

Citizen's Guide to Initiative 1082 *To Reform Workers' Compensation in Washington*

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Key Findings

1. Research shows that more competition in industrial insurance would help keep premiums in check, encourage innovation in rehabilitating injured workers and provide safer workplaces.
2. States that have recently introduced a competitive industrial insurance market have seen costs decline and customer satisfaction increase.
3. As written, I-1082 relieves employees from paying for industrial insurance premiums. As in the other 49 states, businesses would pay 100 percent of the cost.
4. I-1082 would not address every detail of the transition to a "hybrid" industrial insurance market, but would set mechanisms in place to do so.
5. As written, I-1082 does not alter the benefit levels of injured workers in any way.

In November Washington voters will decide on whether to replace the current state workers' compensation monopoly with a "three-way" system of private carriers, the state fund and self-insurance. Such a system would allow private insurance providers for the first time since workers' compensation was implemented in 1911. If Initiative 1082 passes, the conversion would begin immediately, but businesses would not be able to purchase workers' compensation policies from private companies until July 1, 2012.

Today, Washington is one of only four states that do not allow private competition in the workers' compensation industry. The others are North Dakota, Wyoming, and Ohio. Workers' compensation insurance is mandatory in this state and businesses must purchase insurance through the state fund, run by the Department of Labor & Industries (L&I), or else self-insure, which is also regulated by L&I and reserved for only a relatively small number of large businesses.

Initiative 1082 would have a number of wide-ranging effects, which are summarized here. A complete analysis is available in the Washington Policy Center study "Citizens' Guide to Initiative 1082: To Reform Workers' Compensation in Washington," available at www.washingtonpolicy.org.

According to Initiative 1082's text, the ballot measure would:

1. Open the state system to private competition in industrial insurance;
2. Empower the Office of the Insurance Commissioner to oversee eligibility requirements for insurance firms that want to sell coverage;
3. Allow for group insurance plans;
4. Create an Industrial Insurance Administrative Fund to fund the Board of Industrial Insurance Appeals;
5. Create a Joint Legislative Task Force on Private Competition for Industrial Insurance and;
6. Relieve employees of the cost of insurance premiums; employers would pay 100 percent of premium costs.

Initiative 1082 does not alter the benefit structure of injured workers. Benefit levels would remain the same. The initiative does not alter the way the state fund operates, except L&I would face competitive pressure from an open marketplace of insurance providers. The benefit of competition would mean new

research and strategies that provide the safest workplaces at the most efficient cost – thereby lowering premiums to policyholders (businesses).

Over the years the business community has become jaded at the prospect of continuing to have one provider of worker’s compensation insurance. The business community is pushing hard for opening up the system to private sector competition in the hopes of lowering premiums and getting injured workers back on the job more quickly.

Washington’s workplaces are becoming safer, but the cost of insurance continues to rise. Data shows that the number of workers’ compensation claims have fallen for two decades – down 52 percent since 1990 – yet the cost of premiums increased 65 percent from 2000 to 2009.

Washington remains at the high end in paying out benefits. The National Academy of Social Insurance ranks Washington as having the second-highest benefits per covered worker and third highest in workers’ compensation benefits per \$100 of covered wages. Washington’s time-loss benefits are also high at 274 days, up 38 percent over the last decade. Oregon’s time-loss benefit average is only around 70 days.

Washington is the only state in the nation that allows businesses to offset part of workers’ compensation premiums by letting employees pay for part of the cost, resulting in a unique payroll tax on employees. Last year, employees paid roughly 28 percent of the cost of their own workers’ compensation premiums. Initiative 1082 would remove the cost from the employee and the employer would then pick up 100 percent of the cost.

Initiative 1082’s action does not constitute a new trend. Recently West Virginia allowed private sector insurance carriers to provide industrial insurance policies and officials converted the state fund into a private mutual insurance company. In the two years since the system’s conversion, West Virginia businesses benefitted from a 30 percent drop in premiums and almost two hundred workers’ compensation companies are now providing services. The move benefitted employees as well. Claim protests fell 68 percent and the overall appeals process was streamlined, resulting in claim disputes being resolved in a shorter time.

A decade ago, the state of Nevada opened up its workers’ compensation system to private competition. Nevada officials also converted its state fund into a mutual insurance company, which was privatized two years later. Immediately after the law was implemented, 64 insurance carriers filed applications with the state to provide worker’s compensation insurance, and less than one year later 238 carriers were authorized to sell policies. One story from 2007 described a 64 percent reduction in premiums for the construction industry in the seven years since private insurers were allowed.

Research shows that opening up the state’s industrial insurance system to private competition, if done correctly, would help keep premium increases in check, encourage innovation in rehabilitating injured workers, and most importantly, provide a safe workplace where employees can be productive and protected.

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