



## **FREQUENTLY ASKED QUESTIONS SELF-INSURANCE FOR WORKERS' COMPENSATION**

The following questions and answers are intended to provide a brief overview to employers who contemplate self-insuring their workers' compensation benefits. For a detailed and definitive explanation of self-insurance, you should consult Chapter 440, Florida Statutes and Rule 69L-5, Florida Administrative Code. The statutes and rules can be found on the internet at [www.leg.state.fl.us/statutes](http://www.leg.state.fl.us/statutes) and [www.flrules.org](http://www.flrules.org), respectively; or, if you need assistance in obtaining this information, contact the Florida Self-Insurers Guaranty Association, Inc. by mail at 1427 East Piedmont Drive, 2<sup>nd</sup> Floor, Tallahassee, Florida, 32308, by phone at (850) 222-1882, by fax at (850) 222-2926, or by e-mail at [fsiga@fsiga.org](mailto:fsiga@fsiga.org).

### **1. WHAT IS SELF-INSURANCE FOR WORKERS' COMPENSATION?**

Section 440.38(1)(b), Florida Statutes, allows the Division of Workers' Compensation to permit an employer to pay compensation directly to its employees upon furnishing proof to the Florida Self-Insurers Guaranty Association, Inc. that the employer has the financial strength necessary to ensure timely payment of all current and future claims.

### **2. WHAT IS THE FLORIDA SELF-INSURERS GUARANTY ASSOCIATION, INC.?**

This is a private, nonprofit corporation established by Section 440.385, Florida Statutes, which is responsible for guaranteeing that injured workers of insolvent self-insurers continue to receive their benefits. All self-insurers other than governmental entities and public utilities are required to be members of the Association. A nine-member Board of Directors, appointed by the Chief Financial Officer of the State of Florida, is responsible for managing an insolvency fund, which is used to pay claims for insolvent self-insurers. The insolvency fund is funded by an assessment of the Association members. The amount of the assessment may not exceed 1% of the amount of premium that the member would pay for standard workers' compensation insurance. The Association's assessments are billed quarterly.

The Florida Department of Financial Services has contracted with the Florida Self-Insurers Guaranty Association, Inc. to provide virtually all of the administrative services related to the regulation of individual self-insurers of workers' compensation benefits. On matters such as approval and revocation of self-insurance authorizations and increases in security deposit requirements, the Association makes recommendations to the Department. The Department makes the final determinations on these matters.

**3. HOW DOES AN EMPLOYER QUALIFY FOR SELF-INSURANCE?**

An employer who wants to qualify for self-insurance must obtain an application (Form DFS-F2-SI-1) from the Florida Self-Insurers Guaranty Association, Inc. (FSIGA). The application should be mailed to FSIGA, along with all items required by the application. To be considered for individual self-insurance, a company must have three (3) years of financial statements prepared in accordance with Generally Accepted Accounting Principles, the most recent of which must be audited in accordance with Generally Accepted Auditing Standards and show a minimum net worth of the greater of \$10,000,000 or three times standard premium. After receiving the application FSIGA will review the application for completeness and will determine whether the applicant has the financial strength necessary to ensure timely payment of all current and future claims. FSIGA will make a recommendation of approval or denial to the Department of Financial Services.

**4. IS A SECURITY DEPOSIT REQUIRED?**

Yes. A minimum security deposit of \$100,000 is required for all self-insurers. This security deposit can be in the form of a surety bond or irrevocable letter of credit. In addition, security deposit requirements can be increased if a self-insurer's credit rating is less than investment grade.

**5. IS EXCESS INSURANCE REQUIRED?**

Yes. Specific excess insurance is required for all self-insurers. The self-insured retention levels for these policies should not exceed \$500,000 or 1% of net worth, whichever is greater. In certain cases, retention levels greater than this amount may be approved by the Department of Financial Services.

**6. WILL WE BE REQUIRED TO CONTRACT WITH A SERVICING ENTITY?**

All self-insurers are required to either contract with a Qualified Servicing Entity approved by the Department of Financial Services or obtain the Department's approval of an in-house servicing plan.

**7. WHEN CAN WE CANCEL OUR CURRENT INSURANCE POLICY?**

All applicants must maintain their workers' compensation insurance until the effective date of the approved self-insurance authorization. Therefore, you are not authorized to cancel your current workers' compensation coverage until you have received written confirmation of approval stating the effective date of your self-insurance authorization.

