

M I N U T E S

SPECIAL COMMITTEE ON LABOR AND INDUSTRY

September 15, 1977

Room 532-S, State House

Members Present

Representative Eugene Gastl, Chairman
Senator John Vermillion, Vice-Chairman
Senator Paul Feleciano, Jr.
Senator Bill Morris
Representative Darrell Webb
Representative John Sutter
Representative Bill Wisdom
Representative Samuel Sifers
Representative Denny Burgess
Representative Lynn Whiteside

Staff Present

Mike Heim, Kansas Legislative Research Department
Sherman Parks, Revisor of Statutes Office

Conferees and Others Present

Tim Brazil, Kansas Insurance Department
Ray Rathert, Kansas Insurance Department
Jack Pearson, Kansas Association of Commerce and Industry
Charles D. Lewis, United Telephone
Wayne Stratton, Alliance of American Insurers
John J. Doyle, Alliance of American Insurers
Mark L. Bennett, American Insurance Association
Robert Flockhart, American Insurance Association
Robert Heitzman, National Council on Compensation Insurance
Larry Hockstetler, Central States Compensation Bureau
L. M. Cornish, Kansas Association of Property and Casualty Insurance Companies
Jack Landreth, Independent Insurance Agents of Kansas
Morris Taylor, Kansas Division of Workers' Compensation
Bryce Moore, Director, Kansas Division of Workers' Compensation
Dick Smelser, Kansas Division of Workers' Compensation
Clif Kuplen, Western Insurance Company
Jeff Wampler, Kansas Farm Bureau
Don Lee, Alliance Insurance Companies
Ralph McGee, Kansas AFL-CIO
William Douglass, League of Kansas Municipalities

September 15, 1977

Morning Session

Proposal No. 45 - Workers' Compensation

The Special Committee on Labor and Industry was called to order at 10:00 a.m. by the Chairman, Representative Eugene F. Gastl. The purpose of the meeting was to hold hearings on Proposal No. 45 - Worker's Compensation and the concept of a Workers' Compensation State Fund.

Mr. L. M. Cornish, Kansas Association of Property and Casualty Insurance Companies, introduced Mr. Jack Doyle, Alliance of American Insurers, to speak in opposition to the creation in Kansas of a Workers' Compensation State Fund. Mr. Doyle said that those states which have funds for handling Workers' Compensation, except for Oklahoma, have had them from the original enactment of their Workers' Compensation Law with most enactment dates going back to around 1911. He said that the single most compelling argument for a state fund is that it is said to be less costly to the employer than private insurance. He noted that state funds have less costs because they are exempt from the following taxes:

1. premium taxes
2. real estate taxes
3. state income taxes
4. gasoline taxes
5. federal income taxes

Mr. Doyle said, however, that lowering the cost of the insurance does not represent a savings to the population. The loss of tax revenue must be made up from other sources. He estimated that the elimination of private insurance carriers would eliminate immediately from the coffers of the state approximately \$1,200,000. He also said that there would be tremendous start up costs in establishing a large state agency to handle this function.

A copy of Mr. Doyle's statement is attached. (Attachment I)

Mr. Robert Heitzman, Executive Vice-President of the National Council on Compensation Insurance, explained that the Council is a licensed rate making organization for Workers' Compensation Insurance. He said that he was appearing before the Committee to give information and to answer questions on how rates are set. His organization works to provide a schedule of rates in accordance with state laws so in setting rates only Kansas data is used. He listed the following factors that are used in rate setting.

1. Experience rating - an individual employer can get credit for a good loss record and be penalized for a bad loss record.
2. Quantity discount.
3. Retrospective ratings - resembles a cost plus approach.

He said that the worker's compensation insurance line has deteriorated in the last seven or eight years. In 1976, there was a \$7.6 million underwriting loss in Kansas. He noted that rates have not kept up with losses in Kansas. Mr. Heitzman said that Kansas rates do not seem to be high in comparison to other states.

Afternoon Session

Chairman Gastl called the meeting to order at 1:30 p.m. Mr. Mark Bennett, American Insurance Association, introduced Mr. Robert Flockhart, counsel with the American Insurance Association, an organization comprised of 147 property and casualty insurance companies. Mr. Flockhart said that his association member companies provide a significant percentage of workers' compensation insurance written in Kansas and throughout the country. He said that a fund would prove costly to the taxpayers of Kansas and could prove detrimental to the operation of the worker's compensation system in the state. He estimated that if a monopolistic fund was established in Kansas, the capital needed to put the state fund into operation would be nearly \$20 million. If the state fund would be competitive, and assuming it would absorb one-fourth of the existing market, it would require a capital fund of nearly \$5 million. He said that while the state would be raising these funds, it would be losing current income in the form of premium tax, and the loss of additional revenues received from employees and agents of the companies living and working in Kansas, whose jobs would no longer exist, or would be markedly restricted.

A copy of Mr. Flockhart's statement is attached (Attachment II). He also distributed copies of a booklet summarizing insurance carrier performances published by the State of New York. A copy of this publication is available in the Legislative Research Department.

Mr. Jack Landreth, Chairman of the Legislative Committee of the Independent Insurance Agents of Kansas, spoke in opposition to the idea of a state owned insurance company for workers' compensation insurance. His statement to the Committee is included as Attachment III. Mr. Landreth passed out a list of the insurance companies that wrote Workers' Compensation Insurance in Kansas during 1975 (Attachment IV). He noted that there is no lack of competition for workers' compensation insurance as long as the Insurance Department permits reasonable rates to be charged.

He distributed Attachment V, a ranking of states based upon the average workers' compensation rate. On a comparative scale, Kansas rates are below average.

He then passed out Attachment VI, a short statement of revenues which the private insurance industry pays to state government in Kansas.

Mr. Jack Pearson, Kansas Association of Commerce and Industry, spoke in opposition to the proposal of a State Workers' Compensation Fund in Kansas. He said that employers in Kansas last year paid in about \$75 million in workers' compensation premiums. He predicted that this amount will increase this year with the new rate increase. He said that the State of Kansas should not take over a function which is being adequately performed by the private sector. See Attachment VII for Mr. Pearson's prepared statement.

Mr. Wayne Stratton, Regional Manager of the Alliance of American Insurers, said that his organization represented 100 insurance companies. He opposed the idea of a state workers' compensation fund, either competitive or monopolistic.

Mr. Stratton said that the state legislatures set the benefit levels for workers' compensation. The insurance industry must price and sell anything the legislature wants. He pointed out that just because workers' compensation insurance is generally losing money for insurance companies now, it does not mean that it will always lose money. He said that if a state insurance fund provides the same services as a private carrier, it cannot compete with private industry in the range of salaries for the personnel needed to administer these services since state salaries are generally lower than those in private industry. He also said that a state fund represents problems for an employer with multi-state employees.

Representative Lynn Whiteside moved that the minutes of the August 17th and 18th meeting be approved as corrected. Senator John Vermillion seconded the motion. The motion carried.

Three hand-outs were given each member of the Committee including a copy of a letter received by Chairman Gastl from Dr. James McCain, Secretary of the Department of Human Resources, in reply to a letter from Chairman Gastl requesting information on matters and suggestions involving the Kansas Employment Security Law. Included in this letter are Department of Human Resources Legislative recommendations. A copy of replies from various states to a questionnaire sent by Mr. R. J. Soptic, President of the United Auto Workers - Local 31, concerning elimination of the waiting period for unemployment benefits and a letter from a Kansas businessman to the Department of Human Resources concerning problems with the unemployment benefit system. Copies of these items are in the Committee notebooks.

Chairman Gastl announced that the Special Committee on Labor and Industry will meet on October 12 to receive the recommendations of the Advisory Councils on Employment Security and Workers' Compensation. The Committee will meet again on October 19 and 20, for deliberation and decisions concerning legislative recommendations. On November 16, 1977, the Committee will meet to review final bill drafts and to adopt the Committee reports.

The meeting was adjourned at 3:30 p.m. by Chairman Gastl.

Prepared by Mike Heim

Approved by Committee on:

Oct. 12, 1977
(date)

Position Paper on State Funds
For Writing Workers' Compensation

Workers' compensation laws first became effective in the United States in 1911 in the states of Wisconsin, Nevada, New Jersey, California and Washington. Of those states, Wisconsin and New Jersey adopted private insurance to deliver benefits to the worker, Nevada and Washington adopted a monopolistic fund, and California adopted both private insurance and a competitive state fund. Between 1912 and 1919 five additional states enacted monopolistic fund laws, Ohio, West Virginia, Oregon, Wyoming and North Dakota. The last state to adopt a state fund for writing workers' compensation was Oklahoma which passed a law establishing a competitive state fund in 1933 over forty years ago.

All in all, only six states have government monopoly state funds for providing workers' compensation and 12 states have funds that compete with private insurance companies. In the remaining 32 states - the vast majority - all workers' compensation benefits are provided by private insurance companies, competing freely for the opportunity to serve. This lineup, of course, excludes the self-insurance concept which exists in almost all states and allows an employer, if qualified, to provide his own coverage.

In 11 of the states with competing state funds, most of the workers' compensation benefits are provided by private insurance companies. This is true even in states such as California and New York, both of which have, by comparison with other funds, aggressive, well-managed competitive funds.

It is a compelling fact and worth repeating that those states that have funds for handling workers' compensation except for Oklahoma have had them from the original enactment of their law. In fact, going in the opposite

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direction, Oregon introduced competition through private insurance in 1966 after operating only a state fund for many years. In Pennsylvania an audit report by State Auditor General Robert T. Casey, conducted because the State Workmen's Compensation Insurance Fund appears headed for fiscal trouble, has recommended reevaluation of the Fund's purpose in writing only high risk business and suggested considering a reinsurance pool to cover this business. This is essentially the system used by private carriers on high risk or less desirable business. Also, within the past few years, the state of Washington has permitted self-insurance while seriously considering permitting private carriers to write this business also. This shows an increasing dissatisfaction with funds per se.

The above statements are true despite the fact that many states throughout the years have considered the concept but rejected it.

The single most compelling argument for a state fund is that it is less costly to the employer than private insurance.

But is this true? The scarcity of data concerning the financial operations of state funds including financial statements, premium loss and expense exhibits and details of the rate makeup along with conflicts in the figures that are available make the information furnished suspect.

We admit, however, there are certain areas in which state funds have costs that are less than those of private carriers. This is in the area of taxes and include the following:

1. Premium tax - the rate of premium tax varies from a low of two to four percent in certain states to a maximum of four and a half percent of premiums. Funds as state bodies do not pay premium

taxes. Thus in Kansas the elimination of private insurance carriers would eliminate immediately from the coffers of the state approximately \$1,200,000.

2. Real estate taxes - since state funds would normally occupy state-owned buildings, such property would not be subject to real estate taxes. The elimination of insurance companies writing workers' compensation in the state would undoubtedly cause some insurance carriers to sell or discontinue the renting of buildings which generate real estate taxes.

3. Loss of state income taxes - we calculate that there are approximately 500 people holding jobs in Kansas that are directly involved in the private coverage of workers' compensation. Statistics tell us that the average insurance company employee earns approximately \$10,000 per year so that if these jobs are eliminated because of the introduction of government funds some \$5 million in payroll is affected. Also, there are approximately 1,000 insurance agents who write property and casualty insurance in the state, most of whom write some volume of workers' compensation and if we contemplate that there is approximately \$61 million worth of premiums written in the state in a year and using the conservative figure of a ten percent commission paid to the agents on this business we see on an additional \$6 million in earnings involved adversely.

4. Gasoline taxes - the gasoline used in the motor vehicles would probably not be subject to the gasoline taxes of the state. The elimination of insurance carriers writing workers' compensation would reduce the use of gasoline subject to this tax by this industry.

