

ALASKA LEGISLATURE COMMITTEE FILES 1985-1986 86/2

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HB 657

adequate reserving, poor risks insured, a low rate level or inefficient management. Retention figures for a period of years should give a good indication of relative overhead costs, at least from an employer's point of view, which may then be adjusted to account for existing subsidies and, finally, weighted in the light of differences in the quantity and quality of services delivered.

Table II-1 gives totals for earned premiums, incurred losses and loss ratios, dividends and retention for private carriers and state funds in the most recent five year period for which figures are available. Private companies retained 21.8 percent of earned premiums; state funds 6.6 percent. The substantially larger portion of earned premium retained by the private carriers (15 percent more for the entire period) varied from 25.4 percent more in 1971 to 5.1 percent more in 1972. It should be pointed out that the amounts retained represent overhead only from the point of view of the employer; these sums are used not only for expenses but also for taxes, additions to reserves and surplus and profits.

Before making adjustments in the retention figures or attempting an evaluation of services, some further discussion and comparisons are in order.

The higher retention ratio of the exclusive funds is surprising in view of their historically lower expense ratios. "Over the years competitive funds have devoted, on the average, about 14 percent of premiums to expenses, exclusives about 6 percent."¹⁹ In 1975, competitive

¹⁹. Somers and Somers, p. 125.

TABLE II-1

LOSSES AND RETENTION AS A
PERCENTAGE OF NET EARNED PREMIUMS:
FIVE YEAR COMPARISON 1971 - 1975
(in millions of dollars)

PRIVATE CARRIERS

Type of Carrier	Net Premiums Earned	Losses Incurred	Losses %	Dividends to Policy Holders	Divi- dends %	Retention	Retention %
Non-participating Stock	11,785.9	8,497.5	72.1	376.0	3.2	2,912.4	24.7
Participating Stock	4,615.3	3,309.4	71.7	457.8	9.9	846.1	18.4
Mutual Companies	5,355.7	3,986.4	68.0	777.3	13.3	1,102.0	18.8
All private (including reciprocals and mis- cellaneous companies)	22,850.0	16,206.0	70.9	1,653.2	7.2	4,990.8	21.8

STATE FUNDS

Type of Fund	Net Premiums Earned	Losses Incurred	Losses %	Dividends to Policy Holders	Divi- dends %	Retention	Retention %
Exclusive*	2,251.1	2,057.1	91.4	2.0	0.1	192.0	8.5
Competitive	2,722.5	2,257.4	82.9	330.1	12.1	135.0	5.0
All State Funds	4,973.6	4,314.5	86.7	332.1	6.7	327.0	6.6

* Refers to states not allowing private carriers to compete, includes those that allow self-insurance.

Source: Data on private carriers and the state funds of Arizona, California, Michigan, New York and Pennsylvania are from the National Council on Compensation Insurance, Country-wide Expense Exhibits 1971-1975. Data on the other state funds are from the American Association of State Compensation Insurance Funds, 1976 Statistics Committee Report (does not include 1971 and 1972 data for West Virginia and does not include 1975 data for Utah and Wyoming).

fund expenses averaged more than 20 percent of premium, exclusives around 8 percent. This difference in retention is accounted for, in part, by an apparent move to increase reserves by some of the exclusive funds. The large Ohio fund, for example, had substantial negative retention in 1970 and 1971; their retention ratio for 1970 through 1975 was 4 percent.

A study by Stefan A. Riesenfeld²⁰ compared the retention ratios of the State Compensation Fund and the private carriers in California for the years 1957-1961. The retention ratios (called "Apparent Expense Ratios" in the study) for that five year period were 29.28 percent for the private carriers and 6.96 percent for the state fund; a difference of 22.32 percent of earned premium. The state fund enjoyed few competitive advantages over the private carriers, and this comparison does not suffer the difficulties of comparisons which cross state lines. Riesenfeld also concluded that in the period between 1948 and 1961 good agreement between premiums written and losses incurred indicated no substantial bias in risk selection.

Another similar but more recent study by the state fund in Oregon gave retention figures for the ten year period 1966-1975.²¹ The private carriers retained 22.2 percent of earned premiums, 16.93 percent more than the 5.27 percent retained by the State Accident Insurance Fund.

²⁰ Stefan A. Riesenfeld, "Efficacy and Costs of Workmen's Compensation, "Occupational Disability and Public Policy, eds. Earl F. Cheit and Margaret S. Gordon, (New York: John Wiley & Sons, Inc., 1963).

²¹ "Options for Lowering Workmen's Compensation Costs in Oregon," prepared by the State Accident Insurance Fund of Oregon at the request of the Interim Committee on Trade and Economic Development and included in the staff report to the committee, November 1976.

The Oregon experience will receive more attention later in this report; at this point it is sufficient to observe that after careful consideration the state fund personnel had no effective subsidies to report except exemption from federal income tax.

Table II-2 shows Alaskan experience for 1971-1975. The 23.7 percent of earned premiums which Alaskan carriers retained is somewhat higher than the 21.8 percent average for private carriers but is lower than the 24.7 percent for non-participating stock carriers which, as a group, dominate the Alaskan market. Information on the experience in most states, including Alaska, is displayed in Appendix I.

Retention figures presented, as the foregoing have been, as a percentage of premiums earned are affected by the extent to which the rate level allows for the payment of dividends. For example, if we hypothesize incurred losses amounting to \$1,000, retention of \$200 and dividends of \$300 which imply an earned premium of \$1,500, retention is 13.3 percent of earned premium. If the earned premium is reduced to \$1,200 by premium discounts or a lower rate level and no dividends are paid, retention amounts to 16.7 percent of earned premium even though the same losses are incurred and the same amount retained. This effect is particularly significant in the case of exclusive funds which operate on a low initial rate level and pay practically no dividends. Since the market is captive, they experience little difficulty in recapturing losses from previous years. To remove the influence of premium level, retention may be expressed as a percentage of losses rather than premiums.

Table II-3 displays the loss and retention figures from Tables II-1 and II-2 and gives retention as a percent of losses instead of premiums.

TABLE II-2
FIVE YEAR ALASKA EXPERIENCE

	1971		1972		1973		1974		1975		5-Year Total	
	Dollar Amount*	%**	Dollar Amount*	%**	Dollar Amount*	%**	Dollar Amount*	%**	Dollar Amount*	%**	Dollar Amount*	%**
1) Net earned premium	13,712	100.0	13,288	100.0	16,073	100.0	16,706	100.0	35,131	100.0	94,908	100.0
2) Incurred losses	9,746	71.1	11,123	83.7	10,371	64.5	15,343	91.8	23,745	67.6	70,329	74.1
3) Dividends to policy-holders	1,083	7.9	359	2.7	193	1.2	200	1.2	211	0.6	2,046	2.2
4) Retention (1)-(2)-(e)	2,883	21.0	1,806	13.6	5,509	34.3	1,163	7.0	11,174	31.8	22,533	23.7

* Dollar amounts are in thousands

** Percent of net earned premium.

Source: National Council on Compensation Insurance.

TABLE II-3

FIVE YEAR COMPARISON 1971 - 1975
 RETENTION AS A PERCENT OF LOSSES
 (in millions of dollars)

Private Carriers*	Losses Incurred	Retention	Retention as a % of Losses Incurred
Non-participating stock	8,497.5	2,912.4	34.2
Participating stock	3,309.4	848.1	25.6
Mutual Companies	3,986.4	1,102.0	27.6
All Private (including reciprocals and miscellaneous companies)	16,206.0	4,990.8	30.8
Alaskan Carriers	70.3	22.5	32.0
State Funds*			
Exclusive	2,057.1	192.0	9.3
Competitive	2,257.4	135.0	6.0
All State Funds	4,314.5	327.0	7.6

* Refers to states not allowing private carriers to compete, includes those that allow self-insurance.

Source: See Tables II-1 and II-2.

Compared in this way, private carriers' retention is about four times as great as that of state funds instead of the approximate factor of three which results from the percentage of earned premium comparison. Again, we find Alaskan carriers retaining more than private carriers as a whole but less than the non-participating stock carriers.

On the basis of these "raw" figures it seems reasonable to conclude that, on the average, even though there is considerable variation from state to state, state funds retain about 15 or 16 percent less of net earned premiums than private carriers do for providing their services. State funds retain 15.2 percent less if the percentages of net earned premiums are accepted at face value. If we assume that state funds retain 28 percent as much as private carriers (as indicated by considering retention in terms of losses) and translate this into a percentage of premiums $[(1-.28) \times 21.8\% = 16.0\%]$, it indicates that they retain 16.0 percent less of earned premiums than private carriers. This last operation is equivalent to building up the premiums of state funds until losses plus dividends equal the ratio for private carriers, increasing dividends by the same amount, and then comparing retention ratios. Before analyzing the differences which exist in expenses and services, it is of interest to note a difference in income which exists.

Investment Earnings

In addition to premiums which are collected by insurers, they receive income in the form of investment earnings. Tables II-4 and II-5 summarize the financial experience of private carriers and state funds respectively for the years 1972-1974. The recent "Draft Report to

TABLE II-4

SUMMARY TABLE OF FINANCIAL EXPERIENCE,
 STATE FUNDS, 1972-1974
 (ratio to earned premium)

<u>State Fund</u>	<u>Underwriting Profit Rate</u>	<u>Net Invest- ment Rate</u>	<u>Dividend Rate</u>
North Dakota	-.60	.20	
Nevada	.08	.04	.02
Washington	-.10	.17	
Ohio			
Maryland	.16	.18	
Idaho	.06	.20	.17
Oklahoma	-.01	.09	.09
Utah	-.38	.12	
Montana	.22	.16	.14
Michigan	-.07	.27	.09
Pennsylvania	-.30	.24	
Colorado	.06	.05	
Arizona	-.07	.30	.13
Oregon	.07	.13	.18
New York	-.16	.19	.05
California	.07	.10	.16

Source: Workers' Compensation Insurers: An Operational Analysis,
 A Draft Report to the Interdepartmental Task Force by Teknekron, Inc.,
 October 25, 1976, Washington, D. C.

TABLE II-5

SUMMARY TABLE OF FINANCIAL EXPERIENCE,
PRIVATE CARRIERS, 1972 - 1974
(ratio to earned premium)

Carrier Category**	Underwriting Profit Rate	Net Investment Rate	Dividend Rate
<u>Group</u>			
1	.32 (.63)*	.04 (.01)	.08 (.05)
2	-.01 (.14)	.04 (.01)	.06 (.06)
3	.01 (.09)	.05 (.02)	.06 (.05)
4	-.02 (.05)	.06 (.02)	.06 (.04)
Total	.03 (.25)	.05 (.02)	.06 (.05)
<u>Individual</u>			
1	.06 (.24)	.11 (.28)	.15 (.17)
2	.01 (.27)	.06 (.05)	.10 (.08)
3	.05 (.12)	.05 (.02)	.08 (.05)
4	.11 (.11)	.06 (.02)	.15 (.08)
Total	.04 (.22)	.05 (.02)	.09 (.08)

* The numbers in parentheses are standard deviations.

** The eight categories are based on earned premium in 1975. They were: Group (1) \$5 million, (2) \$5 million to \$24.99 million, (3) \$25 million to \$99.99 million, (4) \$100 million +; Individual (1) \$1 million, (2) \$1 million to \$4.99 million, (3) \$5 million to \$24.99 million, (4) \$25 million +.

Source: Workers' Compensation Insurers: An Operational Analysis, A Draft Report to the Interdepartmental Task Force by Teknekron, Inc., October 25, 1976, Washington, D. C.

the Interdepartmental Workers' Compensation Task Force," by Teknekron, Inc. contained the following preliminary analysis.

We have portrayed the financial experience of private carriers and state funds over the three year period from 1972 through 1974. In general, the picture is one of an industry with large variability in the experience of carriers grouped by size, by the extent dividends are paid to policy holders, and whether public or private. However, there is also great variation within these categories. The private carriers in the aggregate paid out about 70% of earned premium over the three year period as incurred losses. State funds had much higher loss ratios. However, while the private carrier received net investment income which came to about 6% of earned premium on the average, the state funds received much larger amounts of funds from that source. When losses incurred were related to earned premium plus net investment, the ratios for 5 state funds were .65 or less, and the ratios for California, New York, and Washington were .71, .74, and .76, respectively. Thus, the ability of the state funds to pay out such large amounts in loss payments, and in dividends, is supported to a great extent by that source of income. The basis of the high rate of investment income is their highly capitalized financial structure. Seven of the 16 state funds had ratios of earned assets to earned premium greater than 3 to 1, and two funds, Arizona and Ohio, had more than 4 times their earned premium in earning assets. That compared, for example, to aggregate earning assets to earned premium rates of 1.33, 1.85, 1.95, and 2.35 for Aetna Life and Casualty, Liberty Mutual, Employers Mutual Liability, and Argonaut Insurance, respectively.²²

These higher investment earnings, none of which is retained in the form of profits, coupled, as we shall see later, with lower expenses in some areas account for the ability of state funds to retain relatively

²² "Workers' Compensation Insurers: An Operational Analysis, A Draft Report to the Interdepartmental Task Force," Teknekron, Inc., Washington, D. C., October 25, 1976.

small percentages of premiums for the services they provide. Total expenses for the 15 state funds whose net investment rate is given in Table II-4 averaged 15.5 percent of earned premium--about the same as the 16.3 percent average net investment rate.

