advantage of their homogeneity to develop tailored programs to differentiate them from the commercial market.

While answering all of these questions in the affirmative does not guarantee that a program will be successful, it certainly implies that there is a good chance of success. If the answers are positive, then it may be appropriate to begin a more aggressive feasibility study. You should assume that this will be both costly and time-consuming.

# Group Self-Insurance Feasibility

Group-funded Workers' Compensation Pools require:

> Five or more employers, regardless of domicile, who are members of the same bona fide trade or professional association, regardless of domicile. Each must have been in existence for not less than five years. In addition they must be engaged in the same or similar type of business, and may enter into agreements to pool their liabilities for Missouri Workers' Compensation benefits and Employer's Liability.

Application for a "Certificate of Authority" to operate a pool must be made to the Commissioner of Insurance at least sixty (60) days prior to the proposed inception date of the pool.

**1. Qualitative Implications**

*Long Range Commitment* - Is management willing to accept self-insurance as a long range funding mechanism for its predictable losses? Switching from self-insured to insured programs could result in the continued payout of the self-insured "tail" in addition to the annual insurance premiums.

*Loss Control Commitment* - Management must be confident that losses can be controlled to at least a level predicted by an analysis of historic losses.

An aide to this control is the establishment of loss control services tailored specifically to the needs of your operation.

*Effects on Other Operations* - Self-insurance funding may not prove to be as budgetable as the premium payments of insured plans. Market leverage applied on other insurance lines may be lost if the line to be self-insured has been historically profitable.

**2. Quantitative Implications**

*Risk Retention Capacity* - What amount of loss over and above the predicted loss level can be absorbed without materially affecting its operating efficiency? The risk that exceeds this retention capacity must be transferred regardless of any incentive to retain.

*Loss Forecast* - What future losses can be expected and what effect will alternative excess retention levels have on those anticipated losses? Both frequency and severity distributions of historic losses should be investigated to predict the self-insured liabilities that must be funded.

*Excess Insurance* - What levels of excess insurance are to be purchased (and at what premiums) to ensure the containment of the worst possible loss within the retention capacity.

*Statutory Restraints* - What are the annual costs associated with assessments and bonds required by the various states to be qualified as a group self-insurer?

## MISSOURI GROUP SELF-INSURANCE REQUIREMENTS

**Special Taxes and Fees**

Group self-insurers are subject to assessments by the Insurance Department to cover the cost of their regulation. Group self-insurers must pay a tax of one percent of the premium they would have paid had they purchased insurance. The premium is that which would have been generated had National Council on Compensation Insurance rates been applied.

**Required Application and/or Related Forms**

1. Application for Certificate of Authority for Group-Funded Workers' Compensation Pool. GWC-1 (12/88)

2. Pool Premium Schedule. GWC-2 (12/88)

3. Individual Application for Membership in a Group Funded Workers' Compensation Pool. GWC-3 (12/88)

4. Individual Employer Premium Schedule. GWC-4 (12/88)

5. Indemnity Agreement for Group Funded Workers' Compensation Pools. GWC-5 (12/88)

6. Certificate of Authority. GWC-6 (12/88)

7. Annual Premium Tax Statement for Group-Funded Workers' Compensation Pools. GWC-7 (12/88)

8. Application for Renewal of the Certificate of Authority for a Group-Funded Workers' Compensation Pool. GWC-8 (12/88)

9. Instructions to Each Member of a Group Funded Workers' Compensation Pool. GWC (12/88)

10. Member Financial Statement. GWC-9 (12/88)

11. Instructions to Each Group-Funded Workers' Compensation Pool. GWC-101 (12/88)

12. Group Funded Workers' Compensation Pool Financial Statement. GWC-10A (12/88)

13. Group Funded Workers' Compensation Pool Statement of Members' Net Worth. GWC- 10 (12/88)

## Missouri Group Self-Insurance Requirements
### (Continued)

Five or more employers who are members of the same trade or professional association and who are in a similar business can apply for a group self-insurance certificate by filing the following information along with an application:

1. A copy of the Bylaws of the Pool;

2. A copy of the Articles of Incorporation (if any);

3. A copy of the Trust Agreement securing payment of Workers' Compensation benefits;

4. An explanation of how the Pool Administrator will enroll new members and procure specific and aggregate insurance;

5. An individual application for each member (including a current certified financial statement for each member);

6. A current financial statement for the group showing that the combined net worth of all members is at least $1,000,000 and that the group can meet its financial obligations under the Workers' Compensation Act;

7. Evidence that the annual Missouri gross premium for the Pool is at least $250,000 based on National Council on Compensation Insurance rates;

8. An indemnity agreement which jointly and severally binds the group and each Pool member;

9. Proof of payment by each member of the Pool that at least 25% of the estimated annual premium has been placed in a designated depository;

10. A copy of the procedures adopted by the Pool to provide services on underwriting matters and safety engineering;

11. A copy of the procedures for handling claims and reporting loss data;

12. Confirmation of specific and aggregate excess insurance coverage (a binder is sufficient);

13. A written irrevocable consent that any action regarding its Workers' Compensation liabilities may be commenced against the Pool in the proper court of any county in this state by the service of process on the Commissioner of Insurance. Such consent is to be executed by the Board of Trustees and shall be accompanied by a certified copy of the resolution passed by the Trustees to execute the consent.

