

# Outside the Echo Chamber

A fresh look at Washington State's business climate



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This series of special reports by the Washington State Labor Council—posted at [www.wslc.org](http://www.wslc.org)—aims to regain some perspective about Washington state's business climate and examine the successes we can build upon as business, labor and government leaders work together to maintain and increase the number of good-paying jobs in this state, particularly in the aerospace industry.

## PART 2

# Our state's workers' comp advantage

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One of the most persistent myths about Washington state's business climate is that our workers' compensation costs are higher than in most other states. The fact that many employers and public policy-makers believe this to be true is another indication of the power and resonance of the negative internal rhetoric about our competitiveness.

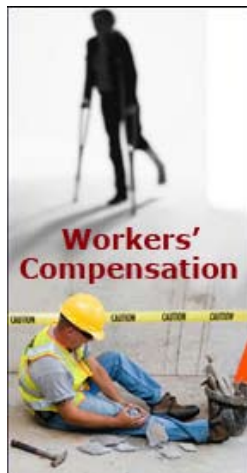
As with overall business-climate rankings, independent objective analyses from outside the state tell a very different story. In fact, the gap between the truth and the negative rhetoric about our workers' compensation costs is shocking. Not only do we have comparatively low premiums, by the national measure most often cited, the workers' compensation costs to employers in Washington state are the fifth lowest of any state in the nation.

Despite these low costs, Washington's model state-run system is able to provide comparatively high benefits to injured workers. That's how this myth took hold that Washington is not competitive in this area. Business lobbying groups continually and deliberately decry the level of *benefits* -- not employers' actual *costs* -- in their quest to cut premiums even further.

The danger for Washington's working families is that lawmakers could lose sight of the goal of our workers' compensation system -- "sure and certain relief for workers, injured in their work, and their families and dependents" -- and shred this critical safety net in

a misguided attempt to improve our business climate.

WORKERS' COMPENSATION is America's original tort reform. Until this system was established about 100 years ago, workers injured on-the-job could sue their employers for damages. But workers gave up that right to sue in exchange for this no-fault insurance program that pays medical costs and partially reimburses the lost wages of workers who suffer job-related injuries or illnesses.



So it's important to remember that workers' compensation is not a poverty program, nor is it some kind of welfare. It is a mandatory insurance program, and it was sought by American employers as a way to protect them against potentially ruinous lawsuits over an injury or illness caused by their neglect.

Also known as "industrial insurance," workers' compensation coverage for more than 99% of the businesses in Washington state is provided through the nonprofit government-run State Fund. Fewer than 400 businesses, employing between one-quarter and one-third of the state's workforce, are large enough to operate their own industrial insurance programs and are called "self-insured employers." These companies, including Boeing, Weyerhaeuser, Safeway and Microsoft, pay the same benefit levels set forth in state law, but they have more control over the claims administration process. Presumably, these employers' costs are lower than they would be in the State Fund system, or

else they wouldn't self-insure.

HOW DO OUR EMPLOYER COSTS COMPARE? The Oregon Department of Consumer and Business Services conducts a biannual state-by-state study of workers' compensation premiums that is widely cited not only among public policy experts and state labor agencies across the nation, but also by private industrial insurance professionals. The latest edition, released in October 2008, found that Washington state had the 38th highest (or 14th lowest) overall premiums in the nation.

But the news is even better for our state's employers. Washington is the **ONLY** state in the nation where workers pay a portion of the workers' compensation premiums, currently estimated by the Department of Labor and Industries to be more than 25% of the costs. Factoring that in -- which Oregon's study does not -- Washington ranks 5th lowest in the nation in terms of costs for employers.

Business lobbying groups within Washington -- where No Good Business-Climate News Goes Unchallenged!<sup>TM</sup> -- have claimed

### State rankings for **LOWEST** costs

ODCBS rankings of workers' comp premiums (employer costs only) in neighboring and aerospace competitor states:

**Washington - 5th**  
Kansas - 10th  
Oregon - 13th  
North Carolina - 30th  
Texas - 35th  
California - 38th  
South Carolina - 39th

Source: Oregon Department of Consumer and Business Services

**CONTINUED on reverse**

the Oregon study is not reliable because Washington has a unique system of calculating premiums based on hours worked rather than payroll dollars.