Subsidies

The question of subsidies, hidden and otherwise, invariably plays a part in any discussion of the costs of state fund operation. While it is impossible to exactly quantify these influences, some estimate of their impact is in order.

Four of the state funds contacted enjoy very little in the way of subsidies and have made estimates of the magnitude of those which exist. Both Oregon and California claim to operate on an approximately equal footing with private carriers; they enjoy a monopoly on governmental business, but accept all risks. The Oregon fund is exempt from premium taxes but board assessments are allowed as an offset, and, in effect, the private carriers are also exempt. California pays higher fees to support state administration. We have made no adjustments in these two cases. The Arizona fund is exempt from real property taxes and probably benefits from state purchasing; they felt that if one percent of premium were allowed for all such subsidies, it would be in excess of the actual. The Pennsylvania fund has indicated that one percent of premium would cover any hidden subsidies. They are exempt from certain taxes and fees but point out that they would not necessarily have incurred any

expenses in those areas because they do not own any real estate or automobiles.²³

Adjusted total expenses for these funds for 1972-1974 as a percentage of earned premium are as follows: Arizona - 26%, California - 16%, Oregon - 13%, and Pennsylvania - 28%. The figures for Arizona and Pennsylvania have been increased by one percent in accordance with their estimates. Average expenses for these four funds is 20.75 percent of earned premium--about four percent higher than the average for all funds.²⁴

A four percent allowance for subsidies seems more than adequate. A typical allowance for taxes, licenses and fees in a rate structure is between three and four percent and only about half of the funds are exempt from these. Also, many expenses incurred by a competitive fund (such as the four mentioned above) are not required of an exclusive fund. Little or no advertising and some economies in the collection of data and supervision of the industry serve to offset to some degree the subsidies which are more common to exclusive funds. This estimate is designed to serve only in the comparison of costs without regard to differences which exist in services. As the State Accident Insurance Fund of Oregon said of their cost comparison, "It does not speculate as to the improvements in service which competition may have brought, or to

²³ From correspondence and conversations with officials of these four funds.

²⁴ Workers' Compensation Insurers: An Operational Analysis, A Draft Report to the Interdepartmental Task Force by Teknekron, Inc., preliminary results.

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²³ From correspondence and conversations with officials of these four funds.

²⁴ Workers' Compensation Insurers: An Operational Analysis, A Draft Report to the Interdepartmental Task Force by Teleskron, Inc., preliminary result.

Woodward and Fondiller contemplated: An exemption from the premium tax of 1.5 percent on domestic carriers (even private carriers enjoy a five year exemption after being chartered in Alaska). Making allowance for the premium tax exemption still leaves the retention of the hypothetical fund 14.1 percent below that of private carriers.

Two other points should be considered. First, the 30.2 percent retention estimated in this way from National Council allowances is higher than the observed 23.7 percent retention for the Alaskan carriers for 1971-1975. Those five years were very poor years for the insurance industry and we may expect that retention will move in the direction suggested by the National Council allowances; still, actual retention was 6.5 percent less than hypothetical. The other point to be considered tends to affect the estimate in the opposite direction. Investment income is not considered in the estimate for the first few years of state fund operation. Income from this source should amount to a considerable percentage of earned premium after a few years and, if the fund experienced "average" results, would amount to much more than 6.5 percent. The Idaho fund which is used as a model in Chapter V deviates 20 percent initially and, in addition, has been able to pay dividends of about 17 percent.

Expenses

Before comparing services delivered by private carriers with those provided by state funds, we will examine some differences in expense profiles. Besides greater investment earnings, state funds have lower expenses in some areas which helps to explain their lower retention ratios.

Table II-6 gives expense percentages for stock companies generally, for Alaskan carriers, and as they appeared in the July, 1975, Alaskan rate filing. The figures are in close agreement with the exception of the profit and contingencies component. Carriers lost five percent on their Alaskan writings over the five year period 1971-1975 compared to the standard 2.5 percent allowed for profit in the filing and experienced by carriers countrywide in 1974. Over a long period of time, these figures should come close to agreement in every respect; the rate making mechanisms used by the National Council tend to assure that result.

The survey results for 1972-1974 reported to the Interdepartmental Task Force tend to confirm these percentages. Average total expenses were 30.8 percent of earned premium; acquisition costs were higher at 12 percent.²⁶

It is difficult to compare expense percentages because state funds reporting and accounting practices are not standardized to the degree that they are with private carriers. Total expenses for the 15 state funds in Table II-4 averaged 15.5 percent of earned premium for 1972-1974. Loss adjustment expense for the 14 who reported in that category averaged 8.3 percent of premium--about the same as for private carriers. Striking differences exist in acquisition expenses. Only seven of the 15 funds allocated any premium to acquisition expense and only the Michigan fund reported more than three percent of premium devoted to acquisition (the Michigan fund is the only one that pays commissions). Most of the 17 percent difference in expense ratios is accounted for by

²⁶ Draft Report, Teknekron, Inc.

the approximately 10 percent difference in acquisition costs and the 3.5 percent profit reported by private carriers (see Table II-5). If we include the four percent allowance for subsidies, a fairly clear picture emerges. The analysis in Chapter III tends to confirm the hypothesis that the major differences in expenses do lie in these areas.

Other authors have arrived at substantially the same conclusion in the past. Ashley St. Clair concluded that:

The savings from state insurance are more apparent than real. The fact that competing state compensation funds, except for acquisition costs (emphasis added), have approximately the same expense ratios as private insurers indicates that, for the same protection and the same services, state insurance costs as much or almost as much as private insurance.²⁷

C. Arthur Williams, in his landmark study, found that:

The Achilles' heel of private workmen's compensation insurers is their expense ratio relative to that charged by the best State funds. Although this expense ratio is lower than that incurred in any other line of insurance except group disability income insurance, it is still higher than most observers, including many private insurance representatives, believe is desirable. Private insurers should, with a sense of urgency, investigate more efficient ways of marketing their product, particularly to smaller employers.²⁸

The following chapter will consider services which are delivered by the two types of insurers.

²⁷ Ashley St. Clair, "Occupational Disability--Privately Insured," Occupational Disability and Public Policy, edited by Earl F. Chitt and Margaret S. Gordon, John Wiley & Sons, New York, 1963.

²⁸ C. Arthur Williams, Jr., Insurance Arrangements Under Workmen's Compensation, U. S. Department of Labor, Bureau of Labor Standards, Bulletin No. 317, 1969, p. 207.

III. SERVICE

In the preceding chapters we have reviewed the history of workers' compensation and compared the overhead costs of operation of state funds with those of private carriers. In this chapter we will evaluate the services rendered by the two types of carriers. The services provided by workers' compensation insurers may be divided into three categories which overlap to some degree. loss control activities, claims management, and other activities including agency or brokerage services not provided directly by the carrier.

Loss Control Activities

Loss control refers to efforts to reduce the likelihood, severity and any unwarranted cost of on-the-job injury. These activities range from safety inspections or consultations by the insurer or other agency to incentives to the employer in the form of experience or merit rating systems which provide premium reductions for safe operations. Some form of merit rating is practiced by all state funds and by private carriers and, whichever system prevails, the state may dictate the terms under which it is practiced. Merit rating does not depend on the type of carrier but rather the rating system and is dealt with in the report of Woodward and Fondiller. This analysis will be confined to other aspects of loss control.

The degree to which safety services are provided by insurers vary from none at all to comprehensive treatment by a large and specialized staff. In general, insurers provide fewer services in areas where the

volume of business is low, the premium size is predominantly small or workers' compensation is not a primary line of insurance sold by the carrier.

Table III-1 gives an indication of the types of safety activities which are provided by private carriers nationwide, by state funds and by carriers in the Alaskan market. High percentages of all three groups indicate that they provide most types of safety services. The greatest differences appear to be the greater emphasis that state funds place on direct training and the relative importance of program development in the eyes of Alaskan carriers.

Total expenditures on safety by either private carriers or state funds are not very large. C. Arthur Williams estimated that insurers collect about 1.3 percent of standard earned premium for their safety work.²⁹ In 1971, the last year that the figure was reported by the National Council, reported expenditures on inspections amounted to 1.1 percent of net earned premium for private carriers and 1.3 percent for five state funds.³⁰ Ten state funds averaged 1.0 percent of earned premium for direct expenditures on safety personnel in 1974.³¹

Expenditures for safety and loss control are difficult to isolate. Many carriers do not allocate expenses on that basis. About 40 percent

²⁹ C. Arthur Williams, Jr., Insurance Arrangements Under Workmen's Compensation, U. S. Department of Labor, Bureau of Labor Standards, Bulletin No. 317, 1969, p. 121.

³⁰ National Council on Compensation Insurance, Insurance Expense Exhibit (Countrywide), for the year ending December 31, 1971. "Inspection" is not subject to the instructions for Uniform Classifications of Expenses and reflect only data of those carriers allocating these items.

³¹ American Association of State Compensation Insurance Funds (AASCIF) Statistics Report for 1974.

TABLE III-1

RELATIVE IMPORTANCE OF SAFETY ACTIVITIES
AS INDICATED BY INSURERS

Type of Activity	Percent of Insurers Indicating They Provide the Service			Percent of Insurers Indicating that Activity is One of Three Most Important		
	All	State	Alaska	All	State	Alaska
	Private	Fund		Private	Fund	
1. Survey of Hazards	85%	88%	88%	63%	69%	75%
2. Distribution of Brochures	81	75	88	22	0	13
3. Inspections Regarding:						
a. Lighting and Machine Guarding	84	81	75	31	6	50
b. Electrical Equipment	81	81	63	11	6	25
c. Noise Pollution	62	81	63	0	0	0
d. Air Pollution	54	75	63	0	0	0
e. Radiation	35	50	50	0	0	0
f. Safety Equipment	81	88	75	21	6	0
4. Instruction in Safe Work Procedures	78	81	88	29	19	38
5. Direct Training in Safe Work Procedures	38	63	25	2	25	0
6. Program Development	81	81	88	33	38	75
7. First Aid Training	59	81	88	1	0	0
8. Alcoholism & Drug Abuse	17	13	50	0	0	0
9. None	9	0	0	0	0	0

Source: For all private carriers and state funds: Draft Report to the Federal Interdepartmental Task Force by Teknekron, Inc.; Alaska data are from Carriers Survey.

of the private respondents to the national survey of carriers conducted for the Interdepartmental Task Force indicated that claims and underwriting personnel assisted in loss control activities; more than one-fourth received services from sales personnel, management, and independent agents. Most use independent loss control consultants to some extent. About 88 percent of the respondents to the Alaskan carrier survey indicated that they utilized either claims or underwriting personnel in providing loss control services to employers; 63 percent reported receiving assistance from other staff or independent agents.

Some measurement of the activity of carriers in conducting safety inspections or consultations is provided in Table III-2. These figures must be interpreted with care to allow for differences in policy size: \$2,208 for the private carriers (nationwide) in 1974; \$1,571 for all state funds in 1974; and \$6,179 for the four Alaskan carriers in 1975. Adjusting for these differences still leaves private carriers, as a whole, ahead of both the state funds and the Alaskan carriers. Alaskan carriers appear to lag behind the rest of the private sector in providing these services. After allowance for premium size, Alaskan carriers appear to provide fewer inspections per policy but have less earned premium per inspection than the sample of state funds.

The draft report to the Interdepartmental Workers' Compensation Task Force in the (preliminary) outcome evaluation found:

By any statistics, job related injury can be considered a frequent occurrence. While almost all private insurance carriers and state funds offer safety services, the survey of employers and the survey of self-insurers both suggest that these services are not perceived to be total services and are either supplemented by or (in the case of self-insurers) replaced by the employer.

TABLE III-2

PERSPECTIVE ON SAFETY INSPECTIONS*

Type of Carrier	Inspections Per Policy**	Earned Premium Per Inspection***
Private Carriers (nationwide) 1974	1.91	\$ 3,700
State Funds 1974	0.34	\$ 7,373
Alaskan Carriers 1975	0.46	\$ 22,645

* Data for private carriers (nationwide) and state funds are from the Teknekron Draft Report to the Interdepartmental Task Force; Data for Alaskan carriers are from survey results. Average premium generated per policy: private carriers (nationwide) - \$2,203, all state funds - \$1,571, and Alaska carriers - \$6,179.

** Private Carriers - average of 83 responses
State Funds - average of 10 funds
Alaskan Carriers - average of four responses representing more than 60% of 1975 earned premium.

*** Private Carriers - average of 73 responses
State Funds - average of nine funds
Alaskan Carriers - average for same four carriers representing more than 60% of 1975 earned premium.

Table III-3 provides some insight into the services employers indicated that they received in their survey responses.

The draft report concluded that:

Employers and self-insurers apparently perceive that private carriers and state funds generally provide minimal or no safety services, particularly for smaller establishments. There is no present evidence to indicate that one type of carrier is perceived as more effective than any other type in the provision of safety services.³²

Claims Management

Claims management concerns all of the activities of the insurer in claims from the time of injury until a case is closed. These activities include medical management, medical-legal responsibilities, both physical and vocational rehabilitation, activities to insure fiscal stability, and performance evaluation.