5. Federal income taxes - the profits of the state funds would not be subject to a federal income taxation.

The fact that a state fund does not pay these taxes while ostensibly lowering the cost does not represent a savings to the population. The loss of tax revenue must be made up from some other source.

There are other areas of expenses which present questions. Is the state fund charged rent, light and heat for the space it occupies? If such a charge is made it is comparable to what private industry must pay for comparable space? (The immediate past director of the Washington State Fund indicates that the state does pay the going private rental rate for space throughout the state but their main offices in the state capitol are only assessed a nominal fee which in no way equals what they would have to pay in the private market. He also indicates that a nominal charge is made for the use of state automobiles but this charge is a real bargain.) Is the state fund charged for all the supplies that it uses? State bodies are usually given a discount on the goods that they purchase. If the seller is to achieve a reasonable profit, this income must be made up from other purchases of like property. Again, there is no savings by the total population of the state.

Comparing costs between state insurance and private insurance is difficult, if not impossible. The premium basis and accounting procedures vary and private insurance provides many more coverages, benefits and services than state insurance. Many employers obviously feel that any added dollar cost is well worth it to obtain the greater value.

Another aspect that must be considered when one considers cost is "start up

costs" which can be tremendous. We have no actual figures to go on because, as mentioned before, the last time a fund was established in the United States was over forty years ago. However, even though a single policy has not been issued, once legislation is enacted creating a state compensation fund, here is what is involved:

1. The need to hire a general manager with many years of experience in overall insurance administration.
2. Immediate funds are necessary to establish procedure and to function in full gear from date of inception as an "insurance company" that would be the sole writer of workmen's compensation insurance in Kansas. Almost immediately dollars would be necessary to establish reserves for claim payments.
3. Experts in underwriting, claims, administration, actuarial work, loss control, rehabilitation, insurance forms and payroll auditing would have to be found and hired at competitive salaries, whether residents or not. Salaries would be payable immediately.
4. In addition to data processing equipment and office furnishings, insurance forms, manuals, claim and underwriting forms would have to be developed and available.
5. A fleet of vehicles would have to be provided for claims, loss control and payroll auditing personnel.

By no means is this a complete list of immediate requirements. They do, however, demonstrate the tremendous outlay of dollars necessary to commence operations.

(As I have mentioned the last workers' compensation fund established was in Oklahoma some forty years ago. However, for comparison purposes, we could use the initial costs involved in the setting up of the Maryland Automobile Insurance Fund in 1973. It is estimated from their first annual report in 1973 that the startup costs approximated \$3,500,000. This was the outlay necessary before even one policy was written.)

Let us examine other areas necessary to a viable workers' compensation system and in which private carriers excel:

1. Private insurance offers superior security. If a state fund went bankrupt, it surely would be bailed out by the state - by the public through taxation; but is that security? The security record of private insurance companies, while not perfect, is remarkable. Admittedly, any failure, however small, is too much. But the remedy is not government monopoly insurance. The Kansas Insurance Guaranty Association came into being to guarantee full payment of claims to an eligible claimant if a private carrier became insolvent. Therefore, the possibility of an injured employee not being able to recover compensation because of the financial condition of a carrier is eliminated.
2. Private insurance pay benefits more promptly. The true test of accomplishment and prompt payment of compensation after a disability injury is whether the first payment is made promptly following the first day that the compensation is due. The statistics as are available nationally indicate that private companies in many instances excel state funds in starting payments of compensation in disability cases. Statistics in Oregon, for example, show that the insurance companies have a superior record in prompt payment. There is no reason to believe

the total record in Kansas is otherwise.

(QUOTE FROM THE STATEMENT OF THE UNITED MINE WORKERS' OF AMERICA AT A HOUSE COMMITTEE HEARING IN WEST VIRGINIA ON THE CONDITION OF THE MONOPOLISTIC STATE FUND CONDUCTED ON JULY 29, 1977. - "It is reported that between February 1976 and January 1977 there was an accumulation of more than 60,000 unpaid medical, hospital and drug bills; an accumulation of thousands of unanswered letters; and an accumulation of approximately one million executed forms and other official documents that were bundled and dumped in a warehouse when they properly belonged in the claim files; an estimated overpayment of benefits in an amount exceeding \$1 million, when, at the same time, there were delays, exceeding six months or more, in disbursing benefits to thousands of claimants legally entitled thereto.")

3. Private insurance provides better medical services. Because of the competitive spirit among their peers the insurance companies have a stronger motive than a state fund to get an injured worker back on the job. It is well known that the insurance industry moves progressively in all aspects of rehabilitation.

Apart from humanitarian reasons, there is the economic incentive to help a man recover and get back to work as soon as possible. We cannot afford to create dependent invalids. Even in states where statutes do not demand rehabilitation efforts, the insurance industry is deeply involved in such work, providing rehabilitation nurses and other specifically trained people and facilities. The carriers, being for the most part national in scope, bring a national approach to rehabilitation. They will seek out the best medical available not only

in Kansas but in the country. They are aware of facilities elsewhere and will have a much broader base from which to operate. Many companies have highly sophisticated rehabilitation departments and facilities and all avail themselves of the many ever growing private and public facilities throughout the country. Teaching amputees how to use artificial limbs, training the blind to resume their place in society, imparting new skills to the physically handicapped - these are considered essential services and the industry is proud of the fact that many of our companies have been pioneers in this work.

4. Private insurance gives better loss prevention. Safety heads the list of services which an insurance company provides to its policyholders. The prevention of an accident in the first place not only preserves the well being of employees, but it also reduces the amount needed for payment of compensation benefits, ultimately decreasing the cost of this insurance protection. In the beginning, state funds omitted this service entirely, but some safety programs since have been commenced by certain of the funds. Much of the programs consist of compliance inspection doing nothing to prevent "The Unsafe Act" which is the major cause of industrial accidents. The record of the private companies nationwide is however far superior. Insurance companies operating countrywide can provide special services that would not be economically feasible for a fund operating in a single state. These include:

1. Industrial hygiene. Utilizing highly trained specialists who are capable of evaluating such exposures as radiation, gasses, fumes, skin irritants, noise and dust.

2. Occupational health consultants. These are nurses who analyze accident data to determine what changes should be recommended in a medical program. This could include whether there is a sufficient volume of injuries to justify the hiring of a nurse or whether there should be a physician in attendance part-time. They assist an employer in establishing proper methods of record-keeping.

3. Laboratories. Highly sophisticated, they conduct tests of employers' products to determine the hazards to employees or the general public. An example is the work that has been done in the flammability of fabrics.

4. Construction specialists. These act as consultants to supplement the activities of the local loss control engineer. They may be called in when special problems arise such as underpinning or dewatering. In a monopolistic fund state, an employer must often purchase such services separately.

It is well known that the insurance companies employ safety engineering and inspection staffs numbering in excess of over 8,000 professional men and women. They also maintain continuous research programs, as do the industry's trade associations. Moreover, insurance executives and technical experts are prominently involved in most of the national standard-setting and code-making bodies which develop safety specifications for plants, equipment, processes and products in a multitude of industrial fields.

When private industry is permitted to insure its workers' compensation

with an insurance carrier writing its other lines, the loss control engineer can make a survey that covers the various lines. A potential fire hazard that could cause a property loss might also result in an injury to the workman. An unsafe practice on a construction site might result in injury not only to the employees of the contractor guilty of the practice but also to the employees of other contractors engaged in the same practice. Faulty brakes on a truck might cause property damages and injury to others but also to the driver of the truck. Thus the overall safety program can be coordinated and the best service provided for the least cost. Further, it is possible to key the service schedule to the entire line and not to the compensation alone. This permits the smaller risk more frequent surveys.

5. The insurance industry together with employers have led an action program during the past few years to improve workers' compensation benefits throughout the country. Their interest in providing the best competitive service works in the best interest of the injured worker and is a matter of public record.

6. Private insurance gives employers better protection. No state fund can match the workers' compensation and employers' liability coverages available to employers of private carriers. Many state funds actually provide no employers liability coverage at all, and employers using a state workers' compensation fund must still go to private carrier and purchase this coverage separately. Without this coverage, an employer is without protection if an injured employee makes a compensation claim and also seeks recovery from a third party employee.

Monopolistic state funds generally provide only workers' compensation

insurance under their state workers' compensation acts. If the employer is also subject to federal jurisdiction such as under the Longshoremen's Act, he must then purchase insurance from a private carrier and may be making duplicate premium payments. When a black lung liability reverted to the employers and their carriers, private industry came to the aid of Wyoming to provide private coverage for the federal exposure.

A standard workers' compensation and employers' liability policy provides insurance in the states listed in the declaration of the policy. It may be extended by endorsement to include longshoremen and admiralty coverages. There may also be attached an "all-states endorsement" which protects the employer should he be held liable for compensation under the law of some states not listed. However, such an endorsement cannot provide insurance coverage in a monopolistic fund state where the employer can be protected only by subscribing to the individual funds. Therefore, a multi-state employer cannot coordinate his insurance coverages under one policy and with one carrier the most economically feasible method available.

Other considerations: There appears to be a tendency among funds to introduce political expediency as a factor in premium determination. The onus of rate increases for funds is transferred from the private sector to the political arena and introduces a political reluctance to charge the proper rate even though economic considerations call for the increase. The immediate past director of the Washington State Fund claims that there exists presently

\$180 million to \$200 million in unfunded liability in that fund. He claims that this was brought about by a reluctance on the part of the fund administrators to raise the rates during the past years because it was not politically expedient to do so.

Attached are copies of some recent newspaper articles regarding Ohio State Fund which indicate that there is an actuarial deficit which, according to the article, means "that if the system were 'frozen' today the reserves would be 1.3 billion short of paying all future financial obligations of the program." Another attached article concerning the Pennsylvania State Fund indicates that the fund's liability were ^{UNDER} estimated by more than \$12 million in 1975 with further deterioration continuing.

An unanticipated cost experienced by employers who insure in state funds and one not mentioned by the funds in their claims that they do the job cheaper is that involving independent service agencies to assist the employer in his dealings with the funds. Many Ohio employers have found it absolutely necessary to hire an outside service organization to handle their dealings with the fund and in the state of West Virginia a thriving business has been established by service companies performing a necessary function for the employer. We believe their services can best be explained by including three pages from the brochure of the Ferguson Actuarial Service of Charleston, West Virginia which is one of the leading service companies in that state.
SEE NEXT THREE PAGES

A person making a purchase should have the opportunity to choose among competing products or services so that he may select the one that best fits his need. If he finds his first choice unsatisfactory he should be in a position to make a change.

Today, when many of the people in this state came to work they drove in a personal automobile, a make and mode of their choices selected from hundreds of types available to them. It is a model, developed throughout the years as a result of free and exacting competition. If they travel to another city and stay overnight, they have the free choice of staying in one of several establishments who are openly vying for their business. Obviously hundreds of like examples could be added to show that we in this country have accepted and embraced the concept of free competition in most of our activities. We compete in business, we compete athletically, we compete intellectually. Yet, a person going into business in a state with a monopolistic fund must come to the state itself to purchase insurance in order to provide its workers with the benefits prescribed by the state's workers' compensation law.

They cannot go to the ABC Insurance Company and ask them how they would provide these benefits as compared to the XYZ Insurance Company. They cannot compare the administration of the companies, the philosophy of each, the safety expertise, the desire to serve, the enthusiasm and pride of an accomplishment that should exist in those whom we are asking to perform a service.

Since the monopolistic state fund does not need to be concerned with competition the incentive to provide good service or to operate efficiently is lacking. Competition between companies is a cherished tradition of our economic system.

