

COST OF INSURANCE FOR WORK INJURIES SOARS ACROSS U.S.

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SACRAMENTO, June 19 -- Across the country, the cost of workers' compensation insurance is soaring at the highest rate in nearly a decade, adding yet another heavy burden on businesses and the struggling national economy.

The governors of Florida, West Virginia and Washington have called special sessions of their Legislatures this year to find ways to contain costs, and elsewhere, thousands of bills on workers' compensation have been introduced.

The system covers 127 million workers nationally but is regulated state by state, with no federal oversight. Unlike with Medicare and Medicaid, Congress has no role in the regulation of workers' compensation.

Nationwide, the average cost of workers' compensation insurance has risen 50 percent in the last three years, according to Robert P. Hartwig, the chief economist at the Insurance Information Institute, a trade group in New York.

But nowhere in the country have prices been rising faster and with more debilitating impact than here in California. The average cost of workers' compensation insurance here has nearly doubled over the past three years, said David Bellusci, the chief actuary of the Workers' Compensation Insurance Rating Bureau in San Francisco, another insurer-backed organization.

As a result, dozens of businesses in California -- big and small -- have laid off workers, according to state officials and business leaders. Some businesses have closed and a few have moved to other states where insurance costs have not risen as much.

Prices are escalating, government and industry officials said, because of rising medical and legal costs; a recent devastating price war by insurers; and, many insurers and business executives say, a significant amount of fraud.

In the last few years, the cost of almost all kinds of insurance has been rising sharply. But workers' compensation insurance, which pays for treatment of on-the-job injuries and lost wages, is a particular problem because its purchase is mandatory. Businesses cannot trim their workers' compensation coverage to save money because, every employee must be fully insured.

"The only way to reduce your cost is to reduce your payroll," said Allan Zaremborg, the president of the California Chamber of Commerce.

Part of the problem has been created by the insurers and the boom-and-bust cycle of their industry.

In the mid-90's, expenses for workers' compensation insurers dipped and profits skyrocketed just as the stock and bond markets were at their most exuberant.

Now, after dropping their prices below the cost of covering claims in a fierce battle for market share, and confronted with dismal investment returns, the insurers are hitting their customers with astounding price increases. The pace of the premium increases picked up after the insurance industry lost at least \$40 billion in the terrorist attacks on Sept. 11.

Another factor pushing up workers' compensation prices has been medical costs. While a shift away from manufacturing jobs to less-dangerous service work, broad improvements in safety and reductions in workers' eligibility for benefits has led to a drop of 36 percent in workers' compensation claims over the last decade, the average medical cost per claim has nearly doubled, to \$15,300, Mr. Hartwig said.

In California, the average medical cost has nearly quadrupled, to \$35,201 over the past decade, according to Mr. Bellusci.

As striking as the premiums seem, they do not capture the depth of the problem, said John Garamendi, the California insurance commissioner. Since taking office in January, Mr. Garamendi said, he has yet to find a business that is paying only the average price increases.

"I just talked to a maid service business that said it was looking at an increase from \$20,000 to over \$120,000 over a two-year period," he said.

In Los Angeles on Tuesday, trainers at the Hollywood Park thoroughbred racetrack told the insurance commissioner and a reporter that premiums for grooms and exercise riders had jumped 70 percent in the last year and had at least doubled for jockeys. Ed Halpern, the executive director of the California Thoroughbred Trainers, said some owners were shipping horses to racetracks in other states to reduce costs.

Joe Heidelmaier, the vice president of City Sea Foods, a fish wholesaler, said his premiums jumped 68 percent this year, to \$398,288 -- an average of nearly \$7,000 per worker -- and that, as a result, he planned to lay off about 7 of his 57 employees.

At the family-owned Pioneer Supermarket in Los Angeles, Leonard R. Leum, the president, said premiums had quadrupled in the last three years, to \$240,000.

In West Sacramento, just outside the state capital, Bill Campbell said he had to fire his own grandsons. The four boys, in their late teens and early 20's, worked for him in the family's small manufacturing business in a big white, blue-trimmed barn on West Capital Avenue. Sales of Mr. Campbell's snow blowers and highway plows had been down, but it was his bill for workers' compensation insurance that forced his hand. The annual cost suddenly jumped to nearly \$36,000 for his eight employees this spring, 40 percent more than the year before.

"I realized I had to do something drastic," Mr. Campbell said.

By cutting his work force in half, he ended up reducing his insurance costs by about \$5,000 but with fewer employees, he is no longer building most of the machines he sells.

"We just came to realize, 'Hey, we're kidding ourselves,' " Mr. Campbell said. "It wasn't just the insurance, but that's what brought it all to bear. All of sudden, geez, the rates have gone sky high."

Some payments to injured workers are lower in California than they are in other states. But workers typically receive longer, more expensive -- and, critics argue, more unnecessary -- medical care in California than in other states. The Workers Compensation Research Institute in Cambridge, Mass., which is financed by insurers and employers, found that injured workers seen by chiropractors in California received an average of 34 treatments compared with about 17 in a dozen other states.

Insurers, government officials and business executives are also quick to blame lawyers, who they claim, pursue injured workers and encourage them to run up big bills.

When workers' compensation was introduced in the United States in the early 1900's, it was supposed to reduce disputes over on-the-job injuries and largely eliminate the need for litigation. But researchers say that the workers' compensation system has become such a dense patchwork of rules and regulations that seriously injured workers often find they need lawyers to guide them.

"For workers, it is a very intimidating system," said John F. Burton Jr., an expert on workers' compensation at Rutgers University.

As the lawyers see it, they provide a critical service. "They come knocking on my door with denials from insurance carriers," said Arthur V. Azevedo, a partner in the firm of Green & Azevedo, who has been handling workers' compensation cases for 30 years in Modesto in California's heavily agricultural central valley. "What are they supposed to do? They are forced to get a lawyer, because the system is screwed up."

In a few states, including New York, regulators still control rates. But the insurers in those states can refuse to sell coverage when they think the risk exceeds the maximum they are allowed to charge. That forces customers into state-run pools where the rates are even higher. Since 1999, the premiums collected by state pools have quadrupled, to \$1.2 billion.

In California, where there have been virtually no limits since 1995 on what insurers can charge, commercial insurers have still found it impossible to turn a profit. As insurers have withdrawn from the state or gone bankrupt, a California state fund has absorbed more than 50 percent of the workers' compensation business and become the single largest workers' compensation insurer in the country.

Mr. Garamendi says the fund is rushing toward collapse, with its liabilities outpacing premiums. Typically, the insurance industry makes up any shortfall in the claims payments of state funds, with none of the costs borne by taxpayers. But in California, industry experts said, the few remaining commercial carriers would probably not be able to cover the liabilities of the state fund.

About 50 workers' compensation bills are pending in the California Legislature, including several backed by Mr. Garamendi. He wants standardized medical procedures and fees, the use of generic drugs and a medical panel and an ombudsman to resolve disputes and reduce litigation.

He has also ordered the insurance department's 200 investigators to begin concentrating on fraud in workers' compensation.

"There's fraud in every part of this situation," Mr. Garamendi said. "You have a situation where doctors and lawyers and chiropractors are involved in organized crime and ripping off the system. You have workers faking injuries, and you have companies not reporting the nature or the number of their employees," whose jobs are an important factor in determining how much the employer pays. "It's not unusual to see a roofing company paying premiums for one roofer and 30 secretaries."