One index of the amount of resources devoted to the claims adjustment effort is the amount allocated to loss adjustment expense. Private workers' compensation carriers allocate about nine percent of earned premium in this way and state funds average a little over eight percent. This index is not totally reliable because of differences in accounting practices, but it gives an indication. The approximate market range for contract claims adjusters is from 6 to 12 percent of premium which suggests that the nine percent above is a reasonable approximation of the costs.³³

³² Draft Report to the Interdepartmental Workmen's Compensation Task Force by Teknekron, Inc., October 1976, preliminary results.

³³ Ibid.

TABLE III-3
OCCUPATIONAL SAFETY AND HEALTH SERVICES

<u>Employer Survey</u>		<u>Percent of All Firms</u>	
<u>Provides OSH Services</u>		<u>Nationally</u>	<u>Alaska</u>
Own Staff		38.8	28
Both Own Staff and Other		28.0	10
None		25.1	54
 <u>Carrier Provides OSH Services</u>			
Yes		58.9	7
No, all Firms		41.1	88
No, 100 employees		81.7	*

* Only five of the Alaskan employers had 100 or more employees.

Source: National data is from the Teknekron Draft Report to the Interdepartmental Task Force; Alaskan data is from the Alaska employer survey.

Unless contract adjusters are employed, the nature of the claims adjustment service is affected by the number and location of offices. It is possible to adjust workers' compensation claims from a great distance with primary contact made by the physician and the employer but communication is obviously more difficult. Property and casualty insurers maintain approximately one office which adjusts workers' compensation claims for every \$1.5 million in premiums. State funds maintain 65 claims offices throughout the country--approximately one for every \$17 million in premiums in 1974.³⁴ Alaskan carriers surveyed maintain eight offices in the state--a conservatively estimated one for every \$1.7 million in earned premium in 1974. Approximately nine percent of claims are handled by independent adjusters in Alaska as opposed to about five percent for the nation as a whole.

Medical management may include an evaluation of treatment with respect to adequacy, appropriateness, fees charged, and the prospects for rehabilitation. Adjusters tend to judge medical care in terms of its effectiveness in getting injured workers back on the job. Table III-4 sets out some types of activities to monitor medical care which are undertaken by private carriers as a whole, state funds, and Alaskan carriers. The three activities most often pursued and considered most important by all three types of carriers were to get frequent evaluation of progress from the treating physician, get consultation by independent physicians to evaluate the adequacy of medical care and, in serious cases, to get consultation to evaluate the need for transfer of the

³⁴ Ibid.

TABLE III-4

ACTIVITIES OF CARRIERS IN MONITORING MEDICAL CARE

Type of Activity	Percentage of Respondents that Indicate Undertaking the Activity			Percentage of Respondents Indicating that the Activity is One of the Three Most Important		
	Private Carriers (nationally)	State Fund	Alaskan Carriers	Private Carriers (nationally)	State Fund	Alaskan Carriers
(1) We do not monitor medical care.	8	0	13	-	-	-
(2) Get frequent evaluation of progress from treating physician	92	100	88	84	88	75
(3) Have physicians and/or nurses in-house on retainer to review claims	21	63	38	8	38	25
(4) Get consultation by independent physicians to evaluate adequacy of medical care provided	75	88	63	57	69	50
(5) Interviews conducted with claimants to determine their satisfaction with medical care	66	50	50	28	19	0
(6) Maintain data on outcome of specific medical procedures.	10	25	13	0	0	0
(7) Medical reports are reviewed for completeness	83	81	75	16	31	25
(8) Maintain data on health care outcome by type of injury.	2	25	13	1	0	0
(9) In serious cases, get consultation to evaluate need for transfer of patient to a specialized treatment center.	85	94	88	62	44	63

Source of data for private carriers nationally and state fund is the Draft Report to the Interdepartmental Task Force by Teknekron, Inc. (preliminary); data on Alaskan carriers are from the carrier survey.

patient to a specialized treatment center. Practically none of the insurers attached much importance to the maintenance of data on health care outcome by type of injury.

In discharging his medical-legal responsibilities, an adjuster must assure that the injured worker receives the benefits to which he is entitled and no more. There is considerable evidence to suggest that adjusters, whichever type of carrier they represent, are tending away from the adversary posture that was common in the past. This trend is partially explained by changes in judicial interpretation which favor the injured worker and research which documents the higher average cost of contested claims. Table III-5 gives controverted cases for a sample of states. In every case but one where both a state fund and private carriers are represented, the state fund has the lower number of controverted cases. Jurisdictional differences seem to be at least as important as the type of carrier but, whether or not it is in the best interests of the system, private carriers as a whole appear to be more prone to controversy. The six year average for Alaskan carriers compares very favorably with the national figures for stock and non-stock insurers and is only slightly higher than the national average for state funds.

Promptness of first disability payment is a measure of claims management performance that suffers from many defects but is perhaps the most frequently used. About three-fourths of the private carriers nationally, the Alaskan carriers and state funds, like indicated in carrier surveys that it was a criterion of performance that was formally measured; more than half of all types of respondents felt

TABLE III-5
 CONTROVERTED CASES BY INSURER FOR A SAMPLE OF STATES
 (Percentages)

Insurer	National	State					New York	
		California	Colorado	Maryland	Michigan			
STOCK	22	41 ^d	7	26 ^c	29 ^d	8 ^d		
NON STOCK	19	32 ^d	15 ^a	30 ^b	14 ^c	8 ^d		
STATE FUND	10	25 ^d	10 ^d	6		4 ^d		
SELF-INS.	28	29 ^c		21 ^b	59 ^d	7 ^c		
(37,900)								
		<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>6-Year Average</u>
All Alaskan Carriers (all time loss injuries)		1.8	7.2	9.5	27.7	20.0	1.8	11.3

- a - < 50 observations
- b - 50-99 observations
- c - 100-249 observations
- d - 250-499 observations
- d - 500+ observations

Source: Cooper & Co., Closed Case Survey in the Draft Report to the Interdepartmental Task Force by Teknekron, Inc.. Alaska figures are from the Division of Workmen's Compensation.

that it was one of the three most important criteria. Table III-6 displays data on the promptness of first payment from a sample of states for different classes of injury and type of insurer. The Alaskan figures are for all cases and, therefore, are not comparable. There does not appear to be any significant difference in payment lag by type of carrier; once again, jurisdictional differences seem more important.

Success of rehabilitation is formally measured by about half of the private carriers nationwide, state funds and Alaskan carriers. It is considered to be one of the three most important criteria for measuring claims management performance by only five percent of the private carriers, 38 percent of the state funds and 13 percent of the Alaskan carriers (see Table III-9). Table III-7 presents the limited data available on the delivery of physical rehabilitation services for a sample of states; Table III-8 gives an indication of the range of vocational rehabilitation activities carried out by the three classes of carriers as reported in the surveys. The three activities most frequently reported were consultation with the physician, consultation with the employer and referral to the state rehabilitation office. Again, there appears to be general agreement in the frequency with which the different classes of carriers conduct the various activities.

In assessing the vocational rehabilitation efforts of the different types of insurers the draft report concluded:

As with the frequency of controversy, the frequency of job displacement following injury appears to be largely a phenomenon of jurisdiction with strong differences noted among those states analyzed. Among types of insurers, only analysis within selected jurisdictions could provide any indication of differences. All types

TABLE III-6

TIME BETWEEN NOTICE AND FIRST CHECK
BY MAXIMUM DISABILITY AND TYPE OF INSURER
(Days)

(a) Temporary Total

<u>State</u>	<u>Stock and Non-Stock Carriers</u>	<u>State Funds</u>		
ARIZONA	54	27		
CALIFORNIA	18 ^d	16 ^d		
MICHIGAN	33 ^d			
NEW JERSEY	32 ^c			
NEW YORK	75 ^d	83 ^c		
COLORADO	18	41 ^c		
MARYLAND	36			
GEORGIA	29 ^c			
ILLINOIS	24 ^d			
FLORIDA	24 ^d			
OKLAHOMA	22			
 (b) Permanent Partial				
CALIFORNIA	107 ^c	134 ^c		
NEW JERSEY	212 ^d			
NEW YORK	167 ^d	149 ^d		
MARYLAND	99			
ILLINOIS	111 ^d			
FLORIDA	61			
OKLAHOMA	66			
	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>3-Year Average</u>
ALASKA (all time loss injuries)	16	18	25	20

- a - < 50 observations
- b - 50-99 observations
- 100-249 observations
- c - 250-499 observations
- d - 500+ observations

Source: Alaskan figures are approximate averages based on figures from the Division of Workmen's compensation; other states are from the Draft Report to the Interdepartmental Task Force by Teknekron, Inc.

TABLE III-7
 PHYSICAL REHABILITATION SERVICES BY INSURER
 FOR A SAMPLE OF STATES
 (Percentages)

<u>State</u>	<u>Type of Insurer</u>		
	<u>Private</u>	<u>State Fund</u>	<u>Self-Insured</u>
(a) Temporary Total			
ARIZONA	8	29 ^c	
CALIFORNIA	7 ^d	1	10 ^c
MICHIGAN	4 ^d		5
NEW YORK	5 ^d	7 ^c	19
COLORADO	0	4 ^c	
(b) Permanent Partial			
CALIFORNIA	10 ^d	.6 ^c	21
NEW YORK	8 ^d	28 ^d	16
ILLINOIS	10 ^d		4

- a - < 50 observations
- b - 50-99 observations
- 100-249 observations
- c - 250-499 observations
- d - 500+ observations

Source: Cooper & Co., Closed Case Survey in the Draft Report to the Interdepartmental Task Force.

TABLE III-8

ACTIVITIES CARRIED OUT BY STAFF* TO ASSIST CLAIMANTS WITH
 VOCATIONAL REHABILITATION AND REEMPLOYMENT
 PRIVATE CARRIERS AND STATE FUNDS
 (Percentages)

Activity	Private Carriers (nationwide)	State Fund	Alaskan Carriers
1	95	94	98
2	41	69	50
3	90	88	88
4	13	13	25
5	57	50	63
6	76	100	88
7	82	56	88
8	74	56	88
9	50	50	50

KEY TO ACTIVITY NUMBERS:

1. Consultation with Physician
2. Refer to State Employment Service
3. Consult with Employer
4. Maintain resource file of private employment agencies
5. Assist employee in selecting appropriate agency
6. Refer to State rehabilitation office
7. Assist employee in obtaining appropriate training
8. Monitor employee's progress in retraining program
9. Assist in placement in new job

* Includes consulting staff.

Source: Data for Private Carriers (nationwide) and State Funds from the Draft Report to the Interdepartmental Task Force by Teknekron, Inc.; data for Alaskan Carriers are from the carrier survey.

of insurers appeared to provide low levels of vocational rehabilitation. If higher levels could be discerned, they tended to be present among private carriers and self-insurers rather than state funds.³⁵

The major responsibilities of the adjuster to insure fiscal stability are to avoid excess costs brought on by litigation or other factors and to accurately estimate the future costs of the claim. There is little training available in the art of claims adjustment except on the job (some of the larger carriers and independent adjusting firms have training programs). The task of estimating future costs is more difficult in times of rapid change. Large changes in the benefit structure, inflation such as has been experienced in recent years, and changing economic conditions all contribute to instability. All of these factors have been present in Alaska. More carriers measure the accuracy of reserve practices than any other criterion of claims management performance.

Table III-9 indicates which criteria are used by the different types of insurers in measuring their claims management performance. Once again, there is general agreement among the carriers on which criteria they measure and which are most important. Reserve accuracy was followed by promptness of first disability payment and loss ratio in frequency of measurement. Promptness of first payment was rated important by the most carriers in every class. Private carriers rated promptness of first contact and adequacy of follow-up much higher than state funds did; the reverse was true with regard to number of medical bills paid, percent of claims receiving permanent disability awards and percent of claims in litigation.

³⁵ Ibid.

TABLE III-9

CRITERIA USED IN MEASURING CLAIMS MANAGEMENT PERFORMANCE
(Percentage)

	Indicate Criterion is Specifically and Formally Measured			Indicate Criterion is One of the Three Most Important		
	Private Carriers	State Funds	Alaskan Carriers	Private Carriers	State Funds	Alaskan Carriers
(1) None	11	13	13	0	0	0
(2) Promptness of contact with injured person	63	25	63	47	13	23
(3) Number of medical bills paid	14	50	0	0	13	0
(4) Promptness of first disability payment	76	75	75	65	56	23
(5) Caseload per adjuster	59	56	75	9	0	13
(6) Average cost of closed claims	48	50	50	8	6	25
(7) Ratio of field investigations to claims	19	19	38	0	0	38
(8) Percent of claimants returned to work on a timely basis	11	38	25	2	19	0
(9) Adequacy of follow-up with injured person, employer, doctor, and others involved in the case	57	19	50	38	6	25
(10) Percent of indemnity claims denied	10	31	13	1	0	13
(11) Adequacy of medical management of the injury	41	31	38	23	25	13
(12) Loss ratio	74	75	63	17	31	0
(13) Successful application of rehabilitation, if needed	52	50	50	5	38	13
(14) Accuracy of reserve practices	84	69	88	35	25	38
(15) Percent of claims receiving permanent disability awards	7	56	25	0	0	0
(16) Percent of claims settled on a release basis	9	13	13	2	0	0
(17) Percent of persons with permanent total disabilities who achieve maximum independence in controlling of bodily functions	12	6	13	1	0	0
(18) Percent of claims in litigation	36	50	13	3	6	0

Source of data on Private Carriers(nationwide) and State Funds is the Draft Report to the Interdepartmental Worker's Compensation Task Force by Teknekron, Inc.; data on Alaskan Carriers are from the carriers survey.