In a competitive system, the agent or broker contacts an employer to try to make a sale. He studies the employer's needs. He reviews the entire insurance program and submits a proposal recommending a carrier that best meets the service and cost requirements of the prospect within an integrated program covering the various lines of insurance. With a monopolistic state fund

there are no agents or brokers. Gaps may exist and the insured may find it necessary to pay a fee to a service organization to insure that coverage is coordinated.

To sum up: There are two basic reasons for opposition to the destruction of the right of insurance companies to provide workers' compensation benefits and services in Illinois:

- Any proposal that creates a government monopoly or artificially supports a governmental business threatens the public's right to freedom to choice.
- Whenever free competition is eliminated the public's right to get its money's worth is forfeited.

Private industry is the life's blood of any state. Attracting new business and maintaining already existing enterprises, therefore, is extremely important to the state of West Virginia. Is it not inconsistent for the state itself to enter into competition with any segment of private business, whether it be insurance, ranching or construction. A monopolistic state fund, or a competitive state fund with hidden subsidies, would deprive insurance companies of their fundamental right under our free system to do business in workers' compensation in ~~Illinois~~ ^{KANSAS} on a truly competitive basis; but more importantly such a system would destroy the public's basic right of free choice, the controlling factor that insures a wide range of benefits and services now available in this vital field.

One final comment: There are two basic reasons why states consider going to state fund for workers' compensation. Either they have a market problem or they feel the price on the private market is too high. We are not aware of any market restriction for workers' compensation in the state of Kansas. I believe any employer, unless he is engaged in an extra-hazardous occupation or has some other problems such as credit, poor management or extremely poor loss experience can procure workers' compensation insurance from the voluntary market. The assigned risk pool exists for the others.

If the problem is one of high cost we sympathize because we are all suffering from the same inflationary factors that are affecting all goods and services in this country today. However, we believe this point should be considered. There is approximately \$60 million of workmen's compensation premium written in the state of Kansas. Funds claim that they can save employers' money by eliminating the payment of commissions necessary in the private market for the acquisition of policies. If we consider conservatively that an insurance agent may earn ten percent of this premium in providing his services to an employer and there are approximately 1000 agents as stated previously we are dealing with approximately six million dollars. However, this amount of money would be eliminated, not from the insurance industry but from other businessmen (insurance agents) in your state. Insurance agents are a highly mobile, influential group and it would appear that the establishment of a fund would immediately serve to antagonize a greatly respected group of businessmen who have considerable local influence.

JJD:dd/sj

9/14/77

II. Actuarial Representation.

The Workmen's Compensation Fund must of necessity employ an actuary to make the intricate computations in connection with reserves, rates, mortality, re-marriage, etc. The factor human judgment plays is of utmost consequence in some of these matters. The Fund is honestly and impartially managed, and will not discriminate for or against any employer. Still, one who is familiar with actuarial techniques and procedures may give a slightly different turn to data and arrive at an entirely different result.

Until we established this business, West Virginia employers had no readily available service of this nature. Consequently, problems involving actuarial procedures were usually left to take care of themselves or were not taken care of at all. It is our purpose and aim to see that you get the best deal to which you are entitled in every situation. Otherwise, you will get an average deal. This does not imply the slightest allegation of any disposition on the part of the Commissioner or his staff to give you less than you are entitled to in any respect. However, we know how to recognize a situation when we see it, and how and when to present it. This applies to accounting problems, base rates, loading, minimum and maximum percentages, payroll requirements for credibility, classifications, applications for credit for former disabilities, valuations of pre-existing physical impairments, pneumoconiosis charge allocations, and any number of other situations. The important thing is that if and when matters affecting your interest arise, we are on the job for you.

Your business may be in the right classification today, but tomorrow the composition of the class may be changed. The change might be favorable or unfavorable to you. Only an actuarial analysis could tell. When you subscribe to our service you may be sure that your interests will not be overlooked.

We also watch the accounting for the classification you are in, as the experience of the classification determines the base rate. When a classification in which we are interested is making a good record, we apply for base rate reductions; when a classification is losing money for the Fund we analyze the experience to determine the cause, in the hope that the situation may be remedied without increasing the base rate. It is, of course, necessary sometimes to increase base rates, and we do not object to any increase which we feel is justifiable. However, we give you an analysis of the situation so that you understand just what is being done and why.

The accounting done by the Fund in connection with your risk is carefully verified. All claim charges are checked and entered on the records which we keep of each claim. An accumulative computation of your earned rate is maintained throughout the year and serves as a valuable guide in determining procedure with respect to pending claims. We send you a quarterly report showing your experience for the current fiscal year.

When you are approaching the end of a fiscal year with a considerable margin below the minimum rate, we use up this margin by getting outstanding medical bills paid, lost time payments brought up to date as far as possible, and claims rated for permanent partial disability if indicated. Thus you start the next fiscal year with as clean a slate as possible. On the other hand, if you have had a bad year, we may get some payments and awards carried over. By these, and other legitimate procedures, we have saved many thousands of dollars for our clients.

III Claims Representation.

Our claim service is designed to expedite payment of legitimate claims and to prevent payment for conditions which are not industrial. We find employers as a rule very liberal with their employees in the matter of compensation. Sometimes the industrial relations or public relations factor is more important than the amount involved in a particular claim. In our involvement in your compensation work we do not come between you and your employee except in cases in which just this relationship is desired by you. You can "pass the buck" to us in ticklish situations.

...imposed a new and different blueprint on the states by enacting the proposed Federal legislation," Mr. Maisonpierre said.

Workers' compensation, the nation's oldest social insurance system, was established by state law to promote occupational safety and to provide a comprehensive package of wage, medical and rehabilitation benefits for workers injured on the job. It is paid for by the employer at no cost to the worker.

Pa. Senator Calls For Audit Of State's WC Fund

By National Underwriter Correspondent

HARRISBURG, Pa.—A Pennsylvania legislator has renewed his efforts for action on a proposal to probe the state workmen's insurance fund after audit reports indicated that the agency is heading for fiscal trouble.

State Sen. Wilmot E. Fleming (R-Montgomery), said "a series of audits and a number of news reports have charged serious irregularities in the operation of the fund. Even [the fund's] directors agree on the need for a legislative investigation of the state's workmen's compensation system."

Sen. Fleming said he and 19 other senators co-sponsored a resolution last year calling for a special joint committee to look into the management of the fund, which writes workmen's compensation for some 15,000 businesses and governmental bodies in Pennsylvania. Employers have the option of participating in the fund, carrying private insurance, or self-insuring.

"The latest audit shows that the fund's surplus declined by \$5 million during 1974," Sen. Fleming said, "and the insurance department reported late last year that [the fund's] liabilities were already underestimated by more than \$12 million." This left the fund with a deficit of \$4.6 million at the end of 1974, Sen. Fleming said, adding that "the condition may have deteriorated further during 1975.

"It's high time the legislature investigated [the fund] and the whole workmen's compensation system," Sen. Fleming said. "We owe a duty to working men and women in Pennsylvania to see that their disability benefits are protected."

National Underwriter
2/13/76

In Ohio

12/24/76

Workers' Comp Fund Deficit Hits \$1.3 Billion

Journal of Commerce Special
COLUMBUS, Ohio —

While the Ohio Controlling Board (which approved state expenditures) has formally okayed a truce between the Republican-controlled Ohio Industrial Commission and the Democratic controlled State Auditor's office in connection with a fraud audit of the scandal-plagued Ohio workmen's compensation insurance program, by providing the money for the inquiry, the system got another not unexpected jolt from a different quarter.

Robert C. Daugherty, new administrator of the Ohio Bureau of Workmen's Compensation, told a legislative committee that the fund has an actuarial deficit of \$1.3 billion, according to a new audit report running through 1975. Previous estimates placed the figure as high as \$1 billion. The new figure was revealed during questioning about the financial soundness of the fund, known as the State Insurance Fund. The actuarial deficit means that if the system were "frozen" today, the reserves would be \$1.3 billion short of paying all future financial obligations of the program.

The State Insurance Fund, which has assets of \$1.5 billion, is dangerously below the standard of financial soundness required by state law, though there is said to be enough money in the fund now for 18 more years of claim payments. The audit report, prepared by a California firm, noted that if the fund collected an additional \$75 million a year in premiums, starting at once, it would take 26 years to eliminate the \$1.3 billion deficiency. The report noted that the great

number of permanent disability awards issued by the Ohio Industrial Commission has tripled since 1969, substantially draining the fund.

Blame Placed

State officials up to and including Gov. James A. Rhodes have blamed most of this on former Ohio Industrial Commission Chairman Gregory J. Stebbins, now fighting his ouster of last October in the courts. The audit suggests that state officials, through policing and checking off questionable claims, could cut down substantially on payouts from the fund.

Senator Oliver Onasek, majority leader of Ohio's upper house, though not on the labor committee meeting with Mr. Daugherty, attended and asked the latter his views of possibly allowing private insurance companies to provide workmen's compensation coverage in Ohio. This would require a change in Ohio law. Mr. Daugherty said he would neither favor or oppose such a change, but the committee made clear the Senate favors the current monopolistic state-run system.

On the investigation front, the State Controlling Board approved a \$50,000 request to hire Ernst & Ernst, accounting firm, and a \$20,000 request for the State Auditor's staff, to work together in the fraud probe. The two agencies previously each wanted to be in charge of conducting the fraud audit, but a compromise was reached.

Under the compromise, evidence turned up by Ernst & Ernst will be turned over to Alex Johnston, chairman of the Ohio Industrial Commission, State Auditor Thomas Ferguson, State Attorney General William J. Brown, and the Ohio Highway Patrol. All four agencies are now engaged in what was called a "unified" effort to ferret out corruption within the compensation system.

The information turned up by Ernst & Ernst is expected to provide leads, rather than the type of conclusive evidence that can be used in seeking criminal indictments. A special squad of assistant attorneys from Mr. Brown's office and state highway patrol detectives will follow up such leads. The auditors will particularly be on watch for abnormally high compensation benefits paid for lower back injuries and expensive charges submitted by physicians and drug companies which serve compensation claimants, as well as for phony companies which could have been set up to submit fake claims.

Last April, Mr. Johnston started a probe of claims abuses in Cuyahoga County (Cleveland) after a former employe of the compensation bureau tipped off investigators about phony companies. This led to 103 indictments by a Cuyahoga County grand jury.

The probe has resulted in hearings in several large Ohio cities and more are scheduled.

Ernst & Ernst ^{11/29/76} to Audit Ohio W. Comp. System

Journal of Commerce Special

COLUMBUS, Ohio — Ohio State Auditor Thomas Ferguson and William Johnston, chairman of the Ohio Industrial Commission, who earlier were at opposite sides on who should make an audit of the troubled Ohio workmen's compensation insurance system, have agreed, after several meetings, that Ernst & Ernst, a private firm, would be jointly retained. Although cost was originally expected to be \$150,000, it is now revealed that nobody knows yet how much it will cost or how long it will take. It is expected to span several months, however.

The two agreed on the joint contract because the state auditor will have complete auditing responsibilities for the system effective Jan. 17, when a reform bill affecting the workmen's compensation system becomes effective. Certain parts of the audit that Ernst & Ernst had proposed have been dropped as not necessary for a fraud investigation. Such items as lawyer identification and a determination of "computer deceit" were not deemed necessary in the fraud audit, but involved improvement of "routine bookkeeping" practices in the Ohio Industrial Commission and its close-working partner, the Bureau of Workmen's Compensation.

Meanwhile, the probe already involves 14 investigators of the Ohio Highway Patrol and a three-member unit within the attorney general's office. These investigators are seeking voluntary confidential information about the workmen's compensation system, and have held hearings in Youngstown, Akron, Toledo, and Columbus. Other cities will also be scheduled for such hearings. In Youngstown, five leads to possible abuses were received, while the hearings in the other cities were reported fruitless.

