10. (2.75 points)

a. (0.75 point)

Briefly describe three potential impacts to employers if Workers Compensation (WC) coverage were not mandatory.

b. (1 point)

Identify two federal WC programs, and briefly describe the category of workers that is covered by each.

c. (1 point)

Describe two mechanisms that state governments may use to ensured that mandatory WC insurance is available to all businesses operating in their state.

CONTINUED ON NEXT PAGE

- Inured was able to procure coverage in the voluntary market
- Insured is in an active hurricane zone

Part d: 0.25 point

Sample 1
A policy that covers on 'all-risks' basis to fill gaps in the insured's underlying property coverage.

EXAMINER'S REPORT

Candidates were expected to identify coverage restrictions, describe Automobile Insurance Plans, identify exposures that are uninsurable, and describe a DIC policy.

Part a

Candidates were expected to describe two coverage limitations and at least one coverage.

Common errors include:
- Provided coverage limitations that were not specific to auto

Part b

Candidates were expected to provide some description of how AIP's expand coverage and why this is socially desirable. The responses required an extension to the societal benefit of reducing uninsured drivers or decreasing the likelihood of unreimbursed losses in an accident.

Common errors include:
- Not explaining the societal benefit of reducing uninsured drivers

Part c

Candidates were expected to provide four types of exposures uninsurable under FAIR plans.

Common errors include:
- Listing answers that are too similar, for example vacant and subject to trespass
- Listing answers that are reasons why the FAIR plan was designed, for example riot-prone area or areas subject to windstorm

Part d

Candidates were expected to explain that a DIC policy covered perils not insured in another/primary policy.

Common errors include:
- Stating that a DIC policy provides higher limits

FALL 2019 EXAM 6U, QUESTION 10	
TOTAL POINT VALUE: 2.75	**LEARNING OBJECTIVES: B1, B2, B3**
SAMPLE ANSWERS	

SAMPLE ANSWERS AND EXAMINER'S REPORT

Part a: 0.75 point
Any three of the following: • Companies become party to lawsuits involving workplace injuries. • Might have worse work place safety since they don't have support from insurers' knowledge in such areas. • Employers could choose not to purchase coverage, saving money on premiums. • Increased operational risk for businesses that choose to not purchase WC or are unable to find coverage. They face greater risk of catastrophic loss that could cause them to go bankrupt. • Companies that offer WC may be viewed in better social light which helps employer in the market place. • Could go out of business if lawsuits due to an injury were severe enough. • WC covered medical costs to ensure employees can return to work. Without this coverage employers can lose key personal for extended periods of time. • Employers wouldn't benefit from insurer's risk control services and work environments would be less safe. • There would no longer be state-run residual markets which means the highest risk employers may not find coverage. • WC premiums more expensive/less available without government programs (assuming government programs are eliminated since WC is not compulsory). • Rates would increase due to adverse selection. Only those who really need WC would purchase it, increasing loss ratios and insurers would have to charge more to compensate. • More businesses may pop up due to lower barrier of entry. • WC insurance prices could become more affordable for employers to purchase given that the demand would change from inelastic to elastic, so insurers have more motivation to be competitive. • If it wasn't compulsory, possible that rates wouldn't be as regulated and premiums could go up. • Injured employees may not be able to afford care, and may work while injured, reducing their effectiveness. • They would have reduction in moral hazard without a policy and could lead to safer work environment. • Employers may be more likely to form captives/join RRG's. • Workers wouldn't have coverage for on-job accidents, raising personal health rates due to increased losses in those books. • Significant Moral Hazard: frequency of claims could be higher as the employer doesn't necessarily have claims adjustment/handling expertise. Therefore, no disincentive to claimants pursuing fraudulent claims.
Part b: 1 point
Any two of the following: • Federal Employee Compensation Act (FECA) – Provides WC coverage to non-military federal employees • Longshore and Harbor Worker's Compensation Act (of 1927) – Covers longshoremen and harbor workers on or near navigable water in the U.S.

- Black Lung Benefits Act (BLBA) – Coal miners who are totally disabled due to black lung disease

Part c: 1 point

Any two of the following:

- Exclusive State Fund – Exclusive provider of WC insurance for the state. Ensures all employers can purchase coverage.
- Competitive State Fund – State acts as a competitor to private insurers. Act as insurer of last resort.
- Residual Market – High risk insured who are denied coverage in the voluntary insurance market get assigned/apply for coverage to the private insurers participating in the residual market.
- Assigned Risk Pool – Those who cannot get coverage in the voluntary market may apply to pool; all WC insurers in the state get share of applicants to pool based on DWP.
- Joint Underwriting Association (JUA) writes coverage for high risk employers. All insurers share any underwriting loss in proportion to their market share.

EXAMINER'S REPORT

- Candidates were expected to understand the reasons for Workers Compensation being compulsory and the impact it has on employers & know programs/mechanisms put in place to ensure coverage for workers.

Part a

Candidates were expected to provide three distinct examples of which highlighted ways in which an employer might be affected by repeal of compulsory WC laws**.**

A common mistake was to address impacts to insurance companies, regulators, or employees without mentioning the impact to employers.

Part b

Candidates were expected to recall the names of two federal WC programs, and accurately describe the workers covered by each program.

Common errors included:

- Describing Longshore and Harbor Works as "off shore", "at sea", or "open water" marine workers.
- Listing Unemployment Insurance, OSHA, Social Security, or Medicare as these are not WC programs.
- Listing Second Injury Fund as this is a state program.
- Listing TRIA as this is a federal program providing reinsurance and it does not directly provide WC coverage or define any specific worker category.

Part c

Candidates were expected to either name two mechanisms with a brief description each or provide two thorough descriptions of mechanisms.

Common errors included:

- Stating Public-Private Partnership as this does not describe a mechanism that ensures availability or affordability to employers.
- Self-Insurance – does not provide insurance coverage.
- State acts as reinsurer to private insurance company.
- States can impose fines and other consequences if proof of insurance is not produced and provided to the state.
- States can audit companies to ensure WC coverage was purchased and the benefit is offered.

FALL 2019 EXAM 6U, QUESTION 11	
TOTAL POINT VALUE: 2	**LEARNING OBJECTIVE: C1**
SAMPLE ANSWERS	
Part a: 1 point	
Sample 1 Underwriting income = earned premium – (incurred loss + incurred LAE + other expense) Earned premium = 200,000 x (9/12) = 150,000 Underwriting Income = 150,000 – (25,000 + 4,000 + 3,200) = **117,800** = contribution from Workers Comp *Sample 2* By using monthly pro rata method, the policy is assumed to be effective on middle of April EP = 200,000 x (17/24) = 141,667 Loss incurred = 25,000 LAE incurred = 4,000 Other expenses incurred = 3,200 Underwriting income = EP – loss incurred – LAE incurred – Other expenses incurred U/W income = 141,667 – 25,000 – 4,000 – 3,200 = **109,467**	
Part b: 1 point	
Sample 1 Loss reserve = 25,000 – 5,000 = 20,000 LAE reserve = 4,000 – 500 = 3,500 Other reserve = 3,200 – 3,000 = 200 Liabilities = 20,000 + 3,500 + 200 = 23,700 Unearned Premium = 200,000 – 150,000 = 50,000 Total liabilities = 23,700 + 50,000 = **73,700**	