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New York Insurance Association Points Out Pitfalls Of Using Self-Insured Workers' Compensation Trusts

The collapse of a self-insured trust that provides workers' compensation coverage to thousands of employers and their workers in New York State is a vivid lesson on the dangers of using these vehicles, rather than the security of a private workers' compensation insurance company, the New York Insurance Association (NYIA[®]) said.

A Poughkeepsie-based third-party administrator of several workers' compensation self-insured trusts, Compensation Risk Managers, LLC, will surrender its trust license to the New York State Workers Compensation Board and is under investigation by the New York State Attorney General due to significant unfunded liabilities in the eight trusts managed by the firm. The employers who make up the trusts will be required to cover the shortfall which has been estimated to total at least \$59 million.

NYIA president Ellen Melchionni explained that all employers participating in a self-insured workers' compensation trust are financially responsible for any shortfall that exceeds the trust's monetary assets. This guarantees that workers' compensation benefits – medical care and lost wages -- are fully paid to the employees of the trust members who suffer job-related injuries.

"These trusts can be a dicey proposition for employers unless they are prudently managed and have the necessary financial strength to pay workers' compensation benefits to injured workers, who, in some cases, may be collecting them for many years," said Melchionni.

The state workers' compensation board noted in a December 2007 report to the Governor and the legislature that the defaults of workers' compensation trusts could total "in the tens of million in the coming year alone."

By contrast, Melchionni noted that not only is the financial condition of private workers' compensation insurers rigorously reviewed by state insurance regulators and private insurance rating agencies, but private insurers are backed up by the assets of the Workers' Compensation Security Fund.

"The Security Fund provides both employers and their workers with the peace of mind that even under the worst circumstances legitimate claims for workplace injuries will be settled fully and quickly," Melchionni said.

The New York Insurance Association (NYIA[®]) is a state trade association that has represented the property and casualty insurance industry for over 125 years. For more information on NYIA, visit www.nyia.org