On another front, Rex E. Haecker, administrative assistant for fiscal affairs for Gov. James A. Rhodes' office, in a recently released 60-page report, said the Division of Safety and Hygiene of the Ohio Industrial Commission became a lush till for questionable spending, where OIC employees

who were not working for the division got funds for junkets, food and liquor, conventions of various kinds, and many other illegal and unauthorized expenses. The Ohio Constitution and state law prohibit using Division of Safety and Hygiene funds except for the investigation and prevention of industrial accidents and diseases.

Though the monopolistic state-run workmen's compensation system is mandated by state law, Robert C. Daugherty, administrator of the Ohio Bureau of Workmen's Compensation, said he would support a move to allow private insurance companies to offer workmen's compensation coverage in Ohio in competition with the bureau. He emphasized that he would want strict standards for any private insurance company if the state law was changed. He said such companies should not be allowed to "skim off the cream" and take just the good claims. He said he strongly doubted any private insurance company would be anxious to have this business in Ohio, because the profit margin is questionable, and public notoriety about Ohio's compensation abuses and the frauds uncovered would discourage private carriers.

Several lawyers said to be involved in questionable activities involving claimants in the workmen's compensation bureau have not been prosecuted despite allegedly illegal payments they obtained. In one case, Prosecutor George C. Smith of Franklin County (Columbus) decided not to prosecute an attorney because the lawyer (George H. Fell, Toledo) returned a \$2,500 legal fee after it was made known the claimant was dead. State benefits cease at that time, making any payment after that illegal.

A Columbus lawyer (Leon E. Mendel) who was involved in two controversial legal matters which figured prominently in the ouster of Gregory J. Stebbins as a member of the Ohio Industrial Commission is among those who so far has escaped any disciplinary action. He was involved in handling a controversial \$20,000 claim payment in which the claimant used \$18,000 to buy Stebbins' former home. The lawyer also returned \$4,100 to the state he was paid in legal fees after the claimant had died.

A Cleveland attorney, (Maurice H. Shapiro), was involved in a case of a city of Cleveland worker. The worker's name was said to be forged on a \$992 check after he died. The money was returned after disclosures in the Cleveland Plain Dealer, state officials said.

The ousted commission member and former chairman, Mr. Stebbins, is fighting the action in the U. S. District Court at Columbus. Judge Joseph P. Kinneary has withdrawn from considering the suit, because of possible conflict of interest in the case. He has close ties to Paul Ward, a Columbus lawyer whose firm is representing Mr. Stebbins. The legal issues in Mr. Stebbins' Oct. 20 removal are complex and shadowed by political overtones, observers agreed.

New Law Highlighted

Workers' Comp. Probe Continues in Ohio

Journal of Commerce Special

COLUMBUS, Ohio — When the new law to reform the scandal-plagued Ohio workmen's compensation insurance system becomes effective next January, filing for compensation will be easier for 90 per cent of the claimants with routine requests, but the other 10 per cent will have a much tougher time, according to Robert C. Daugherty, administrator of the Bureau of Workmen's Compensation.

He said the new law — prompted by alleged misuse of money in the State Insurance Fund administered by the Bureau and the Ohio Industrial Commission — places greater fiscal control on the system and simplifies somewhat the claim process. The 10 per cent whose claims are turned down or who question the size of grant or amount of disability will have a harder time than before, because "we are going to look much closer and be much tougher on appeals," said Mr. Daugherty.

The new law affects about half of the Ohio work force, with the other half working for employers who are self-insured. There are no insurance company carriers for workmen's compensation in Ohio, with employers either having to join the State Insurance Fund or become self-insured.

The new law requires more frequent audits of the State Insurance Fund, establishes an internal security committee to find abuse, and require continuing oversight by the House Commerce and Labor Committee.

Under the new law, the administrator of the Bureau of Workmen's Compensation, was removed from the governor's cabinet and clear delineations of responsibility were established between the bureau and the three-member Ohio Industrial Commission, which has final authority in claims.

Meanwhile, investigators probing alleged wrongdoing in the system heard 14 witnesses at a confidential hearing in Columbus last week with some testimony deemed significant enough to be turned over to Ohio Highway Patrol detectives working with the Industrial Commission in probe. This was the fourth closed-door hearing conducted by the investigation team. Previous sessions have been held in

Youngstown, Akron, and Toledo, and other sessions will be held in Cincinnati, Canton, and Dayton.

William Johnston, chairman of the OIC, said the most significant testimony on corruption within the system concerned physicians who allegedly overcharged the state insurance system.

Similar probe into corruption in Cleveland has led to 103 indictments being handed down in Cuyahoga County there.

Meanwhile in Columbus, product liability insurance legislation will be introduced in the Ohio House of Representatives at the coming session in an effort to slow down increased premiums, said Rep. Charles Kurfess, Perrysburg, House minority leader. He said the bill has not been drafted, but might include provisions to:

Tighten up conditions under which manufacturers and other businessmen can be sued; place stricter statutes of limitations on products; limit the number of businessmen who can be sued; prohibit an injured

worker from collecting workmen's compensation benefits and also suing the manufacturer of a machine that causes his injury; limit fees that are charged by attorneys involved in liability suits; and tighten up liability rate setting regulations.

Mr. Kurfess said that currently, statutes of limitations on products date from the day a consumer is injured, but should go into effect when the product is placed on the market, so that a manufacturer should not be held as liable for a 10-year-old product which is defective as a new product. Mr. Kurfess also said that at present, consumers apparently are able to sue the manufacturer, distributor, and salesman when a product injures someone, and in many cases consumers don't have to prove a product is defective or a manufacturer is negligent in producing the product, but only to prove he was injured by it.

STATEMENT OF
AMERICAN INSURANCE ASSOCIATION
BEFORE THE
SPECIAL COMMITTEE ON LABOR AND INDUSTRY
SEPTEMBER 15, 1977

My name is Robert W. Flockhart. I am Counsel with the American Insurance Association, an organization comprised of 147 property and casualty insurance companies. Our member companies provide a significant percentage of workers' compensation insurance written in Kansas and throughout the country. Accordingly, we greatly appreciate this opportunity to present our views to this Committee.

Today in Kansas, an employer subject to the workmen's compensation act can secure his liability under that act in one of two ways: he can insure his liability with a private insurance company authorized to write workmen's compensation insurance in Kansas; he can self-insure after establishing to state officials that he has adequate financial resources to meet his potential liabilities under the act. It has been suggested to this Committee that another method be introduced in Kansas, i.e., the establishment of a state fund. We believe that such action will prove costly to the taxpayers of Kansas and could prove detrimental to the operation of the workmen's compensation system in Kansas.

THE COST:

To establish a state fund in Kansas, the legislature would have to provide money for two basic funds, a capital fund and an operating expense fund. With regard to a capital fund, I mean money, referred to in private insurance companies as surplus, which is needed to pay losses that are unexpected and exceed the amount of money obtained by premium. As a general rule, for a private insurance company,

Atch. II

for every \$2 of premium there should be anywhere between \$1 to .50 of surplus. The annual premium collected in Kansas for calendar year 1976 was \$74,905,244. Assuming a monopolistic fund was established, the capital fund was set up on a conservative basis and surplus was to be 1/4 of the premium expected to be collected, the capital fund needed to put the state fund into operation would be nearly 20 million dollars. If the state fund was to be competitive, and assuming it absorbed 1/4 of the existing market, the approximate share of the market of such competitive funds as exists in California and New York, the conservative estimate of \$4 of premium to \$1 of surplus, would require a capital fund of nearly 5 million dollars.

Then there would be the operating expenses needed to establish a fund. Needless to say, these would vary sharply on the size of the fund and the extent of the services that the fund intended to provide. Still, in addition to establishing a capital fund, money would have to be made available to set up the operation of such a fund. Needless to say, these operating costs, where you are starting from scratch and developing a growing operation, would be larger than those incurred by established companies or state funds. To get some idea of the cost, we could look to the statement of administrative expenses, provided to this Committee by Mr. Adams, of the Colorado State Fund. You will note he indicated these expenses are running, in 1975, in excess of \$3,000,000. This would certainly be a very modest figure to start up a new fund. It should also be noted that the Colorado State Fund indicates it suffered a 16.9% loss after the outlay of these administrative expenses. Certainly, a newly established fund could not work at an operating loss, since it would have no additional surplus to cover these expenses.

Then there are hidden costs in the operation of state funds, such as, the use of public buildings and equipment, frequently the state's Attorney General's office takes on the legal functions of the fund and frequently state funds do not pay taxes.

Whether such a fund would ultimately repay the original outlays is highly questionable. A recent actuarial study by Booz, Allen Consulting Actuaries found the Ohio state fund had a \$1.3 billion deficit in its reserves. The Pennsylvania state fund is in serious financial condition, and the Insurance Commissioner is deeply concerned over its solvency. California Insurance Commissioner Payne announced in 1975 that the California state fund was underreserved by \$42 million. And today state funds are experiencing the same adverse underwriting experience as private carriers. Ten of 14 funds reporting to the American Association of State Compensation Insurance Funds indicated they suffered underwriting losses in 1975: in five of these cases the losses exceeded combined premium and investment income.

Finally, it must be noted that at the time the State would need to raise these funds it would be losing current income in the form of premium tax, which is 2% of workmen's compensation premiums, and the loss of additional revenues received from employees and agents of our companies living and working in Kansas whose jobs would no longer exist, or would be markedly restricted.

At the outset, I noted that despite the cost to the taxpayers to establish a state fund, the establishment of a fund could prove detrimental to the operation of the workmen's compensation system. In this regard, we mean that the workmen's compensation system does not merely involve taking in premium and paying out benefits. There are several other, important aspects which must be considered if a state

desires a good and effective workmen's compensation system. Those elements include

1. Claims handling and fair and prompt payment of claims;
2. Safety and accident prevention programs;
3. Rehabilitation programs.

I. Claims:

Attached is the latest pamphlet on carrier performance in the State of New York issued by the State Workmen's Compensation Board. It provides figures on promptness of payment for the period July-December, 1976. Please note that first payment is made within 18 days of disability, as required by law, in 83.8% of the cases. Furthermore, the pamphlet contains figures concerning the controverting of compensation cases and indicates that private carriers controverted, on the average, only 4.9% of all the cases in the state.

By comparison, we should look at the monopolistic state fund in Ohio, the largest of the six monopolistic state funds. In a survey in 1967 to determine time trend for payment of uncontested claims, it was disclosed that there was an average lapse of 65 days, covering 42 days from the date of injury and the filing of the claim plus 23 days more between filing and first payment. The fund's management subsequently admitted a time lag of 55.4 days after injury but now contends that payments are made promptly after the claim has been received. This overlooks the fact, however, that Ohio uses forms for filing a claim which must be filled in by the claimant and the employer and the attending physician or physicians. Obviously long delays must occur in the execution of all this paper work by laymen. Of course, the best commentary of the Ohio state fund's claims handling ability is by an Ohio claimant. Attached is a letter to the editor of the Sidney Daily News from one such claimant that speaks for itself. The Ohio state fund's claims handling

methods must be compared with private carriers' claims handling by personnel who investigate the claim personally and frequently issue first payments even before required by law.

Another state to consider is West Virginia. Attached is a copy of Senate Concurrent Resolution No. 25 passed in 1974. You will note from this Resolution that in the prior year, in response to "numerous complaints" of delays in the payment of workmen's compensation benefits, the West Virginia legislature increased its state fund's budget by \$352,000 in an effort to break the backlog of cases. Instead of correcting the situation, the complaints persisted and the legislature had to order a comprehensive study of managerial practices in the fund.

