



# Legislative UPDATE

A weekly report from the Washington State Labor Council, AFL-CIO



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## Wasteful Retro needs reform

Few myths have more traction in Olympia—and Washington, D.C.—than the idea that private industry can do things cheaper and more efficiently than government. Our workers' compensation system offers an excellent case study in why that's a bogus assumption.

Washington's state-run workers' compensation system has 8.1 percent in administrative costs as a percentage of benefits paid. But the U.S. private workers' comp industry reports an average administrative cost of 21.2 percent.

We point this out not just as another reminder that our workers' compensation system—with its low costs and relatively high benefits compared to other states—is a model system. Instead, we do so in the context of the Retrospective Rating Program and how certain employer associations—that, ironically, are the most vocal critics of "inefficient government agencies"—charge enormous administrative fees of up to 20 percent to operate Retro programs. It is a practice that should end, regardless of how these employer lobbying groups spend their largess.

The Retro program is designed to be an incentive for workplace safety. Employers in the State Fund with good safety programs can band together into "Retro groups" that receive tens of millions of dollars in workers' compensation premium refunds every year. These Retro groups are administered by business lobbying organizations that, in exchange for assisting member businesses in qualifying for the rebates, charge fees that are often a percentage of the individual rebate checks to participating employers. In fact, the checks go from the Department of Labor and Industries not to the employers that earned them, but to the Retro group, which in some cases takes its cut before forwarding the balance of the rebate to the employers.

Let's take one Retro group as an example—say, the Building Industry Association of Washington. The BIAW operates the largest retro program in the state, and was able to skim an estimated \$5 million from rebates in 2004 alone. The BIAW freely admits that its retro group "earns" far more than it costs to administer the program and that it spends much of the surplus on its partisan, and notoriously aggressive, political program. The BIAW's Retro program is its

### Hearings next week

**MONDAY, Jan. 17**—10 a.m. Senate Labor Committee holds a briefing on Retro issues (see lead story) in Hearing Room 2; 10 a.m. Senate Government Operations holds a hearing on election reform in Room 4.

**TUESDAY**—10 a.m. House Finance hears a report on accountability for tax exemptions in Hearing Room C.

**WEDNESDAY**—8 a.m. House Commerce and Labor hears HB 1028 on apprenticeship utilization in Room C; 8 a.m. Senate Health Care holds a work session on prescription drug issues in Room 4; 1:30 p.m. House Finance hears HB 1069 on requiring performance audits for tax preferences in Room C.

**THURSDAY**—10 a.m. House Financial Institutions hears HB 1033 on regulating employed-owned life insurance in Room C; 1:30 p.m. House Commerce and Labor will have an overview of the Retro program in Room C.

**FRIDAY**—8 a.m. House State Government hears an election overview in Room D.

No. 1 recruiting tool—"Join up and we'll get you rebates!" And it's helped the BIAW grow from a one-director, one-assistant operation 15 years ago into the 30-employee 300-pound gorilla it is today.

But the fact that the BIAW spends its Retro largess on politics is not the reason why the program must be reformed. It must be done because it's bad business for the state to allow anyone to "profit" unfairly from its industrial insurance system or any other state program.

If the BIAW was using its Retro money to finance free Extreme Home Makeovers for deserving families, it would still be a problem. The state workers' compensation system

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isn't a charity, it isn't a political-funding mechanism and it isn't a recruiting tool for lobbying groups. It's an insurance program. If our workers' compensation system were run by a private insurance company (God forbid), even as inefficient as they've proven to be, do you think Acme Workers' Comp Inc. would allow some third party to skim millions from its own customer safety program? Of course not. They'd figure out a way to provide whatever services the third party provides themselves. It would cut out the middle man, save money and increase profits. In the case of our state system, it would save money and reduce employer costs.

The Washington State Labor Council is not advocating that the Retro program be eliminated. We think it can be reformed to accomplish the goal of providing incentives to promote workplace safety and reduce the frequency of injuries, a win-win for workers and employers.

Labor supports reforming the system to create reasonable limits on how much of the refund that retro groups can retain. HB 1070, prime sponsored by Rep. Bill Fromhold (D-Vancouver), creates a 10% limit on the amount Retro groups can retain from the refund checks and that 10% limit would also include whatever organizational enrollment fees the employer association charges. Given that L&I is able to administer claims for the entire workers' comp system, which includes far more functions than a Retro group's mere "shadowing" of claims, with only 8.1 percent in administrative costs, we think 10 percent is a fair and reasonable limit.

What do ya say, business associations? Can't you put your money where your talking points are, and match the efficiency of a government-run program?

## "A loud message" state employees need to hear

This week, the House Appropriations Committee held the first of what will be many hearings in both houses on the state budget, its projected revenue shortfall and whether to fund the negotiated contracts for state employees. A coalition of 17 unions representing 62,000 state employees urged House budget writers to fund the contracts, which cover about 80 percent of all classified workers.

"In general, the settlements send a loud message to state employees after four years of net takeaways that their work is valued," said Greg Devereux, Executive Director of the Washington Federation of State Employees and spokesman for the State Employee Coalition.

"They're solid, they're fair, they're fiscally responsible,"

said Matt Zuvich, a Maple Lane School employee and a member of the WFSE's general government bargaining team. "I can't tell you how much this is going to boost the morale of your workers and support the efforts we give to improve quality services to the taxpayer."

The contracts provide a cost-of-living adjustment of 3.2 percent on July 1, 2005, with a second-year boost of at least 1.6 percent, depending on the contract. Health insurance premium costs would be stabilized. And most contracts include pay gap money for those farthest behind prevailing rates in

private industry.

Some Republican legislative leaders have already begun equating the cost of funding the contracts with the "sin tax" and fee increases proposed in former Gov. Gary Locke's budget. Clearly, they

are suggesting right out of the gate that tax increases are only necessary if we fund state employee union contracts, as opposed to business tax breaks or any of the hundreds of "Priorities of Government."

We are hopeful the suggestion that the value of recruiting and retaining state employees is already at the very bottom of their priority list is not a consensus among Republican lawmakers, but instead just a bad habit yet-to-be-kicked by a handful of former majority leaders accustomed to balancing the books on state employees' backs.

## Yet another wave of new tax breaks proposed

Speaking of bad budget habits, apparently some legislators have yet to get the memo that despite already cutting state services to the bone (and into the bone), we face a projected \$1.8 billion revenue shortfall.

Rep. Ed Orcutt (R-Kalama) has reportedly introduced a bill to provide yet another tax break, this one for the construction of tsunami-resistant structures. We are confident that many other new or extended tax breaks have been proposed in the first week flood of legislation, and we don't mean to pick on Rep. Orcutt, but it seems that a moratorium on such proposals would be in order at this point.

(In doing so, hopefully we won't stand accused of not caring about tsunami victims or the prospect of having one here. But these days, you never know.)

If anything, lawmakers should be considering either a suspension of certain targeted tax breaks and/or an overall cap on tax incentives to close our 2005-2007 budget gap. At the very least, the "spending" associated with deferring billions of dollars in state revenue through tax breaks and incentives should be subject to the same Priorities of Government exercise as other government programs.

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