There is no clear trend to indicate which type of carrier system provides the best claims management services. Private carriers are perceived to have some advantage in vocational rehabilitation, but they also seem more prone to controversy. The draft report concluded that, "Present data cannot support any opinion that one type of insurer is more effective than any other in the management of the injured." Until accounting and reporting standards become more uniform, it is unlikely that convincing evidence will be presented on behalf of either system.

In the delivery of other types of services, private carriers enjoy a clear but very difficult to quantify advantage. These other services include the services provided, not by the carriers themselves, but rather, by agents and brokers (only the Michigan fund uses the agency system and pays for these services in the form of commissions). Private carriers (either directly or through agents) are usually in a position to provide a wider variety of coverage; they can provide a small employer with "package" coverage and have greater flexibility in tailoring coverage to fit any given business. Almost all state funds provide employers' liability coverage but none offers a complete range of lines.

IV. PROJECTED COSTS OF ESTABLISHING A STATE FUND IN ALASKA

Cost of establishing a competitive State Fund in Alaska

There are two categories of costs in establishing a State Fund — operating expenses and capital fund expenses. We will first consider the amount of money necessary for the capital fund, hereinafter sometimes referred to synonymously as "net worth" or "capital."

Part A: Capital Fund

The capital fund is money set aside to pay for unexpected events. The most common possible events are unusually large losses, inadequate estimation of liability for unpaid losses, inadequate rates and unexpectedly poor investment results.

The premium and investment income collected by the Fund in the long run should pay for expected losses and expenses. In any year, however, it is possible that losses will be greater than expected. A capital fund is needed to pay for the short term deficit.

In addition to the possibility that losses may be higher than expected, there is the possibility that the Fund will inadequately estimate the amounts owed on old losses. This can occur because, particularly in workers' compensation insurance, losses are not paid immediately, but are paid over long periods of time. When a loss occurs, the State Fund must set aside money to pay the amount that will ultimately be owed to that worker. This ultimate amount is not known at the time of loss, and so it must be estimated.

The money set aside by the company to make these future payments to injured workers is called the loss reserve. The loss reserve represents the company's estimates of how much it will owe to injured workers. Because this reserve is only an estimate, it is possible that too little money will be set aside. When enough additional information becomes available to determine that there is a deficiency in the loss reserve, the capital must provide the money to make up the deficit. The danger of inadequate rates is heightened by requirement that a State Fund accept every risk submitted for insurance, thus in effect becoming an Assigned Risk Pool through adverse selection. Rates are promulgated for the average risk. Risks poorer than average have to be subsidized and this constitutes an additional burden on capital funds.

Finally, capital is needed if investments made by the Fund deteriorate. Generally, an insurance company will set aside a capital fund equal to one fourth or more of the premium it expects to write. The Alaska statute requires a minimum capital fund of \$1,000,000 for any insurance company planning to write one line of casualty insurance (for example workers' compensation insurance) in Alaska. Of this amount, \$300,000 must be deposited in trust through the insurance director.

Workmen's Compensation insurance losses are paid at a slow rate, which means that initially the Fund will be collecting more in premiums than it will be paying out in losses. The Fund could finance its capital and the expense costs (discussed in the next section) from

money it does not yet need to pay losses. Under these conditions, however, the Fund would be legally insolvent (its current assets would not be sufficient to pay for all of its anticipated liabilities). Such minimum financing would impair the Fund's ability to compete with other, more financially secure companies and would provide dubious security for the ultimate payment of just claims.

In 1975 the capital fund sizes of various State Funds ranged from a low in Pennsylvania, whose Fund was reported to be insolvent as of December 31, 1975, to highs in several states where net worth was larger than one year's premium.

Let us briefly consider the possibility of having to go to the Legislature for further financing under three different assumptions concerning an initial capital funding.

The first approach - conservative, is to set up an initial capital equal to 50% of the first year's anticipated written premium.* The likelihood of a need to go back to Legislature is very remote.

The second approach - moderately conservative, is to establish an initial capital equal to 25% of the first year's anticipated written premium. In this case the likelihood of need for additional capital is still small.

The third approach - least conservative, initial capital equals 10% of the first year's anticipated written premium. On this basis, insolvency during the first few years should occasion no great surprise, but the Fund might be able to recoup its losses before actually running out of cash.

*Written premium is the price paid by insureds for the coverage provided.

We recommend that the Alaska competitive Compensation Insurance Fund aim for an initial capital fund equal to about 25% of the first year's anticipated written premium, which we shall assume for the moment is \$2,000,000. This would require an initial capital fund of \$500,000 and assumes that the \$1,000,000 minimum requirement for private insurers would be waived in the case of a State Fund having at least the moral backing of the Legislature. Later contributions to capital would be obtained from the net operating results of the Fund.

Part B: Operating Costs

For an insurance company operating on a fixed volume of business, premiums collected will pay for its operating expenses. An insurance operation which is growing rapidly or just starting requires an additional amount of money to finance initial growth if a satisfactory capital/premium ratio is to be maintained.

In Exhibit 1, we project that the 1978 Alaska workers' compensation premiums will be \$80,000,000. A five percent share of that market (\$4,000,000) is not unreasonable for a two year old workers' compensation Fund not too severely inhibited in seeking business. With operation on a smaller scale, it would be difficult to provide adequate service. Exhibit 2 shows the market shares of most non-exclusive state funds. These range from a low of less than 5% in Michigan to a high of over 60% in Oregon. An ultimate market share of over 25% should be obtainable. On 1978 premium volume this would be \$20,000,000.

It is assumed that the State Fund will provide a level of service which is typical of that provided by existing state funds in the United States. The Alaska underwriting and claims expenses shown in Exhibit 3 have been estimated by a comparison with operating state funds. Exhibit 4 shows the ratios of expenses to premiums for ten non-exclusive state funds.

Exhibit 3 projects the Alaska Fund expenses of \$632,000, close to our nominal standard for state funds of 15%.* Obviously, actual cost can vary somewhat downward and quite a bit upward depending upon management.

Exhibit 5 shows the ratios of expenses to premium for all mutual companies in the United States. In 1975 the ratio of operating expenses to premium was 22.1%.

Any projection of capital needs obviously depends upon assumptions as to the rate of growth. What marketing approach will be permitted we shall not try to guess here, but it is reasonable to assume that the Fund will write at a downward deviation from National Council rates. This is because savings due to the Fund's lower expenses (at least in the area of commissions) should be passed on to employers and because, unless it either pays commissions or advertises heavily, it will need a price advantage in order to win any desirable part of the market. We have assumed for purposes of illustration that the Fund will write at a nominal 20% deviation. By "nominal 20%" we mean at 20% off manual rates. Further assuming a safety factor of 5% of premium (as against the National Council's 2.5% for "profit and contingencies"), this allows 75.875% of premium for losses and 19.125% for expenses.

We believe a 5% provision for profit and contingencies, better characterized as a "safety factor" in the case of a state fund, is necessary because of the greater risk associated with operating in a single state with only one line of business.

* As an Appendix we include our report "A Review of Budgetary Requirements for the Colorado State Compensation Insurance Fund" as of December 23, 1976.

(1) National Council allowance for losses and loss adjustment	67.9%*
(2) Ratio of loss adjustment expenses to losses and loss adjustment	.106
(3) Estimated allowance for losses alone $(1) \times [1.0 - (2)]$	60.7%
(4) Allowance for losses assuming 20% deviation $(3) / .8$	75.875%
(5) Allowance for expenses 10% - (4) - 5%	19.125%

A larger provision for expenses is needed than the 15% assumed to be actually necessary because rapidly growing insurance company will incur expenses faster than it earns the premium it collects.

Exhibit 6 shows estimated Fund expenses compared to assumed expenses for two models of growth. The high growth model assumes that premiums will increase at first by \$2,000,000 a year and then by \$3,000,000 a year. The earned premiums in column 2 represent the portion of the premiums paid by employers for coverage already provided. The difference between premium earned and written premium for a given policy is called unearned premium. The unearned premium would be returnable to employers if a policy were cancelled. Total earned premiums on all policies issued by the Fund are estimated here as the average of written premium for a current year and written premium for the prior year. Thus, \$3,000,000 is the average of \$4,000,000 and \$2,000,000 for Model 1. The expense income earned in column 3 is 19.125% of earned premium.

* Including 1.8% loading for "serious loss contingency factor". (National Council filing effective November 1, 1977)

Actual expenses of the Fund are calculated as explained in the footnote of Exhibit 6. The higher percentage for the first year represents startup expenses. We have estimated expenses in each year by applying the assumed expense ratio to the mean of written premiums for the given year and written premiums for the following year. This assumption is conservative in providing for six months' anticipation of needs for staff and facilities. With tight management a three month lead might suffice.

The additional 50% (20% instead of 15%) assumed expenses of the first year is necessarily a judgmental figure. A recent example of the cost of setting up a state fund is provided by the Puerto Rico Automobile Accident Compensation Administration, which began operations January 1, 1970:

<u>Item</u>	<u>Period</u>		
	<u>1/1/70 6/30/70</u>	<u>6/30/71-6/30/71</u>	<u>6/30/71-6/30/72</u>
(1) Administrative Expenses	1,192,289	2,085,847	3,431,690
(2) Premium Collected	8,837,667	18,431,788	20,075,661
(3) (1) + (2)	13.49%	11.32%	17.09%

Expenses during the first year were higher by only 2.17% than during the second year, as a ratio to premium. On this experience, the additional 5% we have assumed for the first year may well be conservative. The increase in the third year of 5.77% over the second year is not typical of most growing organizations.

The difference between expense income earned and actual expenses produces a surplus or deficit. Rapid growth of the Fund causes a larger deficit. Model 1 anticipates an annual volume of \$15,000,000 in the sixth year. The estimated cumulative expense deficit at the end of the fifth

year is \$997,000. Model 2 assumes \$7,000,000 premium in the sixth year, producing an estimated cumulative expense deficit after five years of \$249,000. In Model 1, a small deficit is still produced in the fifth year. The sixth year, not calculated in the exhibit, would show a slight surplus. Model 2 shows a surplus beginning with the fourth year. Without the excess allowance for expenses provided by the 19.124% discussed above, as compared with the 15% assumed necessary with stable volume, the deficits would continue indefinitely with increasing volume.

The calculations of Exhibit 6 make no provision for taxes. If the Fund is taxed, as some if not all competitive state funds are, the cost would have to be met in one of three ways:

1. Reduced safety factor.
2. Longer period of deficit operation.
3. Higher rates.

In both models it is assumed that the Fund would start with \$2,000,000 premium in the first year. The actual figure might well be lower but a nucleus of business could be provided by requiring all governmental and quasi-governmental agencies to insure with the Fund.

Exhibit 7 develops estimates for the number of employees that would be required by the Fund. The numbers in Exhibit 8 were obtained from various state funds' ratios of the number of employees per thousand dollars of premium.

Based on the median and the average ratios of employees per thousand dollars of premium, we estimate that for a state fund with \$4,000,000 annual premium, about 20 employees would be needed. For a \$20,000,000 Fund the number of employees would be approximately 100.

Exhibit 9 shows a distribution of the number of employees by function for the various state funds. The breakdown of twenty employees by category is displayed in Exhibit 10. The largest single category of employees is in claims.

Cost of establishing an exclusive State Fund in Alaska

We do not favor a lower standard for operating an exclusive State Fund than for a competitive one. Our assumption is that operating costs would be the same except for possible economies of scale in the range of at most a few percent of premium.

There is, however, a lower risk environment for an exclusive Fund. An exclusive Fund has more control over its rate level. A competitive Fund can go bankrupt if rates are not adequate, whereas an exclusive fund can set rates at whatever level is needed. This ability is not, however, without the constraints of economic and political reality and, where permitted, the competition afforded by the option of self-insurance. It is possible to cut costs in areas like accident prevention, auditing, maintenance of statistics, rate making and even financial management including actuarial valuation of liabilities, if a sub-standard mode of operation is desired. Actually, initial capital funding can be arbitrarily low if premiums are collected in advance.

Let us consider possible approaches regarding the size of the initial capital.

First - conservative, is to establish an initial capital equal to 25% of the first year's written premium. This is half of the percentage specified above for a competitive fund. For the State of Alaska in 1978 this is estimated in the area of \$70,000,000. The 25% amounts to \$17,500,000

Second - moderately conservative, 17.5% of \$70,000,000 which is \$12,250,000.

Third - the least conservative, 10% of \$70,000,000 which equals \$7,000,000
While least conservative of the options dated above, 10%
capitalization is clearly more conservative for an exclusive
fund than for a competitive one.

We would not recommend the third approach. There is always a risk
of unforeseen adverse development of experience, therefore to protect a
financial stability we suggest an initial capital of \$12,250,000
a future target of 25% ratio of net worth to annual written premium.

It is necessary to rely on judgment in analyzing estimates in the
area of operating cost because of the variation in service rendered by
different state funds and in overhead costs. State funds usually
occupy State-owned office buildings, which makes interpretation of
their rental costs uncertain. A practical minimum expense ratio
would be provided by the example of West Virginia, for which the
ratio of operating expenses including loss adjustment expenses to
premium was reported at 4.0% for fiscal year 1974-75.

