Work Comp Insights

Pelnik Insurance - Your Workers' Compensation Partner

Assigned Risk Plans

Workers' compensation insurance not only helps employers cover costs related to employees becoming ill or getting injured on the job, it's also required in nearly every state. Yet, some employers have a harder time securing coverage than others.

After all, a range of factors (e.g., a poor loss history or involvement in a high-risk industry) can make insurers hesitant to offer workers' compensation insurance to certain employers. In these instances, employers can utilize assigned risk plans. Such plans provide a safety net for employers who are unable to acquire workers' compensation coverage from insurers in a standard market.

Assigned risk plans are available in all states—except for monopolistic states, which require employers to obtain workers' compensation insurance from government-operated funds (e.g., North Dakota, Ohio, Washington, Wyoming, Puerto Rico and the U.S. Virgin Islands). Although assigned risk plans can be helpful to employers in need of coverage, there are several considerations to keep in mind. Review this guidance to learn more about assigned risk plans and their associated ramifications.

Assigned Risk Plans Explained

Also known as the residual market, assigned risk plans are considered a last resort for employers who cannot secure coverage from traditional insurers. Employers may end up in this position for a variety of reasons, such as by:

- Having experienced a high frequency of small losses or several large-scale losses within the past two years
- Possessing an experience modification factor greater than 1.3
- Being a new business with no loss history or proven track record
- Conducting particularly hazardous operations (e.g., logging or roofing)
- Having an annual payroll that falls below $20,000 or no payroll whatsoever

States with assigned risk plans either have them administered by the National Council on Compensation Insurance (NCCI), or manage them independently. While requirements vary by state, employers typically need to have applied for coverage and been rejected by one or more standard insurers in order to qualify for protection under assigned risk plans. In other words, employers who have been accepted by even one traditional insurer would not qualify for coverage through these plans.

Eligible employers can submit their applications for obtaining insurance within the residual market to either the NCCI or the designated assigned risk plan administrator in their state. However, it's important to note that specific application procedures are dependent on state workers' compensation laws.

In states with assigned risk plans administered by the NCCI, all workers' compensation insurers are required to participate. From there, insurers can either join multi-state reinsurance pools or provide their services as direct assignment carriers.

PELNIK INSURANCE

Insurers in pooling arrangements can operate as servicing carriers—issuing policies and handling claims. Or, insurers in pooling arrangements can simply offer reinsurance to servicing carriers.

On the other hand, insurers acting as direct assignment carriers must accept and retain all risks assigned by the NCCI. That is, insurers must cover all losses sustained by their assigned employers without being reimbursed by reinsurance services.

In states with independently managed assigned risk plans, eligible employers may receive their coverage from a state competitive fund, a designated rating organization or a single insurer.

Ramifications of Assigned Risk Plans

Although assigned risk plans can offer employers much-needed (and often legally required) coverage when they encounter rejections from standard workers' compensation insurers, these plans carry multiple implications.

Because employers involved in such plans are typically characterized as riskier to insure, their premium costs are often much greater than that of traditional policies. In some states, premium discounts are also unavailable or restricted for assigned risk plans. That being said, many employers leverage alternative payment options when participating in these plans (e.g., pay-as-you-go policies or upfront premium payments).

Further, employers who utilize assigned risk plans do not get to participate in the insurer selection process, meaning they must work with whichever insurer they are provided. This can be a difficult adjustment for employers who may have favored particular loss control tactics and claim services from their prior carriers. Lastly, assigned risk plans usually offer more limited coverage capabilities when compared to standard policies.

With these ramifications in mind, assigned risk plans should never be considered long-term coverage options for employers. Rather, employers' involvement in these plans should be a temporary arrangement up until traditional insurers are willing to provide them with voluntary coverage. To make standard insurers open to offering them coverage, employers should consider the following steps:

- **Understand the reasoning—**Educate yourself on the factors that caused your organization to get rejected by traditional insurers. Whether it was due to poor loss history or involvement in a high-risk industry, it's important to understand the reasoning behind such rejection in order to properly address any relevant concerns.
- **Make organizational improvements—**Once you understand insurers' motivation for declining coverage, do what you can to mitigate any issues that led to declination of coverage. This may include implementing a more robust workplace safety program, introducing new organizational policies or bolstering your return-to-work initiatives. Ensure you fully document these improvements as evidence for prospective insurers.
- **Consult a professional—**Finally, be sure to partner with a trusted insurance professional to establish sufficient loss control measures, effectively monitor insurers' current risk appetites and find standard carriers that are willing to provide your organization with adequate voluntary coverage as quickly as possible.

Contact us today for additional workers' compensation resources.

PELNIK INSURANCE

Pelnik Insurance
100 Ridgeview Dr, Suite 100
Cary, NC 27511
www.Pelnik.com
919-459-8000