9. (2 points)

A state has proposed creating a state-administered workers' compensation fund to act as its exclusive provider of workers' compensation coverage.

a. (1 point)

Describe two arguments in favor of the state's proposal.

b. (0.5 point)

Briefly describe two arguments against the state's proposal.

c. (0.5 point)

Identify one similarity and one difference between a state-administered workers' compensation fund and a workers' compensation residual market.

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◦ *To provide coverage in the immediate aftermath of a significant terrorist event that can destabilize the US economy. TRIA does this by providing insurance specifically relating to terrorism which the impact from an event is deemed significant.*
EXAMINER'S REPORT
Candidates were expected to understand the role of government and private insurers within TRIA. Candidates were also expected to know why TRIA was created and evaluate the effectiveness of the program.
Part a
Candidates were expected to describe the roles of the federal government, state governments, and private insurers in TRIA. Common errors include: • Not listing a role for state government • Stating that state government had a role in setting rates. State departments of insurance approve and regulate rates; ensuring they not excessive, inadequate or unfairly discriminatory. They do not mandate specific rates.
Part b
Candidates were expected to describe three distinct goals of TRIA and evaluation whether TRIA has met each goal. A common error was describing a goal without saying whether the goal was met or not

FALL 2018 EXAM 6US, QUESTION 9	
TOTAL POINT VALUE: 2	**LEARNING OBJECTIVE: B2, B3**
SAMPLE ANSWERS	
Part a: 1 point	
Two of the following: • Since the fund will only provide WC it will be specialized and thus able to understand the risks very well leading to more accurate pricing relative to risk • States can offer cheaper coverages than private insurance because of the elimination of marketing cost • States can offer more intensive rehabilitation program for injured workers. A social benefit. • Lower premium due to reduced operation costs and agency's commission • The government operates as a non-profit insurer, potentially reducing costs • WC insurance is mandatory / compulsory, it needs to ensure the coverage is available • State charges less premium because it has less advertising and acquisition cost • Efficiency: the cost will be lower than private insurers because of non-profit nature	

• The state has more resources and is larger than insurance companies (economies of scale), so there would be cost savings which would transfer to policyholders • It will be more efficient to regulate without numerous individual private insurers • State governments do not incur as many overhead expenses so cheaper for insureds
Part b: 0.5 point
Two of the following: • No competition – state has monopoly • Not enough product choice for consumers since they can only purchase from state • This will crowd out potential private insurers who may be more efficient and thus cheaper since they have to compete • There are many insurance companies throughout the country who could provide WC coverage so there's no argument that a private market wouldn't exist • WC insurers have been able to provide WC coverage at reasonable rates therefore state fund may not be needed • Exclusive providers do not allow for any competition which reduces product innovation • There are many insurers who specialize in WC and offer better care and coverage than the state • The state may not actually offer coverage more efficiently than private insurer, for example, could rely on other government functions in administering claims which is a burden on taxpayers • A single exclusive fund might actually result in higher prices than in a competitive market where there would be incentives to attract customers • Consumers should be able to shop around to find the best price – can give them incentives to implement safety programs • Currently about 60% of market is served by private insurers and only 4 have exclusive insurers, so it shows that private market does just as good of a job • Limits competition • Could potentially harm insurers and cause them to become insolvent if a large portion of their business was workers comp. coverage
Part c: 0.5 point
Similarity: • Both administered by the state • Final stop • Both have lower expenses b/c no commissions and low profit provision relative to a private insurer • Both are considered the market of last resort • Both will support mandatory coverage requirements and are able to provide coverage for all applicants • Both accept high risks possible rejected by voluntary WC market • In both cases the government steps in to ensure coverage for all

Difference:

- State administered plan is administered by the state while a residual market would have the policies administered by private companies
- Residual market only insures high risks rejected by admitted market, while state funds insure all risks
- Residual market requires proof that you were unable to obtain coverage from the competitive market first
- Under residual, private insurance companies sell policies
- The residual market will generally have private companies issue policies and handle claims. This is the responsibility of the state in an exclusive state fund
- In the exclusive fund everybody treated equally, whereas in the residual market have negative stigma of being higher risk

EXAMINER'S REPORT

Candidates were expected to know the motivations for setting up an exclusive WC fund and the possible negative impact and market disruption the fund could cause.

Candidates were expected to know why such a fund could be unnecessary due to the private market already fulfilling the need for WC coverage and operating well without government involvement.

Candidates were expected to know the basic mechanisms of a residual market and its operations and compare / contrast to a government WC fund

Part a

Candidates were expected understand the operation of the private WC market and enumerate motivations for setting up an exclusive state WC fund.

Common errors include:

- Not realizing that the private market would cease to exist if there is an exclusive state WC program.
- Not understanding how the state WC program works in concert with the rest of state government (e.g. the fund is supposed to be self-sufficient and cannot tax at will to make up shortfalls).
- Thinking there is a federal WC program that will step in if the state WC program has problems.
- Stating that an exclusive WC fund would be more convenient to employers since they would not need to shop around for coverage. A state fund would still have an application process with similar requirements as a competitive environment.

Part b

Candidates were expected to know why such a fund could be unnecessary due to the private market already fulfilling the need for WC coverage and operating well without government involvement.

Common errors include:

- Not explaining the funding mechanisms of the state WC fund (goal is to be self-sufficient and cannot levy taxes at will).
- Stating that the taxpayers would be liable if the state fund has a bad year (or few years) of performance.
- Arguing that bundling / packaging discounts no longer available for insureds.
- Stating that the state would lack necessary expertise to run WC fund (e.g. no actuaries or claims professionals) / state lacks data to price. A state fund would have the ability to hire experts.

Part c

Candidates were expected to know the basic mechanisms of a residual market and its operations and compare / contrast to an exclusive or competitive government WC fund.

Common errors include:

- Stating that the residual market is either in direct competition with the private market or state WC fund, or that it is operated directly by the state
- Stating that the state WC fund is involved with the federal government or is backstopped by the federal government.
- Not understanding the purpose of the residual market as a mechanism for high risk insureds
- Stating that one or the other of the programs has a profit motivation while the other does not.
- Simply stating availability as a similarity without describing the "take all comers" approach.
- Describing affordability as a similarity. Affordability is not a primary concern for residual markets.

FALL 2018 EXAM 6US, QUESTION 10	
TOTAL POINT VALUE: 3.5	**LEARNING OBJECTIVE: C1**
SAMPLE ANSWERS	

Part a: 1.25 points

Sample 1

- Bond 1: Carried at amortized cost – 4,500
- Bond 2: Carried at amortized cost – 6,350
- Bond 3: Lesser of amortized cost and fair value – 5,750
- Common Stock: Fair value – 1,750
- Total = 4,500+6,350+5,750+1,750 = 18,350

Part b: 1.75 points

Sample 1

- Total Admitted Assets = 18,350+1,250+0+200=19,800