We would consider expenses in the range of 6 to 7 percent of
premium as a minimum target that probably could not be obtained
without at least partial omission of some functions.

In time, operating expenses may be covered by investment
income. As in the case of a competitive fund, start-up expenses
should run somewhat higher than normal operating expenses and we
would allow 3% to 5% additional for the first year of operation.

Conclusions

A state fund can be started with arbitrarily small capital if premiums are collected in advance. Moderately conservative financing, however, would indicate capitalization at 25% of first year's anticipated written premium for a competitive fund and 17.5% for an exclusive fund. Maintenance of such a ratio for a growing fund will require some over-provision for expenses and a safety factor of at least 5% in premium rates.

For an assumed first year premium of \$2,000,000, a competitive fund would thus need \$500,000 capitalization. On the basis of \$70,000,000 assumed premium volume, an exclusive fund would need a capitalization of \$12,250,000.

In either case, necessary capital could be supplied by a special issue of State bonds which would be turned over to the Fund. If, and as the Fund prospered, it conceivably could return the bonds to the State and replace them with other securities purchased out of operating income. In event the Fund were forced to sell the bonds, however, the State would obviously suffer accordingly, which points up the need for conservative management and adequate rates.

PROJECTED 1978 ALASKA PREMIUM
(Amounts in 000's)

Part I. Data

<u>Policy Year</u>	<u>Policy Year Net Earned Premium</u>	<u>Policy Year Net Earned Premium at 6/75 Rates</u>	<u>Exposure Index</u>
1967	8,501	19,458	1.000
1968	9,061	21,050	1.082
1969	11,209	24,268	1.247
1970	12,315	24,334	1.251
1971	12,744	24,431	1.256
1972	14,177	25,362	1.303
1973	15,863	28,570	1.468
1974	25,732	37,145	1.909
1975		45,536	2.340
1976		57,046+	2.932
1977			3.5*
1978			4.0*

Part II. Calculation

$$\begin{aligned}
 \text{1978 Premium} &= (\text{1978 exposure index}) \times (\$19,458) \times \\
 &\quad (\text{1976 rate change}) \times (\text{projected rate} \\
 &\quad \text{changes for 1977}) \\
 &= (4.0) (\$19,458) \times (1.037) \times (1.0) \\
 &= \$80,712
 \end{aligned}$$

* Estimated by projecting a linear growth rate lower than observed for 1973-1975.

+ Fiscal year 7/1/75 - 6/30/76.

Workers' Compensation
State Fund Market Penetration

<u>State Fund</u>	<u>Fund Premium</u> (000's)	<u>Private Carrier Premium ('73)</u> (000's)	<u>Market Share</u>
Arizona	37,913	63,150	37.5%
California	200,649	701,579	22.2
Colorado	26,492 ('74)	28,001	48.6
Idaho	5,630 ('74)	20,644	21.4
Maryland	5,504 ('74)	91,289	5.7
Michigan	15,752	328,828	4.6
Montana	9,504	11,236	45.8
New York	N/A	398,407	23.0*
North Dakota	7,070	152	97.9
Oklahoma	6,494	54,774	10.6
Oregon	111,778 ('74)	55,991	66.6
Pennsylvania	15,256 ('74)	223,600	6.4
Utah	9,434 ('74)	5,731	62.2

N/A = Not available

('74) = 1974 premium

* 23.0% is the A.A.S.C.I.F. Fact Book estimation

Calculation of Possible
Alaska Competitive Fund Expenses

	<u>By End of Year 2</u>
(1) Assumed Market Share (% of 1978 Market)	5%+
(1a) 1978 Alaska Earned Premium	\$80,000,000++
(2) Fund Earned Premium (1) x (1a)	\$ 4,000,000
(3) Underwriting Expenses	
Median** Value of 8.8%* x 4,000,000	352,000
(4) Claims Expenses (Loss Adjustment Expenses)	
Median Value of 7.0% x 4,000,000	280,000
(5) Total Expenses	
(3) + (4)	632,000
Median of column (7) Exhibit 4; 14.2% x 4,000,000	568,000

* From Exhibit 4, columns (4), (6), and (7).

** For a set of measurements arranged in order of magnitude, the median is defined as the middle measurement, if there is one, otherwise as the interpolated middle value.

+ Assumes aggressive marketing and continued growth of Alaska economy.

++ From Exhibit 1

STATE WORKERS' COMPENSATION
OPERATING EXPENSES

CALENDAR YEAR 1975

(Amounts in 000's)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
<u>State Fund</u>	<u>Earned Premium</u>	<u>Other Underwriting Expenses Incurred</u>	<u>Ratio to Premium (3) ÷ (2) x 100%</u>	<u>Loss Adjustment Expense Inc'd</u>	<u>Ratio to Premium (5) ÷ (2) x 100%</u>	<u>Total Ratio (4) ÷ (6)</u>
Ariz.	39,540	6,855	17.3%	2,910	7.4%	24.7%
Calif.	275,663	22,521	8.2	20,725	7.5	15.7
Colo.	28,402	1,424	5.1*	1,876	6.6	11.7
Idaho	6,542	511	7.4*	408	6.2	13.6
Mt.	5,328	785	14.7.	N/A	N/A	14.7
Mich.	17,921	2,289	12.8	2,309	12.9	25.7
Mont.#	15,696	N/A	N/A	N/A	N/A	12.2
Okla.	8,734	1,130	12.9	715	8.2	21.1
Ore.	122,553	11,036	8.8*	5,468	4.5	13.3
Utah**	9,784	765	7.8*	390	4.0	11.8
Median			8.8		7.0	14.2

* These ratios are taken to Written Premium. (Colorado WP - 28,105, Idaho WP - 6,927, Oregon WP - 125,822 Utah WP - 10,667).

** Utah data represents 1975-76 fiscal year.

The distribution of expenses is not available. Total expenses equal to 1,912.

WORKERS' COMPENSATION EXPENSE RATIOS - MUTUAL COMPANIES

<u>Cal. Yr.</u>	<u>Ratios to Premium Written</u>			<u>Ratio to Earned Premium</u>	
	<u>Other Acquisition Expense</u>	<u>General Expenses</u>	<u>Taxes</u>	<u>Loss Adjustment Expense</u>	<u>Total</u>
1971	4.5%	6.3%	3.9%	8.8%	23.5%
1972	4.5	6.2	4.2	8.9	23.8
1973	.	5.9	4.1	8.6	23.1
1974	.	5.8	3.7	8.8	22.7
1975	4.3	5.6	3.9	8.3	22.1

Source: Best's Aggregates and Averages, A.M. Best and Company.

<u>Projected Income</u>					
<u>Model 1 - High Growth Model</u>					
	(1)	(2)	(3)	(4)	(5) = (3)-(4)
	Annual Premium Writings (Rate at Year End) (000's)	Earned Premium (000's)	Expense Income Earned + (000's)	Actual Expenses * (000's)	Surplus/ Deficit (000's)
Year					
1	2,000	1,000	191	600	-409
2	4,000	3,000	574	750	-176
3	6,000	5,000	956	1,200	-244
4	9,000	7,500	1,434	1,580	-146
5	12,000	10,500	<u>2,008</u>	<u>2,030</u>	<u>-22</u>
6	15,000				
Total			5,163	6,160	-997

<u>Model 2 - Low Growth Model</u>					
	(1)	(2)	(3)	(4)	(5) = (3)-(4)
	Annual Premium Writings (Rate at Year End) (000's)	Earned Premium (000's)	Expense Income Earned + (000's)	Actual Expenses * (000's)	Surplus/ Deficit (000's)
Year					
1	2,000	1,000	191	500	-309
2	3,000	2,500	478	525	-47
3	4,000	3,500	661	675	-6
4	5,000	4,500	861	825	36
5	6,000	5,500	<u>1,052</u>	<u>975</u>	<u>-77</u>
6	8,000				
Total			3,251	3,500	-249

+ 19.125% of premium is assumed to be available for expenses

* Year 1: 20% of mean of premium writings for year 1 and year 2.
Other years: 15% of mean of premium writings for given year and following year.

Exhibit 7

CALCULATION OF POSSIBLE ALASKA
COMPETITIVE FUND PERSONNEL REQUIREMENTS

	<u>Year 2</u>	<u>Year 8+</u>
(1) Assumed premium volume	4,000,000	20,000,000
(2) Total Personnel		
(1) + (Median Value of 189.5 x 1,000)*	21	106
(1) + (Average Value of 205 x 1,000)*	20	98

* From Exhibit 8. Premium per Employee.

+ Assuming high growth model.

STATE WORKERS' COMPENSATION FUNDS
NUMBER OF PERSONNEL

<u>State</u>	<u># of Fund Employees</u>	<u># of Accidents Processed</u>	<u>\$ Premium (000's)</u>	<u>Accidents Processed per Employee</u>	<u>Premium \$ per Employee (000's)</u>
Ariz.	486	29,707	39,540	61	81
Calif.	1,376	193,213	275,663	140	200
Colorado	168	52,856	28,402	315	169
Idaho	39	6,032	6,542	154	168
Maryland	53	12,366	5,328	233	101
Michigan	100	10,913	17,921	109	179
Montana	36	9,999	15,696	278	436
Oklahoma	42	6,801	8,734	162	208
Oregon	598	70,612	122,553	118	205
Utah	32	34,469	9,784	1,077	306
Average*	293	42,697	53,016	265	205
Median					189.5

* Sum of column divided by 10.

There is no apparent correlation between premium volume and either the number of accidents processed per employee or the dollars of premium per employee.

STATE FUND	(1)		(2)		(3)		(4)		(5)		(6)		
	# OF EMPLOYEES	% OF TOTAL EMPLOYEES	# OF EMPLOYEES	% OF TOTAL EMPLOYEES	# OF EMPLOYEES	% OF TOTAL EMPLOYEES	# OF EMPLOYEES	% OF TOTAL EMPLOYEES	# OF EMPLOYEES	% OF TOTAL EMPLOYEES	AVERAGE COST	(5c) x (5a)	
ARIZONA	165	34.8	217	65.2	6,955	1	.2	168	—	486	100.0	9,933	20.44
CALIFORNIA	242	27.8	20,725	40.8	7,589	2	.1	1,384	431	1,376	100.0	44,629	22.43
COLORADO	97.18	57.8	1,976	70.82	1,424	—	—	—	—	168	100.0	3,100	19.64
IDAHO	20	51.3	408	18.5	47.4	5	1.3	27	—	39	100.0	946	24.26
MARYLAND	26	49.1	337	14	174	—	—	13	13	24.5	100.0	1,033	19.87
MICHIGAN	47.3	47.3	756	48.5	48.5	—	—	4	4	4.0	100.0	1,604	16.04
MONTANA	27	75.0	269	9	25.0	—	—	—	—	36	100.0	901	23.03
OKLAHOMA	20	47.6	—	—	—	2	4.8	—	—	42	100.0	—	—
OREGON	231	38.8	9,468	261	3,770	3	.5	988	101	16.9	100.0	17,091	28.68
Average		47.7		42.9			1.4			19.2			23.30
Median		47.6		43.8			.5			20.7			22.35

(b) - (a) + (5a) x 100

COMPARISON OF PERSONNEL OF STATE FUNDS (Costs are in \$1000's)

EXHIBIT 9

ESTIMATED DISTRIBUTION OF EMPLOYEES BY FUNCTION

- 1) Estimated Total Number of Employees needed by the end of year 1 to service year 2 business (Exhibit 7) 20
- 2) Number of Employees by Function

	(a)	(b)
	<u>Average*%</u>	<u>Number of Employees</u> <u>20 x (a)/100</u>
Loss Adjustment (Claims)	42.9	9
Acquisition and Underwriting	38.6	8
Investment Management	1.3	0
Other	<u>17.2</u>	<u>3</u>
Total	100.0	20

* From Exhibit 9 (Average X .8993 in order to normalize)

V. GENERAL CONSIDERATIONS

This chapter will examine some other factors which bear on the establishment of a state fund. We will consider some developments in other states, solvency, some market factors and economic policy.

Other States

The status with regard to state funds in other states has been remarkably stable. Oklahoma was the last state to establish a workers' compensation fund in 1933. Oregon became the only state to have changed the basic nature of an operating fund in 1965 when the law was changed to permit self-insurance and competition from private carriers and, at the same time, to make coverage compulsory. A bill which would have permitted self-insurance was amended to permit private coverage and was defeated. An initiative sponsored by labor representatives which would have kept the fund exclusive but made coverage compulsory was defeated by a three to one margin at the polls. The legislation which passed was a compromise.³⁶

The State Accident Insurance Fund in Oregon, at the request of the Interim Committee on Trade and Economic Development, prepared a paper which reviewed the ten years of cost experience since the change to a

³⁶ C. Arthur Williams, Jr., Insurance Arrangements Under Workmen's Compensation, U. S. Department of Labor, Bureau of Labor Standards, Bulletin No. 317, 1969, pp. 152-154.

competitive system. The report concludes that retention of earned premiums by private carriers has been about four times as great as that of the state fund (22.20% compared to 5.27%). They avoided speculation on the quality of service and other policy issues.³⁷

The committee staff admitted "that competition may improve service" but found a "layering of inefficiencies within the system" and recommended a return to an exclusive fund. The committee did not adopt their recommendation. Legislation which would return the fund's exclusive status is now pending in Oregon.

