

EXAM 6 – UNITED STATES, FALL 2016

7. (3 points)

a. (1.5 points)

Other than residual markets, identify and briefly describe three levels of state government participation in providing workers compensation insurance.

b. (1.5 points)

For each level identified in part a. above, describe a benefit of that level of participation.

## SAMPLE ANSWERS AND EXAMINER'S REPORT

<b>QUESTION 7</b>	
<b>TOTAL POINT VALUE: 3</b>	<b>LEARNING OBJECTIVES: B2, B3</b>
<b>SAMPLE ANSWERS</b>	
<b>Part a: 1.5 points</b>	
<p>1. Partnership with private insurers <b>OR</b> Cooperate with private insurers <b>OR</b> Public-private partnership <i>Any of the following were acceptable descriptions:</i></p> <ul style="list-style-type: none"><li>• State Law prescribes the workers compensation benefits, but assigns to employers the responsibility for providing benefits.</li><li>• The state government could decide the benefits to be provided by the companies</li><li>• State defines coverage, private insurers write policies</li><li>• State sets WC benefit levels, but doesn't operate their own insurer</li></ul>	
<p>2. Exclusive state funds <b>OR</b> Sole provider <b>OR</b> Sole insurer <b>OR</b> Monopolistic fund <i>Any of the following were acceptable descriptions:</i></p> <ul style="list-style-type: none"><li>• Private insurers are not allowed to provide workers compensation only the state offers WC coverage</li><li>• All insureds are required to purchase workers comp from the state</li></ul>	
<p>3. Competitor with private insurers <b>OR</b> Competitive state funds <b>OR</b> Direct Competitor <i>Any of the following were acceptable descriptions:</i></p> <ul style="list-style-type: none"><li>• Employers can obtain the required work comp insurance either from the state or private insurers</li><li>• Competes with insurers to provide WC insurance</li></ul>	
<b>Part b: 1.5 points</b>	
<p>1. <u>Partnership with private insurers</u> <i>Any of the following were acceptable descriptions:</i></p> <ul style="list-style-type: none"><li>• Insured can obtain insurance from their current carrier for other coverages and maybe get better coverages.</li><li>• Insured can pick the insurance company it wants that provides the best cost and services.</li><li>• Insured can choose an insurance company but still be ensured to get standard benefits.</li><li>• Because the state has prescribed workers compensation benefits, it can make the task of regulating insurers easier.</li></ul>	
<p>2. <u>Exclusive state funds</u> <i>Any of the following were acceptable descriptions:</i></p> <ul style="list-style-type: none"><li>• With lower administrative costs they may reduce the cost of providing work comp to the industry</li></ul>	

## SAMPLE ANSWERS AND EXAMINER'S REPORT

- Due to no need for marketing or acquisition costs, the state can pass those savings onto insureds.
- Since the state fund is solely focused on workers compensation, they may be able to offer more intensive levels of rehabilitation and other services.

### 3. Competitor with private insurers

*Any of the following were acceptable descriptions:*

- State funds are able to provide a stable source of affordable insurance coverage.
- The state insurer can help to drive premium levels down by competing for business with private insurers.
- Through competing with the private insurers, the state is able to offer an additional option for coverage.

### **EXAMINER'S REPORT**

The candidates were expected to know the different ways a state government could participate in providing workers compensation insurance other than using residual markets. They were expected to describe the different ways of participation in part a and describe the benefits of those levels in part b.

Candidates were more likely to correctly describe monopolistic or competitive state funds than public/private partnership in parts a and b.

#### **Part a**

The candidates were expected to identify three levels of state government participation, excluding residual markets, and also describe what those levels mean. The participation needed to relate to providing workers' compensation coverage.

Common mistakes included:

- Did not provide descriptions to the identified levels of participation or did not list three levels of participation.
- Explained participation as Reinsurer, Reinsurer facilities, or pools
- Identified any federal programs, such as FECA, Longshore & Harbor, Black lung, Medicare, Medicaid, Social security
- Identifying a level of participation as "No involvement"
- Identifying a level or participation as a regulator
- Describing participation as assisted funds, insurer of last resort, or as a guaranty fund

#### **Part b**

The candidates were expected to identify a benefit for each of the three levels of state government participation and describe what that benefit was.

A common mistake was not providing a description.

- The following answers were not accepted without a description:
  - More innovation (for competitive)

## **SAMPLE ANSWERS AND EXAMINER'S REPORT**

- Better expertise (for both exclusive and competitive)
- More efficient (for exclusive)
- More availability (for exclusive)
- Economies of scale (for exclusive)
- Simplified shopping (for exclusive)
- Meet a social need (for exclusive)