Also to be considered is that private carrier claims personnel can determine the legitimacy of a claim. Under the workmen's compensation law, to be compensable, the injury must have arisen out of and in the course of employment. Allegations are frequently made that our claims investigations are for the purposes of denying legitimate claims. This isn't true! On the contrary, such investigation not only leads to promptness of claim payment where the claim is legitimate but eliminates fraudulent claims. Investigations are under way in Ohio where it is alleged that the Ohio state fund paid fraudulent claims estimated up to \$5,000,000. These are costs which the employers of Ohio must absorb although the claims were not legitimately paid for work-related injuries or diseases and which would not have been paid if adequate claims personnel had investigated the claim as private carriers do.

II. Safety:

It is hard to imagine that any employee would rather receive compensation benefits, at whatever level, rather than avoid injury. It is furthermore a good business practice for an employer to maintain a safe place of employment and avoid accidents. By use of experience rating plans, employers who avail themselves of the safety recommendations

of their carrier have their premium reduced by credits developed through the experience rating plan. It is regrettable, but must be noted that the state with the highest work-related death rate in 1975 was Wyoming, a monopolistic state fund state, with a death rate of 13.6, compared with a nationwide rate of 5.9 (Accident Facts - 1976 Edition). We strongly believe such facts point out that monopolistic state funds do not have the driving financial incentive to police industrial safety and lack the manpower and expertise of safety technicians such as those employed by private carriers.

A national study by the United States Department of Labor in 1969 reported that state funds had a staff of 74 inspectors, industrial hygienists and educational representatives. By contrast, large private insurers employ more safety personnel than that in some industrial centers alone. That same study found that West Virginia and Wyoming have no safety division and that North Dakota had only seven safety inspectors whose chief function was to assure compliance with the state's safety code. Looking again to Ohio, in 1972 the then Governor Gilligan testified before the National Commission on State Workmen's Compensation Laws as follows:

"Mr. Chairman, the final aspect of Ohio's program that has serious defects is industrial safety...In fact, after considerable study, I finally decided that Ohio simply did not have an adequate state safety program.

"I therefore decided that it was in the best interest of the working people of Ohio for federal inspectors to enforce safety standards in Ohio under the terms of the 1970 Occupational Health and Safety Act.

"In August, I officially requested the Department of Labor to send federal inspectors into Ohio. Since then I think the response of the federal government has borne out both the accuracy of workers' complaints and the wisdom of the decision to request federal assistance."

By comparison, the private insurance industry employs safety engineers and inspection staffs involving something in excess of 9,500 professional men and women. They maintain continuous research programs on an individual basis and through industry trade associations. The insurance executives and technical experts are prominently involved in most of the national standard-setting and code-making bodies which develop safety specifications for plants, equipment, processes and products in a multitude of industrial fields. The federal government itself recognized the safety contributions of the insurance industry in a bulletin published by the Department of Labor, Bureau of Labor Standards:

"Workmen's compensation provided the first real stimulus to industrial accident prevention and is primarily responsible for the safety movement as we know it today..."

"The fact that accidents are costly has been and still is the chief driving force behind the industrial safety work done in the field of industrial safety by insurance companies and employers, both individually and through service organizations."

III. Rehabilitation:

To an injured worker and his family, the medical care provided is as important as the financial compensation he receives. Service and quality are of paramount importance in rehabilitation, and again, as a matter of good business sense, insurance companies have long been in agreement that liberality is the best policy in this sensitive activity.

Getting the patient to the right doctor quickly is extremely important. A first-rate specialist or surgeon who is preeminent in his field may charge a fee commensurate with his services, but his patient's chances of complete recovery are greater than might otherwise be the case. Further, the worker's return to gainful occupation at the earliest practicable time consistent with adequate recovery is highly beneficial to the injured person and his employer, and to the insurance company as well.

The unparalleled leadership of private insurers in the field of rehabilitation is commonly acknowledged. The greatest advancements have been achieved since World War II, but some leading insurance companies had established their own rehabilitation facilities much earlier. Countless examples of exceptional medical treatment and rehabilitative triumphs are available in states where private carriers are permitted to insure workmen's compensation.

As to the monopoly fund states, the previously cited 1969 Department of Labor survey found that the state of Washington alone operated a special rehabilitation center. The North Dakota fund employed a rehabilitation supervisor who referred many workers to other agencies for treatment, retraining and related services. And, again, Governor Gilligan of Ohio, testifying in January of 1972 before the National Commission, said of his state's fund: "One example of low quality service is the Bureau's record on rehabilitation."

The consequences of this failure in performance provided to employers and employees in the monopoly states is unmistakably clear. The progressive employer genuinely concerned with improving rehabilitation is obliged to initiate such services on his own -- and to pay for them in addition to his workmen's compensation premiums to the state fund.

CONCLUSION:

As much as possible this statement has been based on findings and observations of impartial observers, statements from public documents and admissions of state fund administrators.

In conclusion, however, we wish to state unequivocally that we are firmly of the belief that the creation of a state workmen's compensation fund would be against the best interests of the people of Kansas; that such a proposal is essentially unsound and contrary to the basic economic principles of free enterprise system the reliance on which has made our country great; and that experience has shown insurance company protection has proven superior to that of state funds in actual practice. We endorse the fundamental conviction that government should not go into the insurance business any more than it should go into the lumber business, the construction business or the grocery business. This is particularly true since private enterprise has done, can do and will continue to do a better job.

I thank you for this opportunity to allow me to present to you the views of the American Insurance Association. The Association stands ready to provide whatever additional assistance you or your staff may feel desirable in your further deliberations.

Respectfully submitted,

Robert W. Flockhart, Counsel
AMERICAN INSURANCE ASSOCIATION

Atts.

The Sidney Daily News

John O. Amos
Editorial Director

Jeffrey J. Billiel
Editor

Beth H. Deisher
News Editor

— OPINION —



Workmen's compensation problem

To the editor:

This letter is to everyone working in the state of Ohio, who is supposedly covered by Workmen's Compensation, whether individually or through a company. Are you really covered? Will you be cared for if you are injured? The answer is yes if: you are able to buy your food, pay your rent or make the mortgage payment on your home, buy necessities for your family, take care of any financial obligations you have, for a period of perhaps eight or ten weeks to perhaps as long as seven or eight months, the period of time it takes Workmen's Compensation to get around the red tape, and to you and your family. And if you think this isn't so, just ask the people around you, they can tell you the same thing. And generally, you won't get anything until you hire an attorney to do battle for you.

The workers of Ohio are being penalized in the worst way, by the very agency that was set up to prevent hardships to working people. And we all complain to someone else, but never to the people we should complain to. It is a disgrace to all of us, American people with the privilege of free speech, to sit back year after year and take this kind of treatment. A disgrace to not have the guts to stand up and be counted and try to correct such a situation. But it takes more than one or two people to do it.

One of the reasons we are in this situation is the fact that money that should have been kept in the treasury for the people was loaned to the State of Ohio to build a big office

building to the tune of \$23,000,000. They couldn't make their first interest payment of \$12,000,000. These figures were reported to the public by the press, and P. C. Bechtel also quoted these figures in a letter to the forum in the Feb. 4, 1976, edition of The Examiner.

If you think you are not being penalized and that all you have to do to get your compensation benefits is to see a state doctor for a physical, and fill out a few papers, then sit back and your check will be in next weeks mail, YOU better get off that dream trip and face reality. When you do find yourself in the position of having to depend on compensation the following is what you will find out, and it isn't a very pleasant situation to be in. I was injured in the course of my employment, was off work 13 months, hospitalized for major surgery, six months in a back brace, and believe it or not, I received my first weekly benefit check a short eight months from the date of the first day of the injury.

I returned to work for approximately two months, and was re-injured. This was two months ago, I have received nothing, and cannot until I see a state doctor, and the State will not even show me the courtesy of allowing me an appointment with one of their doctors — and they will not grant permission to see the surgeon who cared for me.

Fair? I am receiving no income, they refuse to pay any bills for medication or doctors, therefore I am doing without much needed medication, but, fortunately I have a doctor who cares more for a human being than the dollar, and is doing all he can, but the medicine was stopped for want of the mighty dollar. Is this what the Corporations and individuals who pay their own, are paying for? Neglect?

Are we going to continue in the future this way, like a bunch of dummies and nincompoops, or are we going to stand up and fight for what is rightfully ours? Are we going to go to our governor and demand that he pay us our benefits, and quit paying those who sit at a desk in the state offices, with no work visible, just a woman's purse, a pack of cigarettes, a ashtray and a telephone, and a lot of visiting and chat-chat among the employes in this huge room.

Another thing that a lot of people do not know is what it costs an individual to carry compensation on himself, when self-employed. One person told us he was paying \$700 a year. Multiply this by the hundreds, then figure what they are collecting from Corporations, then figure how much the State is collecting, from everyone, then ask yourself just where all of this money is, and why the working people in Ohio cannot get what is legally theirs, when they are injured.

I have one more question: Why do you people who were elected and put into office by the votes of the people in labor forces of Ohio, allow these practices to continue? Why don't you try to do something for these people? And please don't tell us it is because of insufficient funds. If this is your answer, then tell us why there was \$23,000,000 taken out of this fund and loaned to the State to build with? You know this money really belongs to the people, so why not keep it in the treasury fund and use it to pay the people when they need it?

Evelyn Helzer Sr.
Rushsylvania



WEST VIRGINIA
Regular Session

Senate Concurrent Resolution No. 25

A CONCURRENT RESOLUTION directing the Joint Committee on Government and Finance to conduct a comprehensive study of the managerial policies, practices and procedures utilized to implement and administer the legislative directives relating to the Workmen's Compensation Fund.

Whereas, There existed a substantial backlog of cases in the Workmen's Compensation Fund during the fiscal year of 1972-1973; and

Whereas, During the legislative budget hearings held during the 1973 regular session of the Legislature there were expressions by representatives of the Workmen's Compensation Fund that said backlog could be removed and expeditious handling of new claims would occur provided the Legislature would grant an increased expenditure schedule for the 1973-74 fiscal year; and

Whereas, The Legislature responded to said request from the Workmen's Compensation Fund by providing an expenditure schedule for the administration of said Fund by granting a \$2,202,050 budget for the fiscal year 1973-74 which was a \$352,738 increase over the 1972-73 fiscal year, which was \$117,135 over the Governor's recommendation;

Whereas, The purpose of the Fund and its proper and efficient administration is of extreme importance to the injured and disabled workers of the mines, mills, mercantile establishments, factories, offices and all facets of employment in this State; and

Whereas, The failure for any reason of the Workmen's Compensation Fund to function efficiently works great hardship and deprivation upon the beneficiaries covered by said Fund; and

Whereas, numerous complaints relating to the administration of the Workmen's Compensation Fund have been made to members of the Legislature, notwithstanding the increased budget appropriation provided by the Legislature for the operation of said fund during the 1973-74 fiscal year; and

Whereas, The Legislature is desirous of providing for the most efficient and expeditious processing and payment of claims out of the Workmen's Compensation Fund to assure that the injured, the disabled and other claimants of said Fund are able to meet their needs and obligations; therefore, be it

Resolved by the Legislature of West Virginia:

That the Joint Committee on Government and Finance conduct a comprehensive study of the managerial policies, practices and procedures utilized to implement and administer the Legislative provisions relating to the Workmen's Compensation Fund; and, be it

Further Resolved, That the Committee report to the regular session of the Legislature, 1974, on its findings, conclusions and recommendations, together with drafts of any proposed legislation necessary to carry its recommendations into effect; and, be it

Further Resolved, That the expenses necessary to conduct such study, to prepare a report, and to draft proposed legislation be paid from legislative appropriations to the Joint Committee on Government and Finance.

