

## **EXCESS PLACEMENT**

### **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.