

**NEW HAMPSHIRE MOTOR TRANSPORT  
ASSOCIATION**

**SELF-INSURANCE GROUP TRUST**

**FOR:**

*Company Name*

A WORKERS' COMPENSATION SELF-INSURANCE  
GROUP SERVING THE NEW HAMPSHIRE MOTOR  
TRANSPORT INDUSTRY

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## CONTENTS

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### Background

- **What is the Trust?** 3
- **Why was the Trust formed?** 3

### The Benefits and the Risks

- **What are the advantages of Trust membership?** 4
- **What risks does a Trust member take?** 5
- **How are members' risks managed?** 5

### The Typical Member's Program

- **How are members' premiums calculated?** 7
- **Must members contribute capital**
- **How are dividends and assessments determined?** 8
- **What coverages are available?** 8

### The Trust's Distinguishing Features

- **The Trust's excess insurance program** 9
- **The Trust's management team** 10
- **Claim management and loss control services** 11

### The Trust's Eligibility Criteria 13

### Applying to Join the Trust 14

### Dividend and Assessment Illustrations 15

## **THE TRUST IS A WORKERS' COMPENSATION SELF-INSURANCE GROUP**

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**Q. What is New Hampshire Motor Transport Association Self-Insurance Group Trust (the Trust) and when was it formed?**

- A. The Trust is a workers' compensation self-insurance group. Its sole purpose is to provide workers' compensation coverage and service to its members. The Trust is controlled totally by its members – New Hampshire employers engaged in the transportation industries.

The Trust is licensed and regulated by the New Hampshire Department of Labor.

The Trust began operations in November 19, 1993.

**Q. Why was the Trust formed?**

- A. The Trust was organized to be a high quality and cost-effective alternative to the traditional workers' compensation insurance market. The Trust is a workers' compensation solution designed to serve a select group of New Hampshire employers.

The Trust members have demonstrated an ability to control their workers' compensation claims costs. The Trust gives its members the opportunity to “pool” their favorable experience and to benefit directly from their performance.

The Trust provides members a level of service, which exceeds the level generally available through the traditional insurance market. These service programs support members in delivering workers' compensation benefits to employees in a fair and quality manner. Additionally, these services are essential in containing members' claim costs.

The Trust members have committed to make the Trust a workers' compensation solution for the long term.

## TRUST MEMBERSHIP CAN YIELD SIGNIFICANT BENEFITS

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### Q. What are the advantages of Trust membership?

A. Trust members seek four advantages over traditional workers' compensation insurance:

- Lower Premiums

A Trust member currently insured through the voluntary workers' compensation insurance market will see no change in their premium charges. Those currently insured through the Assigned Risk Pool will see lower premiums since the Assigned Risk premium surcharge does not apply in the Trust.

- Dividends

Trust members' costs may be further reduced by dividends. The Trust retains no profits; profits are returned to members. Members with the most favorable experience receive the largest dividends – an incentive to Trust members to control their claim costs.

- High quality services

The Trust's loss control and claim management service programs are designed to help members prevent claims and to assure prompt and fair treatment for injured employees. These service programs distinguish the Trust from other workers' compensation alternatives.

- Control

Members govern the Trust through the Board of Trustees. The Board's Claim and Loss Control Committee oversees the key service programs.

## THERE ARE RISKS INHERENT IN ANY SELF-INSURANCE GROUP

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### Q. What risks does a Trust member take?

- A. The Trust operates outside the traditional insurance system. While this can be of great advantage, being independent of the system also brings risk.

While members may share in Trust profits, they are also jointly and severally liable in the event that the Trust were to be short of funds. If the Trust were short of funds, members would need to be assessed for the amount of the shortfall.

### Q. How are these risks managed?

- A. While the risks of joint and several liability can never be entirely eliminated, they can be managed, and the Trust maintains five structural features to aggressively manage these risks:

- **Selectivity**

The Trust is available only to financially sound employers with a strong track record in controlling workers' compensation claims. All Trust members commit to actively participate in the Trust's claim cost containment programs.

- **Strict premium payment plans**

The Trust has a strict 12 monthly payment schedule. A member will be promptly canceled for non-payment of premium. The premium payment plan is designed to minimize credit risk.

## THE RISKS - Continued

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### Q. How are these risks managed? (continued)

- **Letters of Credit**

Each new member must post a Letter of Credit to the Trust equal to 25% of the member's annual premium and maintain the Letter of Credit for a minimum of two years. After two years, a Letter of Credit is no longer required if the member signs a obligatory note to the Trust.

- **Ongoing funding reviews**

Trust operating costs as well as the potential volatility of claim costs are projected routinely to determine that members' premiums are sufficient to contain costs and to limit the risks to an acceptable level.

- **Excess Insurance**

The Trust purchases excess insurance to limit its liability for any one claim.

## **THE TYPICAL MEMBER'S PROGRAM**

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**Q. How are Trust members premiums calculated?**

- A. A Trust member's premium is calculated as it would be in the voluntary insurance market:
- Department of Labor approved rates are applied to the member's payrolls by employment classification.
  - The member's experience modification factor is applied.
  - Final premium is credited for premium discount (a scaled credit varying by premium size)

**Q. Must members contribute capital?**

- A. The Trust neither requires nor permits capital contributions.

