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# What's a SIG – Self Insured Group ?

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In discussing the world of Workers' Compensation in California, we see it is a very big place, filled with all kinds of ways to insure (or self-insure) employees' work related injuries. Included in this plethora of options is a very useful tool to have in your arsenal; that of the Self-Insured Group or "SIG."

So, what is a SIG and how does it work? This may appear to be a simple question, but it is in this ongoing blog that I will delve into questions about SIGs, what can make them good and what can make them bad. Of course my opinions may seem (somewhat) biased, since my company is a SIG Group Administrator, that sets up and operates SIGs for a living, but who's better than someone in my position to start the ball rolling to ask and answer these questions. With this said, let's jump in!

First, in order to discuss what a SIG is, one has to understand what self-insurance is. According to the Self-Insurance Institute of America ("SIIA"), a self-funded workers' compensation program is "one in which the employer assumes the financial risk for providing Workers' Compensation benefits to its employees. In practical terms, self-insured employers pay the cost of each claim 'out of pocket' as they are incurred instead of paying a fixed premium to an insurance carrier or to a state-sponsored Workers' Compensation fund."

Beyond this definition is the necessity to understand that the term "pay the cost of each claim out of pocket" means that an employer is on the hook for the entirety of the claim costs related to an injured worker's claim, so that if the claim is small, your payments will also be small. Conversely, if the injuries are big, or even catastrophic, the employer will be required to pay all of the costs related to that injury including, but not limited to, medical, lost wages, claim handling costs, legal fees and costs, and, as we all know, the list goes on and on.

So, if it costs so much to be self-insured, why would anyone ever want to be self-insured? The answer lies in how you become self-insured and then how you act once you become self-insured. In this cryptic algorithm lies the secret to either having a successful program that can save you money OR having a miserably pathetic program that loses you money.

What's the difference? Other than being the subject of a future blog, the answer is what you put into it. If you act like money is no object and that you can and will pay for all of your losses, it doesn't matter what you do; so long as you can afford to pay for it. On the other hand, if you want a successful program, you will have to practice wise risk management techniques, which have been proven to make injuries go down, which will (almost always) make the cost of self-insurance go down with them.

Another part of this equation is this: If self-insurance can be so dangerous to undertake, why do so many large companies do it? And then, you may wish to ask "how can insurance companies, big and small, pay for all of the claims of their insureds and still make money?" Again, the answer lies in the question. Big companies, along with big insurance companies, didn't get big by doing lots of things the wrong way. They got big by doing things properly and they stay big by not doing things badly. Does this mean that they don't make mistakes; of course not. But it does mean that the same principles that they use to insure and self-insure risk can be copied and used by others – big and small – who seek to self-insure too. As previously stated, there are lots of



little things that can be done to make all of this work, for both insured and self-insured companies, but I will leave that to future blogs to discuss.

Once you understand what self-insurance is and what it can entail, the next step is to detail and go over what and how each of these various pieces fit together and how you, as someone on the purchasing end of the workers' compensation equation, can gain an understanding of how to participate in self-insurance and then make it work for you. From there, you can begin to understand how a SIG works, by understanding the concepts of pooling risk; i.e., risk sharing and funding and how it can work for you...if it can at all.

So, that's where this blog will take you; to an understanding of all of these various things – how they relate, how they work together (or not) and whether being self-insured, whether as a SIG or a stand-alone self-insured, is right for you. Sit back, read along and enjoy the ride.