There have been several moves to alter the status of funds in other states. Repeated attempts to gain entry for private carriers in other states with exclusive funds, notably in Washington and Ohio, have failed but the pressures still exist. A previous concerted effort on the part of private carriers in Ohio was thwarted, partly by the opposition of the manufacturers, but a current move may be successful in the wake of a continuing scandal which involves the operations of the fund.

Market Considerations

Exhibit 2 of Chapter IV gives market shares for the 12 competitive state funds. These ratios have proved stable over many years; the average market share is about 30 percent, with the high of 67 percent in Oregon and the low of 5 percent in Michigan (the only fund which uses the agency system). This stability apparently reflects the fact that,

³⁷ "Options for Lowering Workmen's Compensation Costs in Oregon," by the State Accident Insurance Fund, appearing in Oregon Legislative Assembly Workers' Compensation: Staff Recommendations, Legislative Committee on Trade and Economic Development, November 1976.

within the context of the pricing, underwriting and advertising policies, the market has found equilibrium. The great differences in market shares reflect the differences in policies.

Large firms are usually eligible for considerable premium discounts and a variety of rating plans. Their economic power and the real economies that accrue with size make the private market relatively attractive. As a rule, it is the smaller employer or the poor risk who is attracted to a state fund. It is possible, especially under an exclusive fund system, to make rates which do not reflect the cost or exposure involved in writing a policy. Private carriers can reject any risk and may be expected to if they do not believe the rate is adequate. If it is accepted that the rate should reflect the exposure and the cost of writing the policy, then employers who benefit from "artificially" low rates are, in effect, subsidized by the other insureds. This type of subsidy in a private system puts a severe strain on the availability of insurance for some classes.

Assigned risk plans or pools provide coverage where a state fund that accepts all risks is not present. Surcharges are usually associated with risk pools and sometimes with state funds for some risks. To the extent that a risk pool is a net loser, as the one in Alaska has been in recent years, the surcharge is not adequate or the rating system is defective (see the Woodward and Fondiller report).

Acquisition costs have been discussed but the role of the broker or agent in the market is difficult to assess. Acquisition costs have

been referred to as "the price of competition"³⁸ and, in the sense that the related services have succeeded in attracting and holding business in the face of competition, the price is not exorbitant. It is certain that numerous independent sellers in an otherwise concentrated market increase the possibilities for competition. This influence will be increasingly important if Alaska moves in the direction of an open competition rating system.

Solvency is an issue which is dealt with to some extent in Chapter IV but deserves mention here. A monopolistic fund is always in a position to maintain solvency by virtue of its captive market. Policies which lead to insufficient reserves can be offset by higher rates in the future. Greater care must be taken to insure the solvency of a competitive fund but, even if the state does not guarantee the solvency of the fund, it is possible to manage the fund in a fiscally sound manner. Even though many funds have found themselves to be technically insolvent (as the Pennsylvania fund is now), they have always been able to recover; no fund has ever defaulted or gone bankrupt.

Private insurers are usually regulated financially by the state division of insurance. In addition to regulation, there is usually a provision in state law which provides for making good the obligations of carriers which are forced into receivership. In Alaska, carriers are liable for up to two percent of their premiums in any given year to cover the liabilities of other insurers who may have defaulted on their

³⁸ Ashley St. Clair, "Occupational Disability Privately Insured," in Occupational Disability and Public Policy, edited by Earl F. Cheit and Margaret S. Gordon, John Wiley & Sons, Inc., 1963.

obligations. If the assessment is not sufficient, another will be made the following year. This provision has been applied in a recent case involving a carrier writing auto insurance. An assessment arrangement in conjunction with regulation seems adequate to protect workers.

In short, solvency does not seem to be an issue of importance. Either system can provide reasonable assurance of meeting its obligations. It should be noted, however, that the procedure for authorizing self-insurance in Alaska provides almost no security and deserves re-examination.

The issue of profitability in workers' compensation insurance arises as a policy consideration since employers are legally obligated to provide coverage for their employees. Some writers have maintained that any profit from such social insurance is morally unacceptable. In spite of that argument, an allowance for underwriting profit by private carriers (usually 2.5 percent of premium) has been generally accepted and is built into most rating systems.

Underwriting is not the only source of profit for workers' compensation carriers; they also receive income in the form of investment earnings. The Woodward and Fondiller report analyzes the treatment of investment earnings; here, it is sufficient to note that profits from workers' compensation insurance have not been significantly higher than in other lines of insurance. For the years 1961-1970, before-tax profits from all sources of income in workers' compensation averaged about nine percent of earned premium compared to about eight percent for all other lines. After-tax profits differed by only three-tenths of one percent. The massive study by the Center for Insurance Research at Georgia State

University found no evidence to indicate that rates of return in the insurance industry were excessive when compared to other industries. If anything, they appeared less adequate.³⁹ Alaskan carriers have experienced less favorable results than the industry as a whole over the past five years.

The retention of capital in the state is another policy consideration. Within the bounds of prudent financial management, the capital generated by the operation of a state fund could be used to achieve economic goals. As pointed out in the report of Woodward and Fondiller, the Colorado fund invests heavily in mortgages. Following Woodward and Fondiller's projections from Chapter IV, the capital that would be set aside against the entire \$80,000,000 in premiums in 1978 by an exclusive fund in Alaska would be about \$14,000,000.

Finally, the legislature must question the desirability of government entering an area where private enterprise is already operating. We have tried to present data on which such a decision may, in part, be based.

³⁹ "The Profitability of Workmen's Compensation Insurance," A Report to the National Commission on State Workmen's Compensation Laws," prepared by the Center for Insurance Research, Georgia State University, 1972, in the Supplemental Studies for the National Commission on State Workmen's Compensation Laws, Washington, D. C., 1973.

SUMMARY AND CONCLUSIONS

The current concern with workers' compensation in Alaska is centered around the high cost of coverage. Employers have overwhelmingly cited cost as the main problem with the current system. Premium rates as a percentage of payroll have doubled since 1972. The main tasks of this report have been to estimate the savings in overhead costs which would result from the establishment of a state fund, to evaluate the savings in light of concomitant differences in services rendered, and to provide an estimate of the cost of beginning a state fund operation.

From 1971 through 1975, private carriers nationwide retained 21.8 percent of net earned premiums, about 15 percent more than the 6.6 percent retained by state funds. After making a four percent allowance for governmental subsidies received by some state funds and considering differences in rating systems, state funds still retained an estimated 11 or 12 percent less earned premium for their services. The Alaska carriers' retention rate was 23.7 percent for that same five year period; higher than for private carriers as a whole but lower than for the non-participating stock carriers which dominate the Alaskan market.

This estimate of the savings that could be achieved with a state fund seems conservative. We believe that the allowance for subsidies is generous and that it reflects the costs of operating a "full service," self-supporting fund. It is also reasonable to expect that the reten-

tion ratio of private carriers, particularly those in Alaska, will increase more than the state fund ratio as underwriting results improve. Private carriers had very poor underwriting results in the five year period under consideration and did not realize the 2.5 percent profit which is anticipated in most rate structures (Alaskan carriers showed a five percent underwriting loss). The estimate of Woodward and Fondiller in Chapter IV, converted to a net earned premium basis and adjusted for premium tax exemption, anticipates a saving of 14.1 percent in the first few years of state fund operation.

It is important to realize that the smaller percentages of premium retained by state funds would apply only to the state fund's premium volume. In other words, if a competitive state fund were established, wrote 25 percent of the premiums in the state (as projected), and retained 12 percent less of net earned premiums on their volume of business than private carriers would have, the savings, in terms of total state premium, would be three percent.

In evaluating the services rendered by the two types of insurers, we have found that, outside the area of product distribution, neither type enjoys any clear advantage. There are exceptions which may be cited on both sides of the question but, on the whole, state funds and private carriers spend about the same amount on loss adjustment; both groups devote a relatively small portion of resources to rehabilitation and safety. Generally, this means that the employers who are insured by a state fund forgo the services of agents or brokers unless they provide for them at extra cost.

A large firm with interstate operations would probably not find any significant cost advantage with a state fund and would be unable to insure its entire operation with one company. Small firms that would benefit from lower premiums would not have the convenience of package insurance (rated as an advantage by 44 percent of the survey respondents). Good service was rated highest as an advantage of the present system by the respondents to the employer survey; in many cases this may be interpreted to mean the services rendered by agents or brokers. These services would not be available if large savings in acquisition costs were achieved under a typical state fund system.

Under either a competitive or an exclusive state fund system, the investment and management policies and the personnel of the fund are subject to political influences. These influences may be interpreted to be justifiable responses to public need or unnecessary interference with the market mechanism.

Under a competitive state fund system, employers would retain the option of insuring with a private company, but substantial savings for the system as a whole would not be realized, especially in the first few years of operation. If an exclusive fund were established, greater economies could be achieved at the expense of flexibility and the benefits of competition; companies now operating would be disfranchised and the burden of providing all coverage would immediately fall on the state with the attendant risks of failure. It is not clear whether the savings provided would be "substantial" in the minds of 65 percent of the employer survey respondents who indicated they would favor a state fund if it

would "result in substantial savings." It is clear that an exclusive state fund would remove the advantage of the present system which survey respondents felt was second in importance: minimal governmental involvement.

APPENDIXES

APPENDIX I

5 YEAR COMPARISON (000 omitted)
1971-1975

PRIVATE CARRIERS

State	Net Earned Premium	Incurred Losses	Loss Ratio	Dividends to Policyholders	%	Retention	%
Alabama	228,518.9	153,493.4	67.2	11,734.1	5.1	63,291.4	27.7
Alaska	94,908.8	70,328.7	74.1	2,046.1	2.2	22,534.0	23.7
Arizona	436,092.4	338,608.1	77.6	30,103.0	6.9	67,381.3	15.5
Arkansas	225,293.6	154,654.8	68.6	2,046.1	0.9	68,592.7	30.4
Connecticut	409,821.0	287,164.4	70.1	25,911.0	6.3	96,745.6	23.6
Colorado	123,694.3	78,474.1	63.4	8,492.8	6.9	36,727.4	29.7
Washington, D.C.	141,820.6	122,547.3	86.4	5,052.1	3.6	14,221.2	10.0
Florida	1,179,925.1	1,000,141.2	84.8	53,924.2	4.8	125,859.7	10.7
Georgia	405,383.3	284,255.3	70.1	21,932.4	5.4	99,195.6	24.5
Hawaii	128,968.0	94,758.5	73.5	6,414.3	5.0	27,795.2	21.6
Idaho	99,686.9	65,065.5	65.1	5,588.3	5.6	29,033.1	29.1
Illinois	1,262,539.0	958,599.9	75.9	56,154.5	4.4	247,784.6	19.6
Iowa	2,6414.5	149,554.2	69.1	10,025.5	4.6	56,834.8	26.3
Kansas	201,432.2	136,202.6	67.6	9,649.0	4.8	55,580.6	27.6
Louisiana	572,875.1	447,601.1	78.1	21,799.9	3.8	103,474.1	18.1
Maine	121,581.8	89,594.5	73.7	6,212.2	5.1	25,775.1	21.2
Maryland	444,950.0	287,237.0	64.6	27,744.5	6.2	129,968.5	29.2

(Appendix I)

Michigan	1,512,610.1	1,129,032.5	74.6	121,498.0	8.0	262,079.6	17.3
Minnesota	592,349.0	379,760.1	64.1	49,212.4	8.3	163,376.5	27.6
Mississippi	197,788.1	117,470.6	59.4	10,706.7	5.4	69,610.8	35.2
Missouri	383,661.5	270,262.9	70.5	22,501.7	5.9	90,696.9	23.6
Montana	61,232.5	38,406.4	62.7	2,659.2	4.3	20,166.9	32.9
Nebraska	132,816.3	88,172.6	66.4	5,726.2	4.3	38,917.5	29.3
New Hampshire	90,046.6	76,686.0	85.2	5,088.2	5.7	8,272.4	9.2
New Mexico	125,420.4	82,124.3	65.5	5,582.4	4.5	37,713.7	30.1
North Carolina	339,193.4	213,709.8	63.0	24,801.9	7.3	100,681.7	29.7
Oklahoma	260,983.9	197,177.1	75.6	12,504.9	4.8	51,301.9	19.7
Oregon	237,842.8	173,947.3	73.1	20,308.9	8.5	43,586.6	18.3
Rhode Island	107,136.1	85,795.1	80.1	5,384.9	5.0	15,956.1	14.9
South Carolina	191,717.3	119,623.3	62.4	14,143.5	7.4	57,950.5	30.2
South Dakota	40,778.0	24,769.0	60.7	1,864.9	4.6	14,144.1	34.7
Tennessee	409,093.7	257,052.9	62.8	23,312.5	5.7	128,720.3	31.5
Utah	28,727.4	20,129.6	70.1	1,661.1	5.0	6,936.7	24.1
Vermont	43,641.4	28,396.5	65.1	2,627.4	6.0	12,617.5	28.9
Virginia	367,481.0	260,093.2	70.8	19,456.9	5.3	87,930.9	23.9
Wisconsin	431,325.5	283,862.9	65.8	38,690.2	9.0	108,772.4	25.2

(Appendix I)

