

SELF-INSURANCE

Industrial Commission of Arizona
Self-Insurance Program Overview
May 2019

WHAT ARE THE BENEFITS?

- ▶ Control Costs
- ▶ Non-Government Entities Can Direct Medical Care

OBTAINING APPROVAL TO ACT AS A SELF-INSURED EMPLOYER

- The ICA authorizes the employer to be self-insured; and
- Except as provided in R20-5-1114, the employer posts security in an amount as required under the self-insurance rules.

PUBLIC ENTITY REQUIREMENTS

- Annual Payroll of at Least \$2 Million
- Total Assets of \$50 Million

INDIVIDUAL EMPLOYER REQUIREMENTS

- Must Have Been Engaged In Business In Arizona For At Least Five Years Before The Date Of The Application
- Have An Annual Payroll Of At Least \$2 million, including The Payroll Of All Subsidiaries That Will Be Under The Self-Insurance Authorization
- Has Assets Of \$50 million or Has \$10 million In Net Worth And A Cash Flow Ratio Of At Least .25

A.R.S. § 23-107 (D)

- Notwithstanding any other law, the commission may protect from public inspection the financial information that is received from a private entity that applies to self-insure or that renews its self-insurance plan pursuant to section 23-961, subsection A if the information is kept confidential by the private entity in its ordinary and regular course of business.

FINANCIAL CONFIDENTIALITY

- Under The Authority Of A.R.S. §23-107 (D), And Providing That The Self-Insured Employer Can Establish Its Information Is Kept Confidential In Its Normal And Regular Course Of Business.
- Financial Documents And Information Submitted By The Self-Insured Employer To The ICA For New Applications Or Requests To Renew Self-Insurance Authority Will Be Held As Confidential And Not Released To The Public.

REVIEW OF APPLICATION OR RENEWAL

- The Accounting Division must determine if the Self-Insured Employer meets the requirements of A.R.S. § 23-961 and the following rules:
 - ❖ The Division may determine if the Self-Insured Employer needs to provide additional security.
 - ❖ If the Division determines that the Self-Insured Employer must provide additional securities, then the Self-Insurer must post those securities Prior to the Commission authorized Start date or Renewal date. *R20-5-1127 (A)*

REVIEW OF APPLICATION OR RENEWAL

- If the Self-Insured Employer requests a decrease in security deposit of 10% or greater, the Division can perform an additional review to determine the adequacy of the security deposit.
- The Division must determine whether the Self-Insured Employer has the ability to process and pay Workers Compensation benefits.

INITIAL APPLICATION REQUIREMENTS

- Must file a typed Application signed by an authorized representative.
- Statement from the board of directors or governing body authorizing the filing of the application and designating the person given authority to file the application on behalf of the applicant.
- Employee count and payroll amount in acceptable employee classification codes.
- Copy of agreement between the applicant and the hospital and/or medical facility, if medical care is to be directed by the company.

INITIAL APPLICATION REQUIREMENTS

- Copies of the applicants current and prior two years audited financial statements or internally reviewed and signed financial statements.
- If the applicant is a subsidiary, the applicants parent company must sign the Industrial Commissions Parent Company Guaranty Form.

SELF INSURANCE FORMS

- Workers Compensation Liability Form
- Parent Company Guaranty Form
- Continuous Bond Form
- Directed Medical Care Form

RENEWAL REQUIREMENTS

- The Authorized Self-Insured Employer will receive an annual renewal letter and must return on company letterhead current company information pertaining to the companies self-insured status.
- Provide a copy of the Self-Insured Employers most recent audited financial statement or internally reviewed and signed financial statement
- Must file a workers compensation form 30 days prior to the Renewal date.
- Per claim data must be filed with the Workers Compensation Liability form to support the form information.
- The Security deposit amount as calculated on the Workers Compensation Liability form must be in place by the Self-Insured Employers anniversary date.

RENEWAL MATTERS THAT REQUIRE ADDITIONAL INFORMATION

- When Claim Denial Rates Are Over The Commission's 12.0% Standard, An Explanation Must Be Provided In Writing Explaining The Reason Each Claim Was Denied.
- If Experience Ratings Are Over The Commission's 1.10% Standard, The Company Needs To Provide An Explanation Why The Ratings Are Higher Than The Commission Standard.
- Employee Count.
 - If It Is Less Than The Prior Year, Provide An Explanation

EXCESS INSURANCE CREDITS

- Excess Insurance is not required, but if a credit is taken against securities filed, the Self-Insured Employer must provide information on the amount of the credit and type of coverage.
- Must provide a copy of the binder.
- Include the credit information in the per claim data that is submitted with the Workers Compensation Liability form.
- Excess Carrier can not have an affiliate relationship with the Self-Insured Employer.

CHANGES IN THE COMPANY

- THE COMMISSION MUST BE NOTIFIED IN WRITING WITHIN 24 HOURS IF:
 - ❖ The Self-Insured Employer files Bankruptcy.
 - ❖ The Self-Insured Employer has a Change in Ownership.
 - ❖ The Self-Insured Employer has a Change in Business Address.

