Self-insurance

When to consider self-insuring workers’ compensation coverage in Ohio

Self-insurance is an alternative rating plan offered by the Ohio Bureau of Workers’ Compensation (BWC) for large private and public employers that are in a position to take on the responsibility of paying all compensation and medical payments for their injured workers.

In return for taking on all that risk, self-insuring employers have more control over their program and can reduce their overall workers’ compensation costs.

“A self-insured employer can self-administer its own program or administer the program along with its third-party administrator, and can realize potential savings in comparison to state fund premiums paid directly to BWC,” says Bill Bradbury, vice president of Self-Insured Sales and Client Services for CompManagement, Inc.

Smart Business spoke with Bradbury about how to determine whether self-insurance is the right choice for your company.

What are the requirements in Ohio for becoming self-insured?

To be able to self-insure, BWC requires that an employer have a minimum of 500 employees within Ohio, pay premiums within the Ohio state fund for at least two years, show the ability to administer a workers’ compensation program, and demonstrate strong financial stability. Financial requirements differ between public and private employers for self-insurance qualification in Ohio.

What should an employer consider in regards to self-insuring?

First and foremost, an employer should contact its third-party administrator to request a ‘feasibility study.’ This study will identify both the savings and costs of becoming self-insured in order to help the employer make a sound financial determination.

An employer needs to consider if it is set up to handle a self-insured program and is able to meet all of the responsibilities required by BWC and also if it is comfortable with the liability assumed with paying benefits directly. Employers should understand that self-insurance is not an immediate quick fix to reducing their annual premium, but can be a long-term benefit towards reducing overall workers’ compensation costs.

What are the advantages of self-insurance?

Self-insurance as an option has a number of advantages for an employer such as:

- More control of your program, immediate payment of medical and compensation, and employee recognition on the delivery of benefits by your organization versus BWC.
- Cash flow and budget control: pay claims as they occur versus a premium paid every six months based on payroll and claim experience; reserve on claims can be established and managed with the same philosophy of the employer along with input from its TPA versus the state-funded MIRA system; and the ability to budget based on actual claim experience.
- Medical management: review claims for appropriateness of treatment, utilization of preferred provider organization (PPO) networks and control of medical provider requiring justification of treatment in writing; utilization of effective prescription program; and claim and nurse case management develop timely expectations on return to work and treatment plan.
- Analysis of expense: reports can be generated immediately with accurate analysis; and flexibility in reporting losses by employer, department, shift, causation codes, etc.

What are the disadvantages of self-insurance?

Employers should be cognizant of three areas when approaching self-insurance:

- Financial stability: employer has unlimited claims liability (without purchase of excess insurance) as there is no maximum value of a loss as there is within the Ohio state fund system; responsibility of payment of claim expenses (including allocated expenses); and payment of excess insurance premiums and BWC self-insured assessments.
- Loss of State Fund Benefits: an employer no longer receives managed care organization services or BWC Safety & Hygiene services that are covered by its annual premium; in addition an employer can no longer receive handicap reimbursements and rehabilitation funds, and is no longer able to participate in premium discount programs offered to state fund employers.
- Responsibilities: all self-insured employers are expected to make timely payments of compensation and medical benefits, have an internal claims administrator, have a consistent date stamping process and ability to maintain claim files in an orderly manner, and will be audited by the BWC to ensure compliance with all program requirements.

How do I know if my organization is a good candidate for self-insurance?

An employer can get started by performing a simple financial measurement comparing its premium paid to the BWC for the past four years to its actual claim losses (as shown on its Experience Report provided annually by BWC). If premiums paid are higher than actual claim losses and it is a sizable employer, then a ‘feasibility study’ that can typically be prepared by any full-service third-party administrator should be completed. That study will compare an employer’s estimated state fund costs to the estimated costs of a self-insured program within a projected five-year period.

Be sure that all costs are captured in the feasibility study including those for BWC assessments, the self-insured guaranty fund, excess insurance and claims management administration fees. Investment earnings should also be accounted for.

In the end, if the savings projected outweigh the costs associated with participating in the state fund at a risk tolerance level acceptable to your organization, self-insurance may be a good option to affect your overall bottom line operational costs.

Bill Bradbury
Vice president
Self-Insured Sales and Client Services
CompManagement, Inc.

Interviewed by Matt McClellan

© 2011 Smart Business Network Inc. Reprinted from the July 2011 issue of Smart Business