Adopted, March 9, 1974

Independent Insurance Agents of Kansas



The Spirit of Independents

Testimony of Jack E. Landreth, cpcu, Legislative Chairman

We appreciate the opportunity to appear before this committee in opposition to the idea of a state owned insurance company for Worker's Compensation insurance. We have four exhibits to present to the committee that will make our point along with this testimony.

Exhibit 1 is a list of the insurance companies that wrote Worker's Compensation insurance in Kansas during 1975. If we had a 1977 list it would not be significantly different except the numbers would be higher. From the 150 insurance companies represented on this list it's obvious there is no lack of competition for Worker's Compensation insurance as long as the Insurance Department permits reasonable rates to be charged. The far right hand column shows that the maximum market share by any one of these companies was 6%. No single company or group of companies controls the market in the state of Kansas. Right next to that column is a listing of the various loss ratios each individual company experienced during the year. These range from a high of 230% to a low of 0%. It depends upon whether the company had a particularly good year or instead picked up catastrophic losses or a series of losses. Our state does not need a state owned insurance company to go with this ample list of private carriers that are willing to compete for the business.

These companies have a wide variety of ways to compete for business. Some offer lower initial rates, some have dividend programs based upon trade Association groups or individual experience. Some have

Highly developed engineering and loss service departments. Some exist only to write insurance for a particular type of business such as number 21, The Farmers Elevator Mutual Insurance Company. Insureds have a wide variety of choice in placing their Worker's Compensation insurance in Kansas.

Exhibit 2 is a ranking of states based upon the average Worker's Compensation rate. This rate is determined by dividing the earned premium developed for a Worker's Compensation insurance by the payroll used to develop that premium. The \$1.25 average rate for Kansas stands about midway in the states that are listed. There are 23 states with higher average rates than Kansas. The main determinant of rates is the degree of benefits provided but this exhibit shows that Kansas businessmen are not at a disadvantage on the average with businessmen of other states. As benefit levels are increased by the legislature and average payrolls increase premiums raise. Rapidly escalating hospital and medical costs also add to the Worker's Compensation rate level. Premium increases tend to make every businessman feel his insurance costs are "too high". On a comparative scale, however, Kansas rates are below average.

Exhibit 3 is a short statement of revenues the private insurance industry pays to state government in Kansas. The total revenues shown of \$20,684,090 were for the calendar year of 1975. The latest figures available from the Insurance Department for the year ending June 30th, 1977 show developed revenues to the state of Kansas of \$29,634,953. The cost of running the Insurance Department was \$1,765,295, so that after other subtractions for special funds, roughly \$24,000,000 was transferred to the state general fund. Worker's Compensation premiums tend to be more heavily taxed than other lines since it pays for the Worker's Compensation fund and the Worker's Compensation

partment of the state. Also companies writing this line participate in a state assigned risk program where they agree to accept insureds who are unable to obtain insurance in the general market. It adds up to roughly 3% which could be subtracted from private Worker's Compensation rates and premiums where it not for the tax to the general fund and operating the other state programs. A state owned insurance company using the state general fund either to guarantee its risk capital or provide some of its administrative expenses would be a net user of tax payer funds rather than a contributor. In addition, page 2 of the exhibit provides an example of what can happen where the fund runs into the red from loss payments.

Mr. Chairman, to summarize our position. It would not be beneficial to the people of Kansas to organize a state insurance company for Worker's Compensation. The cost of Worker's Compensation should be reflected in the price of products produced in the state and not in the taxes paid by its citizens. Most of these products leave the state to be consumed by persons all over the United States and other parts of the world. Employers can self insure if their financial statement is strong enough or purchase insurance from a wide variety of companies competing both on price and service. We want to reemphasize our opposition to the idea of a state insurance company. Thank you for the opportunity to appear on this matter.

	DIRECT PREMIUMS WRITTEN	DIRECT PREMIUMS EARNED	DIRECT LOSSES PAID	DIRECT LOSSES INCURRED	PRM WRT TO LS. PAID	PRM ERN TO LS. INCR	ERN PAID TO STATE	ERN PAID TO IDE
1. TRAVELERS INSURANCE COMPANY	3,637,303	3,304,721	1,614,557	2,140,734	44.4	65.0	5.7	
2. TRIN CITY FIRE INSURANCE	3,520,746	3,490,222	1,714,501	1,707,186	48.6	51.1	6.0	
3. UNITED STATES FIDELITY & GUARANTY COMPANY	2,818,861	2,821,225	1,517,524	2,093,401	53.0	74.2	4.8	
4. LIBERTY MUTUAL INS. COMPANY	2,346,287	2,274,144	936,481	1,450,608	39.9	63.8	3.9	
5. EMPLOYERS MUTUAL LIABILITY COMPANY OF WISCONSIN	2,317,494	2,319,144	1,095,554	1,403,630	47.3	64.0	4.0	
6. HOME INDEMNITY COMPANY	1,955,122	1,712,826	935,114	1,167,950	47.8	68.2	2.9	
7. COMMERCIAL UNION INSURANCE	1,920,254	1,789,972	654,862	991,175	34.0	55.4	3.1	
8. FEDERATED MUTUAL INSURANCE	1,536,398	1,323,823	604,007	707,791	44.5	59.5	2.3	
9. WESTERN CASUALTY & SURETY COMPANY	1,531,388	1,552,353	626,493	1,022,768	40.9	65.9	2.7	
10. TRAVELERS INDEMNITY COMPANY	1,480,578	1,840,136	2,273,484	2,750,313	153.6	149.5	3.2	
11. EMPLOYERS MUTUAL CASUALTY COMPANY	1,470,493	1,437,258	532,415	799,393	36.2	55.6	2.5	
12. ST. PAUL FIRE & MARINE INSURANCE COMPANY	1,282,774	1,188,607	552,260	640,329	43.1	54.2	2.0	
13. AETNA CASUALTY & SURETY COMPANY	1,233,650	1,154,827	725,737	667,871	50.0	57.0	2.0	
14. HARTFORD ACCIDENT & INDEMNITY	1,190,316	1,180,020	951,764	1,009,537	80.0	85.6	2.0	
15. MARYLAND CASUALTY	1,085,165	852,132	383,154	612,840	35.3	71.9	1.5	
16. STATE AUTOMOBILE AND CASUALTY UNDERWRITERS	1,051,562	969,442	332,860	510,409	31.7	52.6	1.7	
17. STANDARD FIRE INSURANCE COMPANY	900,896	825,666	380,391	304,014	41.9	46.5	1.4	
18. FIDELITY & GUARANTY INSURANCE UNDERWRITERS, INC.	894,827	829,871	309,242	629,262	34.6	75.9	1.4	
19. HOME INSURANCE COMPANY	847,050	711,055	415,480	696,713	49.1	98.0	1.2	
20. TRUCK INSURANCE EXCHANGE	840,434	757,179	414,690	706,237	49.3	93.3	1.3	
21. FARMERS ELEVATOR MUTUAL INSURANCE	822,270	734,695	349,039	367,659	42.4	50.0	1.3	
22. CONTINENTAL INSURANCE COMPANY	803,353	754,382	47,785	393,577	5.9	52.2	1.3	
23. ASSOCIATED INDEMNITY CORPORATION	786,326	827,462	467,561	503,793	59.5	60.9	1.4	
24. RELIANCE INSURANCE	773,651	758,347	373,803	457,377	48.3	60.3	1.3	
25. WESTERN FIRE INSURANCE COMPANY	765,238	715,804	314,614	520,904	41.1	73.9	1.2	
26. ROYAL GLOBE INSURANCE	752,425	788,072	424,200	592,930	56.4	75.2	1.3	
27. UNITED STATES FIRE INSURANCE COMPANY	743,552	719,271	420,679	556,941	56.6	77.2	1.2	
28. NORTHWESTERN NATIONAL CASUALTY	734,643	687,691	368,092	482,291	50.1	70.1	1.2	
29. TRI-STATE INSURANCE COMPANY	704,456	682,396	325,856	446,996	46.3	65.5	1.2	
30. INSURANCE COMPANY OF NORTH AMERICA	646,532	628,884	371,273	458,831	57.4	72.8	1.1	
31. IOWA NATIONAL MUTUAL INSURANCE COMPANY	581,779	539,128	237,455	401,370	40.8	74.4	.9	
32. FARMERS ALLIANCE MUTUAL INS COMPANY, INC	576,134	572,113	321,420	210,843	55.8	36.9	1.0	
33. EMPLOYERS FIRE INSURANCE COMPANY	572,523	559,519	323,685	408,796	56.5	73.1	1.0	
34. BITUMINOUS CASUALTY CORPORATION	497,469	545,977	295,125	428,385	59.3	78.5	.9	
35. AETNA INSURANCE	485,990	469,611	262,147	317,492	53.9	67.6	.8	
36. GREAT AMERICAN INSURANCE COMPANY	483,494	465,882	188,607	227,268	39.0	48.8	.8	
37. AID INSURANCE COMPANY MUTUAL	483,248	462,215	151,754	444,446	31.4	96.2	.8	
38. FIREMANS FUND INSURANCE	462,480	594,543	236,121	433,539	51.1	72.9	1.0	
39. AMERICAN MUTUAL LIABILITY INSURANCE	433,965	421,120	200,985	268,746	46.3	63.8	.7	
40. FARM BUREAU MUTUAL INS COMPANY, INC	429,643	365,731	154,784	194,030	36.0	53.1	.6	
41. CASUALTY RECIPROCAL EXCHANGE, SUBSCRIBERS AT	428,228	415,540	110,057	136,498	25.7	32.0	.7	
42. AMERICAN INSURANCE	412,011	232,186	97,030	158,844	23.7	68.1	.5	
43. TRANSPORTATION INSURANCE COMPANY	411,965	423,762	448,201	384,176	108.8	90.7	.7	
44. UNITED PACIFIC INSURANCE COMPANY	407,443	400,693	189,717	179,107	46.6	44.7	.7	
45. ST. PAUL MERCURY INSURANCE COMPANY	403,903	386,767	181,351	268,492	44.9	69.4	.7	
46. PACIFIC EMPLOYERS INSURANCE CO.	386,131	372,894	226,858	317,925	58.8	85.3	.6	
47. VIGILANT INSURANCE COMPANY	384,652	385,794	250,360	383,427	65.1	99.4	.7	
48. CONTINENTAL CASUALTY COMPANY	377,096	382,604	332,176	342,100	87.6	89.4	.7	
49. AMERICAN & FOREIGN INSURANCE	374,337	370,524	220,033	247,935	58.8	66.9	.6	
50. TRAVELERS MUTUAL INSURANCE ASSOCIATION OF ILLINOIS	368,022	363,439	225,413	445,214	61.2	122.5	.6	

