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VANILLA OR CHOCOLATE? THE FLAVORS OF WORKERS' COMPENSATION COVERAGE IN OREGON

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The Tastee Freez in the town where I grew up offered two flavors of soft-serve: vanilla and chocolate. Vanilla was the tried-and-true, predictably good option; and chocolate was for days when a bolder taste was necessary. Similarly, Oregon workers' compensation coverage comes in two flavors; one more adventurous than the other. Oregon law requires all employers to protect employees by providing workers' compensation coverage, either with carrier-insurance (the "vanilla" fully-insured employer) or as a self-insured employer (the "chocolate" self-funded option). While both options have their merits, companies that self-insure their workers' compensation coverage realize a number of benefits that carrier-based insurance lacks such as lower operational costs, retention of unused reserves, reduced premiums, flexibility with company funds, improvement in employee morale and better control of ongoing increases in workers' compensation costs.

The Vanilla Option – carrier-insured workers' compensation coverage:

A carrier-insured employer purchases workers' compensation coverage from the private market and pays premiums. The difference between the premiums and claims/costs ultimately becomes the insurance company's profits. This option is predictable and predominately used by Oregon employers.

The Chocolate Option – self-insured workers' compensation coverage:

In a self-insured plan, the employer assumes the financial risk of providing benefits, maintains the cash needed to fund benefits, and covers all the costs of running a self-insured plan. In exchange for assuming the risk of being self-insured, companies can keep profits that would otherwise go to the insurance company.

By Oregon law, the coverage/benefits to injured workers under either a conventional carrier-insured program or a self-insured plan must be the same. While self-insured plans provide very similar coverage to private insurer coverage, self-insured companies have the freedom to build their own plan while carrier-insured employers do not. This freedom to build a plan is an opportunity to save money. A good example is the self-insured employers' ability to control certain aspects of healthcare such as whether to enroll its employees in a Managed Care Organization (MCO), which is an attractive option because MCO's are groups of healthcare providers that contract with insurers to handle medical treatment of injured or ill workers. MCO contracts can reduce the costs of medical services delivered to an injured worker.

The Flavors of Workers' Compensation Coverage in Oregon (cont.)

The Self-insurance plan:

A company that elects to become a self-insured employer develops its own workers' compensation plan, funds the plan based on state requirements; and purchases excess coverage (aka "reinsurance" or "stop-loss coverage") to ensure rare or excessive claim costs do not impact the company's profitability. A self-insured employer can perform its own plan administration or can outsource that duty to a Third Party Administrator (TPA). Either way, claims administration and processing responsibilities include maintaining eligibility and handling most aspects of claims processing such as customer service, preparing claim reports, paying and adjudicating claims.

Self-insured employers can save themselves money:

Becoming self-insured is an alternative that allows employers a number of benefits not realized by carrier-insured employers. The most significant benefit is the control an employer gains by running its own plan. From the time an employee initiates a claim, a self-insured plan allows employer flexibility in making key decisions on benefits, administration, litigation, and funding, and enables the employer to be involved at every level of a claim. Self-insured employers also have more incentives to control costs, not only with efficient management of claims but also on the front end by implementing effective safety and risk programs. Studies have shown that safety and risk programs, when properly implemented and managed, boost employee morale, increase productivity and decrease workplace injuries. These advantages along with efficient claims management translates into savings and profits for the self-insured employer. Estimates on savings vary for self-insured employers, but on average companies save money and increase profits by being self-insured.

Size doesn't matter for self-insured employers:

It is a common misconception that self-insurance is limited to large companies. While the self-insured model works great for large companies, there are a number of small companies that also benefit from being self-insured. The requirements for becoming self-insured are fairly straightforward and as long as your company is financially healthy and able to secure credit, it is worth the time to explore the benefits of the self-insurance option. An overview of self-insurance requirements can be found at: http://www.cbs.state.or.us/wcd/compliance/ioac/top_emps.html.

For further information on workers' compensation laws, including self-insurance, contact John Young or Dennis Reese at Garrett Hemann Robertson P.C., Workers' Compensation section, 503.581.1501.

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