

In a Nutshell:

4 in a series of four

The Critical Elements of Self-Insured Group Formation, Management & Retention



It isn't easy to establish a successful self-insured group (SIG) and keep it running efficiently over years and decades. That's why CCMSI worked to provide our recent article series focused on SIGs, in which we addressed formation, management and retention – the three critical parts of any successful SIG. In this final article of the series, CCMSI recaps – in a nutshell – SIG best practices – methods that help ensure SIG success now and into the future!

With association support, the SIG business model can then be developed with help from carefully selected business partners, including brokers, a TPA, accountants and additional service companies. Through a very complicated process, the TPA can help the association determine if a self-insured group

development and management of self-insured groups.

- Underwriting the program with member companies with proven low loss ratios.
- Funding the program adequately.
- Selecting an excess insurance carrier of quality.

“When an association supports the SIG concept, that concept gains instant credibility.”

BUILDING THE FOUNDATION—SIG FORMATION

It all begins with the foundation. A SIG must be formed properly in order to work. And, without backing by a professional association, it might never get off the ground. When an association supports the SIG concept, that concept gains instant credibility.

is wanted by potential members and financially feasible. Then, that TPA can move forward to gain governmental approval, underwriting and handle administrative and management functions, if desired.

In general SIG formation requires:

- The support of a professional association.
- A quality board of trustees to represent the new self-insured group.
- A TPA and other partners with proven track records handling the

BEST PRACTICES IN SIG MANAGEMENT

Once formed, SIGs must be aggressively and proactively managed to be successful over years and decades. To operate well, every sector – underwriting, claims, loss control and accounting – is reliant on information and data from the other sectors. It is a cyclical process and demands an expert team willing to work together. Trustees of the SIG are also key to its success. They must absorb information from all the management areas and make decisions on behalf of the SIG.

what's inside?

- LaSalle County Insurance Trust Success Story
- U.S Metalworks Utilizes CCMSI Online Training
- CompMC Highlight
- Upcoming Conferences

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Continued on page 2



1. Selecting the Management Team

When it comes to management, go with experts. Field a management team with experience running SIGs. A TPA with experience managing SIGs will offer the group a wealth of resources to draw upon that they might otherwise lack – industry experience, training, safety and loss prevention strategies and claims technology, among others.

2. Underwriting

With the team in place, management and communication begin. Careful evaluation of new members and existing members is important. A SIG's underwriter considers the risk of an account, prices the account and determines if that account is one to keep in the group. Underwriting is a continuous and critically important part of SIG management.

3. Claims Management

With best practices at the forefront, the claims management program should be designed around the SIG's goals, unique risk exposures and special claim handling. There must be an adequate number of claims adjusters and supervisors in place to manage the SIG's exposure and risk. Good communication between claimants, employers, the SIG and the TPA makes it easier to resolve claims sooner – saving loads of money in the long run.

4. Safety and Loss Control

Best practices in safety and loss control begin by getting to know individual SIG member companies and gaining their trust. The goal is to establish a long-term partnership with the service provider. To fully benefit from the rewards of loss control, safety services require a consistent and dedicated approach that mirrors the goals of the SIG and its members.

SIGs should strive to identify safety issues and potential exposures through member site inspections, conversations and claim data; develop solutions for those exposures; and track results. Excellent loss control begins with consultants knowledgeable in the inherent exposures of a specific industry. Having existing knowledge allows for proactive service prior to injuries occurring. Additionally, consultants must be familiar with claims data and the identification of trends or issues that point to a problem.

5. Accounting

A SIG's accounting function drives much of how a SIG is managed year to year. As such, the SIG's accounting staff handles more than just accounts payable, accounts receivable and the general ledger. They work very closely with investment managers, actuaries, claims and underwriting to manage cash flow, investments of premiums and budgets.

