

choice of physicians, it has been observed that where the employer has already provided a well-organized medical service, workers seldom exercise this right

Methods of Complying With the Law

Workmen's compensation laws make the employer liable to his employees and require that he take steps to guarantee payment of stipulated benefits. Compliance with the law requires that the employer purchase a workmen's compensation policy, or, if he meets specific state requirements, he may self-insure his own risk.

Private insurance companies

An employer may insure with a private insurance company, either a stock or a non-stock company, the latter commonly a mutual company or a reciprocal exchange.

A stock company is a corporation whose stock is owned by the general public. The stockholders select directors, who direct the company's operations, and all shareholders share in profits earned.

A mutual company is owned by its insureds. Theoretically, every policyholder is a part owner of the company and, much like the stockholder of an ordinary corporation, is entitled to vote at regular and special meetings of the company and to share in profits earned by the company. Excess earnings, if any, are returned to the member insureds in the form of premium refunds, commonly called "dividends."

If the premiums collected do not meet the losses and expenses incurred, each insured may be required to contribute toward the company's loss for the period. However, a mutual company may agree by contract with its policyholders to limit their contingent liability to a specified sum, and, in most states, a mutual company may also write completely nonassessable policies.

A reciprocal exchange is an association of insureds or subscribers who authorize an attorney-in-fact to exchange insurance for them. A percentage of the premium paid by each subscriber is deducted by the attorney-in-fact, who agrees to meet all expenses of management except claim expenses. Losses and claim expenses are paid out of the remainder of the premiums, with dividends or

assessments declared depending upon the losses.

State insurance funds

In some states, funds have been set up by the state to provide insurance. The state acts as an insurer, collecting premiums and offering protection against specified hazards. Usually, the state fund is empowered to write only *workmen's compensation insurance*, or workmen's compensation and employer's liability insurance.

When the law provides that a given form of insurance must be procured only through the state fund, the fund is spoken of as monopolistic. When the fund operates alongside private carriers, its operations are described as competitive.

The U S Department of Labor^{*} reports that six states and a commonwealth have exclusive state funds: Nevada, North Dakota, Ohio, Washington, West Virginia, Wyoming, and Puerto Rico. The others are competitive or have no state fund.

Self-insurance

A self-insured employer assumes his own risk by creating his own reserves and paying his own losses. Self-insurance is permitted in most of the states for employers able to meet specified requirements.

The compensation costs the company must be prepared to cover include benefits paid to the injured worker, benefits paid to his dependents, medical bills, administration costs, cost of reinsurance, legal advice, lawsuits, and claims investigations, reserves, and costs of safety service to control compensation accidents and medical expenses.

Considerable self-insurance for workmen's compensation is in effect. Usually, a self-insured company also purchases insurance from an insurance carrier to cover losses that exceed a stated maximum, and bears only those losses that fall below this.

It is important to differentiate between self-insuring and not carrying insurance. Self-insuring is a positive action in which reserves are set aside to meet anticipated losses. For self-insurance to be sound, a

^{*} *State Workmen's Compensation Laws*, Bulletin 161, U S Department of Labor, revised 1964