ODCBS Research Coordinator and study co-author Mike Manley stands by the rankings. He acknowledges Washington is a unique state that is more difficult to measure, but he says there is no evidence that the hours- to payroll-based conversions artificially help or hurt Washington's performance in the rankings. Those conversions are provided by actuaries at the Department of Labor and Industries and Manley says there has never been any indication this data underreports our premiums in comparison with other states.

Plus, other studies confirm Washington's status as one of the least expensive in the nation. The Insurance Information Institute, "recognized by the media, governments, regulatory organizations, universities and the public as a primary source of information and analysis concerning insurance," reported in 2008 that Washington has the third lowest premiums per worker of any state. The most recent comprehensive performance audit of our workers' compensation system, conducted in 1998, found that Washington was in the lowest 25% of states in terms of costs.

**HOW DO OUR BENEFITS COMPARE?** Washington has comparatively high workers' compensation benefits. The National Academy of Social Insurance's most recent analysis of 2006 data found that Washington paid \$1.63 in benefits for every \$100 in covered wages, which ranked our state third highest.

Therefore, Washington is considered a low-cost, high-benefit state.

Naturally, business lobbying groups and research organizations inside the state decry the high benefits and deliberately avoid mention of the comparatively low premiums. In the context of their continual criticism of our state business climate, they know that their audience -- whether it's fellow business executives, legislators or the media -- will assume that higher benefits mean higher costs. It doesn't.

## A case in point...

If you work at the Boeing Company's new plant in Charleston, S.C., you better hope you don't have a disabling injury at work.

South Carolina is one of 16 states that has an average total disability benefit that is LESS than the federal poverty threshold, according to National Academy of Social Insurance data.

But employers in South Carolina's privatized system pay MORE for workers' compensation coverage than employers in Washington pay, according to both



*The 2007 unveiling of a composite 787 section at Charleston's Vought Industries, which Boeing bought to shore up its troubled 787 supply line.*

the Oregon and Insurance Information Institute studies.

So why would we compare Washington's "competitiveness" with South Carolina's based on injured workers' benefits rather than employer costs? Are we

are determined to compete based on the degree of financial suffering that injured workers face? Do we want Washington to become a state where a permanently disabling work injury relegates a family to poverty?

Of course not.

Washington's state-run workers' compensation system -- one of only five such systems remaining in the U.S. -- is viewed as a national model for its efficiency. It can afford high benefits while charging low premiums because there are no profit margins, commissions or brokerage fees, as there are in privatized systems. It has significantly lower claims administration costs and no marketing or advertising costs.

But when you're in the business of lowering business costs, low is never low enough, especially when even more could be saved by cutting benefits for injured workers.

That's why organized labor and other advocates for injured workers argue that all proposed benefit cuts must be measured against our values as a state and not a manufactured panic about our business climate.

**THE GOAL OF OUR WORKERS' COMPENSATION** system, as set forth in Washington state law (RCW 51.04.010):

"The welfare of the state depends upon its industries, and even more upon the welfare of its wage worker. ... Sure and certain relief for workers, injured in their work, and their families and dependents is hereby provided."

Organized labor believes all changes to our system should be measured against that goal. Is the motive for a proposed change to ensure "sure and certain relief" for injured workers? Or is it the product of a perceived -- but demonstrably untrue -- competitive disadvantage with other states?

Consideration should be made to ensure our system's costs stay competitive with other states. But it is absurd to make our goal to cut benefits so they are more in line with other states. Washington must not engage in a race to the bottom where injured workers and their families are thrown into poverty with no recourse. To engage in this benefit-cutting race, especially when employers in our state already have among the lowest workers' compensation costs in the country, is immoral and unacceptable.



The Washington State Labor Council, AFL-CIO, is the largest union organization in the state representing more than 500 affiliated local unions with approximately 400,000 rank-and-file members working in Washington state.

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