“ To operate well, every sector is reliant on information and data from the other sectors. ”

Once again, to ensure best practices, SIGs should contract with an accountant experienced in self-insured groups. There are many state-specific laws SIGs must comply with that relate to taxes, reporting and even investing. To generate additional income on member premiums, SIGs invest extra funds that aren't needed for immediate cash flow. The accounting facet ensures the investments of premiums fall within state regulations.

At the end of the policy period, third-party actuaries use the accounting records and estimate liabilities, set overall reserves, and estimate premiums for the upcoming policy year. The actuarial forecast offers insight into how the SIG is performing and whether or not the management areas need improvement.

MEMBERSHIP CULTIVATION & RETENTION: A SIG'S LIFEBLOOD

Finally, with formation established and management processes flowing efficiently, SIGs must work relentlessly to retain and grow membership. Key to retention and growth is a SIG's ability to educate current and potential members

about how the group differs from commercial insurance: by delivering loss-control services tailored to each member's particular business; hands-on claims management where employers are directly involved in claims resolution; and the potential return of profits based on each member's loss ratio.

In general, self-insured groups form to help create a stable market within a specific industry for workers' compensation. Through good communication of a SIG's potential cost savings and value-added loss control and claims management services, they can effectively retain quality members and attract new ones of similar caliber.

COMMUNICATION OF VALUE-ADDED SERVICES

But, communication requires effort, and members must be educated and constantly massaged. Through personal, regular contact with its members, a SIG can succeed and retain members year after year.

While face-to-face communication, unique services and member relationships are critical to maintaining retention, other indirect and direct marketing methods also glean results. Sometimes, the hardest part of bringing in new members, is finding them in the first place. That's why SIGs use multiple techniques for zeroing in on potentially high-quality members.

“Self-insured groups form to help create a stable market within a specific industry for workers' compensation.”

BROKERS

By developing relationships with brokers, SIGs can gain new business. By gaining broker buy-in SIGs gain the broker's book-of-business and access to hundreds of prospects.

STATE AGENCIES

State agencies often recruit new business, and by aligning with those agencies, SIGs can attract new members. One very successful SIG in Mississippi writes business for start-up companies, but only after the businesses get the green light from loss-control engineers who inspect those companies face-to-face.



INDEPENDENT INSURANCE AGENTS

Independent insurance agents write a huge amount of workers' compensation business. By providing those insurance agents with incentives and the SIG's marketing tools – brochures, sales materials and DVDs – it's easier to gain new members.

MEMBER REFERRALS

Similarly, by requesting and rewarding member referrals, SIGs can draw new members. Some SIG members are asked for referrals and awarded prizes when those referrals culminate in new business. While there are many avenues for pinpointing possible new members, it helps the salesperson – agents, brokers, TPA representatives or SIG employees – to have back-up: marketing materials that help them close the deal.

MARKETING

Since a SIG isn't structured the same as traditional insurance, the benefits often take time to sink in. That's why some SIGs market through Web sites, newsletters, seminars or advertising.

In the end, retaining and attracting members comes as a result of constant effort. Year to year, it takes continuous communication, outstanding service, ongoing marketing and professional alliances to do the job well.

To view CCMSI's complete four-part series on self-insured groups – formation, management, retention and recap – visit www.ccmsi.com, where each is displayed in its entirety! ■



LaSalle County Insurance Projected to Save \$5.6

LaSalle County, Ill., drastically lowered workers' compensation and liability insurance costs and claims by more than 50 percent since establishing a self-insured trust in 2004. The La Salle County Insurance Trust (LCIT) has not only freed the county and its taxpayers of constantly rising insurance premiums, which are characteristic of traditional insurance programs, it has helped establish a sense of ownership among the County's employees regarding safety and accident prevention. The Trust is working so well, it's on target to save La Salle County taxpayers \$5.6 million over 10 years, according to LCIT Chairman Marius Derango.

And, that's exactly what the Trust was designed to do. The four-year-old, self-funded program works by borrowing money through the use of bond issue to generate a reserve fund. Proceeds are held in conservative investments in a process regulated by Illinois statutes. "Because the money borrowed is generated by tax-exempt bonds, the proceeds are required to be invested in other tax-exempt investments," says JP Penet, CCMSI loss control representative. "The interest earned on its investments is deposited back into the program and not taken as corporate profits. Thus, the County's taxpayers are billed a level amount over a 10-year period, only to repay the debt service on the original bond issue."

