Self-Insured Groups:

What You Should Know As a Small Business Owner

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What Is a Self-Insured Group (SIG)?

A self-insured group (SIG) is an alternative to fulfill a state's workers' compensation insurance requirement. However, it's a riskier alternative to being individually self-insured or going through a private or state-run carrier.

Comprised of a group of various size businesses with similar risk factors—the SIG pools together money typically given to a private insurer and enters into a joint and several liability contract amongst the participating members. What many business owners don't realize is the full exposure at hand. This binding agreement specifies that in regards to inevitable claims—all participating businesses are responsible for not only their individual claims and losses, but also those of fellow members, thereby multiplying financial liability, and putting significant weight on how well members know their business partners.

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The Initial Appeal

The primary appeal of a SIG is perceived cost savings. Many small businesses enter into a SIG on the premise that they will save money because they do not have to pay the same level of premiums that a private insurer charges. However, making an upfront payment to a private insurer comes with added benefits. Although initial premium to a private insurer may be higher, it includes the guarantee that if a claim gets filed, whether it's an employee's stubbed toe or a death, the insurance company assumes total responsibility. Also with a private insurer, costs for a policy period are figured upfront—no surprises. In a SIG, there is the potential for hidden costs at the end of a policy period if an assessment arises due to insufficient funds to pay claims.

"In a SIG, there is the potential for hidden costs..."

The Myth

Employers often enter into a SIG based upon the common misconception that private carriers are just out to protect their own wallet. This stems from the faulty belief that carriers intentionally prolong claims and leave them open because carriers earn their money from investments. In reality, private carriers have entire departments dedicated to claim control and efficiency. Leaving claims open longer than necessary can impede an employee's ability to return to work, which in turn causes the insurer to pay compensation benefits for a longer duration. It is in the private insurer's best interest, as well as that of the employer, to get claims closed expeditiously and proficiently in order to keep claim costs to a minimum.

*27% of small business decision-makers rated a 6 or higher, on a 1-10 scale, about their knowledge of how SIGs work.**

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Insurance for Your Insurance

The idea of not purchasing insurance may be appealing to a new small business owner who is looking to cut costs on premium—but even SIGs need to purchase insurance as a collective. SIGs must purchase reinsurance in many states to qualify for authorization. Reinsurance is a type of protection that is utilized after a claim, or number of claims, reaches a certain loss level after which the costs incurred by the SIG are reimbursed by the reinsurer. A private insurance carrier factors in the cost of reinsurance into the premium it charges, but for a SIG it is the group's responsibility to configure appropriate coverage and miscalculations can be costly.

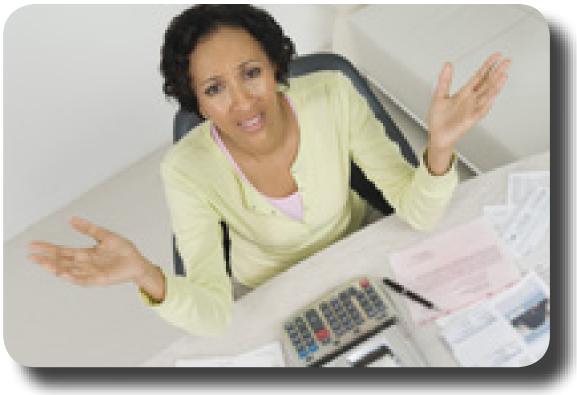
A private insurance carrier factors in the cost of reinsurance into the premium it charges.

You're only as Strong as the Weakest Link

There are significant risks to consider when choosing your business' best workers' compensation insurance route. With a SIG, in addition to taking on your own loss coverage responsibility, you are also taking on the potential responsibility of each of your fellow members. This is known as joint and several liability. With a SIG you're trusting that your fellow members are implementing the safest workplace possible and not taking risks that you yourself wouldn't take. The bigger the group, the bigger the risk pool you're jumping into, for each and every employer and their employees. While SIGs do hold individual members accountable for their claims through increased cost to that member, or even termination, your premium assessment could still be increased despite your business having a good year, since costs are allocated across the group. In turn, if a fellow member doesn't pay its assessment, it is up to the rest of the SIG members to make up the deficit.

The bigger the group, the bigger the risk.

If you decide you want to exit a SIG, severing your business relationship isn't easy. It's both costly and complicated to terminate a SIG agreement if you decide it's not worth the risk—unlike with a private insurer with whom you can simply switch carriers if you feel it's a bad fit. In some cases, 120 days advance notice must be provided before termination becomes effective. [1] If and when you do manage to detangle yourself from a SIG, your business can still find itself paying assessment fees. Former members remain liable for financial obligations incurred throughout their period of coverage as a member. This may include assessment fees, contributions and workers' compensation claims.[1] Being on the flip side of the agreement can hurt as well—the SIG and its members remain responsible for the cost of unpaid assessments and claims incurred by a financially insolvent member.



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Conclusion

It's important to know all the facts when choosing the best route for your small business' workers' compensation insurance. While SIGs play a part in the insurance world, they may not be the most financially sound—and they're certainly one of the riskiest choices. As a business owner, it's important to map out early on what risks you are willing to take and what each contract fully entails. Traditional carriers may come with higher premiums up front, but factored into that insurance comes the reassurance that your business and its employees are taken care of in case of any claims, which are your business's claims alone. You're the captain of the ship, and the private carrier is your first mate, there to help you navigate the waters for the safety and security of your crew alone.

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About EMPLOYERS®

Employers Holdings, Inc. (NYSE: EIG) is a holding company with subsidiaries that are specialty providers of workers' compensation insurance and services focused on select small businesses engaged in low-to-medium hazard industries. Insurance is offered by Employers Insurance Company of Nevada, Employers Compensation Insurance Company, Employers Preferred Insurance Company, and Employers Assurance Company, all rated A- (Excellent) by A.M. Best Company. Coverage not available in all jurisdictions. Additional information can be found at: www.employers.com.

Sources

[1] State of California. "Self-Insurance Group Affiliate Member Responsibilities." CA.GOV: State of California Department of Industrial Relations. Web. 14 June 2013. < http://www.dir.ca.gov/osip/SI-groups/SIGAffiliateMemberResponsibilities.doc >.

[2] Christine Fuge. "The Workers Compensation Self-Insurance Decision." IRMI Risk & Insurance. Web. 14 June 2013. < http://www.irmi.com/expert/articles/2001/fuge08.aspx >.

[3] New York State. "Self-Insurance FAQs." New York State: State Agencies. Web. 14 June 2013. < http://ww3.nysif.com/Workers_Compensation/About_Workers_Compensation/Risks_of_Self_Insurance/SelfInsuranceFAQ.aspx >.

*Statistics presented were conducted by Opinion Research Corporation (ORC) from May 9th through May 17th 2012. The results are based on 501 telephone interviews with small business decision-makers nationally.

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