**8. HOW LONG WILL IT TAKE TO PROCESS OUR APPLICATION?**

Rule 69L-5.226, FAC, states as a general guideline that applications should be submitted at least ninety (90) days prior to the desired self-insurance effective date.

## **9. WHAT IS REQUIRED TO MAINTAIN THE SELF-INSURANCE AUTHORIZATION?**

Self-insurers are required to file certain reports and documents with the Florida Self-Insurers Guaranty Association, Inc. as well as all periodic injury reports to the Division as required by the Workers' Compensation Law. The required injury reports include Notices of Injury, Injury Progress Reports, and the like. The self-insurance reports and documents include the following:

- Security Deposits (Forms DFS-F2-SI-4F, DFS-F2-SI-6)
- Payroll Reports (Form DFS-F2-SI-5)
- Unit Statistical Reports (Form DFS-F2-SI-17)
- Certification of Servicing (Form DFS-F2-SI-19)
- Reports of Outstanding Workers' Compensation Liabilities (Form DFS-F2- SI-20)
- Specific Excess Insurance Policies
- Financial Statements
- Actuarial Reports (if requested)

Self-insurers are also required to pay annual assessments to the Department of Financial Services and the Florida Self-Insurers Guaranty Association, Inc.

## **10. FOR WHAT REASONS CAN A SELF-INSURANCE AUTHORIZATION BE TERMINATED?**

Failure to maintain the required security deposit or specific excess insurance, failure to file required reports, or failure to have the financial strength required by law, are all grounds for the revocation of the self-insurance authorization. Since the self-insurance authorization is granted to a specific business entity, a change in equity structure can result in the termination of the self-insurance authorization. For example, if the self-insurer is sold, merged, dissolved or otherwise changes its equity structure to the extent that the financial information upon which the self-insurance authorization was granted can no longer be used to determine the self-insurer's financial strength, the self-insurance authorization will be revoked. Of course, a self-insurer's failure to meet any of its obligations to its injured employees or its failure to pay the required assessments is grounds for revocation.

## **11. WHAT ARE AN EMPLOYER'S LIABILITIES AND EXPENSES UNDER SELF-INSURANCE?**

The employer is obligated to pay all benefits due under the Workers' Compensation Law. The employer is also responsible for the cost of the security deposit and specific excess insurance. The employer may also be required to hire the services of trained personnel to handle certain aspects of its program. Finally, the employer must pay its annual assessments.

## **12. HOW ARE ASSESSMENTS DETERMINED?**

Sections 440.41(1)(b) and 440.49(5)(h)(2), Florida Statutes, state that assessments must be collected from self-insurers on the same basis as if they were paying premiums to an insurance carrier. Therefore, self-insurers must submit annual payroll and loss reports so that a net premium can be calculated. This is the premium that the employer would have paid had it not been self-insured. All premium calculations, including the experience rating factor, are calculated in accordance with procedures established by the National Council on Compensation Insurance.

Two (2) assessments are collected by the Division of Workers' Compensation. The Administrative Assessment, currently .80% of net premium for the 2010 calendar year, is used to fund the operations of the Division. The Special Disability Assessment, currently 1.46% of net premium for fiscal year end 2011, is used to reimburse employers and carriers for certain claims of injured workers whose injuries have been magnified due to a preexisting condition or injury. This program was designed so that employers would not be penalized for hiring handicapped or previously injured applicants.

The Florida Self-Insurers Guaranty Association, Inc. also collects an assessment from self-insurers. This assessment is based on the number of years the employer has been self-insured. The current assessment is 1% of net premium for the first 35 quarters of self-insuring, 0.5% of net premium for the next 20 quarters, 0.1% of net premium for the next 4 quarters and eliminated thereafter. The assessment is limited by law to 1% of net premium per year.

**13. CAN AN EMPLOYER WHO IS SELF-INSURED TAKE ADVANTAGE OF THE DRUG-FREE WORKPLACE PROGRAM AND/OR SAFETY PROGRAM PREMIUM CREDIT(S)?**

Yes, Florida employers who meet the criteria established by the National Council on Compensation Insurance for these programs can receive up to a 5% premium credit for the drug-free workplace program and/or a 2% premium credit for the safety program. A self-insurer must apply to the Division of Workers' Compensation for these credits. For additional information regarding these credits, a self-insurer should contact the Division's Assessments Unit at (850)413-1646.