The system benefits taxpayers for many reasons, according to Penet and Derango. The County collects a fixed amount each year to repay the debt service on the bond issue, rather than paying for the typical five percent annual premium increase characteristic of traditional insurance. The Trust also allows for more customized and aggressive claims management and loss control, resulting in lowered claim frequency, severity and costs.

CCMSI works in concert with La Salle County's employees and LCIT board members to provide Trust administration, claims

management and loss control services. "Claims are handled by professional adjusters with very limited attorney involvement," says Penet. "Since formation of the Trust, claims are reported within 24 hours and are closed more quickly, which is vital to saving money."

Another key ingredient to the Trust's claims management is CCMSI's expert understanding of Illinois liability tort laws. "You need to know the statute to utilize it properly," says Rob Fitzgerald, CCMSI account manager. Illinois liability tort law provides that local public entities and public employees are immune from liability for various acts arising out of the operation of specific governmental functions. Fitzgerald explains that because CCMSI claims adjusters understand the statute, many claims can be denied based on Illinois law. "This is a huge money saver," he says, "and something commercial insurance providers don't typically do well."

While there's no doubt that aggressive claims management is cutting claim costs, nothing has impacted claim frequency, severity and costs more than safety and loss control, according to Fitzgerald, Penet and Derango. Key to this effort is employee education.

"We taught the employees about how the trust works, so that it became transparent to them that their actions and attention to safety directly impacts them as

"The Trust has helped establish a sense of ownership among the County's employees regarding safety and accident prevention."

employees and taxpayers," says Penet. "The Trust is owned by the county in which the employees live, so the costs of any accidents and injuries that occur will have a direct impact." This realization gives them extra incentive to follow safety and

Trust Million

accident prevention guidelines. Through monthly or quarterly meetings, each department of La Salle County – sheriff's, health, highway, maintenance, parks, probation, nursing home, etc. – works to communicate safety and loss control exposures and to implement prevention strategies.

Since the Trust was formed, many loss control measures have been implemented for big cost savings, including:

- The thorough re-write of the County Safety Policy Manual, in which the safety program was reevaluated and directives and policies updated.
- A County subscription to safety and training resource publications.
- An Employment Law Seminar for all department heads and elected officials, which provided essential practical information to increase compliance with current employment laws and ensure supervisors were acquainted with procedures and contacts for additional confidential questions and/or assistance.
- Facilitation of OSHA 10-Hour Introductory Safety Course providing basic safety education for key personnel, safety committee members, and insurance trust personnel.
- An ergonomic training program at the county nursing home, which targeted the unique hazards plaguing long-term care facilities, as well as training in the recognition, reduction and elimination of musculoskeletal injuries.
- Personal visits with County department heads and elected officials.
- Monthly safety meetings at various individual County departments.
- Monthly County Health and Safety Committee meetings involving representatives from all departments, where accidents are reviewed and safety training is scheduled and delivered.
- Employee participation in Defensive Driver Courses.
- And, regular property inspections.



“Today, one of LaSalle County’s nursing homes is a zero-lift facility,” reports Penet. “They use equipment, not people to move residents – saving numerous injuries and strains. The nursing home crafted a policy mandating the use of lifting equipment by all employees, and simultaneously, provides continual training to ensure the equipment is used correctly.” In order to pinpoint exposures, on-site inspections are used and claim trends are analyzed. “We are the insurance company, so loss control and preventative policies work to prevent accidents,” adds Derango. “We try to look at all the possible pitfalls and correct them before the fall.”

So far, it’s working and working well. The Trust has proved very effective for controlling and lowering claim costs, accidents and injuries, while simultaneously saving taxpayers a projected \$5.6 million when the Trust’s claims reserves are scheduled to run out in 2012. The question then will be whether to issue new debt to re-fund the Trust using the same model, or return to traditional insurance.

