

WORKMEN'S COMPENSATION AND INSURANCE

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 seven states and a commonwealth have monopolistic state funds: Nevada, North Dakota, Ohio, Oregon, 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 per-

mitted in most of the states for employers able to meet specified requirements. However, generally only companies with large staffs, legal, safety and medical departments, and competent investigators can self-insure.

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 fairly accurate estimate must be made of the frequency and the severity of the losses that may be expected.

Usually, the state agency administering the coverage requires proof of financial responsibility from the risk and other guarantees in the form of a bond or security if a company expects to self-insure.

Administration

States vary widely on methods of administration, but workmen's compensation commissions or boards and the courts are commonly used. Administration by special commissions or boards may be more efficient than administration by the courts, primarily because the handling of compensation claims involves highly specialized procedures and needs the attention of specialists. Courts often are not able to spend the time necessary to handle the multitude of compensation cases which arise.

In the handling of compensation claims, there are four methods in general use:

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