

# WORKERS' COMP EXECUTIVE

Vol. 13 No. 11

June 4, 2003

## More Employers Seek Group Self-Insurance

SILVERADO -- As workers' comp premiums climb in California more employers are looking to group self-insurance. Last month the third self-insured pool was formed, this one for trucking firms.

But there's more on the way, promises Mark Ashcraft, the outgoing manager of the state Office of Self-Insurance Plans, which regulates the state's private and public self-insureds. There are now at least 35 different groups in various stages of organizing private self-insurance pools, he says.

If the horrible current insurance market conditions persist, Ashcraft says he expects upwards of 300 self-insured groups in the next three years. If that prediction pans out it could mean at least \$2 billion in premium leaving the insured marketplace.

Pools are forming despite a daunting application process that includes two years of audited financials for the group's founding members, an aggregate net worth of \$10 million between the founding employers and at least \$500,000 in profitability in the aggregate for the members.

Two newly-formed firms specializing in launching and managing pools have also sprouted this year in California and both say they're nearly ready through with the certification process for more pools.

Last month, the California Truckers Safety Association Workers' Compensation Program was formed by Lawrence & Associates Inc., a brokerage in Canoga Park.

"I've represented the trucking industry for over 30 years and I was concerned about offering our clients a stable workers' compensation program so they can maintain their competitive advantage," says Allen M. Lawrence, president. "Most of my clients were with State (Compensation Insurance) Fund and their rates have spiraled out of control.

"This gives the members of this group the opportunity to join with other truckers that have high quality safety operations and strong financials to form a company that's directed at the needs of their business."

The trucker pool has six founding members. Lawrence declined to say how much they had to come up with combined to secure the certification. The minimum annual premium for a group is \$1 million, according to Labor Code.

Lawrence says that his brokerage is looking to form another industry group, but that work is in the beginning phases. He says his main focus right now is to grow the truckers' group, but, he stresses, "high quality, measured growth."

He says his firm isn't acting as the broker for the program, rather its marketing manager.

Laws authorizing self-insured pools for private employers have been on the books for ten years, although the law did allow public employers to form similar pools, known as joint powers authorities. But most employers didn't take advantage of the pools during the rest of the 1990s because rates were so low they weren't looking for solutions to their workers' comp costs.

That's why the first pool - one for auto dealers - didn't form until January 2002. A second pool, one for non-profit assisted living facilities, was formed just two months ago. Now, the Office of Self-Insurance Plans is readying to handle many more applications.

"There's a bunch of them trying to organize," Ashcraft says. "One's doing one for smaller banks, there's another

car dealer group that's applying - one for larger car dealers. One trying to organize is a group for Alzheimer's (Disease) care homes, and there's a couple kicking around in construction.

"There will probably be 200 or 300 of these if the system stays the same as it is now."

One catch with these groups: the members have to be in the same industry, which can force competitors to have to share their financial statements with one another.

"This isn't for everyone," says Al Gambetti, president of the newly started Affinity Group Administrators Inc., based in Folsom. "It's for employers that have good loss experience and don't mind partnering with like entities. Some employers will have a problem with that and some work well with and know their competitors."

Gambetti says Affinity is working with 52 different industry groups that it's trying to form pools for. He expects to have two going in a few months and perhaps five by the end of the year.

"They range from ambulance operators to golf courses, from the building industry to grocers and credit unions," Gambetti says.

Gambetti, who has 25 years of insurance experience including working in underwriting as well as a joint powers authority, recently formed the company with two others with insurance dust under their sleeves. They include Clay A. Jackson (not the former lobbyist), an attorney focused on insurance law; and Gene Axtell, who also has about 25 years of senior executive experience in underwriting (including at California Compensation Insurance Co., captive management and agency management).

The other group that's about ready to form its first self-insured group - this one for contractors - is Self-Insured Solutions, based in Ontario.

Self-Insured Solutions was launched by Tom Wheeler, an insurance agent in Nevada who formed a self-insured group for contractors in Nevada. Some of the contractor members have operations in California as well and they're the basis for the first self-insured pool the firm is putting together.

California Contractors Network, a pool for subcontractors, is waiting for state approval, says Dave Johnson, a Nevada Attorney and a partner in the Ontario-based Self-Insured Solutions.

"We're mirroring the success that Tom Wheeler has had in Nevada with the Nevada Contractors Network (the self-insured group in the Silver State)," Johnson says. "We've gone down this road before."

He says that the key to success with these groups is finding safety conscious employers to pool together and then keep up safety training and spot inspections to ensure that all the members are doing what they can to prevent workplace injuries.

He says that he's also working on trying to form a group for manufacturers and a transportation group. But the company can't do too much, he says, because of the lengthy and exhaustive application process.

"It can be overwhelming," he says.

"Remember, we're talking about a bunch of employers that don't know anything about self-insurance and they're putting these together with a bunch of people that say, Trust me," he says. "We're trying to protect them. It should be a long process. They're becoming jointly and severally liable with a bunch of people they don't know."

"You'd think they'd have to take a deep breath before they jump into that."

Despite the long process, Ashcraft says the pinch of rising workers' comp premiums will be so great that the employers won't complain too much if they can realize some cost savings in the end.