“I think it’s a no-brainer,” says Derango. “If we can achieve the same results during the next four years that we have enjoyed thus far, I see no reason why it wouldn’t be this way forever. It is still a tremendous scenario even if we start again from scratch at the end of the 10 years.” □



U.S. METAL WORKS TAPS INTO CCMSI WEB-BASED SAFETY TRAINING COURSES

Safety and accident prevention are front-and-center at U.S. Metal Works Inc., a Mississippi-based manufacturer of steel cyclone separators, conveyors, hoppers and truck bins used in the timber processing industry. Using heavy structural steel, workers weld and fabricate large pieces of equipment, according to Shop Foreman Lonnie Paquin. It's hazardous work, which drives U.S. Metal Works to embrace new training opportunities designed to teach employees to work more safely.

Most recently, Paquin had each of his employees complete CCMSI's convenient online safety training modules, including Back Injury Prevention, Bloodborne Pathogens, Hazard Communication, Lift Truck, Lockout Tagout, Machine Guarding, OSHA Recordkeeping and Slip Trip and Falls.

"We complete the training modules on-site using a couple of office computers," says Paquin. "We do them during working hours, and once started, the eight online courses take a few hours to complete altogether."

Paquin, who holds weekly safety meetings with employees, says accident prevention in the workplace is critical. "We don't want any accidents because it leaves us short-handed, costs the company money, and because we want to keep our people healthy," says Paquin.

He attests that much of the content included in the online modules is new for his employees, making it valuable. "This is new information to them, because there is a lot that they have never been exposed to before. They don't always realize the consequences of their actions, and these training modules make those consequences clear."

The Web-based Interactive Training Presentations are OSHA compliant, help employers prevent injuries, claims and productivity loss, and automatically track employee participation and assessment scores. Available 24 hours per day, seven

days per week via the Internet, the modules provide visual and audio interaction – walking employees through safety practices, concerns and guidelines.

"Once a course is completed, employees take a quiz that measures how well they understood the subject," says Ed Dicks, CCMSI loss control manager. "Upon receiving a passing score, they receive a course certificate."

Because the results are automatically tracked and recorded, including quiz scores, U.S. Metal Works can easily see which employees have completed and passed a particular module. That's particularly helpful to employers when it comes to tracking results and reporting information to OSHA.

Since 2003, U.S. Metal Works has experienced just 16 workers' compensation claims; reporting only one claim in 2007! "Those numbers are really very good," says Dicks, "especially when you consider how dangerous and hazardous this type of manufacturing can be." U.S. Metal Works, says Dicks, hopes claims will continue to decrease thanks to help from the online safety training modules. To find out more about them, visit www.ccmsi.com. ■





spotlight: compmc[®]

Careful Management of Work Comp Medical Bills

The **comp mc** program saved 400 CCMSI clients collectively over \$100 million during the fiscal year of 2007. But that's exactly what the program's designed to accomplish. To sum it up, **comp mc** is a systematic program that helps control and lower the medical costs related to workers' compensation claims. Critical to its success are a number of program components that unite for huge health care savings, according to Sharon Elliott, vice president of **comp mc**.

BILL REVIEW – JUST THE TIP OF THE ICEBERG

Since many states have legislation in place determining medical care fee limits, it is critical that all workers' compensation medical bills be reviewed against state-specific laws. That's why, upon receipt of a medical bill, CCMSI first determines whether or not a state fee schedule exists, and if it does, ensures the bill's charges align with that set fee schedule. In states where no fee schedule exists, Elliott says bills are reviewed to ensure charges fall within the "Usual or Customary" rate. "As a result," she says, "a \$100 medical bill might be reduced to \$70 – saving a client considerably."

Once accomplished, the bill is run through the matrix of Preferred Provider Organizations (PPO), medical facilities and

organizations that have contracts in place with providers to provide services and equipment at lowered amounts. The bill is adjusted according to those contracts, often reducing costs further.