COMPETITIVE STATE FUNDS

State	Net Earned Premium	Incurred Losses	Loss Ratio	Dividends to Policyholders	%	Retention	%
Arizona	181,554	155,294	85.5	19,211	10.6	7,049	3.9
California	1,030,760	825,561	80.0	160,528	15.6	44,674	4.3
Colorado	129,719	93,680	72.2	17,335	13.4	18,704	14.4
Idaho	23,762	17,872	75.2	4,000	16.8	1,890	8.0
Maryland	28,042	19,380	69.1	-0-	-0-	8,562	30.9
Michigan	79,990	66,362	83.0	7,156	8.9	6,472	8.1
Montana	57,428	46,619	81.2	5,353	9.3	5,456	9.5
New York	585,728	518,883	88.6	31,623	5.4	35,222	6.0
Oklahoma	31,528	27,309	86.6	2,248	7.1	1,971	6.3
Oregon	471,119	380,715	80.8	79,562	16.9	10,842	2.3
Pennsylvania	71,643	76,332	106.5	-0-	-0-	(4,689)	(6.5)
Utah (1971-1974)	31,232	29,409	94.2	3,096	9.9	(1,273)	(4.1)

(Appendix I)

EXCLUSIVE STATE FUNDS

State	Net Earned Premium	Incurred Losses	Loss Ratio	Dividends to Policyholders	%	Retention	%
Nevada	161,859	143,660	88.8	2,000	1.2	16,199	10.0
North Dakota	38,166	32,292	84.6	-0-	-0-	5,874	15.4
Ohio	1,304,569	1,144,297	87.7	-0-	-0-	160,272	12.3
Washington	546,157	516,670	94.6	-0-	-0-	29,487	5.4
West Virginia (1973-1975)	186,609	209,673	112.4	-0-	-0-	(23,064)	(12.4)
Wyoming (1971-1973)	13,787	10,543	76.5	-0-	-0-	3,244	23.5

Source: For private carriers is the National Council on Compensation Insurance, for state funds the AASCIF Statistics Committee Report, 1976; some data on the New York and Pennsylvania funds are directly from the funds.

APPENDIX II

THE SURVEY OF WORKERS' COMPENSATION CARRIERS IN ALASKA: A PROFILE

INTRODUCTION

Representatives of 14 carriers were asked to complete a survey. The list of 14 carriers included those which ranked in the top ten in written premium volume in Alaska in 1974 or 1975. Eight completed surveys characterizing the operations of 11 of these 14 carriers were returned. The 11 carriers represented accounted for over 82 percent of total earned premium in 1975. Three of the responses covered activities of more than one carrier; for purposes of this analysis they will be treated as single carriers in the total of eight.

The workers' compensation market in Alaska, to an even greater extent than the market in the nation as a whole, is highly concentrated. (See ACQUISITION PRACTICES). Table S1 gives market share data for the top 30 writers in calendar year 1975. The largest four writers account for 68.6 percent of written premium, the largest eight wrote 81.6 percent.

Experience in the Alaskan market varied from four to 30 years. The mean was a little more than twelve years; the median was eight years.

MARKET SERVED

Five carriers indicated that they served the general market, three serve primarily large employers, one serves primarily a particular industry and two were primarily captive carriers. Four participate in the assigned risk pool as servicing carriers. Only one respondent indicated that they serve primarily small employers.

ACQUISITION PRACTICES

Four carriers actively solicit business and pay sales commissions or brokerage fees to acquire it. Three of the others do not actively solicit business in Alaska but primarily write incidental to business outside; they also pay commissions or brokerage fees. These seven carriers' policies are sold exclusively through agents or brokers. One writer does not ordinarily pay commissions and is in a maintenance posture; new business is accepted but not solicited.

The interface through the agency system (used exclusively for 94 percent of the premiums collected by the respondents and at least 80 percent of the volume in the state) represents an important opportunity for competition in an otherwise highly concentrated market. Nationally, about 73 percent of the carriers rely primarily on this system and, on that level too, it is a mitigating factor in a concentrated market.*

* Throughout this appendix "*" refers to material in the Draft Report to the Interdepartmental Workers' Compensation Task Force" by Teknekron, Inc. Washington, D.C., October 25, 1976.

TABLE S1

State of Alaska
Workmen's Compensation Experience - Top 30 Writers
Calendar Year 1975

1975 Rank	1974 Rank	% of Market	Insurance Company	Written Premium	Earned Premium	Incurred Losses	Loss Ratio
1	1	40.3	Alaska Pacific Assurance Co.	17,382,629	16,225,733	9,504,360	58.6
2	2	12.4	Providence Washington of AK	5,355,994	4,699,660	1,752,682	37.3
3	4	10.1	Industrial Indemnity Co. of AK	4,341,022	3,838,012	3,430,006	89.4
4	3	5.8	Fireman's Fund Insurance Co.	2,490,237	2,289,543	1,371,499	59.9
5	5	4.3	Employers Mutual Liability Ins.Co.	1,841,395	1,854,829	1,149,316	61.9
6	6	4.2	Home Indemnity Co.	1,803,580	1,730,142	443,153	25.6
7	10	2.9	Travelers Insurance Co.	1,236,993	1,192,568	678,538	56.9
8	12	1.6	Pacific Insurance Co.	684,760	642,989	408,993	63.6
9	15	1.5	Commercial Union Insurance Co.	657,026	662,877	359,290	54.2
10	19	1.4	Highlands Insurance Co.	620,753	621,533	470,086	75.6
11	-	1.4	Continental Insurance Co.	615,408	586,922	465,526	79.3
12	9	1.2	Providence Washington Insurance Co.	508,497	487,316	289,190	59.3
13	18	1.2	Hartford Accident & Indemnity Co.	498,895	494,579	(24,132)	0.0
14	14	1.0	Alaska Insurance Co.	451,743	438,394	436,928	99.7
15	21	1.0	Insurance Co. of North America	416,547	358,164	22,020	61.5
16	16	0.8	Home Insurance Co.	342,888	318,242	235,666	74.0
17	11	0.7	Natl Automobile & Casualty Ins.Co.	322,722	376,283	446,865	118.7
18	8	0.7	Argonaut Insurance Co.	308,701	398,445	217,647	54.6
19	20	0.7	Liberty Mutual Insurance Co.	303,766	305,237	314,605	103.1
20	7	0.6	Industrial Indemnity Co.	254,316	191,007	754,463	394.9
21	-	0.5	American Mutual Liability Ins.Co.	213,648	227,396	100,222	44.1
22	26	0.4	State Farm Fire & Casualty Co.	205,022	152,928	38,412	25.1
23	17	0.4	Standard Fire Insurance Co.	191,841	191,921	8,534	4.4
24	22	0.4	Great American Insurance Co.	190,951	194,326	64,148	33.0
25	30	0.4	American Motorists Insurance Co.	185,966	186,855	143,047	76.5
26	-	0.4	American Insurance Co.	175,583	56,982	(4,912)	0.0
27	24	0.3	Twin City Fire Insurance Co.	150,525	149,222	33,363	22.3
28	23	0.3	Fidelity and Casualty of N.Y.	153,086	143,748	37,450	276.5
29	13	0.3	Zurich Insurance Co.	132,315	147,395	137,549	93.3
30	28	0.2	St.Paul Fire and Marine	98,756	88,919	135,059	151.9
-	-	97.4	Total - Top 30 Writers	42,134,660	39,252,167	23,779,573	60.6
-	-	100.0	Total - All Writers	43,124,202	40,174,035	24,551,937	61.1

Source: Alaska Division of Insurance; Annual Statements.

SERVICE OFFICES

Four carriers maintain offices in Alaska and four do not. The four without offices in the state conduct their business primarily through representatives from offices in the lower 48 states or through the use of independent firms. Only the largest carrier with five offices in Alaska had more than one office in the state. All of the offices have claims adjustment staff.

All carriers insure under the Longshore and Harbor Workers Act. Four of the eight insure under the Federal Black Lung Program.

EMPLOYMENT PATTERNS

Table S2 gives the distribution of non-clerical employees for the four carriers that maintain offices in Alaska. Including clerical workers, these four carriers have about 139 employees to service business in Alaska. Lack of sales personnel is explained by their exclusive use of the agency system to acquire business.

DEGREE OF SPECIALIZATION IN WORKERS' COMPENSATION; POLICY SIZE

The degree of specialization in workers' compensation is indicated by the percentage of all property and casualty premium in 1975 that it represented. For the eight carriers, these percentages were: 80, 68, 64, 54, 44, 36, 32 and 26. The mean percentage was 50.5 and the median 49. This is much higher than the 14 percent average for the nation.*

Average policy size for private carriers in the nation in 1974 was \$2,208*. Figures for five of the Alaskan carriers for 1975 were \$13,522, \$5,595, \$4,529, \$4,031, and \$3,217. The mean for these five was \$6,179 and the median \$4,529. Even allowing for some increase in policy size from 1974 to 1975, this reflects the relatively high cost of workers' compensation in Alaska. Only the carrier with the \$13,522 average policy premium indicated specialization in large policies.

MEASUREMENTS OF CLAIMS MANAGEMENT PERFORMANCE

Table S3 indicates which criteria of claims management performance are used by the respondents in measuring claims management performance and which they consider to be the most important. The criteria which were rated highest were promptness of first disability payment, promptness of contact with the injured person and accuracy of reserve practices. The only carrier that does not formally and specifically measure any of the criteria indicated that claims are handled mainly by independent adjusters who are supervised by the home office.

TABLE 3
Personnel Patterns in the Alaskan Market
 (number of full-time equivalent employees to service Alaskan operation)

Type of Personnel	Number of Employees of that Type									
	All Property & Casualty Ins.					Workers' Compensation ^a				
	C1	C2	C3	C4	1-Carrier Total	C1	C2	C3	C4	4-Carrier Total
Sales Personnel	0	0	0	0	0	0	0	0	0	0
Advertising and Marketing	0	0	1	0	1	0	0	.4	0	.4
Claims Attorneys	0	8	0	0	8	0	3	0	0	3.0
Claims Management Personnel	30	10	10	3	70	20.1	4	15.4	.9	40.7
Underwriting Personnel	5	2	3	0	15	3.4	2	3.5	0	9.9
Loss Control Engineers	5	0	0	0	5	3.4	0	0	0	3.4
Industrial Hygienists	0	0	0	0	0	0	0	0	0	0
Other Safety Specialists	0	0	0	0	0	0	0	0	0	0
Physicians	0	0	0	0	0	0	0	0	0	0
Nurses and Other Medical Specialists	4	0	0	0	0	2.7	0	0	0	2.7
Actuarial Staff	0	0	0	0	0	0	0	0	0	0
Payroll Auditors	2	1	2	0	5	1.4	1	.9	0	3.3
Corporate Attorneys	0	0	0	0	0	0	0	0	0	0
Data Processing Personnel	15	0	4	0	19	10.2	0	1.0	0	12.0
Researchers and Analysts	0	0	1	0	1	0	0	.4	0	.4
Other Professionals and Management Personnel	5	0	6	0	11	3.4	0	2.6	0	6.0
Total Number of FTE's (excluding clericals)	66	21	27	3	117	44.9	10	11.9	.9	67.7
Total Number of FTE's	121	42	65	6	234	82.3	20	35.0	1.6	138.9

^a The numbers of workers' compensation personnel were estimated by multiplying the total for all property and casualty by the ratio of the 1975 workers' compensation premium to the 1975 property and casualty premium.
^{**} Carrier's estimate.
^{***} Adjusted to remove estimated number of clericals that were included.
^{****} Estimated.

TABLE S3

Criteria Used in Measuring Claims Management Performance

Criteria	Carriers Indicating that Criterion is:		
	Specifically and Formally Measured	One of Three Most Important	Taken into Account Informally
(1) None	H		C
(2) Promptness of contact with injured person .	BCDEF	BCDEF	AG
(3) Number of medical bills paid			G
(4) Promptness of first disability payment . .	BCDEFG	BCDEG	A
(5) Caseload per adjuster	ABCEFG	A	D
(6) Average cost of closed claims	ABCD	AB	GH
(7) Ratio of field investigations to claims . .	BDF		G
(8) Percent of claimants returned to work on a timely basis	BF		EH
(9) Adequacy of follow-up with injured person, employer, doctor, and others involved in the case	BCDF	CF	AEG
(10) Percent of indemnity claims denied	G	G	F
(11) Adequacy of medical management of the injury	CDF	D	ABEG
(12) Loss ratio	ABCDE		FH
(13) Successful application of rehabilitation, if needed	CDEF	E	ABG
(14) Accuracy of reserve practices	ABCDEFG	AFG	H
(15) Percent of claims receiving permanent disability awards	BF		
(16) Percent of claims settled on a release basis	F		G
(17) Percent of persons with permanent total disabilities who achieve maximum independence in controlling of bodily functions	F		BDE
(18) Percent of claims in litigation	F		DH
(19) Other:			

The letters A-H are used to represent the eight carriers that responded. This designation was used to preserve confidentiality.

intensive supervision from or handling directly by a central office as opposed to a field claims office was indicated for the following types of cases (letters A-N represent the respondents as in Table S3): permanent total cases (D), unusual or serious cases (AEG), cases with reserves in excess of \$100,000 (BE) or \$25,000 (A), Longshore or similar (E), death with dependents (E), annuity files (F) and certain claims handled by specialized rehabilitation centers outside (B).

