



Storm Clouds Looming for Workers Compensation

Market Update and State Fund Options

Now that everyone agrees that the economy will be in a slow recovery for the foreseeable future, we must look at how this will affect the Workers Compensation marketplace. The NCCI has recently focused on several factors which, in part, drive the workers compensation market. Some of these factors include *unemployment, industrial production, disposable personal income, and corporate profits* – all of which put pressure on the Workers Compensation market to harden.

Slow job growth means few jobs are being added. One may argue that this is actually a good sign because the pressure on claim frequency is stable and cost per claim will show a slow rise. However “return-to-work” light-duty jobs are scarce and the result is workers recovering from their injuries will remain out of work longer.

The longer the workforce remains unemployed, the greater the need will be for training as this workforce re-enters the workplace. The result of companies learning to operate in this sluggish economy will produce permanent changes in the make-up of the labor force and ‘doing without’ will be the norm.

Currently, most wage growth occurring is in the service or clerical driven payrolls. Industrial, contracting and home building payrolls are flat. These are the key drivers of Workers Compensation premium growth.

Medical inflation has not been deterred in a slow economy. The aging workforce and the obesity problem will put added pressure on medical inflation. According to Moody’s, medical inflation is projected at 3.6% for this year.

Finally, the Federal Reserve has pledged to keep the downward pressure on interest rates for the foreseeable future. The lack of investment income will not push the Workers Compensation segment to profitability.

What happens in a hardening Workers Compensation market? First, the number of carriers willing to entertain a specific risk typically shrinks. Second, carrier willingness to credit rates decreases, and third the type and structure of loss responsive programs changes.

There is one additional market alternative to be aware of in a hardening Workers Compensation market; **The State Fund and Assign Risk Pool**. Twenty-two jurisdictions have created competitive funds to vie with commercial insurers for workers compensation business in their markets.

Fourteen of the 22 competitive state funds also serve as the market of last resort for their state. Basically, that means that they cannot refuse to provide coverage to any employer who is subject to the Workers Compensation Act and not in default of a Workers Compensation premium obligation.

Due to the competitive nature of the mechanism, a competitive state fund can sometimes provide less expensive coverage than that offered by a voluntary carrier. One limitation of a competitive state fund is that many are not able to offer additional coverages such as the extension of coverage into other states due to jurisdictional limitations. Twenty states utilize competitive state funds in their Workers Compensation market.

STATE	LAST RESORT	FUND NAME
Arizona	No	The Arizona State Compensation Fund
California	Yes	The State Compensation Fund of California
Colorado	Yes	Pinnacol Assurance
Hawaii	Yes	Hawaii Employers' Mutual Insurance Company, Inc. (HEM1C)
Idaho	No	The Idaho State Insurance Fund
Kentucky	Yes	Kentucky Employers' Mutual Insurance (KEMI)
Louisiana	Yes	Louisiana Workers' Compensation Corporation (LWCC)
Maine	Yes	Maine Employers' Mutual Insurance Company
Maryland	Yes	The Injured Workers' Insurance Fund of Maryland (IWIF)
Minnesota	No	The Minnesota State Fund Mutual Insurance Company (SFM)
Missouri	No	Missouri Employers' Mutual Insurance (MEM)
Montana	Yes	The Montana State Compensation Insurance Fund
Nevada	No	The Employers' Insurance Company of Nevada
New Mexico	Yes	The New Mexico Mutual Casualty Company
New York	No	The New York State Insurance Fund
Oklahoma	Yes	CompSource Oklahoma
Oregon	No	SAIF Corporation
Pennsylvania	Yes	The Pennsylvania State Workers' Insurance Fund (SWIF)
Rhode Island	Yes	The State Compensation Insurance Fund a/k/a The Beacon Mutual Insurance Company
South Carolina	No	The South Carolina State Accident Fund
Texas	Yes	Texas Mutual Insurance Company
Utah	Yes	The Workers' Compensation Fund of Utah (WCF)

In Massachusetts, which is a pool company, members are eligible for a Qualified Loss Management Plan (QLMP). The application of the QLMP credit is restricted to guaranteed cost policies (including those with a small deductible endorsement) for employers in the Pool or for employers who qualified for a credit in the Pool but have since moved to the voluntary market. Employers taken out of the Pool on a Large Deductible Program, Large Risk Rating Option or other voluntary market retrospective rating plan, are not eligible for credits under the Qualified Loss Management Credit.

The eligibility of a Loss Management Program for a credit and the size of the allowable credit will be subject to the approval of the WCRIB of Massachusetts.

A number of management firms have demonstrated an ability to significantly reduce Workers' Compensation losses for their client employers by implementing loss control management programs.

The purpose of this innovative Qualified Loss Management Program is to apply a prospective credit, for a period of up to four years, to the premium of assigned risk insureds who subscribe to a qualified loss management firm, and remain in the firm's Loss Management Program during that period.

Approved QLMP Management Firms

(As Of April 1, 2011 per WCRIBMA)

The Insurance Advisory, Inc.

P.O. Box 47, Needham, MA 02192
(781) 449-9330

Advanced Insurance Services

7 Meadow Glen Drive, Granby, MA 01033
(413) 303-0367 x150

Campbell Management Company

12 Southwick Street, Feeding Hills, MA 01030
(413) 786-5449

Stephenson & Brook

86 Highland Ave, Salem, MA 01970
(978) 740-6962

Health & Safety Solutions

84 Holland St, Fall River, MA 02720
(508) 679-1553

FutureComp

123 Interstate Drive, PO Box 3600. West Springfield, MA 01090-3600
(413)750-4397

Compensation Claims Review Corp

89 North Main Street, Andover, MA 01810
(978) 474-5050

Remember as the Workers Compensation market hardens, it is important to be prepared to react and be educated on all the options available. For more information, contact your [Client Executive at WGA](#).



David Bardelli is a Senior Vice President at WGA in the Property & Casualty Group and the Casualty Practice Leader for the firm. He has over 35 years of casualty knowledge and experience and works with casualty risks within the technology healthcare, business services and manufacturing sectors with groups of all sizes.