

12. (2 points)

a. (1 point)

Describe two rationales for the existence of state funds for workers' compensation insurance.

b. (0.5 point)

Briefly describe two reasons why state funds for workers' compensation might not be necessary.

c. (0.5 point)

Besides exclusive state funds, identify two other ways in which a state government may be involved in providing workers' compensation insurance coverage.

SAMPLE ANSWERS AND EXAMINER'S REPORT

QUESTION 12	
TOTAL POINT VALUE: 2	LEARNING OBJECTIVE: B2
SAMPLE ANSWERS	
Part a: 1 point	
<p>Any two of the following:</p> <ul style="list-style-type: none"> • Employers feared they would be forced out of business if refused coverage by insurance companies. State funds serve as the insurer of last resort – do not deny insurance coverage to employers who have difficulty purchasing it privately. • Fearful that insurance carriers might impose excessive premium rates that would be a financial burden. High premium rates could negatively affect a state's economy and ultimately limit opportunities for employment. • Due to the mandatory nature of the coverage, this reduces elasticity of demand so insurance rates might soar, enabling insurers to reap unfair profits. • State funds are specialists in workers compensation so they can be expected to offer more intensive levels of rehabilitation and other services than some private insurers whose workers compensation plan is one of several types of coverage offered. • Expense ratios of both exclusive and competitive state funds may be lower than expense factors for private carriers in part because of absence of some administration costs such as agency commissions and other marketing costs. 	
Part b: 0.5 point	
<p>Any two of the following:</p> <ul style="list-style-type: none"> • States without state funds have set up residual market mechanisms to act as insurers of last resort. • There are private insurers who also specialize in providing only workers compensation coverage and may offer the same level of service and expertise as state funds. • While lower administrative costs for state funds may reduce the cost of providing workers compensation coverage, the fact that more states have not create state funds, and some state funds have been privatized recently, suggests that private insurers are also able to provide this coverage in an efficient manner. • Competition may encourage adequate and affordable rates. • Competition with the private insurers or among private insurers increase the availability of coverage options and fosters environment for more innovation in both coverages and service. 	
Part c: 0.5 point	
<p>Competitive State Funds Residual Markets/Partner</p>	
EXAMINER'S REPORT	
Part a	
<p>Candidate was expected to list and fully describe two separate rationales to obtain full credit. Common errors:</p> <ul style="list-style-type: none"> • Identifying but not describing an advantage of having state governments provide workers compensation insurance • Providing two responses that were related or similar – for example, ensuring availability and serving as an insurer of last resort 	
Part b	

SAMPLE ANSWERS AND EXAMINER'S REPORT

Candidate was expected to list and briefly describe two separate reasons to obtain full credit.

Common errors:

- Describing how state governments regulate workers compensation coverage
- Citing lack of exclusive state funds in most states
- Stating that the private market has a larger market share than state funds
- Stating that private insurers are succeeding at attracting policyholders
- Citing self-insurance option for coverage

Part c

Candidate was expected to list two separate alternatives to state funds.

Common errors:

- Listing exclusive state funds
- Identifying state government-regulated workers compensation coverage