MEDICAL CARE IN CLAIMS MANAGEMENT

Table S4 shows the practices used by the respondents for monitoring medical care. The most important were getting frequent evaluations of progress from the treating physician, getting consultation to evaluate the need for moving seriously injured patients to a specialized treatment center and getting consultation to evaluate the adequacy of medical treatment provided.

All but one of the respondents audit medical bills. The most prevalent reasons for this practice were excessive fees and over-utilization of services.

VOCATIONAL REHABILITATION AND REEMPLOYMENT IN CLAIMS MANAGEMENT

Table S5 shows the types of activities carried out by the respondents in assisting Alaskan claimants with vocational rehabilitation and reemployment. Most of the carriers indicate that they provide a wide variety of services in these areas. Carriers A, D, E, F and G indicated that a staff person was specifically responsible for these activities while all carriers except F indicated that claims adjusters or examiners have responsibilities in the area.

Six carriers reported increases in staff responsible for rehabilitation since 1972. Increases ranged from 20 percent to a change from zero to five responsible persons. Two carriers reported 1,000 percent increases.

USE OF INDEPENDENT REHABILITATION SERVICES IN ALASKAN CLAIMS

All carriers indicated that they use independent rehabilitation services to some extent in Alaska. Two carriers did not provide information on the use of independent rehabilitation services. Two used independents exclusively and the percentages for the other four ranged from 5 to 25 percent of total rehabilitation services provided. Four reported that the use of independents had increased and three indicated it had remained the same since 1972.

USE OF INDEPENDENT ADJUSTING FIRMS IN ALASKAN CLAIMS

The respondents were equally and clearly divided in their use of independent adjusters; four reported almost all of their disability claims handled in that way and four reported very few. Geographical location

TABLE S4
Monitoring Medical Care

Type of Management Practice	Carriers Indicating that the Practice is:	
	Used For monitoring	One of the Three Most Important
(1) We do not monitor medical care . . .	H	
(2) Get frequent evaluation of progress from treating physician	ABCDEFGG	ABCDEF
(3) Have physicians and/or nurses in-house on retainer to review claims	DFG	FG
(4) Get consultation by independent physicians to evaluate adequacy of medical care provided	CDEFG	CDEG
(5) Interviews conducted with claimants to determine their satisfaction with medical care	CEFG	
(6) Maintain data on outcome of specific medical procedures	F	
(7) Medical reports are reviewed for completeness	ABCEFG	AB
(8) Maintain data on health care outcome by type of injury	F	
(9) In serious cases, get consultation to evaluate need for transfer of patient to a specialized treatment center . .	ABCDEFGG	ADEFG
(10) Independent medical exams on patients treated by a chiropractor	B	B

Letters A-H represent the respondents as in Table S4.

TABLE S5

Vocational Rehabilitation and Reemployment Activities

Type of Activity	Carriers or Consulting Staff that Carry Out Activity
(1) Consult with treating or examining physician to evaluate employee's ability to return to previous job	ABCDEFG
(2) Refer to State Employment Service Office	BEFG
(3) Consult with employer to determine whether the job can be modified so the employee can perform it, or if alternative work is available	ABCDEFG
(4) Maintain resource file of private employment agencies	EF
(5) If further evaluation is needed, assist employee in selecting appropriate agency for evaluation of work capability	ABDEF
(6) Refer to state rehabilitation office	ABCDEFG
(7) If retraining is necessary, assist employee in obtaining appropriate training	ABCDEFG
(8) Monitor employee's progress in retraining program .	ABCDEFG
(9) If employee is unable to return to former employer, assist him or her in finding suitable employment .	ACEF
(10) None	H

Letters A-H represent the eight respondents.

was overwhelmingly cited as the reason for using independent adjusters. Other reasons involved the extent or nature of the disability, the subrogation potential or the case load on the in-house staff.

"MEDICAL ONLY" CLAIMS

Information regarding the composition of claims from seven of the respondents indicated a lower percentage of "medical only" claims than the national average of 75 percent.* The average for the seven carriers in 1975 was 66 percent; even disregarding one unusually low 45 percent figure, the average was about 69 percent. This reflects the higher degree of hazard in Alaska which is a contributing factor in high costs. Nationally, the "medical only" claims account for only 8 percent of total cost even though they constitute the vast majority of cases.

LOSS CONTROL SERVICES

Table S6 indicates the nature of loss control services which are provided by carriers in Alaska. The responses indicate very comprehensive programs in loss control; "walk-through" surveys and assistance in developing loss control programs are provided most frequently.

INDUSTRIAL HYGIENE SERVICES

Six carriers provide industrial hygiene services and have done so for periods ranging from two to 25 years. Four provide these services at the request of the employer, on account of high loss frequency or severity, because of the hazardous nature of the industry or work operation, or on the recommendation of the loss control department or sales agent. Two provide services on the basis of a regular schedule and one at the request of the underwriting or sales department.

SAFETY INSPECTIONS OR CONSULTATIONS IN LOSS CONTROL

Safety inspections or consultations were provided to some extent, either directly or through independent consultants, by all of the respondents. Table S7 permits some conclusions concerning the number and relative frequency of inspections or consultations. The numbers of inspections per policy and the earned premium per inspection do not compare favorably with national averages for private carriers. The group category on the national level averaged 1.37 and the individual category 2.24 inspections per policy in 1974; both categories averaged about \$3,700 in earned premium per inspection.* The larger average premium size in Alaska does not adequately explain these differences.

Almost all of the Alaskan respondents indicated that all of the following factors helped to determine the frequency of safety inspections or consultations for a given employer: number of employees, poor loss experience, hazardous industry or work operation, request by employer,

TABLE S6
Loss Control Services

Type of Service	Carriers Indicating that They Provided the Service	Carriers Indicating that Service is One of Three Most Frequently Provided
(1) "Walk-through" survey of employer's work site for job hazards	ABCDEFG	ACDEFG
(2) Distribution of brochures and safety bulletins	ABCDEFG	C
(3) Inspection for hazardous conditions due to poor lighting and/or machine guarding	ABCDFG	ABD
(4) Inspection and recommendations regarding electrical safety of equipment	ABDFG	AD
(5) Inspection and recommendations regarding noise pollution	ABDFG	
(6) Inspection and recommendations regarding air pollution or other contaminants	ABDFG	
(7) Inspection and recommendations regarding radiation hazards	ABDG	
(8) Inspection and recommendations regarding use of safety equipment or apparel	ABCDFG	
(9) Instruction in or advice concerning safe work procedures	ABCDEFG	EFG
(10) Direct training for employees in safe work procedures	AB	
(11) Instruction in or advice concerning safe work in reference to vehicles or moving equipment.	ABCDEFG	B
(12) Assistance in developing loss control programs	ABCDEFG	ABCEG
(13) Advice concerning first aid training or facilities.	ABCDEFG	
(14) Advice concerning alcoholism and drug abuse in workers	BDEG	
(15) Foremanship training in safety	D	
(16) Consult with and assist top management in developing, implementing and monitoring programs	F	F
(17) Safety personnel from home office make recommendations and advise		
(18) Perform accident/injury analyses, problem area investigations, reviews of operations and procedures, process flow and hazard analysis, make safe driver and industrial awards and provide accident investigation and safety meeting forms	A	

Letters A-H represent the eight respondents as in previous tables

TABLE S7
 Safety Inspections or Consultations

Carrier	1972			1975		
	Number of Inspections*	Inspections Per Policy	Premium Dollars per Inspection	Number of Inspections	Inspections Per Policy	Premium Dollars per Inspection
A	56	.16	\$17,500	47	.14	\$32,085
B	NA	NA	NA	830	.90	6,249
C	NA	NA	NA	NA	NA	NA
D	200	.18	5,495	360	.48	6,666
E	NA	NA	NA	95	NA	19,526
F	200	NA	13,280	356	.30	45,578
G	38	1.20	6,894	30	NA	39,752
H	NA	NA	NA	NA	.NA	NA

Letters A-H represent respondents.

The term "inspections" includes "consultations".

prior report of unsafe conditions, new facilities or operation, requests by underwriting and premium volume in conjunction with risk involved. One indicated, in addition to the above, that inspections were carried out in accordance with a predetermined frequency. By a wide margin, the factors which trigger inspections most frequently are a hazardous industry or work operation and request by underwriting.

RESPONSE TO UNSAFE CONDITIONS

All of the carriers respond to the discovery of unsafe conditions in three ways:

- 1) verbal report to employer or supervisor in charge;
- 2) written report of finding sent to employer; and
- 3) written report is forwarded to the underwriting department.

Seven of the carriers report to the agent, broker or sales representative. One reports to the claims department and one to corporate headquarters outside of Alaska.

Employers were reported to take corrective action in 75 percent or more of the cases by three carriers and in 51 percent to 74 percent of the cases by three carriers. One carrier reported corrective action in 21 percent to 50 percent and one in 6 percent to 20 percent of cases. Seven carriers refer the case to management for consultation with the agent or sales representative when action is not taken. Six carriers refer uncorrected cases to management for underwriting action and four for further consultation with the employer.

STAFFING OF AND INCREASES IN LOSS CONTROL EFFORT

Most of the carriers indicated that personnel from other departments assisted in providing loss control inspections or recommendations to employers. Five said that claims adjusters and examiners helped and five utilized underwriters. Four of the eight reported help from independent agents. Payroll auditors contributed in three cases, regional or home office management in two cases and one carrier reported no activity outside the loss control department per se.

Six carriers reported increases in loss control staff, one a decrease and one said it had remained the same. The increases varied from 5 to 500 percent with a mean increase of 147 percent. The carrier reporting a decrease had one resident in loss control in Alaska but now relies on staff who work out of Seattle.

Five of the carriers reported that they make use of the services of independent loss control consultants in providing safety inspections in Alaska. Three of these five were able to estimate the percent of total

inspections which were so provided: 5, 85 and 90 percent. Two of the three estimated that inspections by independents had increased and one (with 5 percent) said they had decreased by 95 percent. The two with increases estimated them at around 90 percent.

MARKET CONDITIONS

Five of the eight respondents indicated that there had been categories of "risks" which they had refused to insure in the last three years on some basis other than the management of the individual company, size, industry code, etc. One reason for such refusal was that the class rate was inadequate for the exposure. This may, to some extent, have been corrected by recent adjustments in class rates which have been suggested by the recently organized Alaskan Classification and Rating Committee. The individual merits of a risk will, of course, enter the picture and, as several carriers pointed out, no matter what the reason for an employer being refused coverage by one or more carriers, he is assured of finding coverage in the assigned risk pool at a surcharge of 15 percent. Some carriers listed classifications that they had refused to write; one cited employers with less than five employees. Another reason not dependent on the adequacy of the rate was that exposure was too great; the possibility of a very large loss coupled with difficulty acquiring reinsurance suggested the risk pool where aggregate losses are prorated among all carriers.

Six carriers felt that there is effective competition in the workers' compensation market and one felt that there is not. The carrier with five offices throughout the state with their own staff felt that this feature was a singular competitive advantage. Another felt that their recent improvements in service associated with gaining a well-established office in the state had benefited them competitively. Two felt that price was a key factor; one of them indicated that creative underwriting in the form of retrospective rating plans, negotiation of commissions on large accounts and modifications of approach were the way in which these differences might manifest themselves.

APPENDIX III

THE SURVEY OF EMPLOYERS' WORKERS COMPENSATION PRACTICES

INTRODUCTION

Surveys concerning workers' compensation experience were mailed to approximately 1,700 Alaskan employers (about 20 percent of the firms). Usable responses were received from 188 (a little over 10 percent) of the employers contacted. The following appendix gives a brief profile of the workers' compensation practices of respondents to this survey.

GENERAL CHARACTERISTICS: SIZE, PREMIUMS, COVERAGE AND CLAIMS

The average respondent had 16 employees on December 31, 1975. Total payroll averaged \$265,000 (\$16,562 per employee) with an average of 2.25 percent of payroll devoted to workers' compensation premiums. The mean reported premium was \$7,334; somewhat higher than the \$6,179 reported in the carrier survey.

Seven percent of the respondents said that their insurance carrier paid dividends, 41 percent didn't know and 50 percent indicated that dividends were not paid. Thirty-three percent had their premiums experience rated and 11 percent were under a retrospective rating system; about 40 percent didn't know if they were under a merit rating system. The mean number of claims filed by employees of survey respondents in 1974 was 2.1 (standard deviation = 8.1) and in 1975, 2.3 (standard deviation = 7.6).

DISABILITY AND RE-EMPLOYMENT

There were about 3 total injury and illness cases per establishment in 1975 with an average of about 4 lost work days per case. Two out of these three cases kept the same job and two out of the three involved no lost time. Out of 195 reported lost time cases, 18 were reported transferred to jobs at the same or higher rate of pay; 3 were still recuperating and were expected to return. Only one firm reported that past hiring practices had been influenced by the existence of a second injury fund in Alaska; the fund applied in three cases in 1975.

OCCUPATIONAL SAFETY AND HEALTH PROGRAMS

Occupational safety and health services were provided by the staff of 28 percent of the respondents, by the staff and outside consultants of 10 percent of the firms, and 54 percent reported that none were provided from either source. No formal or on-the-job safety training was provided to the employees of 88 percent of the respondents. A total of 157 employees (5.4 percent of the total employment of the respondents) received safety training in 1975.