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Workers' comp costs dropped

But critics charge cost-cutting has gone too far, and benefits and medical care are being compromised.

By Gilbert Chan -- Bee Staff Writer

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In a dramatic turnaround, the cost for insurance and medical treatment in the state-run workers' compensation system fell precipitously in 2005, bringing long-sought financial relief to beleaguered California employers.

Insurance rates slid to the lowest levels since early 2002 and employers are poised to receive further reductions that will average about 15 percent in the coming months. At the same time, hospital costs were down 4.6 percent while outpatient surgery expenses tumbled 45.1 percent, studies show.

"Costs are definitely coming down drastically," said Christine Baker, executive officer of the state Commission on Health and Safety and Workers' Compensation. "A lot of good things have happened. Other states are going to look to California."

But some critics, led by labor leaders and attorney groups, say the cost-cutting measures enacted by the Legislature in 2003 and 2004 have gone too far and are cutting benefits and compromising medical care. They vow to step up pressure this year on lawmakers and Gov. Arnold Schwarzenegger to reverse some key changes.

"The employers got what they wanted. Now let's deal with some of the real problems we're seeing and fix them. I can't imagine anybody wanting to see people more disabled," said Peggy Sugarman, executive director of VotersInjuredatWork.org., an advocacy group supported by the California Applicants' Attorneys Association.

Like a pesky political fly, the workers' compensation issue isn't likely to go away for lawmakers despite declarations by the governor and legislative leaders two years ago that they fixed the troubled state-run program with a landmark overhaul plan.

"There is a lot of controversy right now on the impact of the medical reforms. It is clear not all the stakeholders in the system are happy," said Alex Swedlow, executive vice president of research for the Oakland-based California Workers' Compensation Institute. "The debate is going to be very spirited in 2006."

Indeed, Democratic leaders last spring ordered an analysis of revamped rules to calculate permanent disability benefits and vowed to revisit the regulations this year. Preliminary studies have found payments today are 7 percent to 40 percent lower than under previous rules.

"This is not the deal that they (lawmakers) voted for. The governor said it himself that he didn't want to injure the injured workers," said Angie Wei, chief lobbyist for the California Labor Federation. "The Schwarzenegger administration has some authority to fix the regulations."

But business and insurance industry officials say it's premature to talk about revisions.

"The reforms take some time to take hold in the system. From the business standpoint, we certainly don't want to go backward to the previous dysfunctional system," said Jerry Azevedo, a spokesman for the Workers' Compensation Action Network, a coalition of state employers and insurers.

"The evidence shows the reforms are cutting costs and injured workers are being treated fairly and being returned to work. We believe the system should stay the course," said Sam Sorich, president of the Association of California Insurance Companies.

Clearly, sweeping legislative changes have reversed a steep rise in workers' compensation premiums during the early 2000s.

Insurance prices continued to drop last year, and carriers plan to cut rates by an average of 15.03 percent this winter, according to documents from 145 carriers filed with the Department of Insurance. The drop nearly matches the 15.3 percent decrease recommended by Insurance Commissioner John Garamendi in November.

Overall, California insurers have cut rates a cumulative 37.8 percent since the start of 2004 - when the first legislative changes took effect.

For employers, the average cost per \$100 of payroll fell to \$4.42 during the first nine months of 2005 - the lowest since early 2002 when the rate stood at \$4.39, according to a new report by the Workers' Compensation Insurance Rating Bureau of California, a key industry research group. Rates peaked at \$6.46 per \$100 of payroll in July 2003, easily the highest in the nation.

The current rate brings California closer to the pack. In 2004, Alaska ranked second in the nation with employers paying \$4.39 for every \$100 of payroll, according to a study by Oregon workers' compensation officials.

California's overhaul was aimed at lowering medical costs by establishing standard medical treatment guidelines, capping visits to chiropractors and physical therapists, imposing medical fee schedules and creating employer-approved doctor networks. Also, new rules to determine permanent disability benefits were set up.

"The changes from the medical reforms have had a significant impact on utilization and cost," Swedlow said.

A series of workers' compensation institute studies found inpatient hospital costs fell 4.6 percent after a new fee schedule was imposed in June 2004 while outpatient surgery costs dropped 38.9 percent from 2001. Physical therapy visits declined 45.1 percent within the first nine months of an injury while chiropractic care tumbled 58 percent.

The overhaul, however, has sparked outcries from injured workers and their advocates. Doctors, for example, complained about costly red tape and delayed reimbursements by insurers, and many have threatened to stop treating injured workers.

The California Medical Association has urged Schwarzenegger to boost policing of insurance companies and lawmakers to take a closer look at the newly created physician networks.

Lawmakers, however, held up a number of workers' compensation proposals last year, saying they wanted to give the changes more time to play out in a massive system that treats roughly 1 million workers injured on the job annually.

"When you make a major change in policy, you need to review it. Unfortunately, people do get hurt in the process. There are unintended consequences," said Barbara O'Connor, director of the Institute for the Study of Politics and Media at California State University, Sacramento.

This election year, lawmakers may be forced once again to confront the powder-keg issue because of the high stakes involved for influential labor, attorney, business and medical interests.

"It never seems to go away," O'Connor said.

[Graphic](#) [32k GIF]

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