## **THE TYPICAL MEMBER'S PROGRAM - continued**

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### **Q. How are members' dividends and assessments determined?**

A. Each member's annual dividend or assessment will be based on the Trust's overall experience as well as that member's own claim experience.

- A member with poor claims experience will be charged an "experience assessment" of up to 20% of that member's annual premium.
- The experience assessments will be added to the total pool of funds available for distribution to members with good experience.
- Those members with good experience (i.e., those who generate a profit in the Trust) will receive shares of the Trust's dividends in proportion to the profits they generate - those with the best claims experience will receive the largest dividends.

**Note:** New Hampshire Department of Labor regulations require a two year waiting period prior to distribution of dividend payments.

In the event the Trust is short of funds, all Trust members are responsible to fund the shortfall. Any assessment is proportionate to premium.

### **Q. What coverages are available?**

A. The Trust provides the Workers' Compensation and Employers Liability coverages which employers are required to secure per New Hampshire law.

## **TRUST STRENGTHS - EXCESS INSURANCE**

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### **Q. How is the Trust excess insurance program structured?**

A. The Trust purchases excess insurance to cap the costs of any one claim. It is the key step to manage Trust members' risks.

- **Specific (per occurrence) excess insurance**

Losses paid by the Trust for any single occurrence are limited to \$1,000,000. Above that amount, the Excess Insurance Carrier is liable regardless of the ultimate cost.

For example, in the event of a multiple-employee accident (e.g., a vehicle accident), workers' compensation claim costs could be substantial. Trust claim costs are capped at \$1,000,000 – the Excess Insurance Carrier pays the remainder.

- **NH Department of Labor**

In addition to specific excess insurance the NH Department of Labor requires us to set aside an amount determined by the NH Department of Labor as a security deposit. These monies can only be accessed by the NH Department of Labor for the payment of claims.

The Trust's excess insurance program is distinctive because of:

- The financial strength of the Trust's excess insurer
- The amount of risk which the Trust retains per occurrence is in balance with its risk-taking capacity
- The Trust's limits of coverage being among the highest available in the market.

**TRUST STRENGTHS - MANAGEMENT**

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**Q. Who manages the Trust?**

A. The Trust is under the direction of its Board of Trustees. Reporting to the Trustees are the Trust's management team who direct day-to-day operations.

The team includes:

**New Hampshire Motor Transport Association (NHMTA)**

Association, Program, Management, Loss Control, and Marketing Services

**Midwest**

Excess Insurance Carrier

## **TRUST STRENGTHS - CLAIM MANAGEMENT AND LOSS CONTROL SERVICES**

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### **Q. What steps are taken to contain members' claim costs?**

- A.** The Trust's claim management and loss control programs help Trust members to control claim costs.

#### **Claim Management**

Trust claim management program is the foundation of cost containment efforts. The program is founded on the philosophies of

- **Prompt and fair treatment of an injured employee**
- **Thorough communication with the employer and employee**
- **Active and proven cost containment techniques**
- **Thorough accident investigation.**

When they join the Trust, members are taught their roles in assuring proper claim management. Emphasis is placed on those stages of the process where mistakes can be costly. Members learn their responsibilities as members of the claim management team.

NHMTA's staff adheres to high standard for claims management.

- Adjusters' workloads are managed to assure that they may devote the appropriate time necessary for thorough investigation and communication
- Processes for written and verbal communications are formal and strict
- Disability and case management techniques are utilized with the objective of prompt return-to-work

## **TRUST STRENGTHS - CLAIM MANAGEMENT AND LOSS CONTROL SERVICES - continued**

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### **Claim Management - continued**

- Medical cost containment steps are followed
- Face-to-face contact with the injured employee is mandatory in the event of a serious injury
- Investigation is performed on-site

The program is designed to assure appropriate treatment of an injured employee and to eliminate unnecessary cost.

### **Loss Control**

The Trust's loss control program supports members in the prevention of accidents. The program functions on two levels:

- All members participate in training sessions on safety
- Custom programs are implemented for each individual Trust member. Each member's individual service program varies depending on the size and complexity of operations.

### **The Trust's Claim and Loss Control Committee**

All claim management and loss control service programs are under the direction of the Trust's Claim and Loss Control Committee. Every member of the Trust is represented on the Committee and must attend the quarterly meetings.

### **Implementing a member's service program**

When a member joins the Trust, claim management staff will visit the member to assure that the member knows who to contact on claim matters and to begin the claim management education process.

## **THE TRUST IS A SELECTIVE PROGRAM**

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### **Q. Who is eligible to join the Trust?**

A. The Trust is open on a selective basis to New Hampshire employers engaged in transportation. The Trust seeks financially strong employers who commit to safety and quality claim management.

