



SNAPSHOT

Workers' Compensation for Local Government Entities in Tennessee

February 2025

During the 2024 legislative session, the General Assembly passed legislation requiring the Comptroller's Office to conduct a study of the workers' compensation insurance market for local government entities in Tennessee. The full report analyzes the process for local government entities to obtain workers' compensation policies, compares rates and rate setting policies between insurance pools and commercial insurance providers, and reviews two key solvency indicators for insurance pools and one for commercial insurance providers.

Tennessee's local government entities can obtain workers' compensation insurance in three ways: a commercial insurance provider, an insurance pool, or self-insurance. There are three insurance pools in Tennessee that provide workers' compensation coverage to local government entities: the Local Government Insurance Pool, Public Entity Partners, and the Tennessee Risk Management Trust. In pools, participating members sign on to interlocal agreements pursuant to the Interlocal Cooperation Act to share risk, which means that any member's contributions to a risk pool can pay for any other member's claims. Pools are not-for-profit organizations that conduct business solely with local government entities.

The vast majority of local government entities receive workers' compensation coverage from one of the three insurance pools listed above. There are nearly 450 commercial insurance providers that write workers' compensation coverage in Tennessee. The Comptroller's Office could not review commercial providers in the same fashion it did local government insurance pools.

The procurement process through which local government entities obtain insurance coverages differs based on the type of insurance provider. Local government entities that wish to obtain coverage from a commercial provider must do so through a competitive bidding process. Per state law, however, local government entities are not required to solicit bids to obtain coverage through an insurance pool.

Commercial providers and insurance pools have different regulatory structures. The Tennessee Department of Commerce and Insurance regulates commercial providers, but the state does not similarly regulate insurance pools.

Conclusions

The three insurance pools offer different interpretations of statute for their exemption from the public bidding process. Local government entities are not required to bid for insurance coverages from a pool but are required to bid for coverages provided by commercial carriers.

In general, commercial workers' compensation rates have fallen more steadily than those of insurance pools.

Over the past decade, all three insurance pools showed mixed performance on operating income and unrestricted net position, two key solvency-related metrics, which merits further investigation.

Policy considerations

The General Assembly may wish to clarify the insurance pools' exemption from the public bidding process.

The General Assembly may wish to have a state presence on insurance pools' boards of trustees.

The General Assembly may wish to grant the Department of Commerce and Insurance rate review authority over insurance pools.

The Department of Commerce and Insurance should evaluate local government insurance pools' reserves.

To read the full report, visit the Comptroller's OREA website at tncot.cc/orea.