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Sunday, April 27, 2003

Anti-business climate: Firms should fight it, not just give up

By ALLEN PILGER

The Mission Viejo resident is a commercial insurance marketing specialist

A machine shop in Orange County with a good workers' compensation claims history, perhaps one or two small payouts, would pay about \$50,000 per year in premiums for a \$500,000 payroll. A similar Phoenix shop would pay about \$13,000.

It is any wonder California's anti-business climate threatens to turn the number of businesses fleeing the state into a stampede? The Legislature continues interfering in the workplace, raising workers' comp benefits while planning tax increases to counter a \$26 billion deficit.

But before deciding to cut and run, owners should consider that business and political climates change everywhere. And entrepreneurs can take steps now to influence politics here, avoid workplace injuries and earn lower rates.

Average comp rates per \$100 payroll for a machine shop are Arizona, \$2.63; Georgia, \$4.50; Texas, \$7.31; and California, \$9.97. Insurance rates are cyclical. Rates are going down in Arizona and up in Georgia, Texas and California. Georgia faces a big hit. Business-friendly Texas is ratcheting up insurance regulations.

California's total comp premium rose from \$6.4 billion in 1997 to \$15.4 billion in 2002, partially to correct dramatic reductions that followed the state's ending of rate controls in 1993. Insurance carriers overreacted and cut rates too much. Some went bankrupt, but most others to this day continue declining to renew any policies or only for certain classes such as contractors. This debunks arguments that comp now produces fat profits to cover carrier investment losses. Medical costs and comp claims continue rising, and more bureaucracy means even more waste and even slower claims payments.

Both Democrats and Republicans in California are offering versions of comprehensive workers' comp reform. Piecemeal legislation or insurance commissioner acts destabilize the marketplace. The commissioner several years ago drove out private carriers by allowing insurance brokers to write policies through the quasi-public State Workers Compensation Insurance Fund, but since has cut commissions in half. In the past two weeks, he added cumbersome application tasks, then dropped them after agents and carriers protested.

Like Texas, Arizona is not immune to government meddling. Faced with a \$1 billion deficit, its legislature is trying to seize \$500 million in state-fund surplus earmarked as dividends for claims-free companies, fully aware that removing this incentive will raise claims and rates.

The workers' comp rates businesses pay also reflect how each state controls fraud and overhead and influences payments to injured employees for medical costs, paid time off to recuperate, vocational rehab and permanent disability. Big business is self-funded and less affected.

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A claims-free California business can save thousands by earning a low experience modification, or x-mod. Those with high x-mods raise rates for everyone, but especially themselves.

A consensus of insurance agents I've talked to agree that some of the biggest claims payouts go to newer employees whose backgrounds weren't checked properly. Also, lack of adequate health insurance tempts any employee to claim an off-work injury is workplace-related.

How employees are trained, supervised, paid and treated influence a company's x-mod in every state, but economic growth leads to a scarcity of qualified employees. So urban Arizona seems poised for a more California-like business environment. Lawyers who win big judgments in California inevitably will expand into bordering states or spawn copycats.

As a second-generation Phoenix broker told me, "Everything you have there, we will get here." Relocation states like Idaho are not immune to growth problems.

More California businesses must be willing to implement loss-prevention programs offered free by most carriers. (It isn't rocket science. Rule No. 1 is meticulous housekeeping.) And more need to obtain written quotes from at least two carriers for all types of insurance, even if it means talking to more than one agent. Absentee owners who don't delegate authority almost invite claims.

Finally, more small California companies need to support their political lobbying groups. Small-business groups are creating a front-page stink in Arizona over the attempted raid on dividends.

So if you're a California business owner thinking of bailing out, perhaps your first calls should be to your state lawmaker or the insurance commissioner's office to insist on reforms to bring the workers' comp system more in line with other states. And if your x-mod is high, look inward for solutions.

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