14. Evidence that a claims fund account and an administrative fund account have been established;

15. Evidence that the Pool administrator has furnished a fidelity bond to the Pool to comply with K.S.A. 44-591(a);

16. Any other relevant factors the Commissioner may deem necessary.

## MISSOURI GROUP SELF-INSURANCE REQUIREMENTS
(CONTINUED)

Group applications must be filed with the Missouri Insurance Department.

**Excess Insurance Requirements**

Specific and aggregate excess coverage is mandatory; the selected limit of liability may be reviewed by the Insurance Department as to its adequacy.

**Security or Bonding**

Only bonds issued by companies authorized to write in Missouri are acceptable for individual applicants. Letters of credit will be accepted, however, bonds are preferred. The amount of the security is determined using the following procedure. Group applicants need not provide a security bond.

**General Provisions**

A group fund must provide thirty days notice to the Insurance Department of any changes in the bylaws, rules, agreements, trust agreement, board of trustees, administrator, or location where bonds and records are maintained.

Group funds can give discounts to members. The discounts cannot be more than 15% of the National Council on Compensation Insurance's manual premium.

At least 70% of a group's funds must be placed in a claims fund account.

Group dividends can be granted with the Insurance Commissioner's approval, but not earlier than twelve months after the close of a fund year.

Groups can invest funds not needed for current operations in:

(1) bonds of indebtedness issued by the United States or one of its agencies or instrumentalities,

(2) certificates of deposit in a federally insured bank, or

(3) shares or savings deposits in federally insured savings and loan associations.

New group members must be approved by a group's board of trustees or the group administrator. A group fund must notify the Insurance Commissioner within ten days of a member's termination.

A group board must contain at least three, but not more than eleven members.

## MISSOURI GROUP SELF-INSURANCE REQUIREMENTS
### (CONTINUED)

**Grounds for Cancellation of Self-Insurance Certificate**

A group certificate will be canceled or revoked if the group fund violates the law or is in financial difficulty. A group fund has the right to a hearing before its certificate is canceled or revoked.

**Average Time for Application Approval**

At least sixty days lead time is required by law. The reviewed subsequent approval could extend beyond ninety days.

**Renewal Filing Requirements and Other Reports**

A group can renew its certificate by filing a renewal application and re-filing items 6, 7, 9 and 12 under the group heading in the **Initial Filing Requirements** section. The other items listed on the **Initial Requirements** section need not be re-filed at renewal unless they have changed. In addition, the Commissioner must be notified of any changes to the information listed in the section within thirty days. All group certificates expire on April 30 of each year; renewal information must be re-filed by March 31 of each year.

**In consideration of the approval of the application, the applicant (Pool) agrees to the following:**

A. That its trustees, administrator and members will comply with all provisions of K.S.A. 44-581, any Regulations promulgated there-under, and all lawful Orders of the Commissioner.

B. That it will admit as a new member any eligible applicant who complies with the requirements of K.S.A. 44-590 and any Regulations there-under and file with the Commissioner the application of each new member of the Pool.

C. That any proposal to refund surplus moneys (dividends) will be submitted to the Commissioner for approval in accordance with K.S.A. 44-585.

D. That all premiums, taxes and assessments payable by the Pool will be paid as required by K.S.A. 44-588 and 44-589.

E. That any and all books and records of the Pool will be made available for inspection and examination by the Commissioner or his representative.

F. That it will obtain specific and aggregate excess insurance policies written by companies authorized to transact insurance in this state and that it will submit confirmation of these policies to the Commissioner. Furthermore, such excess insurance for new members will be obtained pursuant to Missouri law.

G. That it will continuously maintain these policies and will, if it desires to make any change in these policies, notify the Commissioner at least thirty (30) days before the proposed effective date of the change.

H. That the Commissioner may, at any time, revoke, suspend or fail to renew this Certificate of Authority in accordance with K.S.A. 44-584.

I. That it will notify the Commissioner within thirty (30) days of any change in any of the information contained in this application.

J. That all members of the Pool are engaged in the same or similar type of business.