

**Neither public nor private: Self-
insurance in workers
compensation**

Alan McClain

Outline

- General concept of “self insurance”
- Benefits of self insurance
- Core regulatory features in the US
- Variations on US model in Canada and Australia

General Concept of Self Insurance

- Not really “insurance” because there is no spreading of risk over a pool of entities
- In reality this is self funding of benefits
- Must be selective approval to self fund
 - Risk of default on payment can be very high

Benefits

- Companies want to self insure for a variety of reasons
- Dissatisfaction with private insurers
 - Pricing, service, etc
- Belief that an actuarially fair rate would overcharge them because of their better loss experience
- More control over claim handling

US Self Insurance

- All but two states allow self insurance
- Requirements are generally more liberal for government entities
- The typical state may have 200 or so self insured employers
- Group self insurance is allowed in 26 states

Core Regulatory Feature in US

- Screening mechanism for would-be self insured employers
- Setting financing security levels as a backstop against default
- Reviewing periodic financial/operating reports for licensed self insurers
- Curtailing right to self insurer if standards are not met
- Dealing with bankruptcy of self insured

Variations: Canada

- Self insurance in Canada is much less common than in the US
- Governments of Canada and individual province/territory are self insured
- Several provinces do not allow non government self insurance

Australia: General

- Six states (New South Wales, Queensland, South Australia, Tasmania, Victoria and Western Australia)
- Two territories (Australian Capital Territory and Northern Territory).

Variations: Australia

- Self-Insurance is permitted in all 6 states
- Subject to state specific requirements

Australia: Common Requirements

- Financial Capability
- Health & Safety Provisions
- Return To Work Emphasis
- Capacity to administer claims process

Federal Government Self Funding

- Compulsory workers' compensation program for employees of the commonwealth - Australian federal government and national agencies
- Central fund, but both self insurance and self administration is permitted.

QUESTIONS?