

What Do Low Premiums and Fine Print Have in Common?

The Hidden Dangers of Group Self-Insurance Trusts

If the recent economic roller coaster has taught us anything, it has to be that if something looks too good to be true...it probably is. Remember how attractive those dotcom stocks were back in 1998 when they promised huge returns?

In many respects, New York worker's compensation insurance customers are the latest targets of "too good to pass up" product thinking in the form of Group Self-Insurance Trusts. Both Safety Groups and Self-Insured Trusts seek to reduce insurance premiums, however the trusts are riskier than the traditional policies offered by Safety Groups.

These trusts claim to be just like existing Insurance Safety Groups – only with "lower" premiums.

They emphasize premiums that are as much as 10 percent less than those of a Safety Group, but they neglect to mention that one of the key benefits of a Safety Group is the 20-35 percent dividend return on premiums that members receive at the end of the year.

The most serious problem with these trusts is that because of the way that they are structured; businesses that utilize the trusts run the risk of retroactive premiums. To put it in very simple terms, what would you do if you went to a restaurant, ordered a \$25 steak dinner and then as you were ready to leave were told you that you actually owed \$35?

As crazy as this example may sound, this is exactly the type of "retroactive pricing" that could be invoked by the Self-Insurance Trusts. In fact, by joining one of these trusts, you are forced to accept "joint and several liability" – which mandates that if the trust reserves and reinsurance limits are not sufficient to cover losses, each member can be assessed for the amount of uncovered losses. This clause will allow the trust to retroactively adjust the premium rate for any year of your policy and require payment for these increases years down the road.

The renewal time for many workmen's compensation policies is rapidly approaching. In order to help you make the most informed decision possible, Keevily has assembled an information packet that explains the fine print of the Self-Insurance Trusts and compares this new – and in our opinion inherently risky – option with the proven stability of the Safety Group.

If you would like to receive a complementary copy of this information packet, or if you have any questions about your worker's compensation insurance options, please call Mike McEvily at 800-523-5516.

KEEVILY
HOTLINE