ACCEPTABLE FORMS OF SECURITY DEPOSITS

- Surety Bond
- Letter of Credit
- U.S. Treasury Notes
- Deposit must be 125% of unpaid losses or a minimum of \$100,000 if the amount on the Workers Compensation Liability form is under \$100,000

SURETY BOND

- Must Be On The Ica Continuous Bond Form
- Continuous Bond Form & Riders Must Have The Same Effective Date Of The Resolution Of Authorization To Self-Insure
- Must Equal The Amount Of The Unpaid Losses For The Time Of Self Insurance Authorization
- Company Issuing The Surety Is Authorized To Transact The Business Of Surety In Arizona
- An Authorized Agent Executes The Guaranty Bond Or Rider

SURETY BOND (continued)

- The Bond Or Rider Must Be Signed & Dated By An Authorized Representative Of The Self-Insured Employer.
- The Surety Issuing The Bond Or Rider Does Not Have An Affiliate Relationship With The Applicant Or Self-Insured Employer.
- Issuing Surety Has A Rating With A.M. Best Of At Least A-
- The Guaranty Bond Or Rider Is Subject To Annual Change Based On Unpaid Loss Liability.

LETTER OF CREDIT (LOC)

- Must Be Registered To: “The Industrial Commission Of Arizona, In Trust For The Fulfillment By Self-Insurer Of Its Obligations Under The Arizona Workers Compensation Laws.”
- LOC Must Be For 1 Year, And An Automatic Extension Clause
- If LOC Is To Be Cancelled, The ICA Must Be Notified 30 Days Prior To The Cancellation In Writing.
- U. S. Treasury Notes

U. S. TREASURY NOTES

- Must Complete & Sign The Agreement With The Arizona State Treasurer
- Must Place The Deposit With The State Treasurers Selected Bank. Which At This Time Is Us Bank
- The Minimum Account Balance Must Be The Lessor Of Principal, Market Or Par Level & Must Equal 125% Of Unpaid Losses.
- Must Be U.S. Treasury Notes Only.

EXEMPTION FROM FILING A SECURITY DEPOSIT

- ▶ Only Public Agencies may ask for exemption from filing a security deposit.
- ▶ Must have a fully funded Risk Management Fund. This service fund must be shown on the Public Agency's financial statements.
- ▶ Must have an Actuarial Study on an annual basis to determine if the Risk Management Fund is sufficient to cover unpaid losses.
- ▶ Exemptions must be renewed on an annual basis.

TERMINATION OF SELF INSURANCE AUTHORITY

- Revocation of Self-Insurance Authority can occur if an employer fails to pay claims under the Workers Compensation Act.
- Fails to Pay Self-Insurance Taxes.
- Failure to comply with the Self-Insurance rules & statutes
- Failure to provide required securities
- If the self insurer intends to terminate its' self-insurance status, an authorized company representative must complete and sign the ICA's Notice of Self-Insured Employers Termination of Self-Insurance Form

SELF-INSURED EMPLOYER TAX PLANS

➤ TAX PLAN TYPES

- ❖ A PLAN (Fixed Premium)
- ❖ B PLAN (Ex-Medical)
- ❖ C PLAN (Guaranteed Cost)
- ❖ R PLAN (Retrospective)

TAX PAYMENT DEADLINES

- ANNUAL TAX FILING DEADLINE
 - ❖ February 15
- ANNUAL PAYMENT DEADLINE
 - ❖ March 31
- QUARTERLY PAYMENT DEADLINES
 - ❖ First Quarter - April 30
 - ❖ Second Quarter- July 31
 - ❖ Third Quarter- October 31
 - ❖ Fourth Quarter- January 31

TAX PLAN A (Fixed Premium Plan)

➤ ELIGIBILITY

1. The Self-Insurer Elects The Plan;
2. The Self-Insurers Net Taxable Premium
3. Does Not Exceed \$100,000; Or
4. The Self-Insurers Is Not Eligible For Any Other Plan Authorized By The Commission Under This Article.

➤ ANNUAL FORMS REQUIRED

- ❖ Self-Insurer's Payroll Form

TAX PLAN B (Ex-Medical Plan)

➤ ELIGIBILITY

1. The Self-Insured Employers Program For Medical, Surgical, Or Hospital Services Meets The Requirements Of A.R.S. § 23-1070; And
2. The Self-Insured Employers Net Taxable Premium Exceeds \$100,000.

➤ ANNUAL FORMS REQUIRED

1. Self-Insured Employers Payroll Report
2. Self-Insured Employers Hospital Report
3. Self-Insured Employers Medical Report

TAX PLAN C (Guaranteed Cost Plan)

➤ ELIGIBILITY

1. The Self-Insured Employer Has An Annual Net Taxable Premium Exceeding \$100,000; And
2. Uses An Experience Rating Calculated As Follows:
 - a) First Year Experience Rating Is 1.0
 - b) Second & Third Year Experience Rating Is Based Upon The Incurred Loss Data Accumulated By The Self-Insurer; And
 - c) Fourth Year Experience Rating Is Based On The Prior Three Years Of Incurred Loss Data, Excluding The Most Current Tax Year Loss Information.

➤ ANNUAL FORMS REQUIRED

1. Self-Insured Employers Payroll Report
2. Self-Insured Employers Medical Report
3. Self-Insured Employers Injury Report

TAX PLAN R (RETROSPECTIVE RATING PLAN)

➤ ELIGIBILITY

1. The Self-Insured Employer Has An Annual Net Taxable Premium Exceeding \$100,000; And
2. Uses An Experience Rating Calculated As Follows:
 - a) First Year Experience Rating Is 1.0
 - b) Second & Third Year Experience Rating Is Based Upon The Incurred Loss Data Accumulated By The Self-Insurer; And
 - c) Fourth Year Experience Rating Is Based On The Prior Three Years Of Incurred Loss Data, Excluding The Most Current Tax Year Loss Information.

➤ ANNUAL FORMS REQUIRED

1. Self-Insured Employers Payroll Report
2. Self-Insured Employers Medical Report
3. Self-Insured Employers Injury Report