COMP RX

Intertwining with many workers' compensation claims are prescription medications. **comp mc** partners with a pharmacy benefits manager (PBM) on a national level through the Comp RX program to gain lower prescription medication fees and to simplify life for claimants. "Most pharmacy chains in the country are included in the network, along with many small, local pharmacies," says Elliott. A special Comp RX prescription card, presented to the pharmacy by the claimant, allows the pharmacy to bill costs directly to the PBM. That way, claimants don't have to hassle with paying up-front.

SPECIALTY SERVICES

The **comp mc** program also includes a specialty services component spanning a network of physical therapy, occupational therapy and chiropractic providers. "This allows CCMSI to obtain reductions and perform utilization review to help control costs. It looks at the provider's treatment plans and reviews the medical appropriateness of patient's medical condition and treatment," says Elliott. So, if

a bill appears to be out of line in some way, it can be investigated further.

DIAGNOSTICS

comp mc also includes a diagnostic scheduling and discount network covering MRIs, CT scans, bone scans and more. It works to save clients considerably, according to Elliott, and organizes physician referrals, diagnostic appointments, patient reminder calls and more. All diagnostic bills are reviewed and matched with diagnostic providers to lower and control costs.

SPECIALTY BILL REVIEW

In the event no PPO exists, costly hospital bills, ambulatory surgery bills, high-dollar professional service bills and ambulance bills undergo a specialty bill review. "This process ensures bills reflect appropriate costs for a given geographic area," says Elliott.

"Our **comp mc** program not only allows us to reduce bills in accordance with state regulations, it ensures we take those reductions a step further by applying the other components of the **comp mc** program," says Elliott.

To discover more about **comp mc** benefits, visit www.ccmsi.com or contact Elliott at 800-252-5059 ext. 1268. ■

U P C O M I N G C O N F E R E N C E S

Kansas Self-Insurers Association – July 10-11

Missouri Association of Insurance Agents (MAIA) Leadership Conference – July 16-18, 2008

Colorado Public Risk Insurance Management Association (PRIMA) – August 3-5, 2008

University Risk Management and Insurance Association (URMIA) – September 10-14, 2008

California Association of Joint Powers Authorities – September 16-19, 2008

Michigan Self-Insurers Association – October 21, 2008

NCCI's New Medical Data Call

A craving for more detailed medical data

The National Council on Compensation Insurance (NCCI) recently embarked on a more aggressive medical data call plan to better respond to the changing landscape of medical claim costs. NCCI will soon require that medical data be submitted via Data Transfer via the Internet (DTV) and that the data not be aggregated at the bill level. This means each line of every medical bill must be reported as a separate record, whereas previously, each bill total was reported in its entirety.

Around 60 percent of workers' compensation benefits are attributable to medical costs, according to NCCI. "The rising cost of medical care is the major issue facing workers' compensation stakeholders, now and for the foreseeable future," reports the NCCI Web site. "With this

continuing escalation of medical claim costs, many state regulators and legislators have looked to NCCI for support in the analysis and pricing of their medical cost containment solutions." The result, according to NCCI, is a need for more detailed medical data.

Because implementation of NCCI's new medical data call will likely consume a significant amount of time and resources for many companies, mandatory reporting for eligible participants will begin with medical transactions occurring in the third quarter of 2010, which must be reported to NCCI by the end of the fourth quarter of the same year.

To prepare, NCCI suggests companies become familiar with the 28 required data

elements, including 23 medical procedure and diagnostic data elements and five policy/claim-linking data elements. They should also evaluate whether or not their systems and/or business partners' (TPA, Medical Bill Review vendors) can make available these required data elements. As such, companies should determine to what extent they use medical data business partners and whether the companies handle medical claim handling internally, or use business partners for claims handling. Companies and their medical data business partners should come to a shared understanding of how, and from where, the data will be reported.

To view detailed medical data call information and guidelines, visit www.ncci.com.



For questions on our products and services, please call:
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