Atch. IV

1975 INSURANCE PREMIUMS AND LOSSES

WORKMENS COMPENSATION

	DIRECT PREMIUMS WRITTEN	DIRECT PREMIUMS EARNED	DIRECT LOSSES PAID	DIRECT LOSSES INCURRED	PRM WRT TO LS PAID	PRM ERN TO LS INCR	PRM PRM TO STATEWIDE
51. NORTHERN ASSURANCE COMPANY OF AMERICA	366,077	390,137	172,012	84,326	47.0	21.6	.7
52. ZURICH INSURANCE	352,976	358,415	176,539	62,990	50.0	17.6	.6
53. FIDELITY & CASUALTY COMPANY OF NEW YORK	350,889	329,484	117,336	87,997	33.4	26.7	.6
54. AMERICAN STATES INSURANCE COMPANY	347,454	339,406	128,230	125,853	36.9	37.1	.6
55. TRINITY UNIVERSAL INSURANCE COMPANY OF KANSAS, INC	331,836	360,014	181,720	110,961	48.7	30.8	.6
56. FEDERAL INSURANCE	310,421	308,973	129,542	242,859	41.7	78.6	.5
57. EXCALIBUR INSURANCE	308,228	331,745	152,684	446,386	49.5	134.6	.6
58. HAWKEYE-SECURITY INSURANCE	307,733	255,910	104,363	71,531	33.9	28.0	.4
59. NORTHWESTERN NATIONAL INSURANCE	283,564	257,615	155,637	240,303	54.9	93.3	.4
60. NEW HAMPSHIRE INSURANCE COMPANY	240,150	213,420	47,718	142,081	19.9	66.6	.4
61. MID-CONTINENT CASUALTY	213,221	194,967	107,808	178,424	50.6	91.5	.3
62. UNIVERSAL UNDERWRITERS INSURANCE COMPANY	203,826	201,070	53,404	77,291	26.2	38.4	.3
63. AMERICAN MOTORISTS INSURANCE COMPANY	202,983	232,151	134,275	117,924	66.2	50.8	.4
64. ALLSTATE INSURANCE	201,675	225,479	202,741	331,721	100.5	147.1	.4
65. OHIO CASUALTY INSURANCE	189,324	174,293	67,434	85,444	35.6	49.0	.3
66. BITUMINOUS FIRE AND MARINE INSURANCE COMPANY	188,206	176,725	94,148	133,085	50.0	75.3	.3
67. TRINITY UNIVERSAL INSURANCE COMPANY	187,964	138,236	44,543	73,442	23.7	53.1	.2
68. DRAKE INSURANCE COMPANY OF NEW YORK	181,659	182,119	548,880	437,115	302.1	240.0	.3
69. HANOVER INSURANCE COMPANY	181,213	151,718	72,494	71,733	40.0	47.3	.3
70. SECURITY NATIONAL INSURANCE COMPANY	178,566	177,550	71,267	64,106	39.9	36.1	.3
71. KANSAS CITY FIRE & MARINE INSURANCE COMPANY	175,260	165,676	84,238	129,379	48.1	78.1	.3
72. CUMHARRON INSURANCE COMPANY	171,985	139,533	63,641	62,687	37.0	44.9	.2
73. INTERNATIONAL INSURANCE	169,487	168,588	172,325	18,913	101.7	11.2	.3
74. MICHIGAN MILLERS MUTUAL INSURANCE COMPANY	158,886	139,867	75,176	93,376	47.3	66.8	.2
75. STATE FARM FIRE & CASUALTY COMPANY	158,462	139,594	33,886	74,690	21.4	53.5	.2
76. GLENS FALLS INSURANCE COMPANY	155,604	146,112	47,953	100,053	30.8	68.5	.3
77. JOHN DEERE INSURANCE	146,267	122,303	42,036	101,975	28.7	83.3	.2
78. LUMBERMENS MUTUAL CASUALTY COMPANY	140,172	142,834	98,387	90,217	70.2	63.2	.2
79. UNION MUTUAL INSURANCE COMPANY OF PROVIDENCE	135,604	119,072	31,255	54,280	23.0	45.6	.2
80. NORTHERN INSURANCE COMPANY OF NEW YORK	130,726	148,853	56,227	45,074	43.0	30.3	.3
81. FEDERATED RURAL ELECTRIC INSURANCE CORPORATION	125,446	102,910	80,141	96,126	63.9	93.4	.2
82. CONTINENTAL WESTERN INSURANCE COMPANY	120,209	89,680	15,905	33,240	13.2	37.1	.3
83. ARGONAUT INSURANCE COMPANY	118,818	102,288	109,351	35,105	92.0	34.3	.2
84. WESTCHESTER FIRE INSURANCE COMPANY	114,532	110,824	21,037	3,887	18.4	.0	.2
85. GENERAL ACCIDENT FIRE & LIFE ASSURANCE CORP., LTD.	109,861	106,920	59,012	51,991	53.7	48.6	.2
86. GULF INSURANCE COMPANY	108,281	116,164	52,135	101,750	48.1	87.6	.2
87. GENERAL INSURANCE COMPANY OF AMERICA	102,228	101,727	32,691	35,580	32.0	35.0	.2
88. NORTH RIVER INSURANCE	101,387	77,694	16,697	56,606	16.5	72.9	.1
89. SENTRY INSURANCE A MUTUAL	101,316	96,300	35,827	31,209	35.4	32.4	.2
90. AMERICAN GUARANTEE & LIABILITY INSURANCE COMPANY	97,943	91,270	37,380	55,687	38.2	61.0	.2
91. AETNA FIRE UNDERWRITERS INS.	93,050	99,512	44,271	61,672	47.6	62.0	.2
92. TRANSPORT INSURANCE COMPANY	92,692	92,692	20,935	22,010	22.6	23.7	.2
93. EMCASCO INSURANCE COMPANY	88,762	94,418	53,691	41,968	60.5	44.4	.2
94. FIREMENS INSURANCE COMPANY OF NEWARK, NEW JERSEY	85,931	80,689	19,662	29,291	22.9	36.3	.1
95. MASSACHUSETTS BAY INSURANCE	83,762	83,877	16,707	6,209	19.9	.0	.1
96. AMERICAN CASUALTY COMPANY OF READING, PA.	83,462	67,554	85,541	48,176	102.5	71.3	.1
97. PENNSYLVANIA GENERAL INSURANCE CO.	83,091	82,368	78,728	101,883	94.7	123.7	.1
98. ROYAL INDEMNITY COMPANY	80,669	79,435	101,535	9,479	125.9	11.9	.1
99. COMMERCIAL STANDARD INSURANCE CO.	80,445	75,654	45,216	138,599	56.2	183.2	.1
1. PENNSYLVANIA NATIONAL MUTUAL CASUALTY INSURANCE	80,343	87,564	40,483	85,683	50.4	97.9	.1

	DIRECT PREMIUMS WRITTEN	DIRECT PREMIUMS EARNED	DIRECT LOSSES PAID	DIRECT LOSSES INCURRED	PRM WRT TO LS. PAID	PRM ERN TO LS. INCR	ERN PRM TC STATEWIDE
101. AMERICAN NATIONAL FIRE INSURANCE COMPANY	77,692	91,313	56,816	66,908	73.1	73.3	.2
102. HIGHLANDS INSURANCE	75,717	75,969	25,831	30,824	34.1	40.6	.1
103. TRANSAMERICA INSURANCE COMPANY	72,447	67,675	22,640	12,605	31.2	18.7	.1
104. INDUSTRIAL INDEMNITY COMPANY	72,044	47,929	40,092	17,907	55.6	.0	.1
105. MFA MUTUAL INSURANCE COMPANY	65,775	60,387	10,009	51,343	15.2	85.0	.1
106. ALLIED INSURANCE COMPANY	65,407	76,592	26,666	41,600	40.8	54.3	.1
107. COUNTRYSIDE CASUALTY COMPANY	64,343	62,561	14,165	26,111	22.0	41.7	.1
108. GRAIN DEALERS MUTUAL INSURANCE	63,592	59,309	37,936	28,434	59.7	47.9	.1
109. EMPLOYERS NATIONAL INSURANCE COMPANY	62,554	69,401	32,154	40,022	51.4	57.7	.1
110. NATIONAL SURETY CORPORATION	62,391	62,146	40,785	29,106	65.4	46.8	.1
111. TRANSIT CASUALTY	62,107	40,234	16,194	49,352	26.1	122.7	.1
112. WEST AMERICAN INSURANCE COMPANY	60,949	58,387	15,915	23,886	26.1	40.9	.1
113. AMERICAN ECONOMY INSURANCE	60,408	59,056	17,107	27,630	28.3	46.8	.1
114. CARRIERS INSURANCE COMPANY	59,385	59,385	82,541	48,675	139.0	82.0	.1
115. TRANSPORT INDEMNITY COMPANY	52,094	51,972	2,837	21,524	5.4	41.4	.1
116. ATLANTIC MUTUAL INSURANCE	51,043	49,442	10,282	10,062	20.1	20.4	.1
117. GREAT CENTRAL INSURANCE COMPANY	48,717	43,724	27,594	9,716	56.6	22.2	.1
118. PREMIER INSURANCE	48,199	38,010	15,123	31,337	31.4	82.4	.1
119. MID-CENTURY INSURANCE	47,778	88,171	8,769	20,378	18.4	.0	.0
120. ST. PAUL GUARDIAN INSURANCE	44,425	27,359	8,689	10,995	19.6	40.2	.0
121. GRANITE STATE INSURANCE COMPANY	42,055	38,921	18,765	2,619	44.6	6.7	.1
122. COMMERCIAL INSURANCE COMPANY OF NEWARK, NEW J	41,527	38,994	43,745	61,755	105.3	158.4	.1
123. AMERICAN MUTUAL INS. CO. OF BOSTON	40,858	47,302	20,201	15,721	49.4	33.2	.1
124. EQUITY MUTUAL INSURANCE COMPANY	40,128	38,377	11,361	5,205	28.3	13.6	.1
125. ELECTRIC MUTUAL LIABILITY INSURANCE COMPANY	39,711	39,623	17,017	92,203	42.9	232.7	.1
126. NEW YORK UNDERWRITERS INSURANCE COMPANY	38,867	38,531	13,725	9,803	35.3	.0	.1
127. ASSURANCE COMPANY OF AMERICA	37,252	32,265	7,176	18,072	19.3	58.5	.1
128. PAN AMERICAN FIRE & CASUALTY	35,953	46,530	8,439	1,586	23.5	.0	.1
129. ATLANTIC INSURANCE COMPANY	35,602	40,793	44,454	73,492	124.9	180.2	.1
130. EQUITABLE GENERAL INSURANCE	35,068	49,371	12,373	47,917	35.3	97.1	.1
131. HARTFORD CASUALTY INSURANCE	34,393	34,096	4,327	16,200	12.6	47.5	.1
132. MIDLAND INSURANCE	33,900	32,556	1,927	3,745	5.7	11.5	.1
133. EMPLOYERS CASUALTY COMPANY	29,690	33,972	3,077	6,667	10.4	19.6	.1
134. UNITED SECURITY INSURANCE COMPANY	29,608	14,804	28,360	47,637	95.8	321.8	.0
135. EMPLOYERS REINSURANCE CORPORATION	28,403	26,738	0	6,860	.0	25.7	.0
136. UNDERWRITERS INSURANCE COMPANY	27,735	25,040	5,829	17,312	21.0	69.1	.0
137. RANGER INSURANCE	26,608	11,227	19,033	11,373	71.5	101.3	.0
138. AMERICAN AUTOMOBILE INSURANCE	25,922	31,291	30,860	14,476	119.0	46.3	.1
139. CENTENNIAL INSURANCE COMPANY	25,602	25,066	7,827	6,899	30.6	27.5	.0
140. DRUGGISTS MUTUAL INSURANCE COMPANY	25,260	22,594	554	70	2.2	.3	.0
141. UTICA MUTUAL INSURANCE	23,050	26,283	25,974	9,211	112.7	35.0	.0
142. PROTECTIVE FIRE & CASUALTY	19,090	18,940	13,594	12,272	68.3	64.8	.0
143. AMERICAN HOME ASSURANCE COMPANY	19,742	11,243	1,823	1,272	9.2	11.3	.0
144. AMERICAN RE-INSURANCE COMPANY	19,412	19,373	0	0	.0	.0	.0
145. LEATHERBY INSURANCE	17,545	14,893	1,602	1,924	9.1	12.9	.0
146. BALBOA INSURANCE COMPANY	16,490	16,514	3,132	6,031	19.0	36.5	.0
147. FIDELITY & DEPOSIT COMPANY OF MARYLAND	15,184	12,822	588	1,911	3.9	.0	.0
148. PACIFIC INDEMNITY	14,986	14,787	29,035	33,453	193.7	.0	.0
149. NATIONWIDE MUTUAL INSURANCE	14,610	13,944	17,241	26,445	118.0	189.7	.0
150. NATIONAL INSURANCE UNDERWRITERS	13,801	11,599	3,158	613	22.9	.0	.0