An applicant to the Trust must satisfy the following criteria:

- All Trust members are required to be members in good standing of New Hampshire Motor Transport Association.
- A member must be engaged in the transportation business and have exposures to employee injury and occupational disease which are compatible with those of the other Trust membership.
- All Trust members must demonstrate superior claims experience. Specifically, the Trust seeks members with experience modifications below 1.00. Exceptions may be considered if a higher experience modification results from a single claim or a single poor year.
- All Trust members are committed to safety. Members are expected to employ formal safety programs and to follow the recommendations of the Trust's loss control engineers. All members are required to attend the quarterly loss control meetings of the Trust.
- Each Trust member must demonstrate financial strengths. Each member is required to have a minimum of \$4.00 of net worth per \$1.00 of premium.

Additionally, each Trust applicant must be approved for membership by the New Hampshire Department of Labor.

## APPLYING TO JOIN THE TRUST

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### **The following information is required of all applicants**

The "pre-qualification" process is based on a thorough application

- Completed and signed ACORD application
- Three years experience rating worksheets issued by the National Council on Compensation Insurance
- Insurer loss runs for the most recent five years
- A description of the circumstances of any claim for which the amount paid and/or reserves exceeds \$25,000
- Premium calculation pages from the current policy
- Most recent year-end financials

Those applicants meeting Trust's eligibility criteria will undergo an on-site loss control survey.

If the results of the survey are positive, the applicant will need to complete the application required by the New Hampshire Department of Labor of any self-insurance group applicant.

An applicant will be admitted for Trust membership after successful completion of all pre-qualification steps, a favorable loss control survey, and approval by the New Hampshire Department of Labor.

## **DIVIDEND AND ASSESSMENT ILLUSTRATIONS**

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The following dividend and assessment illustrations are based on the experience of MEMBER A whose annual premium in the Trust is \$50,000. MEMBER A's net cost (premium and dividend) is shown at various levels of claim costs.

### **Paid-In Premiums**

In the Trust, MEMBER A would pay \$50,000 and post a Letter of Credit equal to \$12,500.

### **Trust Dividend Methodology**

In the Trust, MEMBER A's dividend is based on MEMBER A's experience as well as the experience of all Trust members. Dividends are calculated in four steps.

1. All calculations are based on the member's premium
2. The member's "surplus contribution" is calculated as:
  - Paid-In Premium
  - Member's actual claim costs
  - Member's share of Trust overhead costs
  - + Member's share of Trust investment income
  - = Surplus contribution
3. Any member with a negative surplus contribution would be charged an "experience assessment" equal to the lesser of the surplus contribution or 20% of net premium.
4. Dividends are shared by those Trust members with positive surplus contributions. Shares of the dividend pool are proportionate to members' surplus contributions.
5. If the Trust is short of funds after the collection of "experience assessments", all members will be assessed to recover the shortfall. These "program assessments" will be proportionate to members' premiums.

## DIVIDEND AND ASSESSMENT ILLUSTRATIONS - continued

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### Trust Overhead Costs

The Trust's operating costs (excluding the costs of claims) are 22% of premiums. This includes all costs for marketing, administration, services and excess insurance.

Investment income is expected to be earned at an approximate annual rate of 5.0% based on current market conditions. Accumulated investment earnings at this rate would be approximately 9% of premiums.

The Trust's net overhead cost is its operating costs less investment earnings. This is approximately 26.5% of premiums.

**Illustration 1. : Other Trust members perform consistently with their histories and MEMBER A is claim-free.**

	MEMBER A' Cost
1. Paid-in premium	\$50,000
2. Actual claim costs	-0-
3. Overhead allocation	\$11,000
4. "Experience assessment"	-0-
5. Dividend (assessment)	<u>\$39,000</u>
6. Net cost	\$11,000

## DIVIDEND AND ASSESSMENT ILLUSTRATIONS - continued

### **Illustration 2. : Other Trust members perform consistently with their histories and MEMBER A performs consistently as well**

	<b>MEMBER A's Cost</b>
1. Paid-in premium	\$50,000
2. Actual claim costs	\$25,000
3. Overhead allocation	\$11,000
4. "Experience assessment"	-0-
5. Dividend (assessment)	<u>\$14,000</u>
6. Net Cost	\$36,000

### **Illustration 3. : Other Trust members perform consistently with their histories but MEMBER A has uncharacteristically high claim costs**

	<b>MEMBER A's Cost</b>
1. Paid-in premium	\$ 50,000
2. Actual claim costs	\$ 100,000
3. Overhead allocation	\$ 11,000
4. "Experience assessment"	\$ 10,000
5. Dividend (assessment)	<u>-0-</u>
6. Net cost	\$ 60,000

## DIVIDEND AND ASSESSMENT ILLUSTRATIONS - continued

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**Illustration 4. : MEMBER A and all other Trust members have high claim costs and aggregate excess insurance attaches**

	<b>MEMBER A's Cost</b>
1. Paid-in premium	\$ 50,000
2. Actual claim costs	\$100,000
3. Overhead allocation	\$ 11,000
4. "Experience assessment"	\$ 10,000
5. Dividend (assessment)	<u>\$ 12,500</u>
6. Net cost	\$ 72,500