

11. (3 points)

a. (1.5 points)

Discuss the motivation for creating each of the following government programs:

- Federal Crop Insurance Program
- Longshore and Harbor Workers' Compensation Act of 1927
- Assigned Risk Plan

b. (1.5 points)

Evaluate the effectiveness of each of the programs listed above.

**SAMPLE ANSWERS AND EXAMINER'S REPORT**

<b>QUESTION 11</b>	
<b>TOTAL POINT VALUE: 3</b>	<b>LEARNING OBJECTIVE: B2 / B3</b>
<b>SAMPLE ANSWERS</b>	
<b>Part a: 1.5 points</b>	
<ul style="list-style-type: none"> <li>• Crop – Protect farmers from catastrophic loss to crops since affordable coverage was unavailable.</li> <li>• Crop – To protect farmers when the crop fails due to natural disaster. The government had to act as a reinsurer to private companies because they were unable to provide coverage.</li> <li>• Longshore – Sometimes it's not clear which state's WC laws apply when employees are in navigable waters. Federal program ensures employees injured in waters compensated appropriately.</li> <li>• Assigned Risk – This was created to provide affordable and available coverage to insureds who were rejected by the voluntary market. The government had to ensure availability since PPA is a required purchase.</li> <li>• Assigned Risk – To provide insurance for auto risks that could not get coverage elsewhere, usually drivers with poor experience.</li> </ul>	
<b>Part b: 1.5 points</b>	
<ul style="list-style-type: none"> <li>• Crop – Program has been somewhat effective. Some claim it encourages overproduction. Some also saw the coverage as unaffordable. Recently structure was updated to have lower premiums and redistribute profit/loss between private market and government since government was mostly experiencing loss while private insurers profited.</li> <li>• Crop – Critics say that it has caused over production and is not effective because private insurers have made money while the government has lost money.</li> <li>• Crop – Even though crop insurance has been around for a long time, there have still been disaster bills to cover losses. Farmers say payouts haven't been adequate, but legislation has been passed to address this. Some say it encourages overproduction.</li> <li>• Crop – Not effective. It motivates overproduction; and not provide sufficient coverage after disaster. Rates are not actuarially sound.</li> <li>• Longshore – Effective; Filled gap in coverage. Has rules preventing insureds from collecting from multiple parties for the same injury.</li> <li>• Longshore – This has been effective as benefits are available to workers and are reduced if state coverage is available.</li> <li>• Assigned Risk – This program is effective because everyone is able to receive coverage for compulsory insurance. One downside is that program participants have the stigma of being denied in the voluntary market.</li> <li>• Assigned Risk – Decreases the number of uninsured drivers and increases availability and affordability, but cost is passed on to low-risk drivers through cross-subsidization.</li> <li>• Assigned Risk – Effective in providing coverage to high risk drivers by allocating to private insurers based on market share, but the rates charged are often too low and subsidized by safer drivers.</li> <li>• Assigned Risk – Somewhat effective, provides coverage to high risk drivers but rates are not actuarially sound and there is a stigma to being in plan.</li> </ul>	
<b>EXAMINER'S REPORT</b>	
<b>Part a</b>	

## SAMPLE ANSWERS AND EXAMINER'S REPORT

Most candidates did very well on the Assigned Risk Plan and generally received less credit on the Crop and Longshore programs. Common errors on the Longshore program were stating it provided coverage for workers out at sea and that the federal government provided coverage. A common error on all parts were generic statements about filling an unmet need (also needed to know what the program was providing).

### **Part b**

This part required more thought by asking candidates to evaluate the effectiveness of those government programs. Common errors were not providing a complete description for each act, or providing a generic statements about the effectiveness of a program that demonstrated no knowledge of the program.