ASP Gives California Businesses a Competitive Edge: The California Self-Insurers' Security Fund's Alternative Security Program (ASP) unlocks $6.5 billion in working capital for businesses this year.

At first glance, companies opting to be self-insured for their workers compensation coverage may seem risky. Yet many major corporations -- such as Marriott, Nordstrom, and The Walt Disney Company -- choose this alternative. Why? Because self-insurance makes good business sense. This is true for large employers -- and small and medium-sized businesses too.

But what exactly is self-insurance and why do so many companies find it a sound and strategic business option? Tim East, who has worked for the Walt Disney Company for 30+ years and is Director of Risk Management, also serves as the CEO and Chair of the Board of Trustees for the California Self-Insurers' Security Fund (CASISF). He has unique insight. The CASISF Board is made up of representatives from self-insured companies. East has been with the Fund since 2000, holding major leadership roles for the last 10 years.

"One of the best ways to explain self-insurance is to use a property insurance analogy," he says. "If you're a large company and are insured for fire damage you have a very high deductible – say $500,000 or even $1 million. You agree to take care of any damage below that amount, so you are essentially self-insuring up to that amount and purchasing an insurance policy for any damage that goes over the deductible."

But since workers' compensation covers injured workers, the State of California has an interest in ensuring the financial continuity of self-insurance and any company that self-insures their workers' compensation obligations.

"When somebody at work gets hurt, the company may be responsible for his or her medical care from the consequences of that injury for the rest of the employee's life – if it impacts them to that degree," East says. "Going back to the fire insurance analogy, if I self-insure the first $1 million of a fire loss, nobody is personally affected if I rebuild or not.

Tim East

"But when a worker has been injured – let's say it's a 25-year-old with severe injuries, who will need long-term care for years," he adds. "Someone must be around to pay for that care over the next 50 or 60 years. This is why the people of California have a greater degree of interest in codifying and structuring self-insurance rules – and every state does – to make sure coverage will be there for the long term. There is a public interest in there being continuity and sustainability to pay those claims - that is why the Security Fund exists."

Employers who self-insure must maintain a deposit equal to their estimated liabilities, which may be posted in cash, letters of credit, surety bonds or securities. The use of these instruments limits the employer's ability to use their cash or credit line. In contrast, the Security Fund's Alternative Security Program

(ASP) enables employer members to free up cash -- or a line of credit -- allowing them to reinvest working capital back into the businesses. “Meanwhile, the Alternative Security Program provides members with a low-cost substitute for collateral without any balance sheet impact,” East says.

CASISF’s Board of Trustees approved and implemented the 2020-21 ASP, freeing $6.5 billion in working capital, providing California’s self-insured businesses more financial flexibility. “The availability of the ASP incentivizes more California companies to become self-insured for workers comp because not only do companies not have to pay large workers comp insurance premiums every month, they don’t have to set aside a large chunk of working capital to self-insure,” East says. “Self-insurance has tremendous advantages and, in many cases, substantial cost savings for employers.” The benefits are not just financial: It can also increase the employers’ standards of care for its employees.

“I call the best reasons for self-insuring The Three Cs: Cost, Control and Care,” East says. “Employers choose to self-insure workers' compensation liabilities for cost effectiveness, greater control over their claims programs, more personalized care for those injured, and increased safety- and loss-control management.”

The success of a workers' compensation self-insurance program is often dependent upon the effectiveness of loss-control activities and claims supervision. Many self-insured companies contract with third-party administrators to perform some of these services while others opt to handle claims through their own administration.

“I can manage the claims with my employees’ best interests at heart and that’s going to result in the best outcomes,” East says. “When companies self-administer, it’s like a ‘fellow employee’ helping their colleagues recover from an injury. And that’s so much more effective. Even if you hire a claims-adjusting company to do that work initially, you can still build a recovery, restoration, and return to work program.”

East emphasizes that when he says “control,” he means the employer has the ability to oversee and manage the claim to a successful outcome while not letting the employee fall through the cracks.

“Many self-insured employers will dispatch an associate to the hospital as soon as an employee is injured and they become the advocate for their fellow worker,” he says. “The claims pros in my organization do not waste time or money. They have a vested interest in protecting the company’s and the employee’s best interests.”

Many employers mistakenly think becoming self-insured is difficult. In fact, it is very easy. It is now possible for companies to easily move from initial application to fully self-insured within 30 days. CASISF maintains a full complement of self-insurance resources on their website to educate and assist employers at www.SecurityFund.org.

During the Covid-19 era, if it can be determined that an employee contracted the virus on the job, it is covered under workers compensation insurance. “This is an area of evolving law,” he says. “The governor of California – like many governors across the country – implemented an executive order mandating that essential workers were covered unless the company could prove it wasn’t caught at work. But that executive order lapsed on July 5. And now we’re in an era of uncertainty.”

Senate Bill 1159 passed the legislature and was signed into law by Governor Newsom. The bill extends the executive order in principle creating disputable presumptions for some groups of essential workers.

“Even now, if an employee can establish that he or she contracted COVID in the course and scope of employment, it would be covered by workers compensation,” East says. “And there are anecdotal examples of how this could occur, particularly when we’re talking about first responders and medical personnel but even if it was a reporter sent to cover the recent events in Portland – these are places people may absolutely be exposed through the course of their work duties.” — By Susan Belknapp, California Business Journal.