

11. (2.5 points)

a. (1 point)

Describe two advantages of having state governments rather than private insurers provide workers compensation insurance.

b. (1 point)

Describe two advantages of having private insurers rather than state governments provide workers compensation insurance.

c. (0.5 point)

Evaluate the effectiveness of private insurers in the workers compensation marketplace based on the propensity of states to operate state funds.

SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 11	
TOTAL POINT VALUE: 2.5	LEARNING OBJECTIVE: B
SAMPLE/ACCEPTED ANSWERS	
Part a: 1 point	
<ul style="list-style-type: none"> • State governments would not be writing other lines of insurance like private insurers, therefore they would be more specialized and knowledgeable as opposed to private insurers who may write other lines in addition to WC • State governments can specialize in WC and offer rehabilitation services and job retraining for injured workers. • If state government provides WC, they will not have to spend on commissions and marketing and this expense savings can result in lower prices. • Can give back dividends to insureds, thereby decreasing costs. • State government does not need to charge for profit contingency since government doesn't need a profit, so cheaper premiums. • State fund doesn't try to profit, so will be willing to take all comers to ensure mandatory insurance is available to all • Affordability as profit is not the main goal, rather the social equity. • Since coverage is compulsory, the government can ensure that all who need coverage can find it since the government cannot refuse coverage. • Provide convenience and obtain efficiency. With government involvement, the insureds can reduce time and resource to obtain coverage with more convenience and efficiency. 	
Part b: 1 point	
<ul style="list-style-type: none"> • Private insurers have been shown to provide WC as efficiently as state funds. • There are also monoline WC private insurers who specialize in WC. • Private insurers who exclusively write WC insurance may have more experience writing and can operate more efficiently with better claims handling practices. • More competition and innovation. Competition should cause private insurers to compete with each other to provide best risk classifications and services. • The competition helps to keep costs lower and more affordable. • Can have a package policy with other coverages; all insurance is provided with one carrier; convenience and ease of doing business • Increased incentive for loss control as premiums are more actuarially sound; fewer subsidies exist. • Private insurers tend to sell policies with fewer (or no) subsidies between classes unless mandated to do so by regulation. More appropriate costs for individuals and better incentives to mitigate losses. 	
Part c: 0.5 point	
<ul style="list-style-type: none"> • Some states operate exclusive state funds, but the number is relatively few. Most states have a WC operation as either a competitive state fund or insurer of last resort and the majority of the market is made up of private insurers. This is evidence that most states see private insurers as providing WC coverage effectively. • While only a few states operate exclusive state fund, a number of others operate 	

SAMPLE ANSWERS AND EXAMINER'S REPORT

competitive state funds. This suggests that private WC insurers are not as effective as states would like.

- About half of states operate state funds, so this would indicate mixed results of private insurers. Private has generally been effective, but states need to offer certain high risk businesses coverage when private does not want to insure. Competing plans also keep costs down by offering increased operating efficiencies by not needing to market.

EXAMINER'S REPORT

Candidates generally performed well on Parts A and B, listing the advantages of state funds and private insurers. Some candidates did not always provide full descriptions.

Part C was a more complex question, as candidates needed to evaluate the effectiveness of private insurers given state fund involvement in the WC marketplace. Many candidates did not provide a logical conclusion based a metric of state fund versus private insurers in the marketplace.

Part a

- The candidate was expected to list two separate advantages and provide a full description of both to obtain full credit.
- Candidates often listed an advantage, but did not provide a full description or fully justify. As an example, candidates often listed lower expenses as an advantage for state funds. A more complete response would be that state funds have lower expenses due to no marketing or commission costs.
- Candidates needed two distinct advantages. Some candidates provided two responses that were related or very similar. Combining the advantages sometimes led to one complete response. As an example, some candidates listed no market costs and no agent commissions as separate advantages. These are both examples of lower expenses, which is one response.
- Some responses implied that all state funds were exclusive, when most state funds are competitive.

Part b

- The candidate was expected to list two separate advantages and provide a full description of both to obtain full credit.
- Candidates often listed an advantage, but did not provide a full description or fully justify. As an example, some candidates simply wrote that private insurers provide better services.
- Candidates needed two distinct advantages. Some candidates provided two responses that were related or very similar. Combining the advantages sometimes lead to one complete response. . As an example, some candidates wrote that private insurers can charge more actuarially sound rates, which limit subsidies and encourage loss control. Actuarially sound rates are one response.

Part c

- Candidates were expected to provide a true metric about the relative number or market share of exclusive or competitive state funds versus private insurers. They then needed to make a logical conclusion about the effectiveness of private insurers based on the metric.
- Some candidates described the effectiveness of private insurers based on the advantages that were listed in Part B. They did not tie the effectiveness to the propensity of state

SAMPLE ANSWERS AND EXAMINER'S REPORT

funds.

- Some candidates indicated that there were few state funds. There are few exclusive state funds, but approximately half of the states have some form of state fund.