

Workers comp costs hit hard

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The cost of workers compensation insurance in California is skyrocketing to historic highs, placing a heavy burden on businesses and providing a counterweight to the state's fragile economic recovery.

Up nearly 70 percent from 2000, many California businesses say the rising insurance premiums are forcing them to raise prices, cut payroll, eliminate employee benefits and, in some cases, move to other states.

The problem is hitting the Central Valley hard because the region's economy relies heavily on agriculture and food processing, industries that tend to produce high injury rates and, in turn, high premiums.

Other industries in which the injury risk is high, such as roofing, construction and heavy manufacturing, also are facing steep increases.

Kevin Van Steenberge, president of Lodi Iron Works Foundry, knows the problem firsthand. To pay for a premium that jumped to \$180,000 this year from \$80,000 in 2002, his company cut four positions and is delaying raises for its 60 remaining employees.

"Even though business has been good, I still have to cut back" on personnel, he said. "It's mind-boggling."

Despite the high premiums, the benefits injured California workers receive rank in the bottom third of the nation, according to the state Department of Insurance.

For example, California pays a maximum benefit of \$230 a week for a worker with a permanent, partial injury. Only three states -- Alabama, Montana and Wisconsin -- pay less, according to the U.S. Department of Labor. At \$948, Iowa pays its injured workers the most.

Battling a complex set of rules, some workers say they don't get adequate care and sometimes endure lengthy delays.

"It just doesn't work," said Dennis Ruloph, 49, who worked at International Paper Co. in Modesto for 16 years before suffering a neck injury in an accident at work in 2001. He said he has seen several different care providers, suffered delays and doesn't always get his workers compensation checks on time.

Though the number of workers comp claims in the state is down, premium prices are rising because of ballooning medical and legal costs, the aftermath of a devastating price war and, many insurers contend, fraud.

Without a fix from the state Legislature, the entire system is in peril, said California Insurance Commissioner John Garamendi.

"We're on an escalator with no second floor," he said.

Garamendi said the state fund, which is now the largest workers compensation insurer in California, is drained and on the verge of collapse.

The Legislature has convened a special conference committee to debate workers comp bills. It will meet for the first time Tuesday. Lawmakers have until Sept. 12 to pass legislation.

In the middle of a contentious recall election, meeting that deadline could be difficult.

Some possible reforms on the table include:

- Imposing a fee schedule on medical providers and outpatient surgery centers.
- Establishing new controls to eliminate unnecessary doctor visits and procedures.
- Permitting employees to get medical care through their regular health insurance.
- Capping the number of chiropractor or physical therapy sessions.

State law requires employers to carry workers compensation insurance. Since every worker must be fully insured, the only way employers can cut insurance costs is to have fewer employees. The system covers more than 14 million Californians.

California businesses paid an average rate of \$5.23 per \$100 of payroll in 2002 for workers comp coverage. That's up from \$3.34 in 2000, according to a nationwide survey by the Oregon Department of Consumer and Business Services. The national average was \$2.50. North Dakota had the lowest rate, \$1.24.

Employees can qualify for workers compensation if they sustain an injury "arising out of and in the course of" their work.

There are five basic types of benefits provided: medical care, temporary disability, permanent disability, vocational rehabilitation and death.

Troubles traced to reforms

Disputes are handled in a special court by administrative law judges, called referees, who deal exclusively with workers compensation cases.

Established in 1913, California's workers compensation system is based on a historic, "no-fault" bargain: Employers agree to pay medical expenses for workers hurt on the job, even if the injury wasn't because of the company's negligence. In exchange, workers give up their right to sue.

The state Legislature overhauled workers compensation laws in the early 1990s. Many trace the roots of today's problems to those reforms.

The most important of the changes, which took effect in 1995, was deregulation. The Legislature eliminated the minimum rate insurers could charge for premiums.

The move triggered a price war, which sent premiums plummeting as insurers battled for market share. Smaller firms that couldn't compete were gobbled up or left the market. The price war put 27 insurers out of business, Garamendi said.

As markets soured and medical costs soared at the decade's close, remaining insurers quickly started raising premiums, Garamendi said. The Sept. 11, 2001, attacks devastated insurers, sending prices even higher.

At the height of the price war in 1998, premiums cost California employers \$6.6 billion. In 2002, the cost rose to \$20 billion, according to the Department of Insurance.

In Sacramento, the debate is pitting the state's most powerful lobbies against one another. Unions, attorneys, doctors, insurers, medical providers and businesses are spending heavily to shape the new laws.

Sen. Chuck Poochigian, R-Fresno, said if the Legislature is unable to pass major reforms, California business will continue to suffer. Poochigian is a member of the special committee and has held meetings on workers compensation in Modesto, Fresno and Bakersfield.

"If something dramatic doesn't happen, we're going to have more destruction," Poochigian said.

But it isn't just the private sector that is reeling. Government agencies and nonprofits, already suffering from declining funding and contributions, have been socked too.

Peggy Huntington, disability manager at the Stanislaus County Risk Management Department, said insurance costs were \$6 million in fiscal year 2002, up from \$5.27 million a year before.

Premiums for the YMCA of Stanislaus County jumped 111 percent in 2003, said Steve Smith, chief executive officer. Coupled with a drop in contributions, the YMCA has cut 20 hours of operation, laid off twelve workers and increased membership fees about 6 percent.

For other private employers, absorbing the costs has been difficult in tough economic times.

Mike Cummins, president of Cummins Corp., a Modesto contractor, said his premiums leaped to \$190,000 in 2003 from \$30,000 in 1999, despite not having any injuries in three years.

"The whole system is broken," said Cummins, whose company employs about 25 people. His company is putting off buying new equipment to pay for the insurance, he said.

Mario Espindola, owner of Econo-Roofing in Modesto, said the company's premiums are rising 25 percent. He said the firm has had to raise prices.

"We just carry it over," Espindola said.

Don Petersen, an owner of Dale Commons Assisted Living in Modesto, said his business doesn't have that luxury.

"My people are on fixed incomes. They think a 5 percent increase is highway robbery," he said.

One of Petersen's main gripes is that the system is costing businesses at a time when they need money to create more jobs.

A higher workers compensation rate doesn't help anybody, he said.

"It doesn't improve service for my customer. It doesn't do anything. It's money out the door," he said.

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AT A GLANCE

These are the five basic types of workers compensation benefits:

MEDICAL CARE -- Under California law, an employer is required to pay all medical costs for an injured worker. The injured worker never receives a bill. Workers usually can choose their own doctor if they inform their employer of their preference before the injury.

TEMPORARY DISABILITY -- This benefit covers lost wages. Generally, it pays two-thirds of the injured worker's gross wage. The maximum weekly benefit is \$602 and can be collected for 16 weeks.

PERMANENT DISABILITY -- Workers who suffer an injury from which they will never fully recover are eligible for permanent disability. The payments are limited, based on a rating formula that considers type of injury and the age of the worker at the time of the injury. The maximum weekly benefit is \$230.

VOCATIONAL REHABILITATION -- Injured workers can receive job training and counseling if they are unable to return to their old jobs, or if their employer can't find them other work.

DEATH BENEFITS -- These are paid to the families of workers who die from a job-related injury or illness. For a worker who leaves behind three or more total dependents, the maximum benefit is \$160,000. The family is also entitled to burial expenses.

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