AVERAGE EARNED RATE - STANDARD PREMIUM BASISALL CLASSIFICATIONS COMBINED
(Latest Available Policy Year)

State	Policy Period	(1) Payroll Limit. Rule Dur. Pol. Pd.	(2) Payroll	(3) Standard Earned Premium	(4) Average Earned Rate [(3)÷(2)]x100
Alabama	2-1-73/1-31-74	\$300	4,013,474,195	49,402,614	1.22
Alaska	10-1-72/9-30-73	400	692,467,315	15,987,344	2.31
Arizona	6-1-73/5-31-74	300	4,212,392,032	103,078,791	2.45
Arkansas	5-1-72/2-28-73	300	1,792,418,217	40,304,611	2.25
California	1-1-73/12-31-73	No Limit	50,156,040,075	917,614,827	1.83
Colorado	9-1-72/8-31-73	300	5,581,260,662	57,808,395	1.04
Connecticut	7-1-72/3-31-73	300	6,464,944,558	71,585,695	1.11
Delaware	1-1-73/12-31-73	No Limit	1,258,614,000	12,288,639	.98
Dist. of Col.	6-1-72/3-31-73	300	1,709,272,163	17,285,856	1.01
Florida	12-1-71/11-30-72	100	8,440,716,722	206,811,585	2.45
Georgia	7-1-72/4-30-73	300	6,721,285,871	74,825,380	1.11
Hawaii	3-1-73/2-28-74	300	1,220,767,871	23,958,834	1.96
Idaho	9-1-72/4-31-73	300	787,415,677	19,904,409	2.53
Illinois	5-1-72/2-28-73	300	18,083,507,728	193,313,501	1.07
Indiana	2-1-73/1-31-74	300	8,966,606,273	67,738,244	.76
Iowa	4-1-72/3-31-73	300	4,132,061,596	36,244,658	.88
Kansas	7-1-72/6-30-73	300	3,379,837,287	42,343,563	1.25
Kentucky	10-1-72/6-30-73	300	3,871,109,110	73,769,388	1.91
Louisiana	1-1-72/12-31-72	100	3,658,164,990	105,082,289	2.87
Maine	3-1-71/2-28-72	300	1,408,607,444	17,612,510	1.25
Maryland	5-1-72/4-30-73	300	6,415,986,601	92,608,973	1.44
Massachusetts	7-1-72/6-30-73	300	13,496,541,257	205,590,132	1.52
Michigan	7-1-72/3-30-73	300	12,467,382,336	268,600,502	2.15
Minnesota	1-1-73/12-31-73	No Limit	8,767,719,747	133,149,005	1.52
Mississippi	12-1-71/11-30-72	300	2,360,508,267	41,170,946	1.74
Missouri	8-1-72/11-30-73	100	6,731,249,856	98,013,886	1.46
Montana	12-1-71/3-30-73	No Limit	729,201,319	16,394,691	2.25
Nebraska	10-1-72/9-30-73	300	2,318,568,032	25,952,723	1.12
New Hampshire	9-1-71/2-28-73	300	2,316,645,011	27,680,095	1.19
New Jersey	1-1-73/12-31-73	No Limit	18,622,269,800	333,175,133	1.79
New Mexico	1-1-73/12-31-73	300	1,482,132,411	26,985,441	1.82
New York	1-1-73/12-31-73	300	42,268,330,429	517,602,784	1.22
North Carolina	8-1-72/7-31-73	300	9,004,459,308	74,884,207	.83
Oklahoma	6-1-73/5-31-74	100	2,386,008,860	61,433,981	2.57
Oregon	8-1-73/4-31-74	No Limit	2,568,125,390	100,447,504	3.91
Pennsylvania	7-1-73/6-30-74	No Limit	28,106,183,000	243,352,456	.87
Rhode Island	1-1-72/12-31-72	300	1,686,594,432	20,245,323	1.20
South Carolina	11-1-71/10-31-72	300	3,207,118,624	37,758,133	1.18
South Dakota	11-1-72/10-31-73	300	688,386,387	7,800,071	1.13
Tennessee	9-1-72/8-31-73	300	6,725,208,216	104,097,963	1.55
Texas	1-1-73/12-31-73	200	19,686,386,463	468,709,308	2.38
Utah	5-1-72/4-30-73	300	1,898,352,809	14,990,882	.79
Vermont	11-1-72/10-31-73	300	924,729,784	9,122,863	.99
Virginia	3-1-73/2-28-74	300	8,258,068,395	73,593,278	.89
Wisconsin	12-1-72/11-30-73	No Limit	8,051,259,526	82,978,688	1.03
Total (Excl. N.Y. & Calif.)			255,294,009,542	3,798,032,490	1.49
Grand Total (Incl. N.Y. & Calif.)			347,718,380,046	5,233,300,101	1.51
Private Carrier Only					

EXHIBIT THREE

KANSAS INSURANCE DEPARTMENT
Deposited During Calendar Year 1975

To General Revenue			
FEES:	SOURCE		
Charter Fee	2030	\$3,080.00	
Annual Statement	2030	49,151.47	
Certificate of Authority	2030	12,839.00	
Registration Fees	2030	500.00	
Retaliatory Fees	2030	28,920.21	\$94,490.68
Agent's Licenses	2111		256,681.00
Agent's Examination Fees	2110		57,940.00
Court Fees	2040	1,392.00	
Certificate and Seal	2040	6,221.00	7,613.00
Office Publications	2220		
Agent's Study Manuals		9,447.00	
Other		800.00	10,247.03
Total Fees			\$426,971.71
Taxes:			
Fines and Penalties	5000		\$10,200.64
Premium	1330	\$15,312,192.90	
Retaliatory	1330	561,759.42	15,873,952.32
* Fire Marshal - 20%	1332		89,661.46
TOTAL TAXES			\$15,973,814.42
Total Fees and Taxes to General Revenue			\$16,400,786.13
To Special Funds			
Fees:			
Recover of Expenditures		\$230.12	
Insurance Companies' Examination		266,980.02	
Ins. Co. Annual State Exam Fund		10,916.43	
Examiners Co. Exam Training Fund		35,296.43	
Comm. Travel Reimb. Clear Fund		404.38	
Workmen's Compensation Fund		135,198.67	
TOTAL FEES			\$449,026.05
Taxes:			
School Fund		\$65,500.00	
Privilege Tax		251,778.30	
* Fire Marshal - 80%		358,645.61	
Firemen's Relief Fund		967,649.74	
Insurance Premiums Domestic		2,169,222.49	
Total Taxes:			\$3,832,796.34
Total Fees and Taxes to Special Funds			4,281,822.39
Returned to Gen. Rev. from Workmen's Compensation			145.00
Deposited Calendar Year 1975			\$20,682,753.52
** Balance in Revolving Fund Dec. 30, 1975			1,336.73
Total Revenue Calendar Year 1975			\$20,684,090.25
* The Division of 80% to Fire Marshal Fund and 20% to General Revenue is in accordance with K. S. A. 75-1509.			
** Used for refund in case of over-payment of fees and taxes in accordance with K. S. A. 40-252a.			

Bleak Future Seen

Pa. State W. Comp. Fund Loses \$5 Million in 1974

Journal of Commerce Special
HARRISBURG, Pa. — Pennsylvania's State Workmen's Insurance Fund (SWIF), operating under benefits "which go far beyond the original intent of subsidizing an injured employe until he (she) could return to work," lost nearly \$5 million in 1974 and faces a bleak future, according to an interim audit report by State Auditor General Robert P. Casey.

One of Mr. Casey's recommendations was that the catch-all fund, which writes WC coverage that employers cannot buy in the open market, consider becoming competitive and go after the lower-risk business.

Mr. Casey said that during the year ending Dec. 31, 1974, the fund operated at a deficit "because of a decrease in policies, which reduced revenues, and in increase in the number of claims accompanied by greater benefits."

Also responsible for a decline in surplus (with earned premiums of \$15 million and underwriting expenses, including \$9 million in losses, pegged at \$23 million) were the Commonwealth's Work Related Disability Leave Program, an increase in policies not rewritten, and black lung claims. The end-of-year surplus was reported at \$7.5 million.

The report said that benefits "often provide an incentive not to return to work: since the workmen's compensation payments, which are tax-free, may provide more disposable dollars than normal wages."

The audit recommended re-evaluation of SWIF's purpose in writing only high risk business and suggested considering a reinsurance pool, a Pennsylvania pool for occupational disease claims, or an appropriation (of funds by the legislature).

According to the audit, "a test of coal policyholders in-

dicated mass dumping of such policies has taken place."

The audit specifically discussed the "dumping" of the Great American Coal Co. account; it recommended that the practice of dumping be studied to determine whether additional legislation is warranted; it also indicated that the Great American case needs, investigation by, perhaps, the attorney general.

Dumping of accounts refers to the practice of private insurance carriers cancelling their bad risk policyholders who then must turn to SWIF for coverage. Private carriers may legally cancel a WC policy in Pennsylvania when it becomes a bad risk, the report said, SWIF does not have this option.

The report said the largest single policy involved in dumping was that carried by the Great American Coal Co., it detailed that on Feb. 22, 1974, the Rockwood Insurance Co. cancelled Great American's coverage because premium payments were about \$120,000 in arrears. SWIF provided coverage after collecting arrears from an earlier coverage period. The close-down of a segment of the coal company's operation resulted in 33 black lung claims.

On June 30, 1974, the audit said, Great America's account became past due by \$82,884 and SWIF cancelled the policy for non-payment of premiums. The coal company subsequently obtained insurance with the Lackawanna Casualty Co. Twenty-seven more black lung claims were dumped on SWIF while the Great American policy was in effect.

As of Oct. 17, 1975, the Great American account of \$82,884 was still outstanding. It had not been submitted to the Justice Department for collection because "SWIF's legal staff feel they are in a better position to collect this account and are in the process of preparing a suit," according to the audit report. It added that the question of why the Lackawanna Casualty Co. should want to provide coverage for a company with Great American's record should be probed.

September 15, 19

TESTIMONY FOR THE
LEGISLATIVE INTERIM STUDY COMMITTEE
ON LABOR AND INDUSTRY

I am Jack Pearson, Executive Director of the Industry Division, Kansas Association of Commerce and Industry.

I am here today to appear in opposition to any proposal that would put the State of Kansas into the business of writing workers' compensation insurance.

At a recent meeting of the KACI Employee Relations Council, the business and industry men and women present, after considerable discussion, voted 100% in opposition to any type of state-operated workers' compensation insurance program.

They are opposed for the following reasons:

1. We believe that government should only do for the public what the public cannot do for itself.
2. We believe that the private enterprise system is currently doing an adequate job in this field.
3. A state-operated workers' compensation insurance program would undoubtedly create a new bureaucracy with many new workers added to the state payroll, to be paid by state taxpayers.
4. We cannot visualize the state as being in a position to provide the inspections and other services that are provided by private carriers.
5. So long as private carriers can supply coverage and service, we see no reason why non-tax-paying governmental units should enter this field.
6. Finally, we would question what the savings would actually be -- if any.

I thank you for the opportunity to appear briefly before this committee today.

Atch. VII